

# Regional Business Trends and Outlook

**Bukhatir Board Meeting  
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**Hawkamah Institute for Corporate Governance**

# Agenda

- **Financial Crisis and Impact on the Gulf and the UAE**
- Policy Measures in the UAE to Smooth the Economic Cycle
- Role of Family Enterprises in the Region
- Challenges Faced by Family Enterprises
- Hawkamah as a Partner

# MENASA/GCC: pre-Lehman maelstrom

- Emerging markets have contributed 2/3 of global growth since 2002.
- Investment-led growth with strong private sector participation and record FDI levels.
- Investment & infrastructure leading to an increase in productivity growth, economic diversification and absorptive capacity.
- Positive demographics & migration sustaining low labour costs & output growth
- Remittances main form of growth spillover to labour exporting countries
- MENAP countries have achieved above trend average real GDP growth (5.7%<sup>e</sup> over 2004-2008).
- GCC have averaged real GDP growth of 6.1%<sup>e</sup> over 2004-2008 vs. 4.6% in 1998-2003, with increased diversification of economic activity, while in nominal terms growth has averaged over 25% p.a.

# Financial Crisis – Impact on MENA & Gulf

- MENA, especially the Gulf region, has not been as severely hit by toxic assets and financial turmoil thanks to:
  - Limited direct & cross border exposure due to profitable domestic markets
  - Small stock of outstanding domestic securitised/structured products
  - Limited expertise in managing structured investment products
  - Regulatory/prudential requirements limited exposure to sub-investment grade investments & instruments
  - Growing importance of Islamic banking & compliance with Shari'a principles
  - Ample liquidity from accumulation of current account surpluses
  - Fiscal discipline
  - Monetary, Fiscal & Financial Policy measures
- However, real effects of global crisis (oil prices, trade, tourism) will cloud the economic outlook and put strains on public finances
- Financial contagion resulted from cut in trade credit lines and equities slump as a result of deleveraging, the ensuing global credit crunch, and -- needless to say -- a drop in commodity prices

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# Policy Measures in the UAE

- **A host of measures were adopted by the government and Central Bank including:**
  - Guarantee of all deposits (including interbank) by the Central Bank and setting up a AED50bn emergency liquidity facility, while the government deposited AED70bn in local banks.
  - By mid-Feb 09, the banks were no longer borrowing funds from the emergency facility, implying no more credit shortage in the market.
  - A dollar-dirham swap facility was announced while the repo rate was reduced to 1.0%.
  - Dubai's bond issue to ease liquidity was fairly successful (and helped the market rally and sentiment) with the first tier of Dubai's USD 20bn bond issue taken up by the UAE Central Bank and the second tier of USD 5bn subscribed to by two Abu Dhabi banks.
  - A Dubai Financial Support Fund has been set up to manage the orderly and optimal allocation of the money raised from the second tranche of the bond.
  - The investor appetite in and for the region was reaffirmed when the Abu Dhabi bond issue of USD3bn and Government of Dubai bond issue were oversubscribed.
  - Post-Dubai World's restructuring announcement, the UAE central bank pledged a new liquidity facility for local banks to ease concerns that the banks might face liquidity issues.

# Contagion effects & Smoothing the economic cycle

- Contra-cyclical fiscal policies had a major role in mitigating the effects of global financial crisis
- UAE policy mix is sound: monetary easing, increased liquidity and fiscal stimulus
- The GCC governments have spent heavily to launch infrastructure projects; these should be continued.
- Oil price shock => governments should manage their debt effectively especially in the current environment
- An efficient public debt management policy would allow governments to smooth the boom and bust cycle induced by oil price fluctuations
- Reforms in public finance management and transparency in the use of resources are necessary to efficiently tap the markets

# UAE: Some key indicators

## UAE Real GDP Growth

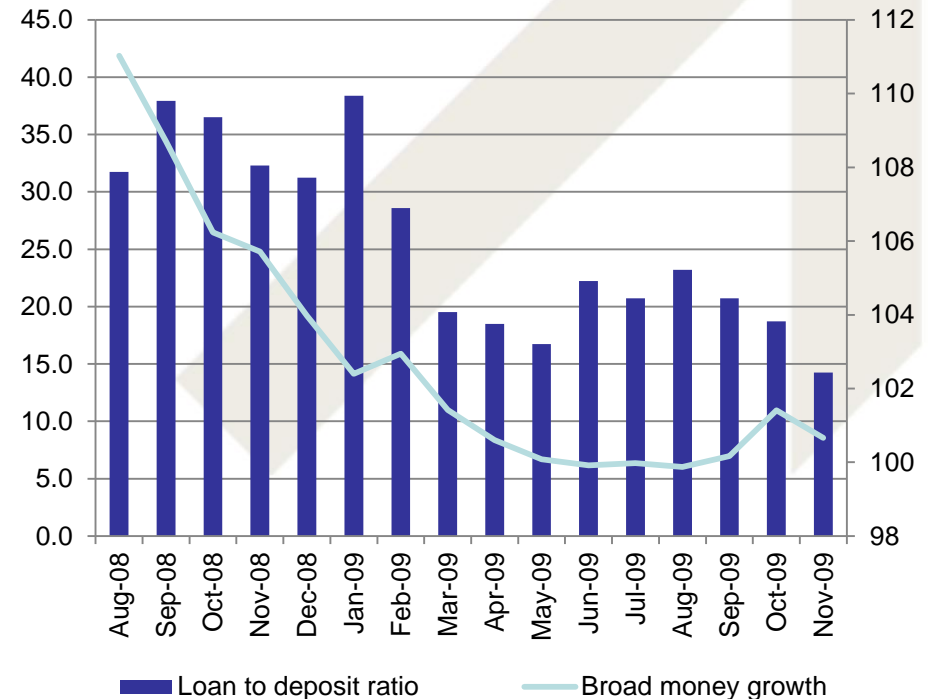
percent change, otherwise indicated

	2003-08	2008	2009	2010f	2011f
Real GDP	9.2	7.0	-1.6	3.0	3.5
Hydrocarbon	4.8	3.8	-8.4	3.0	3.0
Nonhydrocarbon	10.8	8.0	0.5	3.0	3.8
o/w: Abu Dhabi	9.7	9.3	3.0	4.0	4.5
Dubai	11.9	6.5	-5.0	1.5	3.0
Consumer prices	7.8	12.3	1.0	2.5	3.0
Private sector credit	32.3	33.1	3.0	6.0	8.0
Fiscal bal. % GDP	17.3	22.4	7.5	11.0	10.5
Nominal GDP (\$ billion)	...	261	215	241	265

f = IIF forecast

Source: IIF Report on the UAE, Dec 09

## UAE : Monetary Indicators



Source: UAE Central Bank, Dec09



# UAE Outlook

- Higher oil prices (at \$ 78 per barrel as of 17<sup>th</sup> Jan)
- Benefits from faster growth in Emerging Markets vis-à-vis G8
- Pick-up in foreign trade: the 'Asia effect'
- Sound Banking & Financial sector

## UAE Banking Indicators (AED bn)

	Dec-08	Mar-09	Jun-09	Sep-09	Nov-09
Total Bank Assets (net of provisions)*	1456.2	1466.5	1489.3	1521.7	1551.6
<b>Bank Deposits</b>	<b>922.5</b>	<b>956.4</b>	<b>961.7</b>	<b>977.2</b>	<b>1002.7</b>
<b>Loans &amp; Advances:(net of provisions)*</b>	<b>993.7</b>	<b>995.4</b>	<b>1009</b>	<b>1020.7</b>	<b>1027.1</b>
Personal Loans	206	202.7	205.2	212.5	209.2
Loan-deposit ratio	1.08	1.04	1.05	1.04	1.02
<b>Specific provisions for NPLs</b>	<b>19.7</b>	<b>21.8</b>	<b>23.9</b>	<b>27.8</b>	<b>32</b>
General provisions	5.3	6.4	9.6	8.9	9.3
Total Investments by Banks	119.7	115.5	115.3	117.1	122.6
<b>Capital adequacy ratio</b>	<b>13.30%</b>	<b>16.20%</b>	<b>17.60%</b>	<b>18.00%</b>	

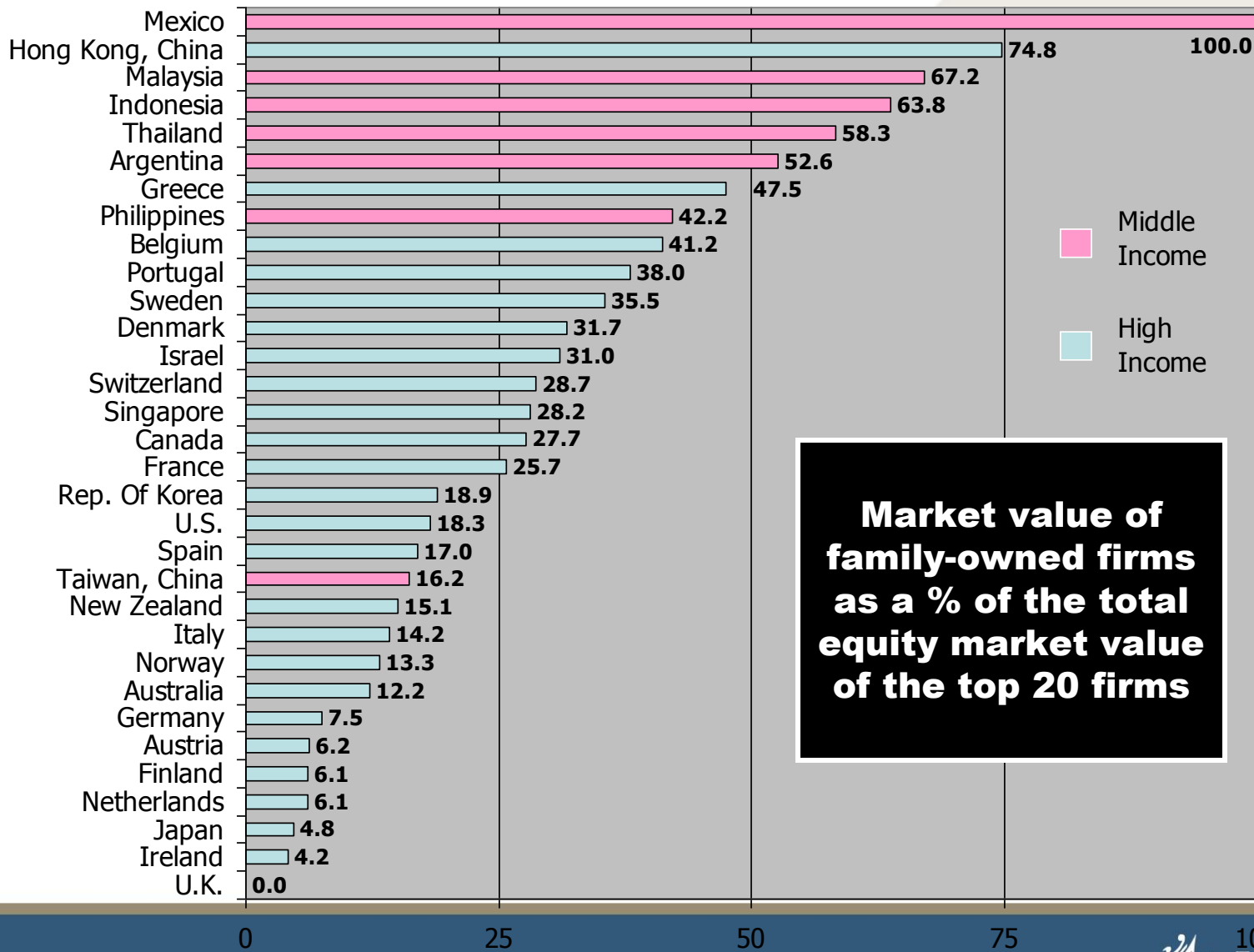
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# Families and Finance in MENA

- Families represent more than 90% of MENA businesses
- Major source of job creation in coming decade
- Families and FOEs must become 'institutions' in order to survive
- Families/entrepreneurs should actively promote development of financial markets:
  - Diversify sources of finance
  - Meet challenge of increased economic openness and globalization
  - Reduce risk through diversification and divestment of family assets
  - Exit strategy: solution to successor problem and equity in family inheritance

# Family Firms Play an Important Role in Markets



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# Challenges for Family Business Owners

## Challenge

## Issues

Access Capital

- > Finance growth
- > Balance debt/equity

Diversify wealth

- > Manage risk
- > Provide liquidity

Manage succession

- > Appoint competent directors/managers
- > Adjust shareholdings pursuant to inter-generational hand-over
- > Finance share transfers
- > Balance jobs/compensation for family employees with returns to family shareholders

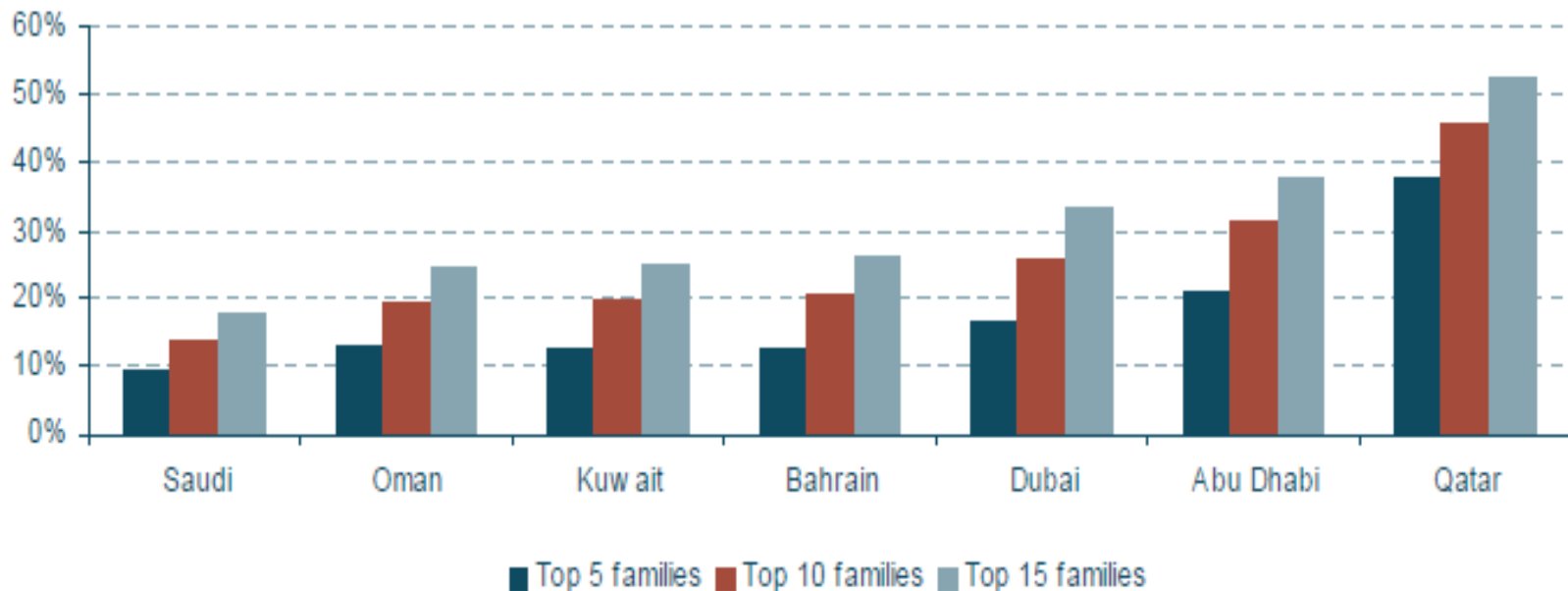
These challenges and issues exist for all closely controlled firms

Source: OECD Analysis

# The Issue: Boards

## Family Business Power: Family Rules!

Concentration of family influence - Proportion of total board seats held by most influential families



Sources: Stock market authorities, TNI Investment Research, Company accounts

The region still has ways to go in building more independence in the region's board rooms...

# The Issue: Management

## Family or Business First?

Sample Issues	Family First Cos.	Business First Cos.
Family Employment	<u>Open-Door Policy</u> for all family members, regardless of qualifications	<u>Qualification-Based Employment, as for any other new hire</u>
Compensation	<u>Equal pay for all</u> , regardless of their experience or performance	<u>Merit-Based pay, based on experience, performance</u>
Leadership	<u>Leadership based on Seniority in Family</u> , regardless of merit or qualifications	<u>Leadership granted to the right person (family or non-family), based on merit and qualifications</u>
Oversight	<u>Oversight by family only</u> – business interests often mixed with family interests	<u>Oversight by Professional, Diverse Directors</u> – looking after best interest of business over long-term.
Decision-Making	<u>Unilateral &amp; Concentrated with Senior Family Member (e.g., Chairman/CEO)</u>	<u>Multilateral, based on Defined Governance Structure (e.g., Executive Committee)</u>



# Board of Director's Checklist 1/2

- Is there a separation of responsibilities between the board and the CEO in succession planning?
- Who is responsible for this work at the board level?
- Is assessment of the quality of succession planning part of the CEO's performance assessment?
- Does your succession plan include measures on retaining talented managers?
- Does the CEO's contract contain provisions for his membership on the board?

Succession plan

# Board of Director's Checklist 2/2

Do you have emergency succession plan for the CEO and are the key deputies aware of such plan?

Is discussion of succession planning part of the board' annual work plan?

How often do directors meet the potential candidates for the CEO's position? Are potential candidates occasionally allowed to present to the board?

Does your board evaluate succession plans for several levels of management (heads of divisions, managing director's deputies)?

Succession plan

# Top 10 Questions Facing Family Business Boards

- Why should my family business have a board (advisory or statutory)?
- What are the critical issues that my board must address?
- What techniques can you suggest for developing a more professional board?
- How do I manage communications between the board and the family?
- Should I let my outside directors push for ideas that are not supported by the family?

Source: NACD Family Business Survey, 2004

## Top 10 Questions Facing Family Business Boards (contd)

- What role should my board play in transitioning the company to the next generation?
- Should my board be led by a non-executive, non family chairperson?
- Should I be worried about complying with corporate governance legislation?
- Should I have an audit committee composed solely of independent directors?
- How can I get my board to work together, when they represent different interests?

Source: NACD Family Business Survey, 2004

# Family Business & Market Exit

- Recent Ernst & Young Business survey on the state of family business in the ME:
  - Half the regional family businesses surveyed agreed that going public was important to their survival.
  - Only 20% are planning to take their company public while 20% oppose the idea and the remaining 60 per cent are not committed.
  - A majority of family businesses surveyed are run by second generation entrepreneurs (73%) followed by first and third generation.
  - Only 16% feel that there is a well-defined succession, management and ownership transition plan, pointing to a serious gap in the family-owned entities.
- To overcome hurdles
  - Defining appropriate and productive roles and responsibilities for owners, boards, council, managers and other family members
  - Succession Planning to ensure continuity for the Family Business
  - Recruit experienced independent outsiders to take up senior management positions
  - Increased transparency
  - Implement good corporate governance policies

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## Hawkamah is an independent regional ‘think-and-do’ institute, created to:

- Bridge the region’s ‘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.
- Provide technical assistance & advisory services
- *“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.*

# Hawkamah's approach...

- Regional policy task forces
- Annual conference
- Doha Declaration
- Economic journalism
- Engage academics

Communication and Policy Dialogue

Technical Assistance Analysis and Research

- Company assessments
- MENA regional survey of banks and listed companies
- *Power Matters*
- *Back to BASICs*

**Regional and National Task Forces**

Institution Capacity Building

Knowledge Exchange and Platform

- Mudara, Institute of Directors
- Company secretary
- Bank corporate governance awards
- ESG Index

- Monthly workshop series
- Newsletters
- Membership services



# Hawkamah – IFC Initiative

- Provide **Corporate Governance Assessments** and **Corporate Governance Advisory Services** for Families in Business and **Families going for IPO.**
- The initiative is being rolled through a **regional road show program** aiming at providing families in business in the region to create and manage a family governance system that will work across generations. The road shows also provides family businesses practical solutions for a range of governance, succession and IPO issues.
- The Hawkamah-IFC road shows are held with the support of SHOORA - Family Business Advisors LLC, The Family Office, and The Mudara Institute of Directors (Mudara IOD).

# Hawkamah Family Business Forum

- Hawkamah, has created a **Family Business Forum** to provide second and third generation members of regional business families with an interactive forum to share, analyse and discuss key business and governance issues affecting their businesses.
- Aim is to promote the long term interests of family businesses in the GCC and MENA regions at family, local, national and regional level
- Seeks to identify challenges faced by the region's family businesses through dialogue, research, workshops and seminars, and support the development of a regionally-relevant framework to institutionalize families
- Activities will include:
  - Provide technical assistance & advisory services
  - Commissioning regionally relevant research
  - Housing a library on family business issues.

*Join us in*  
***BUILDING INSTITUTIONS  
FOR THE REGION***

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