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THE INSTITUTE FOR CORPORATE GOVERNANCE

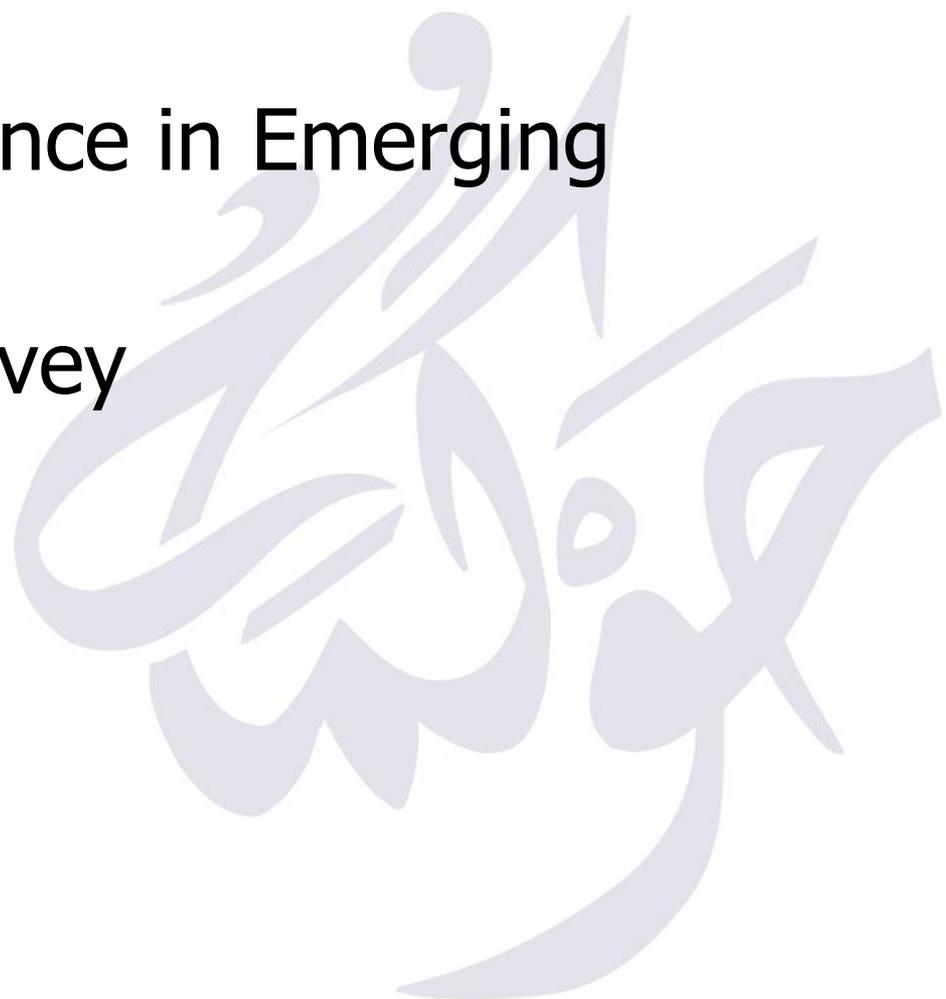
**Corporate Governance
in the GCC**

2007 Private Equity International MENA
Forum

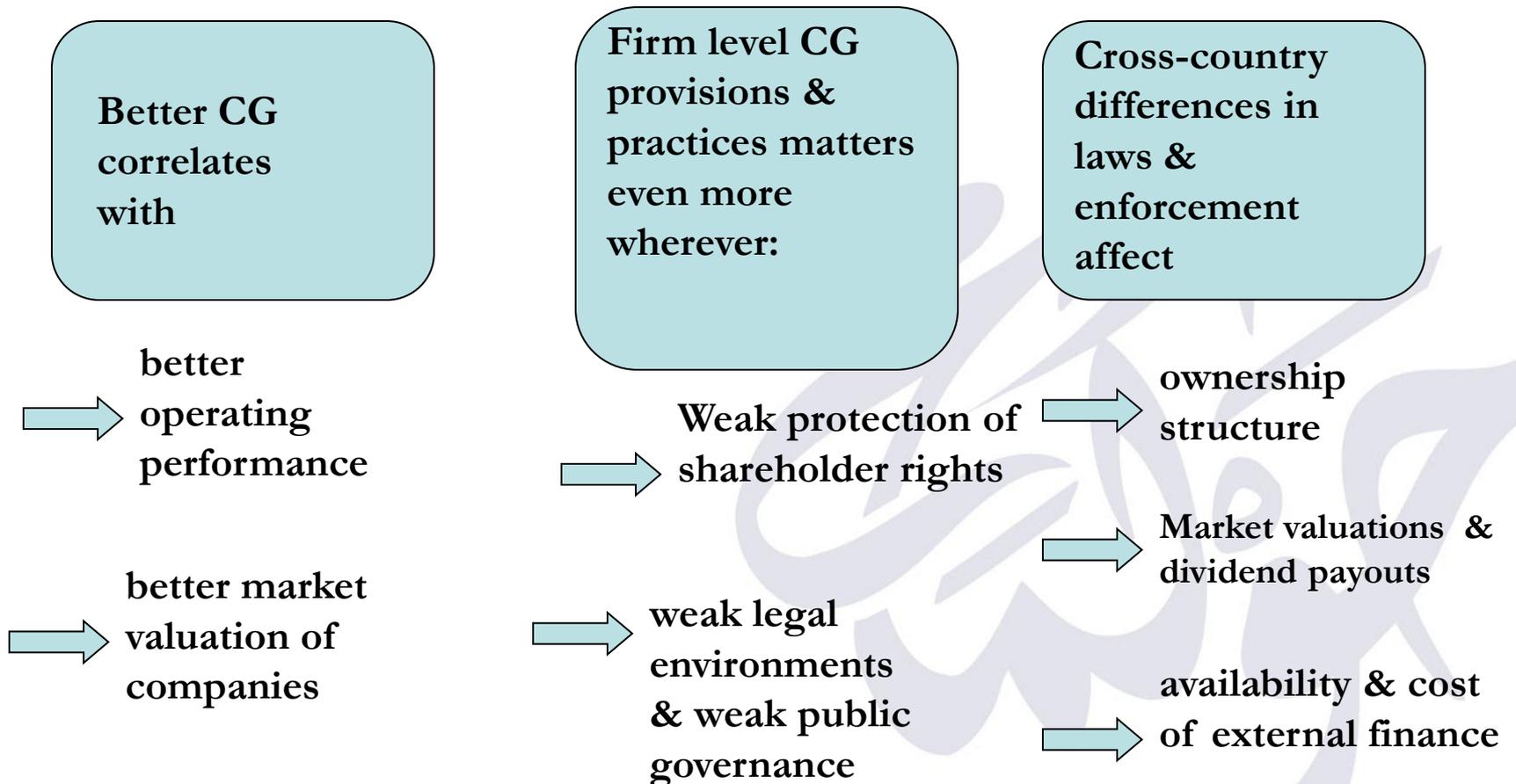
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Overview

- Corporate Governance in Emerging Markets
- IIF/Hawkamah Survey
 - Regulators
 - Stock Exchanges
 - Listed Companies



Corporate Governance : Performance in Emerging Markets



Drivers for Corporate Governance Reform

- International convergence of prudential and regulatory codes and standards: e.g. AML/CTF, Banking CPs,
- Drivers for modernisation and change are varied:
 - Intellectual: new institutional economics
 - International obligations and agreements: WTO, RTAs and FTAs
 - Competitive pressure and emulation
 - Role of IFIs: WB, IMF, WIPO, WTO
 - High volatility and turbulence in equity markets
 - Pressure from globalisation, liberalisation and 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

IIF-Hawkamah GCC CG Survey

- 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)

	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

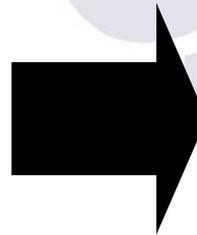
- Excess Liquidity in the GCC Region
 - Too much money chasing too few stocks
 - High valuations due to lack of sophisticated investor and poor equity culture
 - This creates high volatility in stock markets
- Easy access to capital provides little incentive for change at company level
- Efforts being made by authorities to improve overall corporate governance frameworks but some initiatives lack strategic focus and political will
- Banking sector in general has better corporate governance due to Basel II compliance

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

Listed Companies

- Little motivation to list on stock exchanges
- Current motivating factors include:
 - Only companies that wish to enter into M&A activities outside the region
 - Required to do so by law
- Increase motivation by:
 - Requiring companies to obtain credit ratings for debt issuance—this will bring focus to current lop-sidedness of balance sheet
 - Develop stronger IPO markets through book-building measures with the help of investment banks – this will support fairer valuations for companies and help distinguish quality of assets being offered

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.

Improving performance: Recommended GCC CG Reform Measures

- Develop a strong regulatory structure by clearly separating and defining the roles of the regulator and the stock exchange
- 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
- 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
- Create a regional level corporate governance task force to promote convergence and harmonization of laws and codes among GCC countries

Complementary Work Needed to Advance CG

- Engage wide participation from NGO's, Chambers of Commerce & Industry, media, business associations, government, academia
- Develop necessary institutions and build human capacity in major areas (accountants, regulators, bankers, company directors)
- Design an effective regulatory system, but also create the conditions that make such a system credible.
- Corporate governance is about establishing a climate of integrity, trust and confidence.
- Corporate governance is critically about enforcement and will require judicial reform

Corporate Governance in the GCC

2007 Private Equity International MENA Forum
Dubai, UAE
March 20, 2007

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