

An Analytical and Evaluative Study of the Reality of Corporate Governance in Algerian Banking Institutions

قراءة تحليلية تقييمية لواقع حوكمة المؤسسات المصرفية في الجزائر

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Abstract:

This research aims to shed light on the state of governance in banking institutions in Algeria through an analytical and evaluative reading. It seeks to examine the current state of governance within our banking system and analyze the practical and legal realities, concluding with an assessment of the Algerian banking experience in terms of governance.

The study concluded with findings indicating weaknesses in the Algerian banking system regarding transparency and accounting disclosure, delays in publishing information and preparing annual reports, and a lack of commitment by the Bank of Algeria to publish its monthly status. Additionally, there is a weakness in the application of international accounting standards, a dire need for specialized training for financial staff in Algerian banks, and reliance on outdated accounting systems that are not updated to align with international standards.

Keywords: Governance, Banking System, Analysis and Evaluation, Banking Governance in Algeria.

ملخص:

يستهدف هذا البحث تسليط الضوء على واقع الحوكمة بالمؤسسات المصرفية في الجزائر من خلال قراءة تحليلية تقييمية، ولقد استهدف النظر في واقع الحوكمة في منظومتنا المصرفية وتحليل للواقع العملي والقانوني، لنخلص إلى تقييم تجربة حوكمة الصناعة المصرفية الجزائرية.

وتوصلت هذه الدراسة إلى نتائج كشفت شيئا من ضعف الجهاز المصرفي الجزائري من حيث الشفافية والإفصاح المحاسبي، مع تأخر نشر المعلومات وإعداد التقارير السنوية، ونقص في التزام بنك الجزائر بنشر وضعيته الشهرية، مع ضعف تطبيق القواعد المحاسبية الدولية، مع حاجة ماسة إلى التدريب المتخصص للكوادر المالية في البنوك الجزائرية، والاعتماد على أنظمة محاسبية قديمة وغير محدثة تتوافق مع المعايير الدولية.

الكلمات المفتاحية: حوكمة، النظام المصرفي، تحليل وتقييم، الحوكمة المصرفية في الجزائر.

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1. INTRODUCTION

Corporate governance is a fundamental pillar in building a strong and efficient financial and banking system. It plays a crucial role in enhancing transparency, ensuring accountability, and improving institutional performance efficiency. Amid global economic transformations and challenges facing the banking sector, the implementation of good governance principles has become an urgent necessity for banking institutions worldwide, including Algeria.

The study of governance in Algerian banking institutions is of paramount importance in the ongoing efforts to develop and modernize the national banking sector. This study aims to provide a comprehensive analytical and evaluative reading of governance practices in the Algerian banking system, focusing on the practical and legal aspects governing these practices.

- **Main Question:**

This study poses the following question:

What is the reality of corporate governance in Algerian banking institutions?

- **Study Objectives:**

The objectives of this study are to:

- Present theoretical concepts and fundamentals regarding governance and banking institutions.
- Analyse the legal and regulatory framework for governance in the Algerian banking sector.
- Provide an objective and realistic reading of governance in Algerian banking institutions.
- Assess the extent to which Algerian banking institutions adhere to principles of transparency and accounting disclosure.
- Examine the effectiveness of internal control and risk management systems in Algerian banks.
- Identify the gaps between current practices and international standards of banking governance.

- **Significance of the Study:**

The significance of this study lies in several aspects:

- **Scientific Contribution:** The study offers a qualitative addition to the academic literature on banking governance in the context of emerging economies, particularly in Algeria.
- **Practical Application:** The study's findings provide valuable insights for decision-makers in the banking sector and regulatory authorities, aiding in policy development and practice improvement.
- **Enhancing Financial Stability:** Understanding the reality of governance and improving its practices contributes to the stability of the Algerian financial and banking system.
- **Supporting Economic Development:** Effective governance enhances the performance of the banking sector, positively impacting national economic growth.

- Improving Trust: Implementing good governance principles boosts investor and depositor confidence in the Algerian banking system.

2. The Theoretical Framework for the Governance of Financial and Banking Institutions

Banking institutions are among the most crucial pillars of the financial and economic system in our contemporary world. These institutions play a vital role in driving economic activity and contributing to the economic and social growth of nations. This highlights the special importance of practicing and applying governance principles and rules in these banking institutions.

2.1. The Concept of Governance:

The issue of governance has become a top priority for the international business community and global financial institutions, especially in the wake of numerous events over the past two decades, including financial collapses in several Southeast Asian and South American countries, the shift to open market systems, and the adoption of privatization and economic liberalization policies.

Governance term succinctly translates "Corporate Governance," with the academic consensus defining it as "the manner of exercising prudent administrative authorities." This concept has received attention from supervisory and regulatory authorities both regionally and internationally and is understood at two levels:

- Macro Level (State Structures)
- Micro Level (Institution and its Management)

2.1.1. Definition of Governance at the Level Macro:

Various entities have defined governance, including:

World Bank (WB) Definition: " It involves the exercise of political authority and the management of institutional resources for economic and social development.¹".

Cadbury Committee Definition: " Corporate governance is the framework for directing and controlling companies ²".

- **International Monetary Fund (IMF) Definition:** "The manner in which authority manages economic and social resources for development, utilizing effective management methods to achieve maximum benefits at the least cost."³

2.1.2 Definition of Governance at the Micro Level: It is challenging to find a universally agreed-upon definition among economists due to its overlap with various organizational, economic, financial, and social aspects of institutions. Among the definitions are:

¹ Ben Sakran Boudaali and Boumediene Mohamed El-Amin: Utilizing Social Capital to Enhance Governance: Good Governance and Corruption Control. Journal of Law and Humanities, Economic Issue No. 31, Volume 9, Issue 3, University of Djelfa, 2015, p. 113.

² CARLOS SANTIOS, Good governance and its effectiveness, the World Bank and conditionalities the Georgetown public policy review, volume 7 Number 1 fall 2001, p.32.

³ Brahim Lakhlef, La Bonne Gouvernance, Dar Alkhaldounia, Alger, Algérie, p.22.

Organization for Economic Cooperation and Development (OECD) Definition:

"The OECD defines corporate governance as the system directing and controlling corporations. It delineates stakeholder rights and responsibilities, establishes decision-making protocols, and provides a framework for setting objectives, implementing strategies, and monitoring performance. This condensed version retains the core elements of the OECD's definition while presenting them in a highly concise, academically appropriate manner."¹

definition of corporate governance:

"Governance is the system through which companies are managed and controlled."²

The definition from the Arab Federation of Accountants and Auditors:

"It comprises a set of responsibilities and practices followed by the board of directors and executive management to provide strategic guidance, ensure goal achievement, appropriately manage risks, and responsibly utilize enterprise resources."³

From these definitions, it becomes evident that governance is the system governing relationships among key stakeholders influencing organizational performance. It encompasses fundamental elements for long-term organizational success, defining responsibilities, and ensuring the rights of all parties associated with the organization fairly.

2.1.3. The definition of governance in the banking sector:

Bank governance differs from that of other companies because their failure impacts a larger number of stakeholders and can destabilize the entire financial system, potentially triggering a financial crisis that could escalate into an economic crisis, amplifying adverse effects on the whole economy.

Although there is no globally unified definition of governance, it is clear that the principle of governance involves managing all institutional and stakeholder relationships. Banking governance refers to the way a bank's operations are managed, including setting institutional goals, managing risks, aligning and coordinating institutional activities and behaviors, and ensuring that management operates in a safe and sound manner.⁴

¹ Ahmed Makhoulf, *The Global Financial Crisis and Forecasting Solutions Using Principles of Disclosure, Transparency, and Corporate Governance from an Islamic Perspective*, International Forum on: The International Financial and Economic Crisis and Global Governance, Faculty of Economic Sciences and Management, University of Setif, Algeria, 2009, p. 10.

² Mohamed Hassan Youssef, *Determinants and Standards of Governance*, National Investment Bank, June 2007, article available on the website:
<http://www.saaaid.net/Doat/hasn/hawkama.doc>

³ Arab Society of Certified Accountants, *Monthly Electronic Newsletter*, Issue 53, February 2004, p. 23.

⁴ Tarek Abdel Al-Hamad, *Corporate Governance: Concepts, Principles, Experiences, and Requirements for Public and Private Sector Companies and Banks*, University House, Alexandria, Second Edition, 2007, p. 33.

The Basel Committee views governance from a banking perspective as the manner in which banking institutions are managed by their boards of directors and senior management, impacting how the bank:¹

- Sets its objectives.
- Manages its daily operations.
- Conducts activities and transactions safely and soundly in accordance with applicable laws, protecting the interests of depositors.
- Considers the rights of stakeholders, including employees, customers, and shareholders.

The Bank for International Settlements conceptualizes banking governance as the strategic management framework implemented by boards and executive leadership. This framework delineates operational protocols, objective-setting mechanisms, and stakeholder protection strategies, emphasizing regulatory compliance and depositor safeguarding, this reformulation maintains the essence of the original definition while presenting it in a more concise, academically-oriented manner, suitable for scholarly discourse.

In general, banking governance can be described as the system through which banks are managed and monitored to achieve their goals and objectives. It is the system that governs how they handle the capital resources of shareholders and institutional investors.

2.2. The Concept of Governance:

2.2.1. Principles of Governance: ²

The financial collapses in Southeast Asia and Latin America, along with the bankruptcy of many banks and companies, and the economic transformations leading to emerging transitional economies, prompted the International Monetary Fund and the World Bank to collaborate with the Organisation for Economic Co-operation and Development (OECD) to study corporate governance policies and their effectiveness in both advanced and emerging markets. This study culminated in 1999 with the formulation of five main sections under the title "Principles of Corporate Governance." These principles include:

- **Principles regarding shareholders' rights:**

Encompass secure ownership registration, transferability, timely information access, participation in general meetings, board member election, profit sharing, and involvement in fundamental corporate decisions.

- **Principles regarding the equitable treatment of shareholders:**

Ensures fair treatment of all shareholders, including minorities and foreign investors, with emphasis on transparent information dissemination.

- **Principles regarding the role of stakeholders:**

¹ Abdelkader Brish, Rules for Applying Governance Principles in the Banking System with Reference to the Case of Algeria, Journal of Economic Reforms and Integration into the Global Economy, Higher School of Commerce, Issue 1, Algeria, p. 185.

² Bank of Alexandria, Economic Bulletin, "Governance: The Road to Good Management," Issue 35, 2003, p. 17.

Recognizes legally established stakeholder rights, fosters company-stakeholder cooperation, and facilitates stakeholder engagement in performance enhancement and information access.

- **Principles regarding disclosure and transparency:**

Mandates comprehensive disclosure of material corporate information, including financial status, objectives, governance structures, and executive compensation. Emphasizes adherence to recognized accounting standards, independent audits, and efficient information dissemination channels.

This reformulation presents the key principles in a concise, academically-oriented manner, maintaining the essential content while significantly reducing verbosity.

- **Principles regarding the responsibilities of the board of directors:**

Board of Directors' Responsibilities:

The governance framework mandates the board to:

1. Establish strategic direction and ensure effective management oversight.
2. Operate with comprehensive knowledge, prioritizing corporate and shareholder interests.
3. Ensure legal compliance while considering stakeholder interests.
4. Oversee key executive appointments, remuneration, and strategic implementation.
5. Maintain integrity of financial systems and risk management processes.
6. Exercise objective and independent judgment in corporate governance.

It is noteworthy that these principles are not mandatory but serve as a reference framework for policymakers when developing legal and regulatory frameworks for corporate governance, in alignment with their economic and social circumstances. These principles are inherently evolving and flexible, requiring companies to continuously innovate their governance practices.

2.2.2. Key Players in Bank Governance:¹

There are two main groups of actors involved in the implementation of governance principles in banks:

- **Group one: Internal Actors**

- **Shareholders:** Shareholders play a crucial role in monitoring the performance of companies in general, as they can influence the direction of the bank.
- **Board of Directors:** Their role includes setting strategies and operational policies, guiding senior management, bearing responsibility, and ensuring the bank's sound condition.
- **Executive Management:** They must possess the necessary competence and integrity to manage the bank and operate according to professional ethics.
- **Internal Auditors:** Internal auditors focus on evaluating risk management processes.

¹ Belazouz Ben Ali and Habbar Abdel Razzaq, "Governance in Financial and Banking Institutions: An Approach to Prevent Financial and Banking Crises with Reference to the Case of Algeria," International Scientific Forum on "The International Financial and Economic Crisis and Global Governance," October 20-21, 2009, p. 12.

– **Group two: External Actors**

- **Legal, Regulatory, and Supervisory Framework:** An advanced regulatory and legal framework is indispensable for the banking sector. The supervisory role of the central bank has markedly evolved, transitioning from direct control to fostering prudent conduct. The regulatory body no longer directs credit allocation but ensures the soundness of the banking system. The Basel Accords have established stringent regulations concerning capital adequacy, loan concentration, related party lending, provisioning, payment collection, debt rescheduling procedures, liquidity requirements, and reserves.
- **Depositors:** Depositors monitor the banking system's performance and can withdraw their savings if they perceive the bank to be taking excessive risks.
- **Credit Rating Agencies:** Rating agencies support market compliance by ensuring that information is available to small investors. Their services enhance transparency and provide protection for market participants.
- **Media:** The media can exert pressure on banks to disclose information, improve human resource efficiency, and consider the interests of other market actors, as well as influence capital.
- **Deposit Insurance Fund:** The Deposit Insurance Fund acts as a safety net with:
 - Implicit insurance system
 - Explicit insurance system

2.2.3. Key Governance Standards¹:

The increasing focus on governance has led key institutions in this field to establish standards aimed at achieving desired objectives, which include:

- Ensuring transparency and fairness, and granting the right to hold management accountable.
- Protecting shareholders' rights.
- Safeguarding depositors' funds.
- Ensuring the financial performance of the bank is reviewed.
- Providing independent oversight of all activities within the bank.
- Minimizing the misuse of power for interests other than the bank's public interest.

It is important to note that the goals of banking supervision are integral to the objectives of governance in the banking sector, which are:

- Maintaining the stability of the financial and banking system.
- Ensuring the efficient operation of the banking system.
- Protecting depositors.

¹ Nasser al-Din, Ya'qoub Adel, "A Proposed Theoretical Framework for University Governance and Indicators of its Application in Light of Total Quality Requirements," Research published in the Journal of University Performance Development, Mansoura University, 2012, p. 80.

In 1999, the Organisation for Economic Co-operation and Development (OECD) introduced five corporate governance principles, later expanded to six in 2004, emphasizing the following:

1. **Effective Governance Framework:** This framework supports market transparency and efficiency, aligns with legal standards, and clearly defines responsibilities for oversight, regulation, execution, and control.
2. **Shareholder Rights Protection:** Ensuring the equitable treatment of all shareholders.
3. **Equitable Treatment:** Fair treatment of shareholders.
4. **Transparency and Disclosure:** Timely and transparent disclosure of significant information, including the role of auditors, ensuring fairness among shareholders and stakeholders.
5. **Board Responsibilities:** Structuring the board's legal obligations, member selection, tasks, and supervisory role over executive management.
6. **Stakeholder Role:** Recognizing stakeholder rights and integrating mechanisms for their participation in corporate governance.

Standards for Governance in the Banking Sector:

The Basel Committee on Banking Supervision has additionally defined governance standards specific to the banking sector, summarized as follows:

1. **Strategic Objective Communication:** Clearly articulating the strategic objectives of both the banking system and individual banks, while delineating management responsibilities.
2. **Board Competence:** Ensuring board members possess the requisite competence and understanding of governance principles, minimizing senior management errors.
3. **Auditor Effectiveness:** Ensuring auditors comprehend their oversight role and perform effectively.
4. **Transparency and Disclosure:** Mandating transparency and disclosure across all bank operations and management activities.

3. Requirements and Reality of Governance in the Algerian Banking Sector

3.1. Dimensions of Proper Governance Application in Financial and Banking Institutions

3.1.1 Requirements for Proper Governance Application in the Banking Sector:

Effective governance in the banking sector necessitates several crucial elements:¹

- **Setting strategic objectives and a set of values and principles known to all bank employees:** Managing banking activities effectively requires clear strategic objectives and guiding principles. The board of directors is responsible for establishing these strategies and developing principles for bank management. These principles should emphasize open and timely discussions of issues and ensure measures are in place to prevent corruption

¹ "Governance: The Road to Good Management," Bank of Alexandria, Economic Bulletin, Issue 3, 2003, p. 34.

and bribery. The board must ensure senior management implements policies to prevent or limit practices that could undermine governance efficiency.

- **Establishing and implementing clear policies in the bank:** A competent board should clearly define the primary authorities and responsibilities of both the board and senior management. Senior management, in turn, should delineate employee responsibilities based on hierarchical levels.
- **Ensuring the competence of board members:** Board members must understand their governance role and remain uninfluenced by external or internal pressures. As the primary overseer of the bank's operations and financial stability, the board must monitor the bank's performance closely and have sufficient information to identify shortcomings and take timely corrective actions.
- **Ensuring adequate monitoring of bank activities:** Senior management must ensure robust monitoring mechanisms for bank activities, as this is crucial for maintaining governance principles within the bank's structures.
- **Effectively utilizing internal and external auditors' reports:** Auditors play a critical role in governance. The board and senior management must recognize the importance of audits, promote awareness of this among all bank employees, and ensure auditors' independence by allowing them to report directly to the board.
- **Aligning incentive systems with bank policies:** Incentive systems must align with the bank's policies, objectives, strategy, and surrounding environment. This requires a clear rewards and incentives hierarchy linked to performance.
- **Maintaining transparency in governance practices:** Transparency is vital for accurately assessing the performance of the board and senior management. Stakeholders, shareholders, market participants, and customers must have access to sufficient information about the bank's financial health, capital adequacy, and other factors that build trust. Transparency is a fundamental pillar supporting proper governance practices.
- **Role of supervisory and regulatory authorities:** Regulatory authorities must fully understand the importance of governance and its impact on bank performance. They must encourage banks to adopt these principles. The Basel Committee has emphasized the need for an environment conducive to proper governance application, including laws and regulations protecting shareholder rights and ensuring banks operate in a corruption-free environment with established standards for auditing and accountability.

3.1.2 The Role of the Central Bank in Supporting Bank Governance:

Proper bank governance predominantly hinges on the supervisory and regulatory roles of the central bank, as well as on the actions of individual banks, for the following reasons:

- Good governance implementation falls under the central bank's supervisory responsibilities.

- Banks differ from other corporations due to the inherent risks in their operations.
- Banks are responsible for safeguarding others' funds (depositors).
- The inherent risks banks face and their stock trading on financial exchanges make governance essential.
- Bank board members must ensure that risks are managed properly, and the central bank has the legal responsibility to verify this.

By ensuring these requirements are met, the Algerian banking sector can enhance its governance practices, thereby promoting stability, efficiency, and trust within the financial system.

3.2. Determinants of Governance:

Despite the availability of essential elements for the proper application of governance principles, the effectiveness of governance depends on two sets of determinants: internal and external determinants: ¹

A. Internal Determinants:

Internal determinants refer to the rules and foundations that determine how decisions are made and how authority is distributed within the institution among three main parties:

- the General Assembly, the Board of Directors, and the executive managers. The importance of these determinants lies in their ability to reduce conflicts of interest among these three parties. Internal determinants include:
- General Assembly: This is the highest authority in the institution, where shareholders meet to discuss and decide on major issues such as the election of board members, approval of financial statements, and decisions regarding the distribution of profits.
- Board of Directors: The board is responsible for setting strategic directions, overseeing the management, and ensuring that the company operates in the best interests of the shareholders.
- Executive Managers: These are the individuals responsible for the day-to-day management of the company. Their actions and decisions are critical to the implementation of the board's strategies and policies.

B. External Determinants:

External determinants of governance refer to the broader economic environment within the country, including:

- **Economic Activity Laws:** These include laws regulating financial markets, company operations, competition, anti-monopoly practices, and bankruptcy. Such laws ensure that companies operate within a legal framework that promotes fair competition and protects stakeholders' interests.
- **Efficiency of the Financial Sector:** The financial sector's ability to provide the necessary funding for projects is crucial. A well-functioning financial sector facilitates access to capital and supports economic growth.

¹ Mohamed Hassan Youssef, "Determinants and Standards of Governance," Opcit, p. 14.

- **Competitiveness of Goods and Production Factors Markets:** The degree of competitiveness in markets for goods and production factors affects the overall economic environment. High competition encourages efficiency and innovation, benefiting the economy and companies.
- **Efficiency of Regulatory and Supervisory Bodies:** The effectiveness of regulatory bodies in overseeing institutions ensures compliance with laws and regulations. This includes professional associations that set ethical standards for market participants, such as auditors, accountants, lawyers, and financial companies. The presence of strong regulatory and supervisory bodies helps to maintain market integrity and protect stakeholders.

The importance of external determinants lies in their ability to ensure the implementation of rules and regulations that guarantee the proper management of the company. They help reduce the conflict between the company's social return and its private return. By establishing a supportive economic environment, external determinants play a crucial role in promoting good governance practices within institutions.

3.3. The Reality of Governance in the Algerian Banking Sector:

The adoption of governance principles in managing national institutions was not a prominent topic of discussion in Algeria, and the concept was unfamiliar to officials and the media. However, the insistence of international financial bodies, particularly the International Monetary Fund and the World Bank, on implementing governance principles at macroeconomic and microeconomic levels, coupled with Algeria's high corruption rankings, has prompted a shift in this stance.

3.3.1 The Algerian Banking System and Reforms:

Global developments and Algeria's openness to the world and adoption of a market economy have led to numerous reforms in various systems, including the banking system. Key reforms include those in 1986 and 1988, with the most significant being the 1990 reforms under Law No. 10-90 on currency and credit, amended by Ordinance 11-03 in 2003. This law aimed to adapt the Algerian banking system to the requirements of a free market economy, aligning with the economic reforms initiated by Algeria after abandoning the socialist system.

The currency and credit law granted banks operating in Algeria the freedom to finance various economic sectors and provide credit of different durations in line with the universality phenomenon in banking operations. It also opened the market to private and foreign sectors. The law established central bank oversight over banks in Algeria, empowering it to perform its duties with a wide scope of independence, which was further enhanced by amendments through Ordinance 01-01 in 2001 and Ordinance 11-03 in 2003.

Upon entering the market economy, Algeria had to comply with global banking standards, notably those of the Basel Committee on Banking Supervision (Basel I and II). Instruction No. 74-94 issued on November 29, 1994, set out most of the ratios related to globally recognized prudential rules, especially those concerning capital adequacy. This instruction mandated banks to maintain a capital adequacy ratio of no less than 8%, implemented gradually considering the transitional phase

of the Algerian economy, with the final deadline by the end of December 1999, as follows:

- 4% by the end of December 1995
- 5% by the end of December 1996
- 6% by the end of December 1997
- 7% by the end of December 1998
- 8% by the end of December 1999

Article 05 of the instruction detailed the calculation of a bank's core capital, while Articles 06 and 07 specified elements included in supplementary capital. The total of these components constituted the bank's own capital. Article 08 enumerated the elements subject to risk, categorized by Article 11 according to their risk weights for both balance sheet and off-balance sheet items, in a manner similar to Basel I.

Regarding Basel II, the Bank of Algeria issued Regulation No. 03-02 on November 14, 2002, concerning internal control of banks and financial institutions, requiring them to establish internal control systems to manage various risks, in line with Basel II provisions. This regulation aims to define the scope of internal control that banks and financial institutions must implement, particularly systems for risk assessment, analysis, and control.

Article 03 of Regulation 03-02 mandates that internal control systems for banks and financial institutions incorporate:

- Operations and internal procedures control system
- Accounting and information processing organization
- Risk and results assessment systems
- Risk monitoring and control systems
- Documentation and information system

It should be noted that Regulation 03-02 addressed various procedures and clarifications necessary for establishing these systems in banks and financial institutions, considering the nature, size, and significance of their activities and the risks they may face.

The Algerian banking system legislation, through Regulation 09-91 of 1991 and Instruction 94-74 of 1994, attempted to implement aspects of Basel I. Furthermore, through Regulation 03-02 of 2002 on internal control of banks and financial institutions, it aimed to apply Basel II provisions, though this regulation still requires several detailed instructions for effective implementation, given the complexities of Basel II in practical terms.

3.3.2 An Analytical Review of Corporate Governance Practices in the Algerian Banking System:

The Algerian banking sector has faced several upheavals, particularly after the enactment of the Currency and Credit Law, which allowed private and foreign banks to operate in Algeria. Notable banks that emerged include Khalifa Bank and the Algerian Industrial and Commercial Bank. However, this period was characterized by weak central bank oversight of these banks before and after they began operations, leading to crises that shook the Algerian banking sector and eroded

public trust in private banks, significantly impacting those that entered the market following the liquidation of these two banks.

The Algerian banking sector during this period was marked by poor governance, particularly within the Bank of Algeria as the supervisor and regulator of other banks. The Banking Commission, a body of the Bank of Algeria, noted in one of its memos on supervisory activities that poor governance was among the main reasons for the financial crises faced by Khalifa Bank and the Algerian Industrial and Commercial Bank.

For Khalifa Bank, governance issues included:

- Non-compliance with institutional accounting procedures;
- Delays in submitting reports to the Bank of Algeria;
- Irregular reviews of localization files;
- Lack of monitoring and supervision;
- Failure to adhere to prudential rules.

Regarding the Algerian Industrial and Commercial Bank, which was accredited in 1998, a comprehensive supervision program by the Bank of Algeria in 2001 revealed several violations of banking legal and regulatory rules, including:

- Poor management practices, especially concerning the handling of unpaid checks;
- Insufficient current account balance with the Bank of Algeria;
- Absence of mandatory reserves;
- Violations of exchange laws.

After these banks failed to meet their payment obligations and were liquidated, the Banking Commission and the Credit and Currency Council revoked licenses from several private banks following inspections. These included the Algerian Banking Corporation, Union Bank, the International Bank of Algeria, and Bank Al-Rayan of Algeria, among others.

Public banks also suffer from poor governance, evident from significant embezzlement cases and substantial amounts involved. These banks continuously struggle with non-performing loans, especially those granted to public economic institutions. They also face weak internal and external oversight and do not fully apply prudential rules.

A- National Governance Action Program:

To implement the national governance action program in the banking sector, the Basel II framework was introduced in banks and financial institutions to improve risk management and enhance market discipline by applying its three pillars. To execute this project, the Bank of Algeria adopted gradual and coordinated measures with banking sectors, including:

- Establishing a dedicated team for the Basel II project, supervised externally and consulting with the team responsible for implementing international accounting standards.
- Preparing two questionnaires for commercial banks to assess their readiness to meet Basel II requirements.

- Conducting a quantitative impact study of this system by the Bank of Algeria, a key requirement regarding own funds.

In implementing this program, Algeria introduced several reforms in the banking sector to improve governance in banks and financial institutions by enhancing stability and efficiency, modernizing technical and physical infrastructure, and improving service quality. These reforms included:

- Performance contracts: New performance contracts for bank managers' salaries were developed after evaluating the 2004 contracts.
- Enhancing the role of boards of directors: Restructuring boards and establishing audit committees, enhancing members' expertise.
- Improving bank management: Developing an administrative responsibilities charter and a professional ethics code.
- Improving banking operations: Preparing banks to implement the new financial accounting system and apply Basel II standards, along with better human resources utilization (performance-linked variable pay system).

Since 2006, the modernization and strengthening of technical and physical infrastructure in banks have been actualized by introducing a real-time gross settlement system for large amounts and an internal information and clearing system, operational since July 2008. This system has enabled the establishment of a legal and regulatory framework, setting and adopting standards for all payment instruments, including credit card usage, and creating a reliable communication network among banks to enhance oversight.

B -Banking Audit and Supervision:

To safeguard the integrity and stability of the banking system, the Bank of Algeria and the Banking Commission rigorously oversee banks and financial institutions. This oversight includes thorough evaluation, monitoring, management, and control of risks. In addition to document audits based on banks' submissions to the Bank of Algeria, which serve as the initial phase of the alert system, the Bank of Algeria promptly deploys field audit teams to promote structured banking intermediation development.

In the second half of 2009, the Bank of Algeria announced a special monitoring and evaluation system for banks, covering solvency, liquidity ratios, and repayment capacity—compliance with prudential rules and loan-to-capital ratios. This new system aims to strengthen bank oversight and implement a rating system to assess the profitability and resource management capacity of institutions.

In May 2009, the Bank of Algeria issued a regulation defining new banking conditions applicable to banking operations of banks and financial institutions. While banks and financial institutions can offer special banking services to their clients, any new product introduction in the market must receive prior authorization from the Bank of Algeria for better risk assessment and tool harmonization. According to Article 4 of this regulation, banks and financial institutions freely set credit and debit interest rates and service fees for banking operations, but the Bank of Algeria may set the excess interest rate, ensuring that total effective interest rates on loans do not exceed the excess interest rate.

C- Launch of the Algerian Corporate Governance Code:

On March 11, 2009, the Algerian Corporate Governance Code was issued, timely as applying corporate governance rules will help build mutual trust with the banking sector, especially when accessing capital and promoting economic growth, fundamental for overcoming the global financial crisis and mitigating its impact on the Algerian economy. The head of the Algerian Corporate Governance Task Force emphasized that the absence of governance within a company limits innovation and development potential, deterring bankers, partners, or investors from investing in poorly governed projects. Thus, adherence to the Corporate Governance Code will generate greater resources and foster business growth.

D- National Governance Action Program Implementation:

Algeria adopted governance principles in banks as part of the national governance program, implementing Basel Committee decisions in banks and financial institutions to improve risk management and enhance market discipline. Several measures were taken in this regard, including:

- Establishing a dedicated team for the Basel project under external supervision and in consultation with the team responsible for implementing international accounting standards.
- Preparing two questionnaires for commercial banks to assess their readiness to meet Basel requirements.
- Conducting a quantitative impact study of this system by the Bank of Algeria (a key requirement regarding own funds).
- Implementing performance contracts: Developing performance contracts for bank managers' salaries after evaluating previous years' contracts.
- Enhancing the role of boards of directors: Restructuring boards and establishing audit committees.
- Improving bank management: Developing an administrative responsibilities charter and a professional ethics code.
- Enhancing banking operations: Preparing banks to implement the new financial accounting system and apply Basel II standards.

3.4. Evaluation of the Algerian Banking Experience Regarding Governance:

Corporate governance is widely recognized as a critical element in enhancing the operational effectiveness of financial and banking institutions, particularly amidst growing economic challenges and global integration. Despite efforts in Algeria to enhance governance within the banking sector, the experience continues to face significant shortcomings and challenges that impede the attainment of desired objectives.

1. **Weakness in Transparency and Financial Disclosure:** One of the major issues facing Algerian banks is the weakness in transparency and financial disclosure. Transparency is a cornerstone of good governance as it helps build trust between banks, investors, and clients. However, many Algerian banks avoid publishing financial information comprehensively and clearly, hindering the ability of investors and stakeholders to make informed

decisions. This is evidenced by the lack of detailed financial reports available to the public and frequent delays in their release.

2. **Delays in Publishing Information and Preparing Annual Reports:** Delays in publishing information and preparing annual reports pose a significant challenge to governance in the Algerian banking sector. The Monetary and Loan Law stipulates the necessity of timely publication of financial reports, but many banks do not comply with these regulations, resulting in a lack of up-to-date information for stakeholders. For example, there are notable delays in preparing and publishing annual activity reports, which reduces transparency and accountability.
3. **Non-compliance with Monthly Status Publication by the Bank of Algeria:** The Bank of Algeria's failure to publish its monthly status, mandated by the Monetary and Loan Law (Law 90-10 and Ordinance 11-03), and the non-activation of the Central Risk Mechanism, signify deficiencies in banking system governance. This publication is crucial not only for transparency but also for presenting an accurate financial overview of the central bank, thereby bolstering trust in the banking sector. Delay in this regard results in a dearth of critical information required by investors and economic analysts.
4. **Weak Application of International Accounting Standards:** The Algerian banking sector suffers from weak application of international accounting standards, resulting in inconsistent quality of financial reports and difficulty in comparing performance with international banks. This weakness is evident through the lack of specialized training for financial personnel in Algerian banks and reliance on outdated accounting systems that do not comply with international standards.

4. CONCLUSION:

Economic crises are phenomena that arise due to various factors and conditions, leading to severe consequences in the banking sector. It becomes challenging to maintain the trust that investors, depositors, and capital owners have in global banks. These banks are no longer secure, neither in terms of solvency nor in their management practices according to sound standards. Therefore, the issue of supervision and governance within financial institutions is revisited, and the search for optimal strategies to achieve effective governance in banking institutions becomes crucial. This study aimed to address these issues, leading to the following key findings:

- **Study Findings:**

- Corporate governance differs from banking governance in certain aspects due to the specific nature of the banking and financial system.
- Adhering to sound banking governance principles helps take necessary precautions against corruption and mismanagement while promoting transparency in economic life.

- The financial crisis provided a practical perspective on how good governance can be used to prevent such crises.
- Governance delineates the allocation of rights and duties among various stakeholders in a bank, including the board of directors, managers, shareholders, and other parties involved. It establishes decision-making protocols and operational guidelines for bank management, fostering a framework for goal achievement and performance oversight. Governance enhances administrative efficacy by aiding the board and managers in crafting effective strategies, setting attainable objectives, and ensuring prudent allocation of resources, thereby enhancing overall value and operational efficiency.
- Governance requires a high level of transparency in auditing and accounting for various operational activities to avoid corruption, which wastes bank resources and weakens competitiveness. Transparency in dealing with investors and creditors leads to a strong banking governance system, helping to prevent financial crises.
- Good governance requires a market system and legal environment that enforce contracts and protect property rights, focusing on establishing institutions and regulations that suit the needs of developing countries. The central bank plays a crucial role in this aspect.
- The Algerian banking sector shows weakness in transparency and financial disclosure compared to its counterparts in the Arab world and the West.
- Delays in publishing information and preparing annual reports, along with the Bank of Algeria's non-compliance in publishing its monthly status, negatively impact performance and the outcomes of sound governance practices.
- Weak application of international accounting standards results in inconsistent financial report quality and difficulty in comparing performance with international banks.
- There is a lack of specialized training for financial staff in Algerian banks, relying on outdated accounting systems that do not conform to international standards.

- **Recommendations and Suggestions:**

After this study, we present the following recommendations:

- Reforming the ownership structure of banks to reduce ownership concentration and family or individual ownership models while promoting diversified ownership and strengthening the board of directors' system and accountability.
- Improving accounting standards, auditing, and financial reporting to enhance transparency and disclosure, combat administrative corruption, and strengthen the rule of law.
- Monitoring lending limits by banks to affiliated institutions and adopting international standards in capital adequacy.

- Enhancing competition in the banking market and improving banking conduct.
- Strengthening external discipline and oversight over bank operations and performance.
- Updating legal and regulatory frameworks, requiring financial authorities to modernize laws and regulatory procedures to enhance transparency and accountability in the banking sector.
- Providing specialized training for financial staff to enhance their understanding and application of international accounting standards.
- Activating the central risk mechanism to improve risk management and increase trust in the banking system.
- Collaborating with international organizations, as Algeria can benefit from international expertise through cooperation with international financial organizations to adopt best practices in governance.

In conclusion, good governance is key to ensuring the stability and growth of the banking sector in Algeria. Despite current challenges, improving governance in Algerian banks is possible through greater transparency, updated regulatory frameworks, and staff training, ultimately leading to significant benefits for the Algerian economy.