



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

**Families, Markets and
Corporate Governance:
Sustaining the Region's Wealth**

16-19 April 2007

Madinat Jumeirah, Mina A'Salam Hotel, Dubai

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Executive Director

Hawkamah Institute for Corporate Governance

AGENDA

- Potential MENA Economic Renaissance?
- Role of Family in Markets
- Challenges of Family Owned Enterprises
- Family Business Succession
- Where Does the Region Stand on CG?
 - IIF/Hawkamah Survey of GCC Countries
 - IFC/Hawkamah CEO Survey
- Hawkamah Institute for Corporate Governance & Hawkamah Institute of Directors

A MENA Growth Resurgence and Economic Renaissance?

- MENA has achieved above average growth rates sustained by
 - Average real GDP growth 6.5% over 2003-2006 vs. 3.7% in 1998-2002
 - Favorable global developments: high growth, low inflation and interest rates, no financial crises
 - 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 2006: \$188.7bn (2002) to \$517.7bn (2006)
- 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 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

Corporate Governance Codes

- CG Codes and Principles have been developed for major sectors of modern economies
 - Listed Companies (OECD, WB)
 - Banks and financial institutions (BIS)
 - Insurance Companies (IAIS)
 - Investment managers (IOSCO, Hermes)
 - Family enterprises (Cadbury)
 - State Enterprises (OECD)
- Need to adapt to national legal and institutional conditions

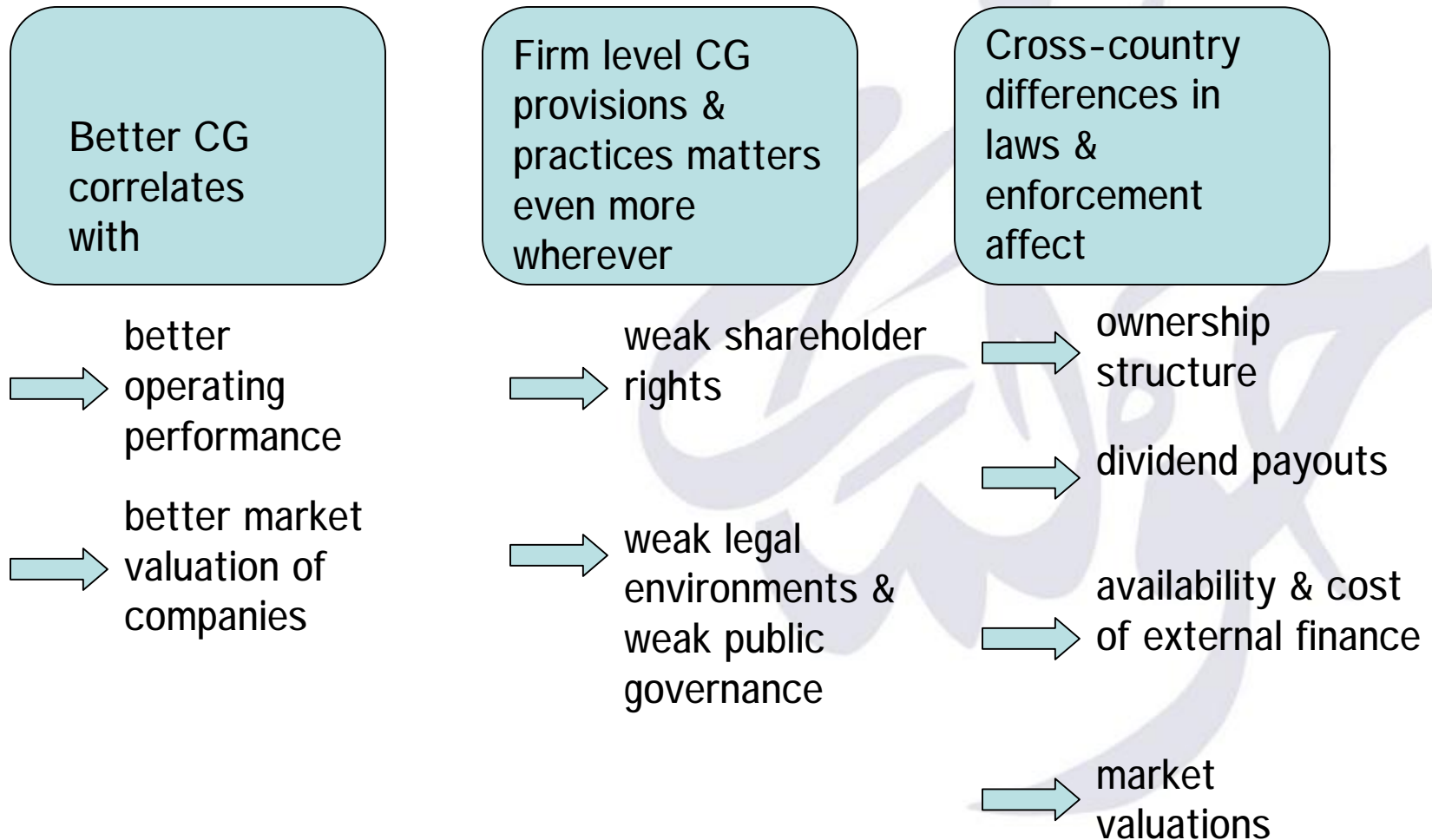
OECD Corporate Governance Principles

1. Ensuring the basis for effective Corporate Governance framework
2. The rights of the shareholders and key ownership functions
3. The equitable treatment of shareholders
4. The role of stakeholders in CG
5. Disclosure and transparency
6. The responsibility of the board

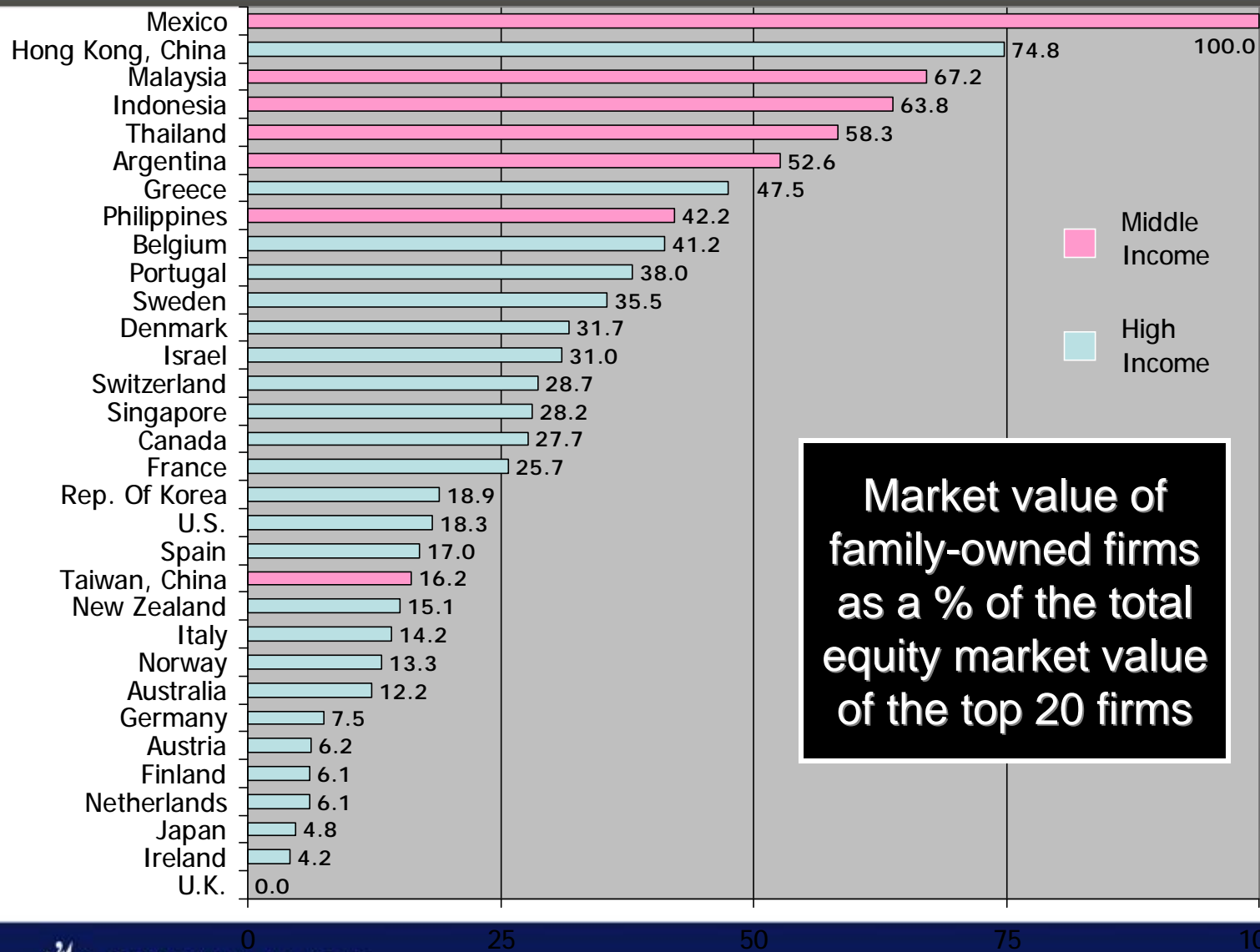
OECD CG Principles (2004)

- Stronger role of shareholders: institutional investors
- Conflicts of interest and self dealing
- Abuse of related companies
- The role of stakeholders including creditors
- Executive and director remuneration
- Financial market integrity: audit and accounting
- Transparency; also intermediaries
- Ensuring the basis for an effective corporate governance framework: effective enforcement

Corporate Governance : Performance in Emerging Markets



Family Firms Play an Important Role in Markets



Market value of family-owned firms as a % of the total equity market value of the top 20 firms

Impact of Good CG

- At the country level, countries with strong shareholder rights and investor protection tend to have larger capital markets, companies with less debt and perform better during periods of crisis
- Public Governance matters. In particular:
 - Control of corruption
 - Regulatory quality
 - Rule of law
 - Government effectiveness
- At a company level, companies with good governance tend to have higher values in the market, better access to finance & higher credit ratings
- Institutional investors consistently express preferences for companies with good governance.
- [Sources: WB, OECD, CIPE]

Families & Finance in MENA

- Families represent more than 85% of MENA businesses
- Major source of job creation in coming decade
- Families/entrepreneurs should actively promote development of financial markets:
 - 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
- Families must become ‘institutions’

Corporate Governance and Access to Capital

- **“Good” corporate governance is essential for:**
 - safeguarding company assets
 - maintaining and enhancing investor confidence
 - reducing the potential of fraud
 - **“Exit” strategies: financial markets and/or outside investors**
- **“Poor” corporate governance companies**
 - will find it harder to access external capital
 - will face higher financing costs
 - will see their credit ratings downgraded
 - will have weak investor confidence

Top 10 Questions Facing Family Business Boards (1)

- 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 (2)

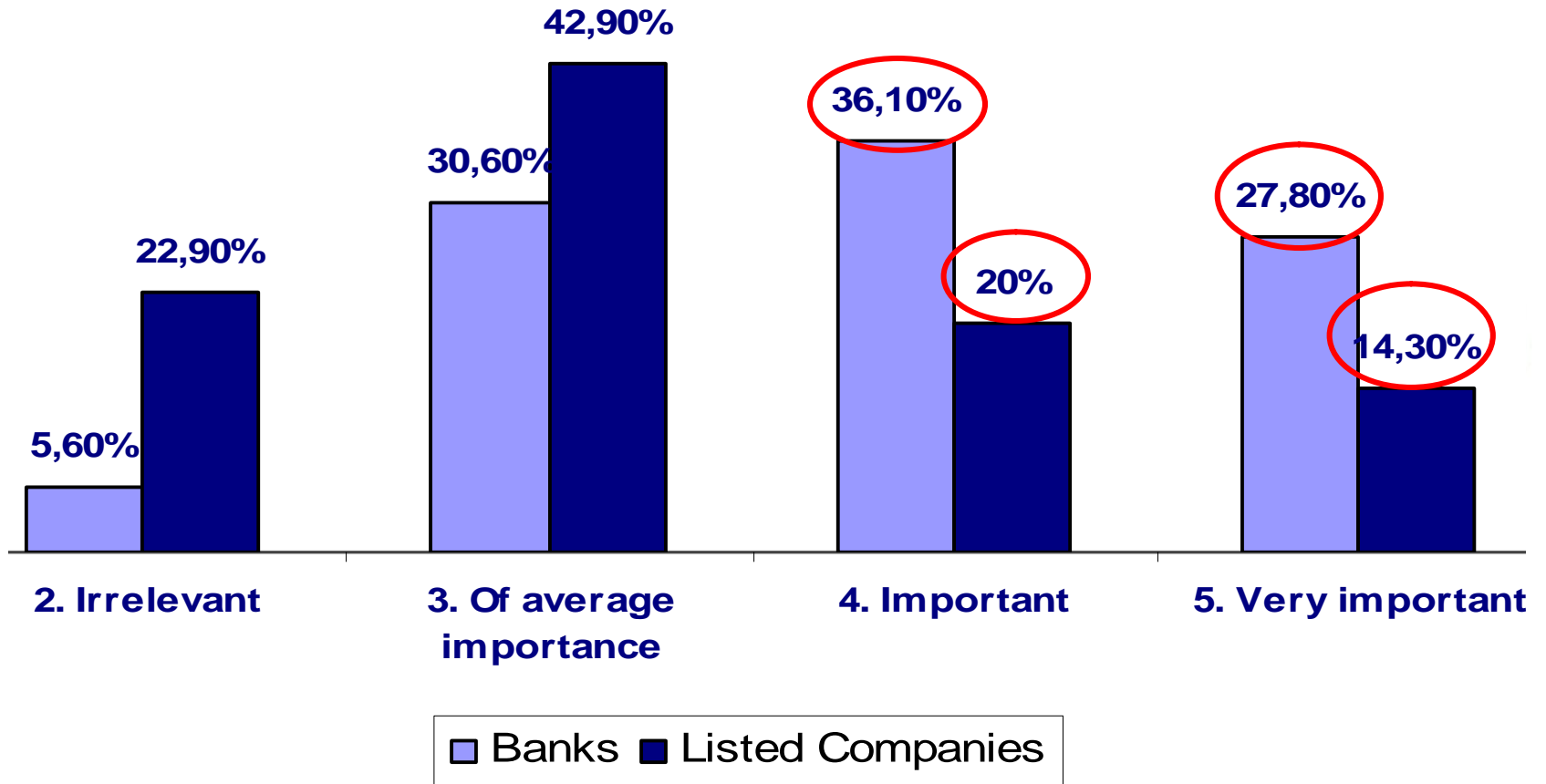
- What role should my board play in transitioning the company to the next generation?
- Should my board be led by a non-executive, non family chairperson?
- Should I be worried about complying with CG legislation?
- Should I have an audit committee composed solely of independent directors?
- How can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

Source: NACD Family Business Survey, 2004

Evidence: IFC –Hawkamah CEO CG Survey

- 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.



It is the same thing as Corporate Social Responsibility



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



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



A system by which companies are directed and controlled

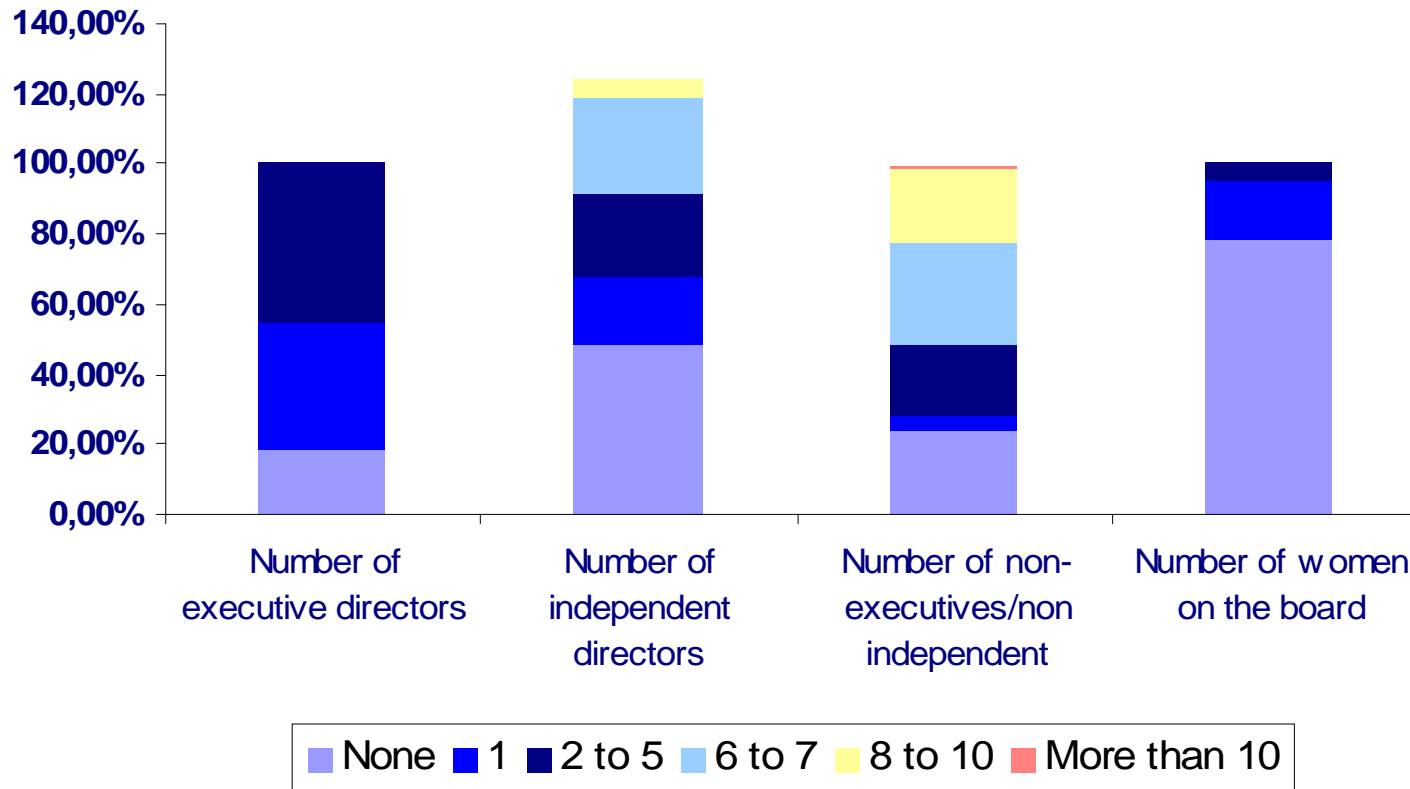


And They Are Looking for Specialists...

Top three barriers to CG cited by respondents:

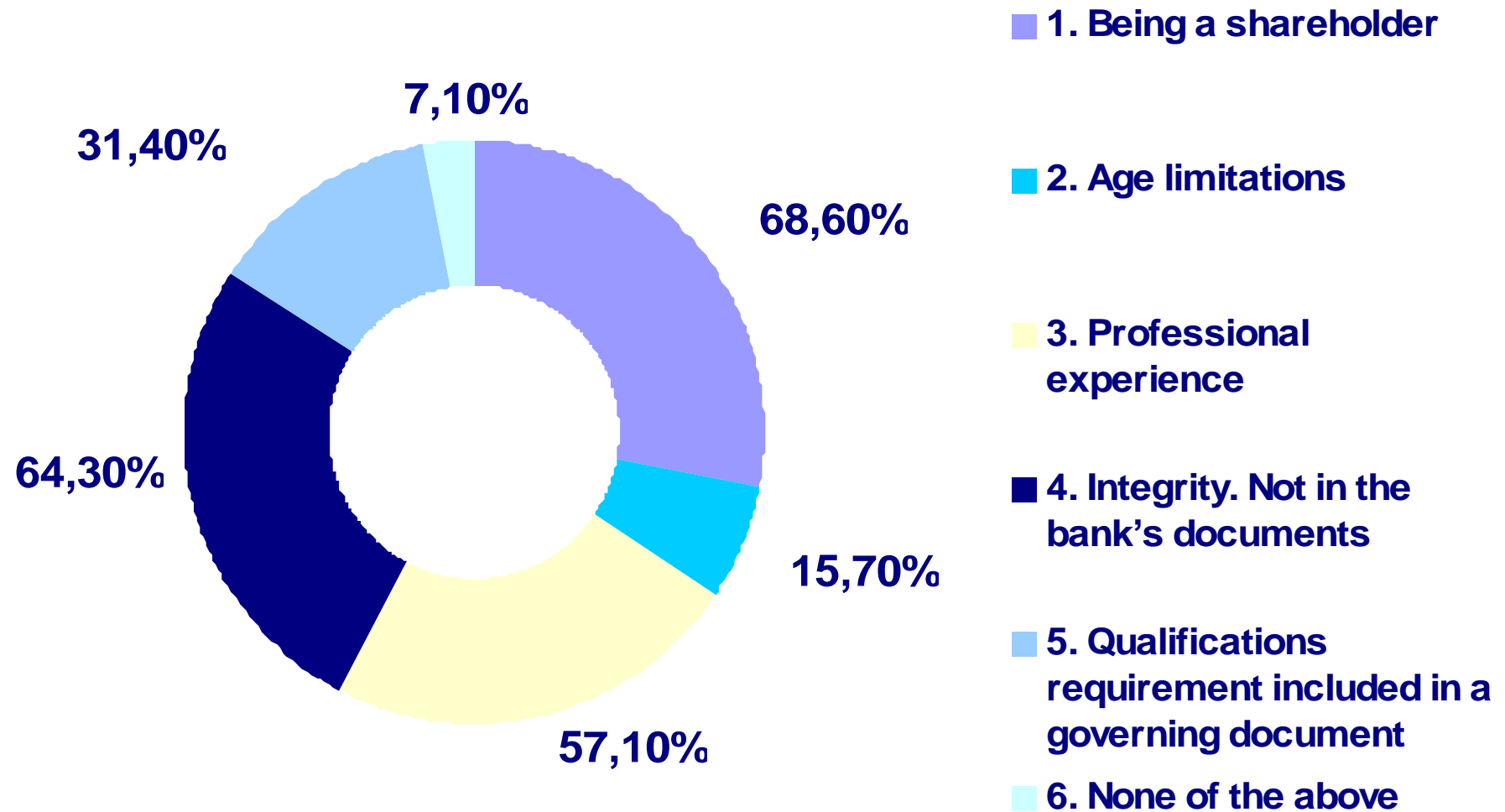
- 53.6% cited a lack of qualified specialists to help with implementation
- 37.7% cited a lack of information or know-how
- 24.6% cited lower priority of corporate governance in relation to other tasks

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

With Criteria Based on Experience



Hawkamah-IIF 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

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.

CG Reforms Required to Strengthen GCC Equity Markets I

- **STRUCTURAL REFORMS**
- Judicial and legal reforms
 - Establish specialized financial courts to deal with cases pertaining to securities related offences
 - Revise corporate and securities law to strengthen minority shareholder rights
- Privatize stock markets
- Regulate fund managers to tackle problems of:
 - Front running
 - Insider trading
- Introduce market pricing mechanism for the IPO market such as book building and rating of IPO securities

CG Reforms Required to Strengthen GCC Equity Markets II

- **REGULATORY REFORMS**

- Introduce corporate governance codes on a mandatory compliance basis for all listed companies
- Strengthen surveillance and enforcement functions at the regulatory level by increasing/strengthening prosecution of errant individuals and companies
- Make securities regulatory fully independent like DFSA

- **TRANSPARENCY**

- Improve quality of financial disclosure by requiring companies to provide information on a consistent basis including a management analysis of strategy and risks
- Require public disclosure of board of directors and details of frequency of board meeting, pay etc
- Require disclosure of
 - Related-party transactions
 - Material information
 - Ownership structure and shareholdings

Reinforcing Institutions for a CG regime for bank and non-bank corporate sector

- **Central Credit Reporting Organizations**
 - Ø Provide information on bank and non-bank credit (including supplier credit)
 - Ø Local CCROs can collect, organize, and analyze valuable material information in an efficient manner
- **Companies Houses**
 - Ø Act as a corporate registrar and reliable source for publicly available information about corporations
 - Ø Provide and disseminate financial reports and info on board & management actions
- **Credit Rating Agencies**
 - Ø Risk assessments and credit ratings for companies and governments
 - Ø Important for capital market development, and implementation of Basel II by providing credit benchmarks for local markets

HAWKAMAH: MISSION AND VISION

MISSION: To assist the countries and companies of the region to develop and implement sound and globally well integrated corporate governance frameworks.

VISION: To drive institution building, corporate sector reform, good governance, and sustainable economic development and growth in the region.

Hawkamah Institute for Corporate Governance

- First Institute of its kind in the region: “Think & Do Tank”
- An autonomous international association, hosted by the DIFC and serving the wider MENA region
- Partners: DIFC, OECD, WB-GCGF, IFC, IIF, CIPE, YAL, UAB, countries participating in OECD MENA Investment programme
- Source of CG advisory services, technical assistance, monitoring, analysis, research, consultation and reform.
- Foster communication and policy dialogue on CG

Strategic Partners

International Partners

- Organisation for Economic Co-operation and Development (OECD)
- WB-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

Other Institutions

- Countries participating in the MENA-OECD Investment Program
- Dubai School of Government
- Young Arab Leaders
- Corporate Governance centers, universities

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 Insurance Commission
- Egyptian Institute of Directors/ MOI
- Egyptian Banking Institute/Central Bank of Egypt
- Economic Research Forum
- Oman Economists Association
- Corporate Governance Association of Turkey
- Lebanese Corporate Governance Task Force

Activities...

WHAT WE DO:

- Ø Provide advisory services & technical assistance on regulatory and firm levels to develop the optimal corporate governance environment
- Ø Undertake CG assessments of sectors and companies
- Ø Conduct consultations with various stakeholders
- Ø Develop and implement training programs
- Ø Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Ø Monitor, Survey & Report on the state of corporate governance

Targeted Sectors

1. Listed Companies, Capital Markets & Regulatory Authorities
2. Banks, Financial Institutions, Central Banks & Supervisory Authorities
3. Non-listed companies – Family-Owned Enterprises (FOEs) & Small and Medium Enterprises (SMEs)
4. Public Sector – State-Owned Enterprises (SOEs)
5. Media
6. Academia

Accomplishments To Date

Since its official launch in Q2-2006, Hawkamah has:

- Addressed over 5,000 market players in conferences, seminars, and workshops all over the Middle East, North Africa (to include Pakistan) advancing corporate governance reform and the role Hawkamah plays in achieving regional buy-in.
- Attracted over 200 members
- Signed 27 MOU's with international and regional partners
- Received institutional support from regulatory authorities and Central Banks of all GCC and ME countries. This diverse constituency includes regulators, banks, chambers of commerce & industry, business associations and others
- Undertaken 2 major surveys on state of CG in GCC and MENA

Accomplishments To Date

- Conducted jointly with the IFC a CEO survey of over 400 firms from all over the Middle East and North Africa on the regional private sector's CG practices and perspectives
- Partnered with ESCA to develop a corporate governance law and established a model for capital market corporate governance codes.
- Participated in the development of the 1st CG code for State Owned Enterprises in Egypt, the first such code of its kind in the Arab world.
- Working with family businesses and listed companies to develop a code of corporate governance based on international best practices.

Accomplishments To Date

Conducted an assessment of the corporate governance environment in the Gulf Cooperation Countries from an investor's perspective.

The publication, *IIF/Hawkamah GCC Comparative Corporate Governance Survey* and the six country specific reports, is a result of Hawkamah's meetings with over 100 stakeholders all over the GCC.



Accomplishments To Date

Developed a capability building program to address independent directors, board secretaries, and asset managers.



DIFX Dubai International Financial Exchange **Academy**

Register for this course
[Click Here](#)

The Role of the Company Secretary

Dubai, UAE

Hawkamah Institute for Corporate Governance & the DIFX Academy have developed and are conducting a half-day workshop on the role of the Company Secretary for the benefit of DIFC registered companies limited by shares covering compliance with the DIFC Companies Law, the Board and corporate governance.

The aims of this workshop are to:

- Provide participants with the knowledge of key statutory requirements and continuing obligations of the DIFC Companies Law in relation to companies limited by shares
- Understand how the role of the Company Secretary can improve the effectiveness of the Board
- Provide an introduction to, and review the development of



HAWKAMAH
 THE INSTITUTE FOR CORPORATE GOVERNANCE

Director Development Workshop

DIFX | Academy
Invest in your future

A Two Day Programme Featuring:

- Corporate Governance Best Practices for Board Members
- How to Build Effective Boards (first part of Hawkamah's four part Director Development Programme)

May 1 - 2, 2007
 Dubai, U.A.E.

Offered In Association With:
Hawkamah Institute for Corporate Governance and the International Finance Corporation.

Hawkamah CG Agenda for 2007

- Initiate Majlis, Hawkamah Institute of Directors
- Launch & support with OECD two task forces on CG of Banks and State-Owned Enterprises to engage governments and private sector.
- Launch Module on Insolvency and Corporate Restructuring
- Develop Advisory services
- Conduct media capacity building programs
- Extensive outreach to family owned enterprises through consultation assignments and case study development
- Address CG in the insurance industry

First MENA Corporate Governance Conference

[find out more](#) »



[GCC REPORT](#)



[CEO SURVEY](#)



[REGIONAL CONFERENCE](#)

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?

Resources For...

- ▶ Capital Markets and Regulators
- ▶ Banks and Financial Institutions
- ▶ Family Enterprises
- ▶ State Owned Enterprises
- ▶ Regional Media

OECD-Hawkamah Task Forces

- ▶ Task Force on Banks
- ▶ Task Force on SOEs
- ▶ Insolvency Module

Events

- ▶ **5 April**
Insurance Commission Forum Meeting: Corporate Governance and the MENA Insurance Industry
- ▶ **20 April**
Global Reporting Initiative
www.tkyd.org
- ▶ **1-2 May**
Training: Hawkamah's 1st Director Development Program
- ▶ **3 May**
Training: Corporate Governance for

Media Centre

1 April 2007

Asset Managers Corporate Governance Training

[read more...](#)

24 March 2007

Hawkamah Addresses Economists and Public Officials on Governance and Competitiveness

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13 March 2006

Hawkamah and DIFX Academy announce the First Board Development Program

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28 November 2006

HAWKAMAH's First MENA Conference Issues Dubai Declaration on Corporate Governance

[read more...](#)

MAJLIS Hawkamah Institute of Directors

- **Mission is to develop and train effective, knowledgeable and competent directors for MENA region**
- **Build Capacity & strengthen institutions**
- **Membership organisation**
- **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 program**
 - **Executive coaching**
 - **Workshops, seminars and conferences**
 - **Financial planning and advisory services**

Hawkamah *BUILDING INSTITUTIONS FOR THE REGION*

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