“Arab Spring”, Market Reforms & Good Corporate Governance

Presentation at the P2C WBG Workshop, 20th June 2011

Dr. Nasser Saidi
Chief Economist & Head of External Relations, DIFC Authority
Executive Director, Hawkamah Institute for Corporate Governance

DIFC Dubai International Financial Centre

Agenda

MENA Regional Developments

MENA Investment: Corporate Governance Gaps & Drivers of Good Corporate Governance

Role of Hawkamah Institute for Corporate Governance

Why Corporate Governance Matters

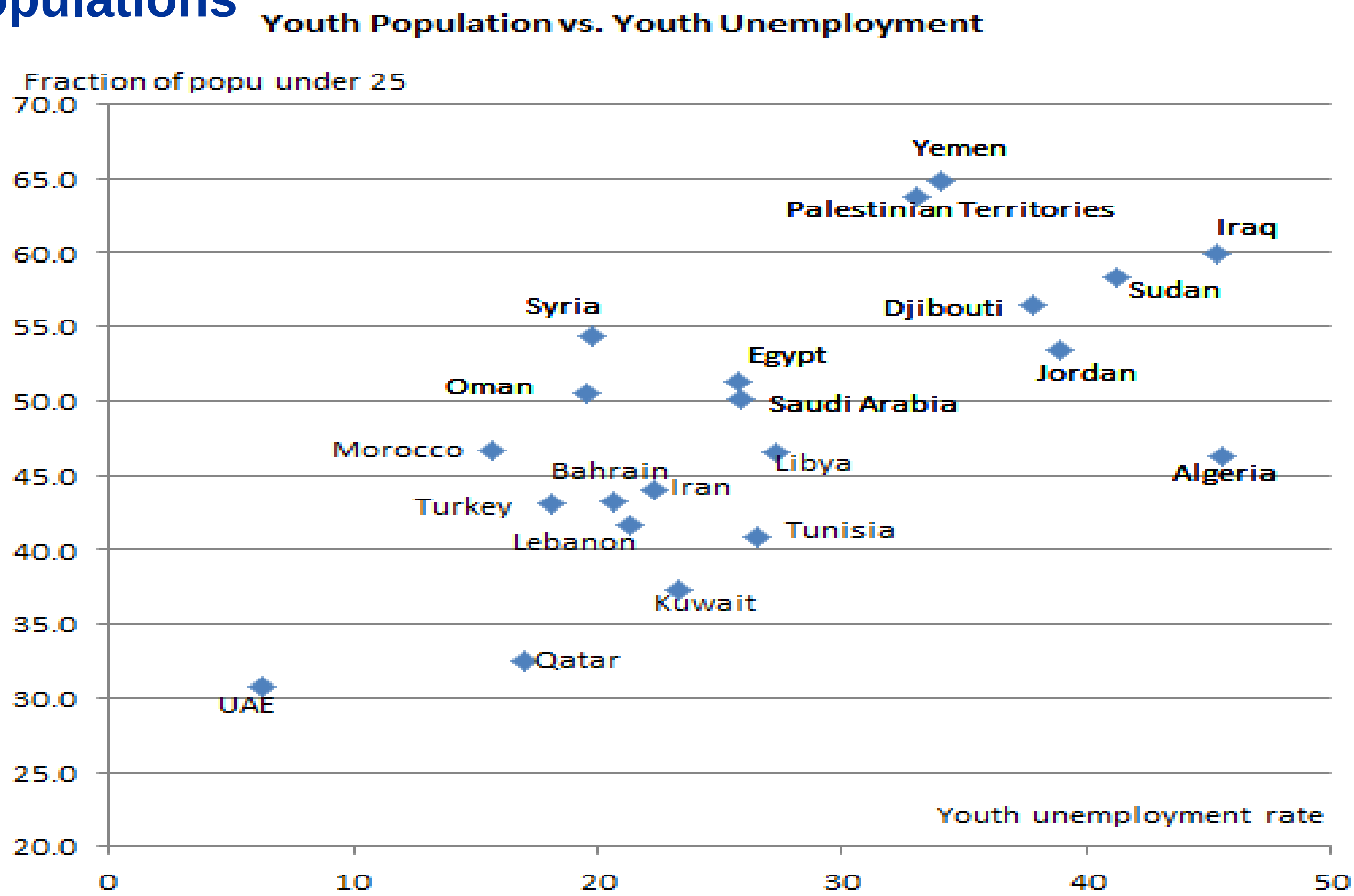
CG & Access to Finance

Proposal for the Creation of a Regional Second Tier Equity Market

Recent MENA Regional Developments

- Prior to recent events the **pace of economic activity was** set to continue to recover in the MENA & GCC region after the financial crisis.
- MENA Growth is expected at 4.7% in 2011 compared to 4.6% in 2010 but with wide disparity in prospects between oil exporters & oil importers
- Recent developments in the region highlights the need to ensure that economic growth is both inclusive and has a trickle-down impact.
- There is a need to **reduce chronically high unemployment** and w**ide income disparities** with the countries and across countries of the region.
- **Job creation is a priority** and this needs to come from the private sector for sustainable growth, innovation etc.
- Hence, there is a critical role for Family Owned Enterprises (FOEs) and Small & Medium Enterprises (SMEs) to engage in job creation and investment.
- While reinforcing the government sector has been the initial step, we should ensure it does not lead to a 'crowding out' of the private sector.
- Need to focus on: **structural reforms and developmental policies** (incl. infrastructure) that encourage private sector participation, tackle job creation and lift economies to higher growth trajectories over the longer term.

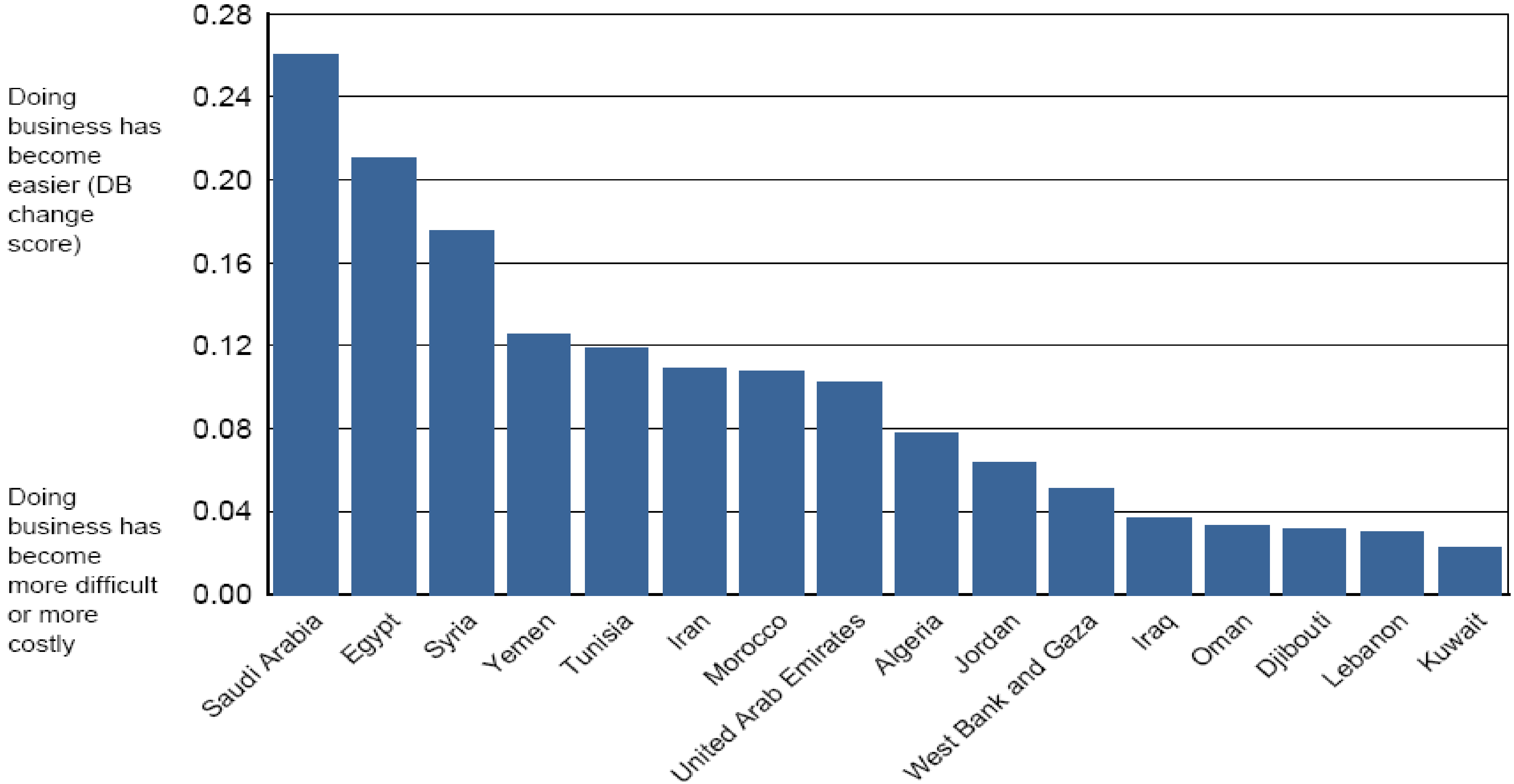
Explosive Mix: Young & Unemployed Populations



Source: UN Population Division, DIFCA Economics

WB Doing Business Reforms: Change Analytical Model?

WB DB ranks Saudi Arabia, Egypt, Syria, Yemen & Tunisia among top reformers => Need to add Inclusiveness & Trickle-down as factors to gauge reforms!



Source: Doing Business 2011, World Bank.

The financial crisis was and is a failure of governance and executive management took excessive risk for corporations while risking almost nothing for themselves." Robert Monks

•The recent global Great Financial Crisis has put corporate governance back on the policy agenda in the same way that the Asian crisis, the dotcom-bubble and the demise of Enron & WorldCom prompted responses.

Issues:

- **Boards: Composition & Competence of Directors**
- **Risk Management procedures, processes and implementation**
- **Alignment of Incentives**
- **Inefficient Regulations & Ineffective Regulators**

HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

GCC Corporate Governance Reforms 2008-11

Country	CG Developments 2008-2011
Bahrain	CG Code issued in 2010
UAE	CG Code mandatory from April 2010 (issued in 2007)
Qatar	CG Code issued in 2009
Oman	In 2010, The Capital Market Authority set up a corporate governance unit to ensure implementation of the CG Code (issued in 2002)
Saudi Arabia	In 2010, the Capital Market Authority set up a corporate governance unit to ensure implementation of the CG Code.
Kuwait	Capital Market Authority set up in 2010.

Avalanche of New Corporate Governance Guidelines

HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

- At least **40 countries** since the fall of Lehman Brothers have issued new or amended corporate governance codes
- **UK – Financial Reporting Council** corporate governance and Stewardship codes; Walker report on corporate governance in banks and other financial institutions
- **European Commission** Green Paper on corporate governance in financial institutions and corporate governance review
- **US Dodd-Frank** proposals on corporate governance, sequel to Sarbanes-Oxley
- **Basel Committee on Banking Supervision** have issued their Principles for Enhancing Corporate Governance

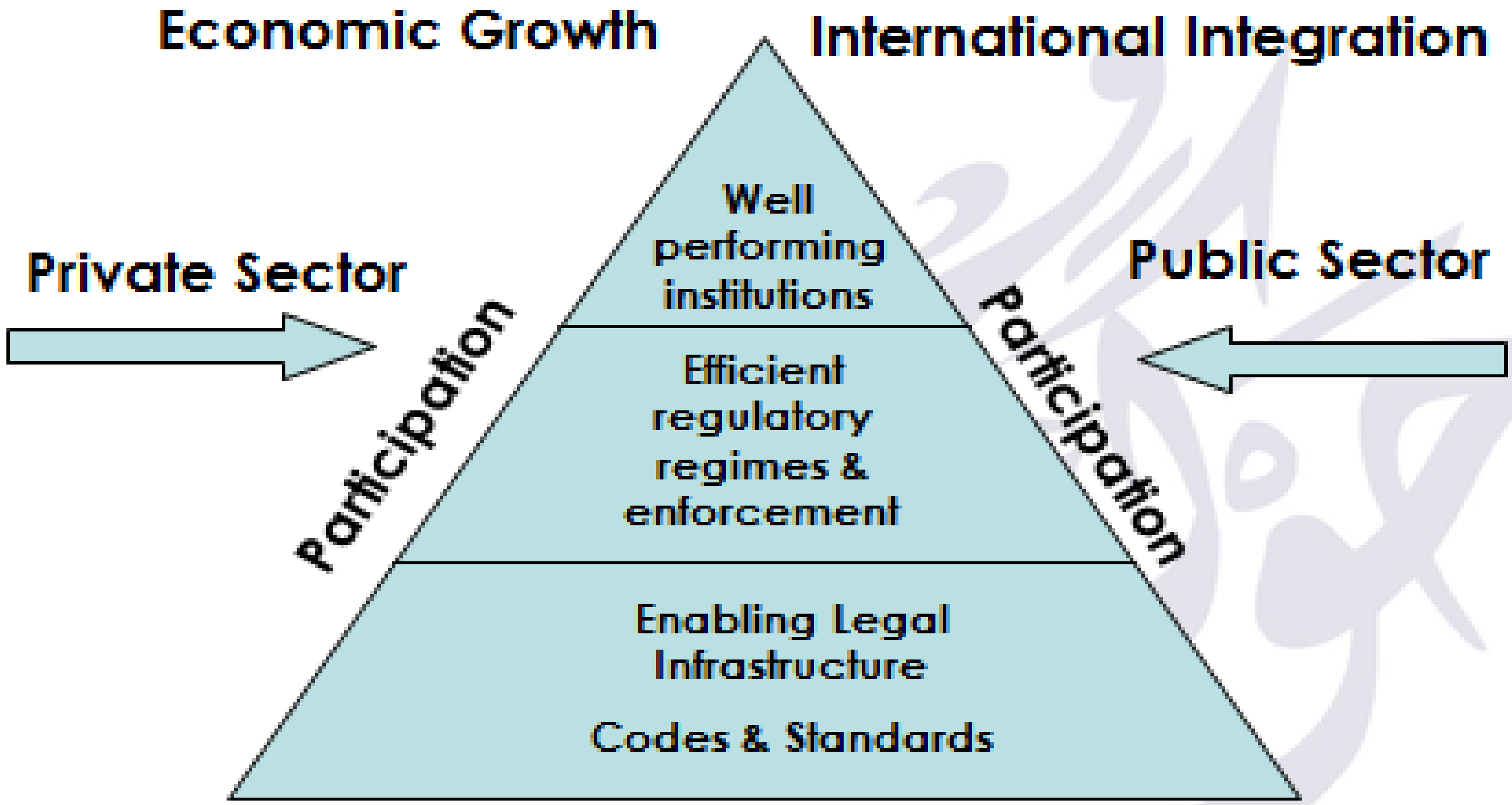
MENA Corporate Governance gaps

- Transparency and Disclosure
- Competence, training, and authority in risk management
- Structure: Board Effectiveness
- Conduct: Accountability, Risk and Remuneration
- Monitoring and Enforcement: Regulatory bodies, Shareholder Relations and Stewardship
- Regulators should focus on their own corporate governance.
- CG Risk is an integral part of managing Systemic Risk: CG failures at individual company level can generate failure of system, i.e. source of systemic risk

Implications for the MENA region

- International best practices on corporate governance are evolving. We must understand what these emerging practices mean for the MENA region, what we can learn & do about them, what is relevant to our markets & economies, and how the other emerging market economies have responded.
- **Revise the GCC CG Codes** (as they pre-date the crisis) to take account of developments in international best practices, especially in areas of Board competence and risk management.
- **Tighter CG standards are needed for financial institutions (Hawkamah Policy Brief) and listed companies.**
- **Extend CG frameworks beyond listed companies – SOEs & Banks**
- **Ensure Compliance** with CG standards & guidelines

Governance is integral element of sustainable economic growth & development: it is an imperative



Drivers of Good Corporate Governance

- MENA is dominated by state-owned and close-held family companies, which coupled with weak judiciary institutions means that there has never been an urgency to implement corporate governance.
- Institutional Investors, who often are the drivers of good corporate governance, shun the region because of lack of corporate governance.
- Therefore, corporate governance reform in the MENA must be regulatory driven (listed companies, banks, SOEs, FOEs) – and reform must also address insolvency regimes.
- Regional banks and asset managers should incorporate corporate governance criteria into their investment and lending criteria. Banks can play a central role in instilling a culture of good corporate governance in the region.

The Next Steps

- Government policy initiatives are critical. Private sector needs to be nurtured, with focus on SMEs & growth companies
- **Corporate governance risk** should be dealt with as an integral part of managing systemic risk
- Banks and asset managers should incorporate CG criteria into their investment and lending criteria. Banks can play a central role in instilling a culture of good corporate governance in the region.
- Regulators need to embrace good governance themselves – they need to have clear roles, mandates and lines of accountability, and staffed with competent personnel. Above all, they need to be effective, transparent and predictable.
- Access to Finance and Capital are critical at this stage of recovery => imperative for the growth of SMEs and FOEs
- Set-up of National & a Regional **Second Tier market for SMEs.**
- Modernisation & Reform of **Insolvency & Creditor Rights Regimes** Imperative

THANK YOU for your support in BUILDING INSTITUTIONS FOR THE REGION

Hawkamah – The Institute for Corporate Governance
DIFC Gate Village 2, Level 1, PO Box 506767, Dubai, UAE
T: +9714-362-2551 F: +9714-362-2552
nasser.saidi@hawkamah.org
www.hawkamah.org