



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

Corporate Governance: Achievements and The Way Forward

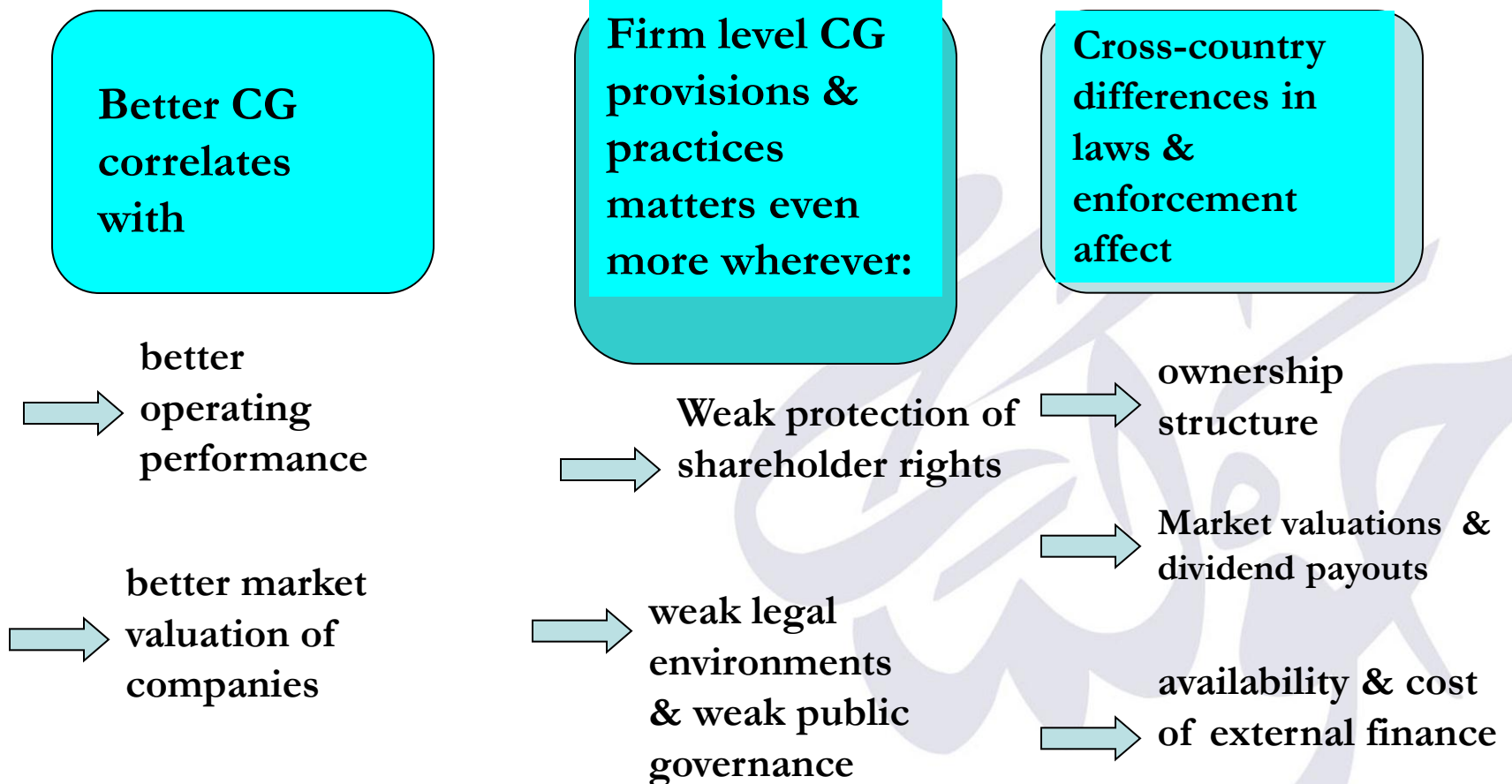
Financial Times' Middle East Financial
Services Summit
May 2, 2007 . Bahrain

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Overview

- ❑ Corporate Governance in Emerging Markets
- ❑ Changing Regulatory Framework in the GCC: IIF/Hawkamah Survey
- ❑ Opportunities for CG Reform in MENA: IFC/Hawkamah Survey
- ❑ Regional CG Agenda

Corporate Governance : lessons from Performance in Emerging Markets



Drivers for Corporate Governance Reform

- International convergence of prudential and regulatory codes and standards: e.g. AML/CTF, Banking CPs,
- International obligations and agreements: WTO, RTAs and FTAs & Role of international institutions: OECD, WB, IMF
- Correction & high volatility in equity markets
- Pressure from increasing inter-connectedness of markets and regional/ international investors
- MENA countries have been slow in adopting or complying with international codes and standards, apart from Basel CPs and AML/CTF

Changing CG Regulatory Environment: IIF-Hawkamah GCC CG Survey

- Hawkamah Institute for Corporate Governance partnered with the Institute for International Finance to assess CG environment of the GCC countries, from an investors perspective.
- GCC Task Force met with close to 100 regulators, Central Bank officials, accountants, lawyers, investment firms in all 6 GCC countries.
- Assessment of the CG environment focused on:
 - Minority shareholder rights**
 - Structure and responsibilities of Board of Directors**
 - Accounting and auditing**
 - Transparency of ownership and control**
 - Regulatory environment**

GCC CG Assessment

GCC Comparative Corporate Governance Survey and

Six GCC country
specific reports
now available:

www.hawkamah.org



Table 5: Comparison of Corporate Governance Frameworks in the GCC with IIF Guidelines
(on scale of 1-5 with 5 being fully compliant)

| | Bahrain | Kuwait | Oman | Qatar | Saudi Arabia | United Arab Emirates |
|---|---------|--------|------|-------|--------------|----------------------|
| Minority Shareholder Protection | 2.0 | 4.0 | 3.0 | 2.5 | 3.5 | 2.5 |
| <i>Voting Rights</i> | 1.5 | 3.5 | 3.5 | 2.5 | 2.0 | 3.5 |
| <i>Firm/Capital Structure</i> | 1.5 | 4.5 | 1.0 | 2.0 | 5.0 | 2.0 |
| <i>Shareholder Meetings/Other Rights</i> | 3.0 | 3.5 | 3.5 | 3.0 | 3.0 | 2.5 |
| | | | | | | |
| Structure and Responsibilities of the Board of Directors | 2.0 | 1.5 | 3.5 | 1.5 | 2.0 | 1.5 |
| <i>Board Structure</i> | 1.0 | 1.5 | 3.5 | 1.5 | 1.0 | 1.0 |
| <i>Disclosure</i> | 4.0 | 3.5 | 5.0 | 1.5 | 4.0 | 3.5 |
| <i>Others</i> | 1.0 | 0.5 | 2.5 | 0.5 | 2.5 | 0.0 |

Comparison of CG frameworks in the GCC Countries with IIF Guidelines (on scale of 1-5 with 5 being fully compliant)

| | Bahrain | Kuwait | Oman | Qatar | Saudi Arabia | United Arab Emirates |
|--|------------|------------|------------|------------|--------------|----------------------|
| Accounting and Auditing | 2.0 | 2.5 | 4.0 | 2.0 | 2.5 | 2.0 |
| <i>Standards</i> | 3.0 | 3.5 | 3.5 | 3.0 | 3.5 | 2.5 |
| <i>Audit Committee</i> | 0.5 | 0.0 | 5.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | |
| Transparency of Ownership and Control | 2.5 | 3.5 | 3.5 | 1.0 | 4.5 | 2.5 |
| | | | | | | |
| Regulatory Environment | 2.0 | 2.0 | 4.5 | 2.5 | 2.5 | 2.0 |
| | | | | | | |
| OVERALL ASSESSMENT | 2.0 | 3.0 | 3.5 | 2.0 | 3.0 | 2.0 |

Takeaway of IIF-Hawkamah Survey

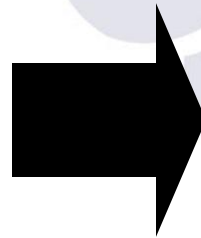
- ❑ Banking sector in general has better corporate governance due to Basel II compliance
- ❑ GCC countries comply with between 50-70% of guidelines
- ❑ Excess Liquidity in the GCC Region
- ❑ Easy access to capital provides little incentive for change at company level
- ❑ Efforts being made by authorities to improve overall CG frameworks but some initiatives lack strategic focus and political will

Regulators

- GCC regulators seem to be professional but there are weaknesses that impact quality of regulatory environment
 - Political pressures
 - Lack of independence
 - Availability of skilled and professional staff
 - Weak underlying corporate laws

Existing regulatory structure in most GCC countries

- Regulator reports to Ministry of Commerce or Finance
- In some countries stock exchange also performs regulatory functions



Preferred regulatory structure

- Regulator independent from government ministry and stock exchange

Stock Exchanges in the GCC

- Are at various stages of evolution although in general stock exchange play the role of both market maker and regulator, which creates conflicts
- Vary in size (market capitalization) and product offering
- Need to share a common technology platform, which could lead to integration of equity markets

Integration of GCC equity markets will make the region more competitive and help increase equity flows

Individual and Group rankings of GCC Equity Markets

| Rank | Country | Market Cap. (in Millions) as on Nov 11, 2006 |
|------|---------------------|--|
| 1 | Hong Kong | 1,794,358 |
| 2 | Russia | 942,462 |
| 3 | Korea | 795,071 |
| 4 | India | 769,404 |
| 5 | China | 703,979 |
| 6 | Brazil | 643,549 |
| 7 | South Africa | 345,978 |
| 8 | Saudi Arabia | 345,254 |
| 9 | Mexico | 340,145 |
| 10 | Malaysia | 214,357 |
| 11 | Turkey | 159,355 |
| 12 | Chile | 157,668 |
| 13 | Thailand | 143,866 |
| 14 | UAE | 143,344 |
| 15 | Poland | 137,888 |
| 16 | Kuwait | 130,756 |
| 17 | Israel | 125,889 |
| 18 | Indonesia | 122,799 |
| 19 | Egypt | 75,906 |
| 20 | Philippines | 60,035 |
| 21 | Qatar | 59,897 |
| 22 | Pakistan | 47,370 |
| 23 | Argentina | 47,053 |
| 24 | Colombia | 46,754 |
| 25 | Czech Republic | 45,737 |
| 26 | Peru | 43,385 |
| 27 | Hungary | 37,812 |
| 28 | Bahrain | 34,524 |
| 29 | Jordan | 29,338 |
| 30 | Oman | 12,548 |
| 31 | Venezuela | 10,209 |
| 32 | Bulgaria | 7,592 |

- Only Saudi Arabia's equity market is in the top ten emerging market stock exchanges
- However, if combined, GCC equity markets would rank fifth after Hong Kong, Russia, Korea and India
- Integration is a key to stabilizing and growing the regions equity markets

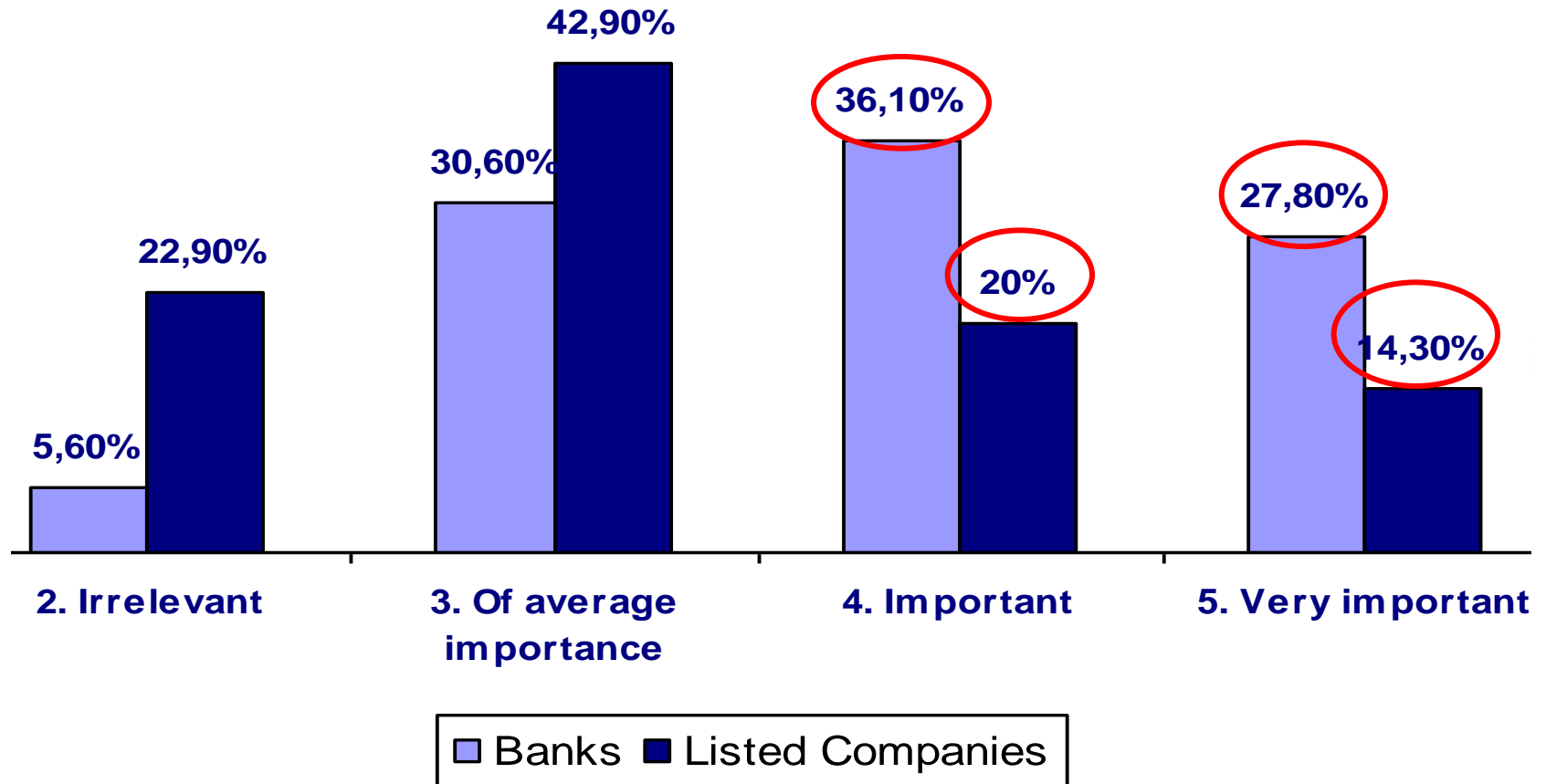
Planned GCC Corporate Governance Reforms

| | |
|--------------|---|
| Bahrain | <ul style="list-style-type: none"> The Ministry of Commerce in Bahrain has drafted a new Commercial Companies Law and a new code of corporate governance that will be enforced in the near term. |
| Kuwait | <ul style="list-style-type: none"> A new Capital Market Law will incorporate corporate governance-related requirements for companies. |
| Oman | <ul style="list-style-type: none"> The Capital Market Authority plans to reassess current corporate governance requirements in fall 2006. Authorities are considering privatization of Muscat Securities Market. |
| Qatar | <ul style="list-style-type: none"> Doha Securities Market will introduce a code of corporate governance by end 2006. Authorities are strengthening regulator's surveillance and enforcement of stock exchange and companies; they also created an independent regulator in 2005. |
| Saudi Arabia | <ul style="list-style-type: none"> The Capital Market Authority issued a draft code of corporate governance for public comment. It hopes to finalize and implement the code by end 2006. |
| UAE | <ul style="list-style-type: none"> The Emirates' Securities and Commodities Authority, the regulator for UAE, is currently drafting a code of corporate governance for listed companies. Abu Dhabi Securities Market recently issued corporate governance guidelines for listed companies for market feedback. Dubai Financial Market has drafted corporate governance guidelines for listed companies, which should become enforceable by fall 2006. The Ministry of Economy has drafted a new company law which includes corporate governance principles. |

Opportunities for CG Reform in MENA: IFC –Hawkamah CEO CG Survey

- Scope: **Listed companies and banks**
- 11 IFC member countries with stock exchanges:
 - Maghreb: **Morocco and Tunisia**
 - Mashrek: **Egypt, Jordan, Lebanon and West Bank**
 - GCC: **Bahrain, Kuwait, Oman, Saudi Arabia and the UAE**

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



➔ 63.9% of banks

➔ 34.3% of listed companies

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

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



It is the same thing as Corporate Social Responsibility



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



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



A system by which companies are directed and controlled

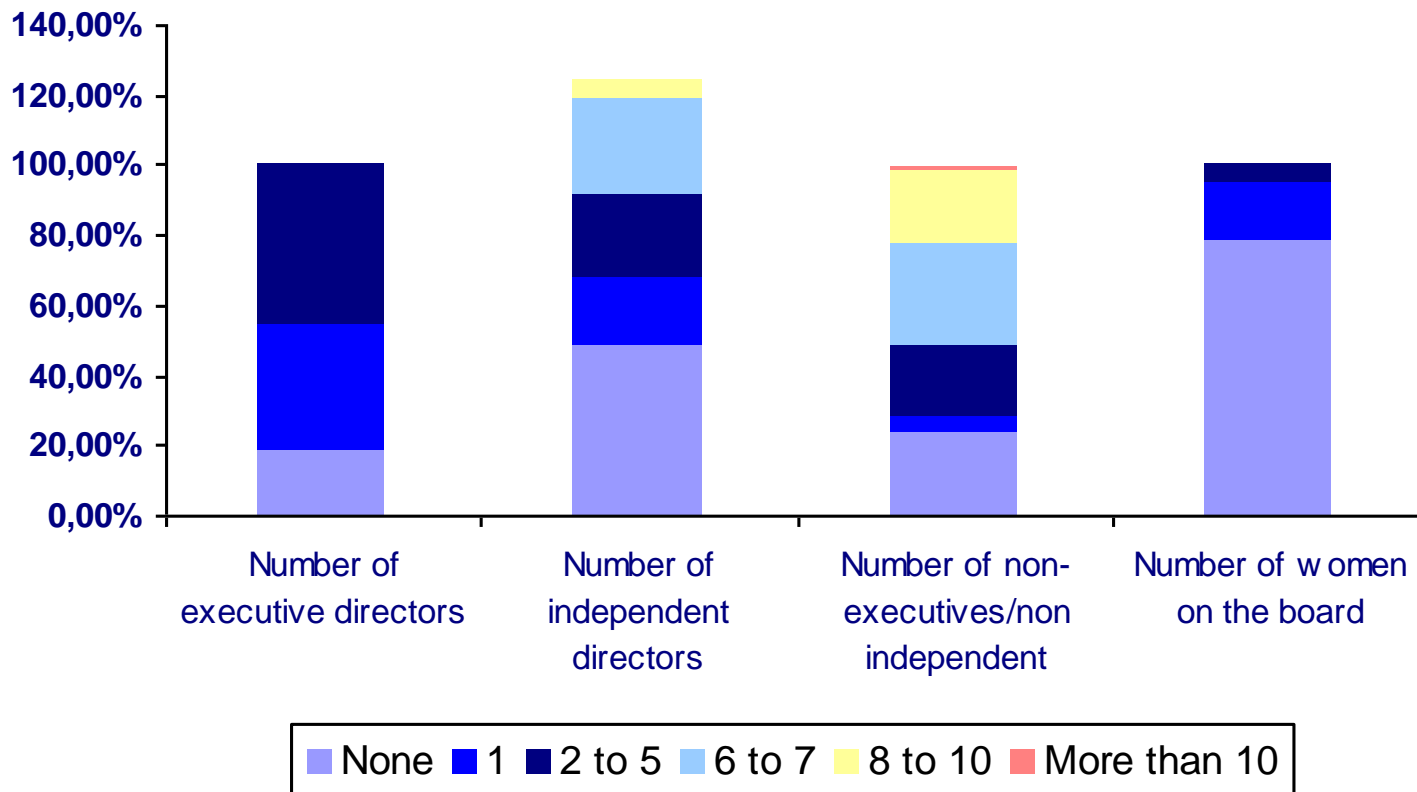


And They Are Looking for Specialists...

Top three barriers to CG cited by respondents:

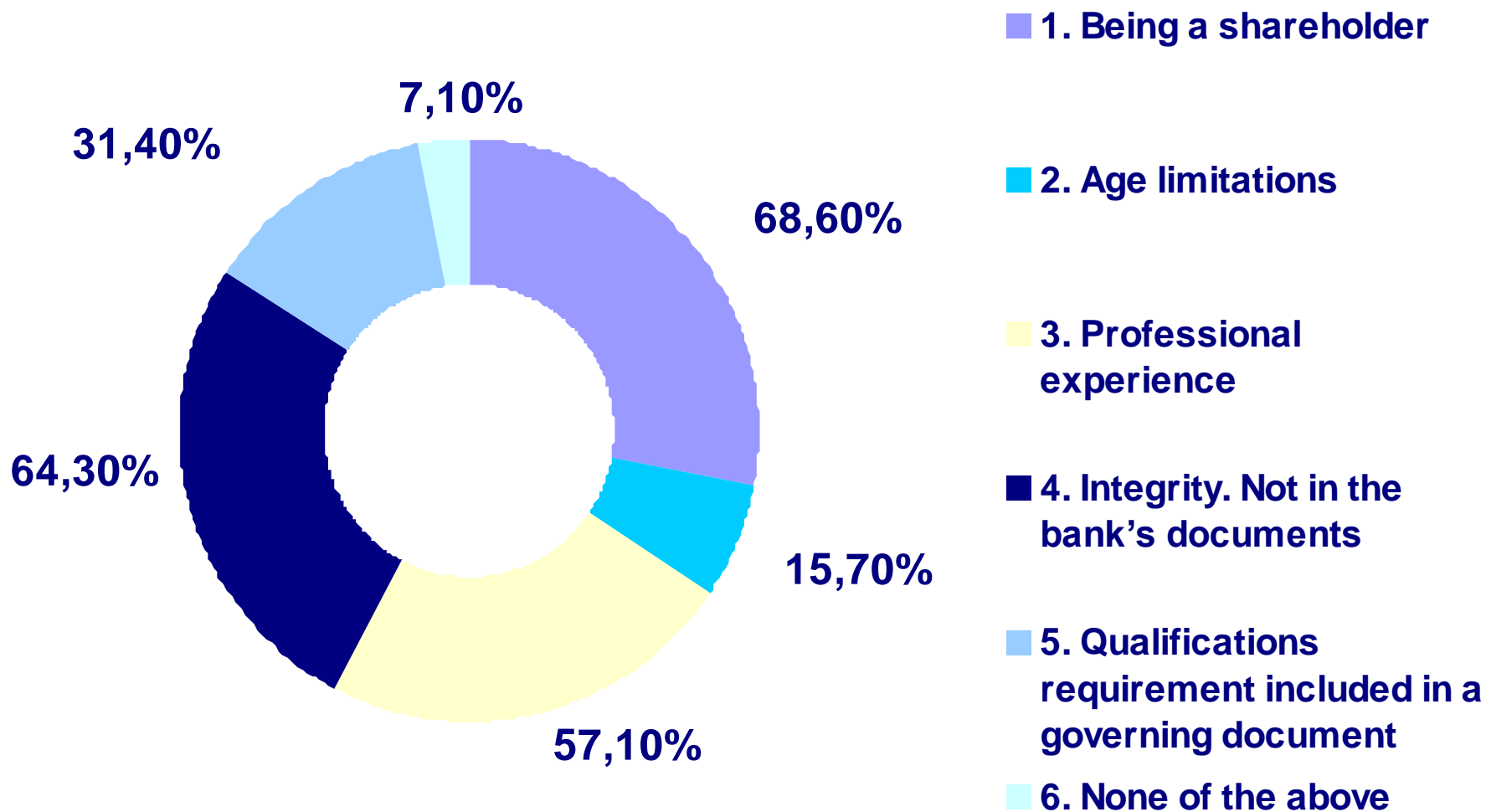
- **53.6% cited** a lack of qualified specialists **to help with implementation**
- **37.7% cited** a lack of information or know-how
- **24.6% cited** lower priority **of corporate governance in relation to other tasks**

The Region Is Still Ways To Go to Building Strong Boards



- Strength: Majority of boards consist of non-executives
- Weakness: Executive and independent elements
 - 68% have one or no independent directors
 - 54.7% have one or no executive directors

With Criteria Based on Experience



Hawkamah Institute for Corporate Governance

- First Institute of its kind in the region
- An autonomous international association, hosted by the DIFC and serving the wider MENA region
- Partners: DIFC, OECD, WB-GCGF, IFC, IIF, CIPE, YAL, UAB, countries participating in OECD MENA Investment programme
- Strengthen institutional and capacity building through **Majlis**, the **Hawkamah Institute of Directors**.
- Source of CG advisory services, technical assistance, monitoring, analysis, research, consultation and reform.
- Foster communication and policy dialogue on CG

Strategic Partners

International Partners

- **Organisation for Economic Co-operation and Development (OECD)**
- **WB-International Finance Corporation**
- **WB Global Corporate Governance Forum**
- **Center for International Private Enterprise**
- **Institute of International Finance (IIF)**
- **Financial Services Volunteer Corps (FSVC)**
- **INSOL (Insolvency Professionals)**
- **Information Systems Audit and Control Association (ISACA)**
- **Amsterdam Institute of Finance**

Other Institutions

- Countries participating in the MENA-OECD Investment Program
- Dubai School of Government
- Young Arab Leaders
- Corporate Governance centers, universities

Regional Partners

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

Hawkamah Targeted Sectors

- 1. Listed Companies, Capital Markets & Regulatory Authorities**
- 2. Banks, Financial Institutions, Insurance industry, Central Banks & Supervisory Authorities**
- 3. Non-listed companies – Family-Owned Enterprises (FOEs) & Small and Medium Enterprises (SMEs)**
- 4. Public Sector – State-Owned Enterprises (SOEs)**
- 5. Media – Raising Awareness and understanding of CG**
- 6. Academia:, Building Capacity & conducting research on CG**

Activities...

WHAT WE DO:

- Provide advisory services & technical assistance on regulatory and firm levels to develop the optimal corporate governance environment
- Undertake CG assessments of sectors and companies
- Conduct consultations with various stakeholders
- Develop and implement training programs
- Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Monitor, Survey & Report on the state of corporate governance

Improving performance: Recommended GCC CG Reform Measures (1)

- ❑ Develop a strong regulatory structure by clearly separating and defining the roles of the regulator and the stock exchange
- ❑ Privatise stock exchanges
- ❑ Increase effectiveness of regulators by making them fully independent of government
- ❑ Issue meaningful corporate governance codes and require mandatory compliance
- ❑ Build institutional capacity and strengthen surveillance and enforcement mechanisms to ensure compliance
- ❑ Strengthen the underlying corporate governance infrastructure by updating laws and creating specialized courts to deal with financial cases

Improving performance: Recommended GCC CG Reform Measures (2)

- Promote training programs for directors of listed companies
- Promote investor education and enhance public awareness of good corporate governance principles and practices
- Introduce corporate governance best practices for state-owned and family-owned companies
- Grant foreign investors full access to equity markets and promote shareholder activism by foreign and domestic institutional investors and the media
- Promote convergence and harmonization of laws and codes among GCC countries

MENA CG and Regulatory Governance Reform

- There is no 'one-size fits all' in CG or Regulatory Governance reform.
- GCC and MENA countries now have CG on the policy agenda
- Countries depending on their institutions and history will need to strike a balance between:
 - Laws vs. Regulations and self enforcement and developing SROs
 - Internal vs. External CG regimes and enforcement

Regional Trend: Corporate Governance is a New But Growing Reality

- Corporate governance conferences across region
- OECD-Hawkamah MENA Corporate Governance reform initiative underway
 - Policy advice to governments to improve frameworks
 - Surveys, studies, handbooks
- Corporate governance codes:
 - **Finalized:** Oman, Egypt (firms, SOEs), Lebanon (SMEs), Saudi Arabia, UAE
 - **In process:** Morocco, Egypt (revision), Lebanon (listed companies), Jordan (banks, companies), WB&G, Qatar
 - **Being launched:** Tunisia
- Institutes of directors launched
 - Hawkamah Majlis Institute of Directors
 - Institutes of Directors in Egypt, UAE and Lebanon (planned)
- Listing rules being tightened: **Egypt, UAE (ADSM)**

The Challenge of Implementing Corporate Governance

"There is nothing more difficult to carry-out, nor more doubtful of success, more dangerous to manage than to introduce a new system of things.

An innovator has as enemies all those who were doing well under the old order, and only hesitant defenders in those who would benefit from the new system."

Source: Niccolo Machiavelli

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