Corporate Governance Best Practices from Around the World: GCC and MENA

23 January 2008

Dr. Nasser Saidi
Executive Director
Hawkamah Institute for Corporate Governance
Agenda

• MENA Economic Renaissance
• Regional Trends
  • Changing Legal and Regulatory Framework in the GCC
  • CEO Survey on CG
• Hawkamah’s Regional Role in Advancing Corporate Governance
A MENA Growth Resurgence and Economic Renaissance

MENA has achieved above average growth rates sustained by:

- Average real GDP growth 6.7% over 2003-2007 vs. 3.7% in 1998-2002
- New Global Economic Geography
- Growth has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and ↑ in productivity growth
- Transmission, Migration, Remittances
- Private sector is leading and driving regional economic integration
MENA Renaissance

- Accumulation of assets & international reserves leading to a tripling of international reserves between 2002 and 2007: $188.7bn (2002) to $767bn (2007)
- Inflation higher, but limited pass-through of higher oil prices to consumers
- Real Estate boom & asset price appreciation
- Credit Market boom
- Regional stock market boom

But key to sustaining growth and developing sound and resilient financial markets is addressing corporate governance challenges
“Good Corporate Governance”

Well performing institutions, enabling legal infrastructure, regulatory regimes and enforcement, “good corporate governance” major contributor to:

- Economic growth & prosperity
- Public confidence & encourages wide participation in market economies

“Good corporate governance” required by both the public sector and the private sector in the MENA

Investment in bridging ‘CG gap’ a priority:

- Build and grow Capital markets
- Need to attract FDI, M&A
- Finance infrastructure
- Succeed in market liberalization & privatization
Changing Regulatory Environment in the GCC

Hawkamah/IIF GCC Report

Hawkamah Institute for Corporate Governance partnered with the Institute for International Finance to assess the corporate governance environment of the GCC countries, from an investors perspective.

GCC Task Force met with close to 100 regulators, Central Bank officials, accountants, auditors, investment firms in all 6 GCC countries.

Analysis of the corporate governance environment focused on:

- Minority shareholder rights
- Structure and responsibilities of Board of Directors
- Accounting and auditing
- Transparency of ownership and control
- Regulatory environment
Table 5: Comparison of Corporate Governance Frameworks in the GCC with IIF Guidelines

(on scale of 1-5 with 5 being fully compliant)

<table>
<thead>
<tr>
<th></th>
<th>Bahrain</th>
<th>Kuwait</th>
<th>Oman</th>
<th>Qatar</th>
<th>Saudi Arabia</th>
<th>United Arab Emirates</th>
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</thead>
<tbody>
<tr>
<td>Minority Shareholder Protection</td>
<td>2.0</td>
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<td>3.0</td>
<td>2.5</td>
<td>3.5</td>
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<tr>
<td>Voting Rights</td>
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<td>3.5</td>
<td>3.5</td>
<td>2.5</td>
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<td>Firm/Capital Structure</td>
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<td>5.0</td>
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<td>3.5</td>
<td>3.5</td>
<td>3.0</td>
<td>3.0</td>
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<tr>
<td>Structure and Responsibilities of the Board of Directors</td>
<td>2.0</td>
<td>1.5</td>
<td>3.5</td>
<td>1.5</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Board Structure</td>
<td>1.0</td>
<td>1.5</td>
<td>3.5</td>
<td>1.5</td>
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<td>1.0</td>
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<td>5.0</td>
<td>1.5</td>
<td>4.0</td>
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<tr>
<td>Others</td>
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<td>0.5</td>
<td>2.5</td>
<td>0.5</td>
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</tbody>
</table>

As of September 2006
## Comparison of CG frameworks in the GCC Countries with IIF Guidelines (on scale of 1-5 with 5 being fully compliant)

<table>
<thead>
<tr>
<th>Category</th>
<th>Bahrain</th>
<th>Kuwait</th>
<th>Oman</th>
<th>Qatar</th>
<th>Saudi Arabia</th>
<th>United Arab Emirates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Auditing</td>
<td>2.0</td>
<td>2.5</td>
<td>4.0</td>
<td>2.0</td>
<td>2.5</td>
<td>2.0</td>
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<tr>
<td><em>Standards</em></td>
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<td>3.5</td>
<td>3.0</td>
<td>3.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>0.5</td>
<td>0.0</td>
<td>5.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Transparency of Ownership and Control</td>
<td>2.5</td>
<td>3.5</td>
<td>3.5</td>
<td>1.0</td>
<td>4.5</td>
<td>2.5</td>
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<tr>
<td>Regulatory Environment</td>
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<td>4.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.0</td>
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<tr>
<td><strong>OVERALL ASSESSMENT</strong></td>
<td><strong>2.0</strong></td>
<td><strong>3.0</strong></td>
<td><strong>3.5</strong></td>
<td><strong>2.0</strong></td>
<td><strong>3.0</strong></td>
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</table>

As of September 2006
### GCC Corporate Governance Reforms: 2006-7

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>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.</td>
</tr>
<tr>
<td>Kuwait</td>
<td>A new Capital Market Law will incorporate corporate governance-related requirements for companies.</td>
</tr>
<tr>
<td>Oman</td>
<td>The Capital Market Authority is reassessing current corporate governance requirements.</td>
</tr>
<tr>
<td></td>
<td>Authorities are considering privatization of Muscat Securities Market.</td>
</tr>
<tr>
<td>Qatar</td>
<td>Qatari Financial Market Authority is in the process of developing a CG framework.</td>
</tr>
<tr>
<td></td>
<td>Authorities are strengthening regulator’s surveillance and enforcement of stock exchanges and companies; an independent regulator has been created.</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>The Capital Market Authority issued a code of corporate governance, and is actively implementing the code.</td>
</tr>
<tr>
<td>UAE</td>
<td>Emirates’ Securities and Commodities Authority, the regulator for UAE, has issued a code of corporate governance for listed companies for implementation in 3 years.</td>
</tr>
<tr>
<td></td>
<td>Abu Dhabi Securities Market has issued CG guidelines for listed companies. Dubai Financial Market has drafted CG guidelines for listed companies, but has not formally issued.</td>
</tr>
<tr>
<td></td>
<td>Ministry of Economy has drafted a new company law which includes corporate governance principles, but the Company Law has not yet been issued.</td>
</tr>
</tbody>
</table>
Private Sector is Focusing on Good Corporate Governance

IFC-Hawkamah CEO CG Survey 2007

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. 19.7%

It is the same thing as Corporate Social Responsibility 8.5%

A commitment to contribute to sustainable economic development by working with employees, the local community and society at large to improve their lives 18.3%

A set of tools to help management run the day-to-day activities of the company/bank 12.7%

A system by which companies are directed and controlled 40.8%
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

Number of executive directors
Number of independent directors
Number of non-executives/non-independent
Number of women on the board

- None
- 1
- 2 to 5
- 6 to 7
- 8 to 10
- More than 10
With Criteria Based on Experience

1. Being a shareholder
2. Age limitations
3. Professional experience
4. Integrity. Not in the bank’s documents
5. Qualifications requirement included in a governing document
6. None of the above
While 79.1% of Boards Have an Audit Committee, Only 22.4% are Independent

<table>
<thead>
<tr>
<th>It will be created</th>
<th>Audit</th>
<th>Nomination/ CG</th>
<th>Remuneration</th>
<th>ExCom</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,0%</td>
<td>14,3%</td>
<td>9,4%</td>
<td>8,5%</td>
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</table>

<table>
<thead>
<tr>
<th>Exist</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>79,1%</td>
<td>14,3%</td>
<td>15,1%</td>
<td>47,5%</td>
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</table>

<table>
<thead>
<tr>
<th>With majority of independent directors</th>
<th>Audit</th>
<th>Nomination/ CG</th>
<th>Remuneration</th>
<th>ExCom</th>
</tr>
</thead>
<tbody>
<tr>
<td>22,4%</td>
<td>3,6%</td>
<td>5,7%</td>
<td>6,8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With majority of non-executive and non-independent directors</th>
<th>Audit</th>
<th>Nomination/ CG</th>
<th>Remuneration</th>
<th>ExCom</th>
</tr>
</thead>
<tbody>
<tr>
<td>35,8%</td>
<td>5,4%</td>
<td>1,9%</td>
<td>20,3%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With majority of executive directors</th>
<th>Audit</th>
<th>Nomination/ CG</th>
<th>Remuneration</th>
<th>ExCom</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,4%</td>
<td>1,8%</td>
<td>3,8%</td>
<td>11,9%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>None of the above</th>
<th>Audit</th>
<th>Nomination/ CG</th>
<th>Remuneration</th>
<th>ExCom</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,5%</td>
<td>71,4%</td>
<td>75,5%</td>
<td>42,4%</td>
<td></td>
</tr>
</tbody>
</table>
Position of CEO and Chairman Often Combined ... Against Best Practice

- Board is hindered in providing independent oversight
- Lack of outside perspective in terms of strategic guidance
- Role are fundamentally different:
  - CEO runs the business
  - Chairman runs the board.
“When you sweep the stairs, you always start from the top” ... German proverb

Percentage of respondents conducting board evaluations

- Banks
- Listed Companies

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>20%</td>
<td>80%</td>
</tr>
</tbody>
</table>

- 80% of Banks respondents conduct board evaluations.
- 20% of Listed Companies respondents conduct board evaluations.
Control Environment: Companies With Passing Grade, Banks ...

1. Internal Auditor / Audit Department
2. Internal controller / Control Department (however, limited to controlling the finance).
3. Risk manager / Risk Department
4. Compliance officer / Compliance Department
5. External Auditor.

Banks

<table>
<thead>
<tr>
<th></th>
<th>Listed companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Internal Auditor / Audit Department</td>
<td>94,10%</td>
</tr>
<tr>
<td>2. Internal controller / Control Department (however, limited to controlling the finance)</td>
<td>65,70%</td>
</tr>
<tr>
<td>3. Risk manager / Risk Department</td>
<td>5,90%</td>
</tr>
<tr>
<td>4. Compliance officer / Compliance Department</td>
<td>68,60%</td>
</tr>
<tr>
<td>5. External Auditor</td>
<td>88,20%</td>
</tr>
</tbody>
</table>
On the Other Hand, Banks Are Much Better at Informing Their Shareholders

Information provided to shareholders before the general assembly

1. Time and place
2. Agenda
3. Additional information on the agenda items
4. Annual Report
5. Financial Statements
6. Proxy voting instructions
7. External Auditor’s Report

<table>
<thead>
<tr>
<th>Category</th>
<th>Banks</th>
<th>Listed Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Time and place</td>
<td>100%</td>
<td>88.60%</td>
</tr>
<tr>
<td>2. Agenda</td>
<td>97.10%</td>
<td>100%</td>
</tr>
<tr>
<td>3. Additional information on the agenda items</td>
<td>80.00%</td>
<td>25.70%</td>
</tr>
<tr>
<td>4. Annual Report</td>
<td>74.30%</td>
<td>60.00%</td>
</tr>
<tr>
<td>5. Financial Statements</td>
<td>94.30%</td>
<td>65.70%</td>
</tr>
<tr>
<td>6. Proxy voting instructions</td>
<td>62.90%</td>
<td>40.00%</td>
</tr>
<tr>
<td>7. External Auditor’s Report</td>
<td>85.70%</td>
<td>57.10%</td>
</tr>
</tbody>
</table>
Many Companies do not Have Policies on Related Party Transactions – Important for the Region

![Chart showing statistics on companies requiring board members to disclose conflicts of interest.]

- **Yes**: 85.50%
- **No**: 14.30%

Companies and banks that require board members to disclose conflicts of interest.
Bottom Line: Corporate Governance is a New But Growing Reality for the Region

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

- Bridge the Corporate Governance gap’
- Assist the *countries* and *companies* of the region in developing sound, ‘home grown’ and globally well integrated CG frameworks:
  - Coordinate and sequence the designing, and implementation of CG reforms
  - Monitor the outcomes of CG policies at the public and private sector level.
- “Hawkamah-ICG will serve as a platform for regional co-operation, based on a concrete agenda for measurable and time-bound action, aiming to raise awareness of national, regional and global initiatives and build a coalition for reform”, Joint Declaration OECD-UAE, 2005.
We Serve ...

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

WHAT WE DO:

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

- Communication and Policy Dialogue
- Technical Assistance Analysis and Research
- Regional and National Task Forces
- Knowledge Exchange and Platform
- Institution Capacity Building
Strategic Partners

International Partners
- Organisation for Economic Co-operation and Development (OECD)
- World Bank-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
- Institute for Internal Audit (IIA)
- Chartered Financial Analysts (CFA)
- Arab International Women’s Forum

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

Other Institutions
- IMD
- Dubai School of Government, Young Arab Leaders
- American University of Sharjah
Regional Task Forces

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

**Regional Task Force on Corporate Governance of Banks** (implement the policy recommendations from the policy brief)

**Regional Task Force on Corporate Governance of State-owned Enterprises** (assess state of corporate governance of state-owned enterprises and build momentum for SOE CG agenda)

**Regional Task Force on Insolvency and creditor rights** (assess insolvency regimes in the region with the aim towards modernization)

**Regional Task Force on Corporate Governance of Insurance Industry** (develop a policy brief for increased corporate governance implementation in the industry)
A New Regional Initiative: Mudarah Institute of Directors

- Mission is to develop and train effective, knowledgeable and competent directors for MENA region
- Build capacity and strengthen institutions
- Membership organization
- Open to private and public sector companies, family businesses, entrepreneurs of start-up companies and people responsible for the strategic direction of a business organization
- Services offered include:
  - Training and certification programs
  - Executive coaching
  - Workshops, seminars and conferences
  - Financial planning and advisory services
Hawkamah, the Institute for Corporate Governance

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

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

What is Corporate Governance?

**Events**

- **15 January**
  Role of Corporate Governance in Strategy and Corporate Growth
  Istanbul, Turkey

- **22 January**
  Financial Services Debate Series: Corporate Governance and Risk Management
  Dubai, UAE

- **23 January**
  8th International Conference on Corporate Governance and Sustainability
  Mumbai, India

- **27-28 January**
  Commercial Law and Company Regulation
  Muscat, Oman

**Media Centre**

**24 December 2007**
AIG to Work with Hawkamah to Promote Corporate Governance in the MENA Region

**12 December 2007**
Hawkamah and World Bank supported by INSOL and OECD Launch Regional Task Force on Developing Sound Insolvency and Creditor Rights Systems

**21 November 2007**
Minister for Finance & Industry calls for Regional Transparency at Hawkamah Conference

**07 November 2007**
Abraa Capital Supports
Join us in

BUILDING INSTITUTIONS
FOR THE REGION

www.hawkamah.org

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