

Discussion Paper

The Partnership for Financial Excellence

Introduction

The United States Government is currently developing a proposal for a Middle East Partnership for Financial Excellence (PFE). The PFE is intended to be a multi-year cooperative effort among the U.S. Government, governments in the Middle East and North Africa (MENA) and the private sector to strengthen MENA financial sectors. The PFE is a key component of the U.S. Government's broader Middle East Partnership Initiative (MEPI).

The financial and regulatory systems of the region exhibit important similarities and differences. Nevertheless, there is also great potential benefit in pursuing a common cause to strengthen the legal, institutional and regulatory frameworks in the region. A well-coordinated regional effort can help capitalize on the opportunities afforded by global economic integration and enable the countries of the region to share expertise and experience.

The PFE's overriding purpose is to work together with MENA countries to accelerate economic growth and job creation by reinforcing the competitiveness, efficiency, and soundness of the region's financial institutions and capital markets. Observers generally consider financial sector strengthening and openness to foreign direct investment as a key step for accelerating growth in the region. Achieving higher rates of economic growth is essential in turn for raising incomes and creating employment opportunities for the 50 million young people who will enter regional labor markets by 2010.

The United States is seeking input from regional policymakers on how the PFE could make a significant, measurable impact on financial sector development and economic growth in the MENA region. The initiative is intended as a partnership of policymakers who share a common commitment to instill and uphold best practices to promote strong financial systems, that are also resistant to abuse by criminals and terrorists. In the first instance, the United States is seeking feedback from finance ministries, but the initiative will eventually involve the participation of different financial, monetary and supervisory authorities, in accordance with the system of each country.

The PFE will be able to call on the best public and private resources that the United States can mobilize in direct support of its regional partners' goals. Its performance will be measured by progress toward a set of clear and agreed outcomes. The U.S. Government believes that the region's economies would be best served by world-class financial sectors, with international best practices serving as the most common benchmark.

To achieve meaningful results, the PFE will require the support of political and financial leaders in the region. The success of the initiative will depend both on national leaders' commitment to making greater financial sector efficiency a priority and on the initiative responding to the needs of each economy. The U.S. Government, therefore, considers it essential to begin broader discussions with policymakers and private sector leaders in the region on financial sector development issues. This paper is intended to initiate such a dialogue.

Key Policy and Economic Goals

The PFE seeks to pursue its goals through specific initiatives in the legal, regulatory and supervisory, commercial banking, micro- and small and medium enterprise (SME)-finance and capital markets areas. The following section highlights the possible objectives and the implementation strategy of a proposed PFE:

Launch a Regional Economic Policy Dialogue: To create a flexible, cost-effective mechanism for regional policymakers to exchange ideas regularly on economic policy and financial sector issues and broaden the expertise of their staffs in specific technical areas.

Further Improve the Legal Frameworks: To strengthen legal and regulatory frameworks for financial services so that existing banks manage risk better, increase their customer base, have better opportunities to perfect security interests in loans and resolve disputes faster and so that new financial instruments can be introduced.

Further Strengthen Regulation and Supervision: To enhance national supervisory capacity and resources to better enable countries to meet international regulatory and supervisory standards, to allow for a level playing field for foreign and domestic financial institutions and to provide regulators with the resources, authority and independence required in order to operate effectively.

Reinforce Enforcement Capacity and Coordination: To support the region's efforts to establish a Financial Action Task Force (FATF)-style regional body (FSRB) and to support individual country efforts to implement anti-money laundering and counter terrorist financing standards compliant with international norms.

Improve Banking Efficiency: To modernize the banking sector by upgrading technology, building the skills of bank employees in credit analysis and risk management, expanding customer bases, enhancing transparency and corporate governance, and expanding the private sector's role in the banking system. In the case of troubled banks, to provide assistance in identifying the true extent of non-performing loans and assistance in extinguishing such loans, rationalizing banks' cost structure and preparing them for privatization, sale or merger.

Increase Small and Medium-sized Enterprises Access to Credit and Financial Services: To increase small- and medium- sized businesses' access to credit and other financial services provided by the entire financial sector so that they can invest in their businesses and create jobs at the local level.

Deepen and Broaden Capital Markets: To expand the financial sector beyond bank financing by increasing the depth, breadth, efficiency and scale of capital markets for both the public and private sector, supporting effective (and sustainable) public debt management and introducing new financial instruments. The insurance and pension sectors should play an important role in this deepening and broadening.

Types of Possible PFE Activities

Amongst other ideas, the PFE activities could include some or all the following:

- A focused and formal policy dialogue to exchange ideas on economic policy and financial sector issues and broaden technical expertise.
- Specialized bilateral technical cooperation and advisors to assist governments and private institutions in undertaking financial sector development and reform in the legal, regulatory and supervisory, enforcement and capital markets development areas.
- Technical cooperation programs provided by institutions such as: the U.S. Treasury and other U.S. regulatory agencies, the American Bar Association, the American Law Institute, the Financial Services Volunteer Corps and other U.S. private institutions.
- A regional bank training for regulation and supervision conducted in partnership with local institutions.
- Commercial bank training program focused on increasing SME access to credit for a regional micro-enterprise initiative and a regional fund to provide equity and quasi-equity financing to SMEs.

In choosing providers of assistance, the U.S. Government's focus would be on identifying institutions that are uniquely qualified to provide help by virtue of their organizational specialization and comparative advantage. PFE programs would also be coordinated so as to augment or complement ongoing assistance efforts.

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