

CORPORATE GOVERNANCE

THE NEED FOR A QUIET REVOLUTION

Dr. Nasser Saidi

@ The Beirut Strategic Forum 2005
Beirut, December 2004

Outline

- Overview
- Corporate Governance in Lebanon
- CG Action Plan
- CG Regional Agenda
- Reforms, Guidelines & Way forward

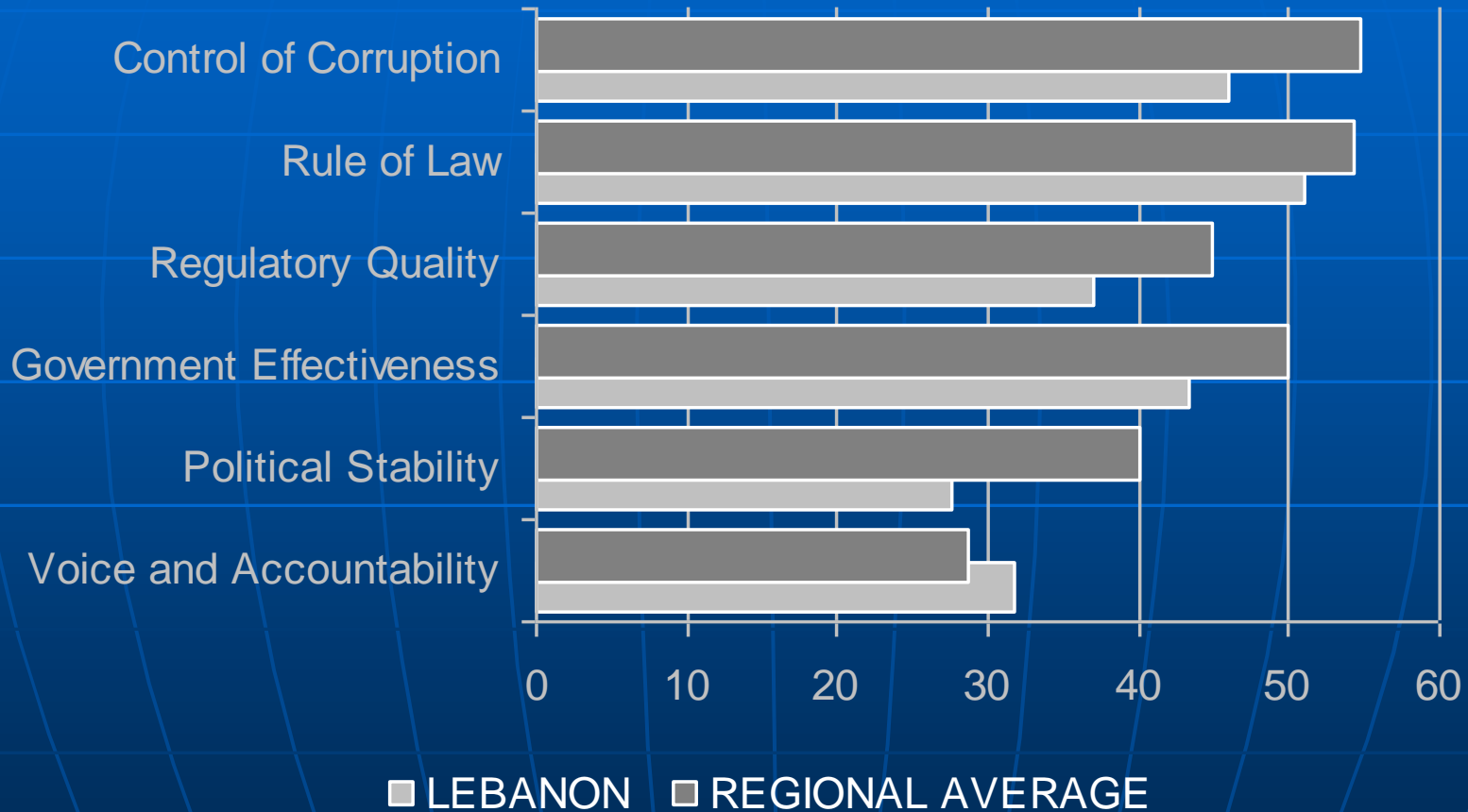
OECD: Principles of Good Corporate Governance

1. Shareholder rights
2. Equitable treatment of shareholders
3. Role of shareholders
4. Disclosure and transparency
5. Responsibilities of the board

CG IN LEBANON

- CG Principles and Implementation
- CG Principles & Economic Development
- WB Indicators
- CG Lebanon Survey 2004
- CG Survey Main Results
- Way Forward: CG Reform in Lebanon
 - Analysis & Research
 - Implementation

World Bank 6 Governance Indicators



■ LEBANON ■ REGIONAL AVERAGE

Source: D. Kaufmann, A. Kraay, M. Mastruzzi, 2003: Governance Indicators for 1996-2002

Cost of Doing Business Indicators [1]

| | | AVERAGE | Lebanon |
|---------------------------|---------------------------------------|---------|---------|
| Starting a Business | Number of procedures | 10 | 6 |
| | Time (days) | 39 | 46 |
| | Cost (% of income per capita) | 51.2 | 131.5 |
| | Min. capital (% of income per capita) | 856.4 | 82.3 |
| Hiring and Firing Workers | Difficulty of Hiring Index | 22 | 44 |
| | Rigidity of Hours Index | 52 | 0 |
| | Difficulty of Firing Index | 40 | 40 |
| | Rigidity of Employment Index | 38 | 28 |
| | Firing Costs (weeks) | 74 | 103 |

Cost of Doing Business Indicators [2]

| | | AVERAGE | Lebanon |
|----------------------|--|---------|---------|
| Registering Property | Number of procedures | 6 | 8 |
| | Time (days) | 54 | 25 |
| | Cost (% of property value per capita) | 6.8 | 5.9 |
| Getting Credit | Cost to create Collateral (% of income per capita) | 18.6 | 2.2 |
| | Legal Rights Index | 3 | 4 |
| | Credit Information Index | 2 | 4 |
| | Public registry coverage (borrowers per 1000 capita) | 20 | 31 |
| | Private bureau coverage (borrowers per 1000 capita) | 12 | 0 |
| | Disclosure Index | 2 | 1 |

Cost of Doing Business Indicators [3]

| | | AVERAGE | Lebanon |
|---------------------|-------------------------------------|---------|---------|
| Enforcing Contracts | Number of procedures | 38 | 39 |
| | Time (days) | 437 | 721 |
| | Cost (% of debt) | 17.9 | 26.7 |
| Closing a Business | Time (years) | 3.8 | 4 |
| | Cost (% of estate) | 13 | 18 |
| | Recovery Rate (cents on the dollar) | 28.6 | 19.3 |

Governance Survey

- Impediments of Legal System & Judiciary
- Impediments to & Cost of Doing Business
- Corruption
- Perception of Legal System
- Bureaucracy & State Intervention
- Lobbying
- Auditing
- Shareholders, Boards & Management
- Banking

Agenda for CG Reform in Lebanon: Respondents stress 'Very Important'

- Enforcing laws, rules, and procedures: 82.8%
- Stress on Independent judiciary: 75.8%
- Stress on Tax and financial disclosure: 76.6%
- Stress on Monitoring bodies to ensure compliance: 68.8%
- Stress on Accounting standards: 67.2%
- Stress on Financial market regulation: 57.8%
- Stress on Boardroom politicization: 47.7%
- Stress on Privatization of state owned enterprises: 28.9%

Corporate Governance in Lebanon

- CG in Lebanon, a priority
 - European Union Association Agreement (EU)
 - World Trade Organizations (WTO)
 - Greater Arab Free Trade Area (GAFTA)
 - Basel I & II

- Lebanon Corporate Governance Task Force, a national Initiative gone Regional

- Corporate Sector, three main areas of concentration
 - State Owned Enterprises (SOEs)
 - Small & Medium Enterprises (SMEs) & Family Owned Enterprises (FOEs)
 - Publicly Listed Companies

Recommendations & Proposals I

- Change attitudes: highlight high value of effective, transparent & accountable public & corporate governance
- CG practices matter more in Lebanon due to weak overall governance, protection of minority shareholder rights, legal & judicial systems
- Standardize Accounting and Auditing Practices: adopt International accounting Standards

Recommendations & Proposals II

- Families/Entrepreneurs should contribute to development & well-functioning of financial markets
- Lebanon CG TF to develop set of Core Principles for Good Corporate Governance for:
 - Family businesses and SMEs
 - Large & Publicly listed companies
 - State Owned Enterprises
- Reforms:
 - Amend Laws to protect investors and minority shareholders
 - Introduce separation between Board and Management
 - Modernize & Reform Insolvency & Bankruptcy Law
 - Introduce a comprehensive Capital Markets Law

'New Institutional Economics' & "Good Governance"

- Empirical evidence suggests that well performing institutions, enabling legal infrastructure, regulatory regimes and enforcement, "good governance" are major contributors to economic growth & prosperity and democracy
- "Good governance" is required by both government and business in MENA & Lebanon
- Good CG essential in MENA & Lebanon to compensate for *weak overall (i.e. public) governance*

Corporate Governance : Institution Building

□ **Develop National CG Action Plans in line with Regional guidelines and in compliance with International CG and Best Practices Standards.**

□ **Implementing and complying with CG:**

- Establish a Regional Institute of Directors
- Encourage and support the establishment of Corporate Governance education programs
- Encourage the establishment of National 'Companies' Houses'
- Establish Centralized Credit Reporting Organizations
- Encourage the set-up of local Credit Rating Agencies
- Establish a MENA CG Gateway

□ **Initiate a CG partnership program with international organizations.**

□ **Reinforce reform agenda.**

Corporate Governance: Action Plan [1]

- **Establish MENA Regional Corporate Governance Task Force (RCGTF) or Round Table.**
- **Conduct a CG survey for all MENA countries.**
- **Focus on Banking and Financial System**
- **Apply the 12 Key Standards for Sound Financial Systems:**
 - Ensure wide adoption of International Accounting and Auditing Standards.
 - Adopt and adapt CG principles, codes and standards.

Corporate Governance : Action Plan [2]

□ **Capital Markets development should be a policy priority**

□ **CG principles and frameworks must be designed and applied taking into account the issue of taxation, tax rates, and systems.**

□ **Establish an independent body to monitor CG compliance.**

□ **Build an incentive-compatible CG environment to cater for the region's dominant types of business (SMEs & FOEs).**

- **Reduce the cost of compliance with CG principles.**
- **Develop positive incentives for compliance with best practices for disclosure and Corporate Governance.**

Reforms, Guidelines & Way Forward

- CG principles, effective tool against corruption, waste & bribery in both public & private sector
- Concerted efforts of the private sector to adopt CG principles
- Economic policy reforms