HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

Need and Urgency of IT governance—Integral part of Good Corporate Governance

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Information Technology Governance Assurance Forum
Annual Conference 2006

Agenda

- **Basics: what is Governance?**
- Corporate Governance: issues, importance
- Governance Digital Economies & Societies
- E-Government and e-Governance in MENA
- Corporate Governance Digital Economies
- Hawkamah Institute for Corporate Governance
- Proposals for Action

Governance Definitions

- “The exercise of political authority and the use of institutional resources to manage society's problems and affairs”,
- “The use of institutions, structures of authority and even collaboration to allocate resources and coordinate or control activity in society or the economy”,
  World Bank

Governance & Financial Systems

- Consensus that sound financial systems involves countries adopting and implementing best practice standards in 12 key policy areas.
- Both public and private sector incentives are required to stimulate country adoption and compliance with these standards.
- Consensus that countries should give priority to adopting the international core standards

The 12 Core Standards for Sound Financial Systems

Macro Standards	**Agency**
1. Data Dissemination	IMF
2. Monetary Policy	IMF
3. Fiscal Policy Transparency	IMF
Market and Infrastructure	
4.Governance	*OECD/ World Bank*
5.Accounting	IFAC
6.Auditing	IFAD
7.Insolvency	World Bank
8.Money Laundering	FATF

The 12 Core Standards for Sound Financial Systems

Financial System	Agency
9. Core Principles of Bank Supervision	BIS
10. Core Principles of Insurance Supervision	IAIS
11. Core Principles of Securities Supervision	IOSCO
12. Systemically Important Payment System	BIS

Why the Core Standards?

- Deficiencies in these policy areas were a source of crises, and magnified, complicated and extended economic & financial crises
- Countries complying with core standards can achieve:
    1. Transparency of economic risks
    2. Economy characterized by well governed institutions and companies valued and audited according to agreed upon international conventions protects contracts & property rights
    3. An ethical business environment
    4. A financial system governed and regulated in a safe and sound manner, which serves the nation efficiently and sustains on going growth and economic development.

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Corporate Governance : Performance in Emerging Markets

Better CG correlates with

- better operating performance
- better market valuation of companies

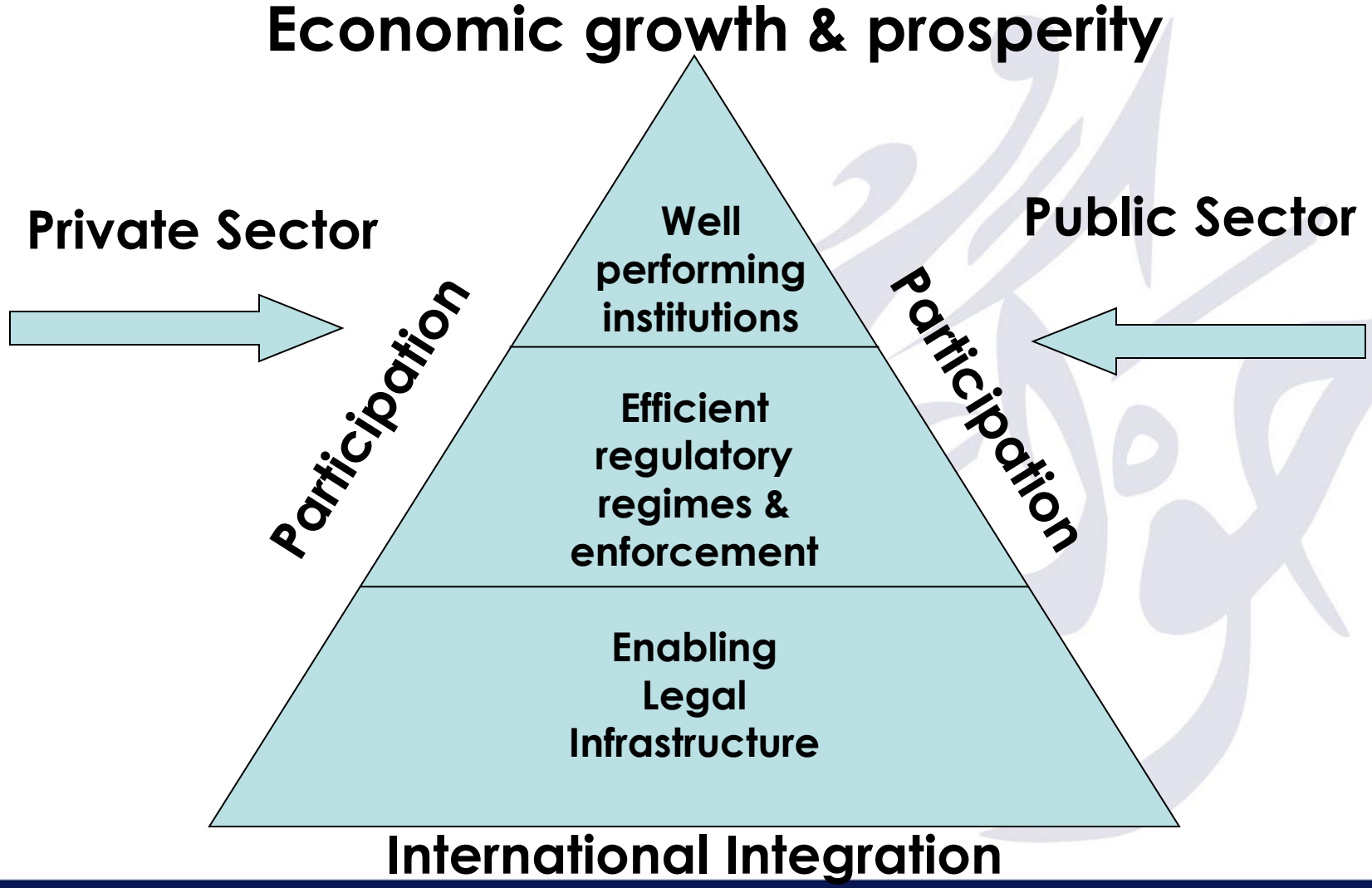
Firm level CG provisions & practices matters even more wherever

- weak shareholder rights
- weak legal environments & weak public governance

Cross-country differences in laws & enforcement affect

- ownership structure
- dividend payouts
- availability & cost of external finance
- market valuations

CG integral element of sustainable economic growth & development



“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:
  - Capital markets have grown to more than $1 trillion in from $100 billion in 5 years, with surge in IPO's and listings
  - Need to attract FDI
  - Finance infrastructure
  - Succeed in market liberalization & privatization

What is Corporate Governance?

- Corporate governance refers to the set of rules and incentives by which the management of a company is directed and controlled so as to maximize the profitability and LT value of the firm for shareholders, while taking into account the interests of other stakeholders
- "Corporate Governance is the **system** by which **business** corporations are **directed & controlled**. The Corporate Governance structure specifies the distribution of **rights** & **responsibilities** among different **participants** in the corporation, such as, the board, managers, shareholders. […] OECD 1999.
- ***CG applicable to Listed companies, Banks, Family-Owned Enterprises, SMEs and SOEs***

Corporate Governance Principles (OECD)

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

1. Minority shareholder protection

1. **Protect the rights of minority shareholders:**
    1. Right to vote on important matters
    2. Right to buyback shares
    3. Right to formally present an issue to the board of directors
2. **Treat foreign shareholders equally with domestic shareholders**: non-discrimination principle

2. Responsibilities of the Board of Directors

- A majority of board members should be independent from management
- Boards should establish subcommittees to monitor & control
- All material information should be publicly disclosed – Transparency
- Develop an investor relations program that fully informs all shareholders of corporate activities

3. Accounting and auditing

- Firms should conform to accounting and auditing practices and standards i.e. comply with IAS (IFRS)
- Audit committee should have a majority of independent directors, who should be able to read and understand fundamental financial statements
- All communications between the committee and external auditors should be without the company management present

4. Transparency of Ownership and Control

- Who controls a company?
- Who has significant ownership?
- Firms should disclose accurate, adequate, and timely information so as to allow investors to make informed decisions about acquisitions, ownership obligations and rights, and the sales of shares

5. Regulatory Environment

- Credible and transparent regulatory environment
- Regulatory environment must not be perceived to be under control or influence of any particular interest group
- Regulators should be independent

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

Rationale for developing the SOE CG Guidelines

- Scale and scope of the state sector
- Impact of SOEs on economic performance
- Pressure for reform deriving from globalization and liberalization
- Specific governance challenges
- Expected benefits from improvements of SOE governance

(Source: OECD)

OECD CG Guidelines for SOEs

- Ensure a level-playing field with the private sector.
- Reinforce the ownership function within the state administration.
- Improve transparency of SOEs' objectives and performance
- No mixing of political and business decisions
- Strengthen and empower SOE boards.
- Provide equitable treatment of minority shareholders

(Source: OECD)

Chapter I, Legal and regulatory framework

- Separate regulation and shareholding
- Transparency on special obligations
- Level-playing field in markets
- Competitive conditions in access to finance

(Source: OECD)

Chapter II The state as an Owner

- Clear and disclosed ownership policy
- No direct interference in day-to-day activities
- Let boards carry out their responsibilities

(Source: OECD)

- Centralisation/coordination of the ownership function
- Accountability secured
- Effective exercise of ownership rights

(Source: OECD)

Chapter III Other Shareholders

- All shareholders should be treated equitably
- High degree of transparency towards all shareholders
- Facilitate participations in AGM for minority shareholders

(Source: OECD)

Chapter IV Stakeholders

- Rely on OECD Principles of Corporate Governance
- Report on stakeholder relations
- Develop, implement and communicate compliance with codes of ethics

(Source: OECD)

Chapter V Transparency

Basis for much of the other Guidelines

- Disclosure at ownership level and at company level
- Internal audit
- Independent external audit
- High quality standards for accounting and audit
- Disclosure as listed companies
- Disclosure of material information, including objectives, ownership and voting rights, financial assistance from the state transactions with related entities and risk factors

(Source: OECD)

Chapter VI Boards

- Full responsibility
- Able to appoint CEO
- Act in the best interest of the company
- Independent judgement
- Good corporate governance standards
- Systematic evaluation

(Source: OECD)

Ensure a level-playing field with the private sector

- Separate regulation and the shareholding function.
- Transparency of special obligations.
- Harmonization in legal forms.
- More flexibility in capital structures.
- Competitive conditions in access to finance

(Source: OECD)

Reinforce the ownership function within the state administration

- Centralization/coordination of the ownership function.
- Clear and disclosed ownership policy.
- No direct interference in day-to-day activities.
- Let boards carry out their responsibilities.
- Accountability secured.
- Effective exercise of ownership rights.

(Source: OECD)

Improve transparency

- Consistent and aggregate disclosure.
- Reinforced internal audit.
- Independent external audit.
- High quality standards for accounting and audit.
- Disclosure as listed companies.
- Disclosure of material information, including financial assistance from the state, transactions with related entities and risk factors.

(Source: OECD)

Empower SOE boards

- Structured and skill-based nomination process.
- Clear mandate and full responsibility.
- Able to appoint CEO.
- Able to exercise independent judgment
  - limit number of state representatives on the board
  - Separation between Chair and CEO
- Systematic evaluation of board.

(Source: OECD)

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Issues for Corporate Governance in Digital Economies & Societies

- ICT is a ***general purpose technology***: changes in legal forms, regulatory and organisational changes, culture and education: transition may take decades
- Convergence of Technologies
- Investment in e-Human Capital
- Digital property protection
- Information vs. Privacy?
- E-Security & Trust

Table A.1. Greatest Engineering Achievements of the Twentieth Century

1. Electrification	11. Highways
2. Automobile	12. Spacecraft
3. Airplane	13. Internet
4. Water Supply	14. Imaging
5. Electronics	15. Household Appliances
6. Radio and TV	16. Health Technologies
7. Agricultural Mechanization	17. Petroleum Technologies
8. Computers	18. Laser and Fiber Optics
9. Telephones	19. Nuclear Technologies
10. Air Conditioning & Refrigeration	20. High-performance Materials

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Challenges facing successful implementation of e-Government in MENA

- ***e-leadership***
  - *is the leadership and strategic thinking ready?*
- ***Access, Connectivity and Network Readiness***
  - *is the technological infrastructure ready?*
- ***e-business climate***
  - *is the institutional infrastructure ready?*
- ***e-Human capital***
  - *is the population e-aware and e-ready?*
- ***Trust, information security and privacy***
  - *is the legal infrastructure ready?*

Share of Broadband lines by World Region, Q3 '06 (Point Topic Dec. 2006)

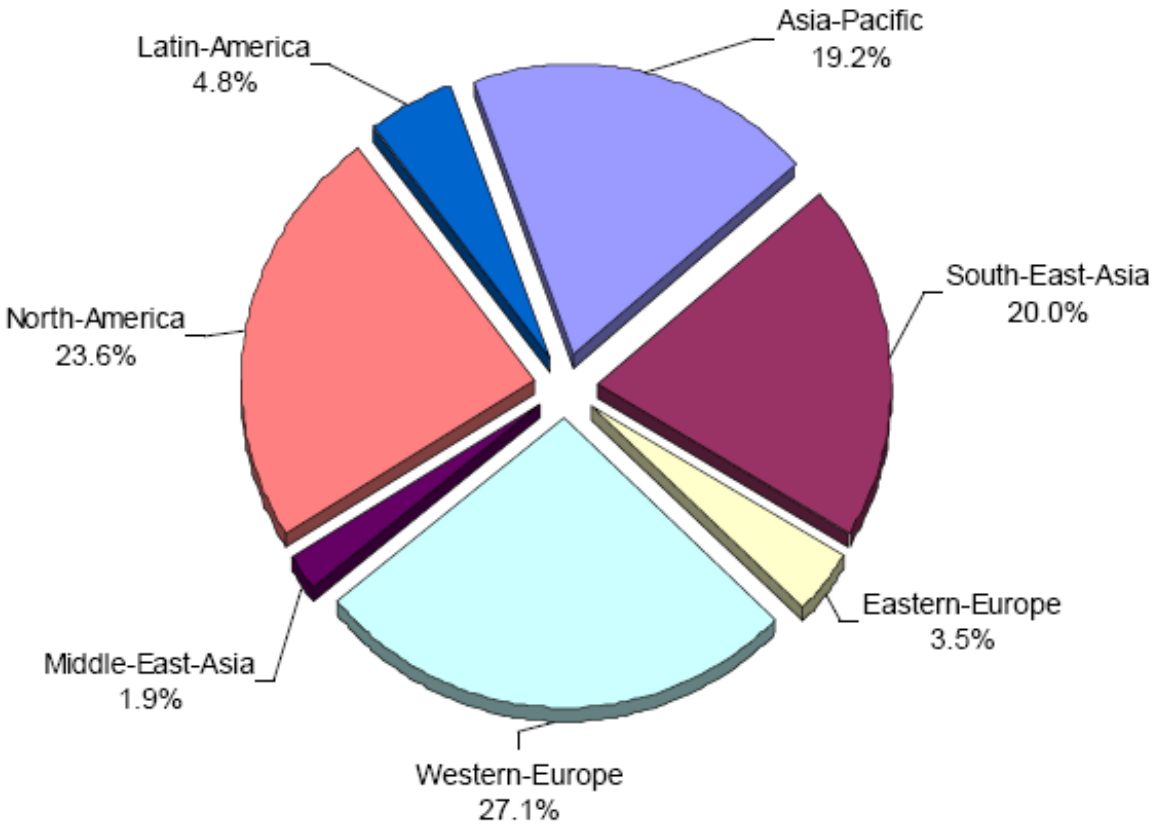

Figure 1 Share of broadband lines by world region

Broadband penetration & Growth by World Region, Q3 '06 (Point Topic, Dec. 2006)

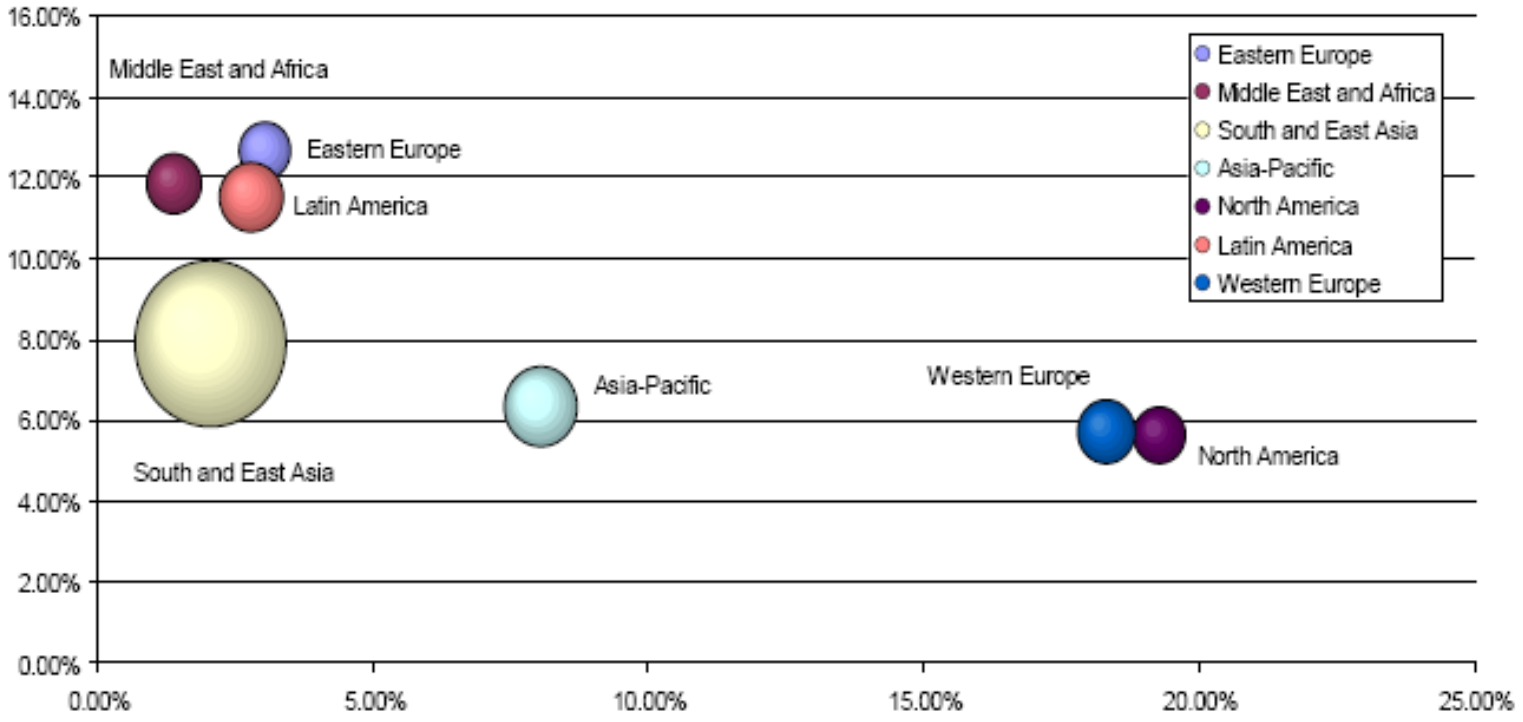

Figure 2 Broadband penetration and growth by world region

Country	Freedom of information	Privacy/Data Protection	Administrative Procedure	Electronic Signature	e-Government Policy	Ombudsman
Algeria	NA	X[i]	NA			NA
Bahrain	NA		NA	Draft[ii]	X[iii]	NA
Egypt	NA		NA	Draft[iv]	X	NA
Jordan	NA	X[v]	NA	Draft[vi]	X[vii]	X[viii]
Kuwait	NA		NA	Draft[ix]	X[x]	NA
Lebanon	X[xi]	X[xii]	NA	Draft	X[xiii]	X[xiv]
Libya	NA		NA			NA
Morocco	NA	X[xv]	NA	Draft[xvi]	X[xvii]	NA
Oman	NA		NA		X[xviii]	NA
Palestine	NA		NA			NA
Qatar	NA		NA	X[xix]		NA
Saudi Arabia	NA		NA	Draft[xx]	X[xxi]	NA
Sudan	NA		NA			NA
Syria	NA		NA	X[xxii]		NA
Tunis	NA	X[xxiii]	NA	Law[xxiv]	X	NA
UAE	NA	X[xxv]	NA	X[xxvi]	X[xxvii]	NA
Yemen	NA		NA			NA

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Source: Alem and Associates, Barristers and Solicitors

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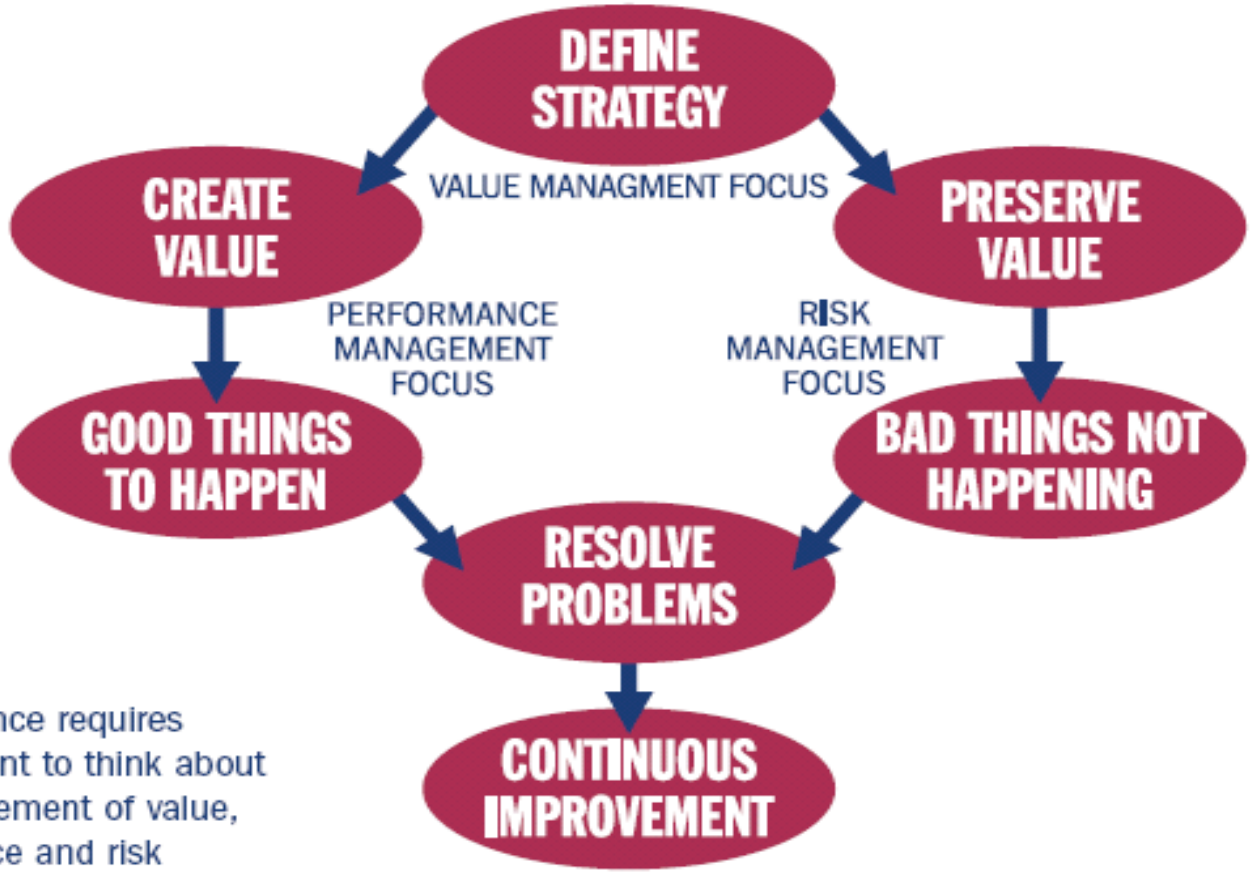
IT Corporate Governance

- IT CG:
  - Public dimension: enabling framework for Digital economies & societies. E-Government imperative
  - Private dimension
- "IT governance is the responsibility of the board of directors and executive management. It is an integral part of enterprise governance and consists of the leadership and organisational structures and processes that ensure that the organisation's IT sustains and extends the organisation's strategies and objectives."
- IT governance is concerned about two responsibilities:
  - IT must deliver value and enable the business
  - IT-related risks must be mitigated.

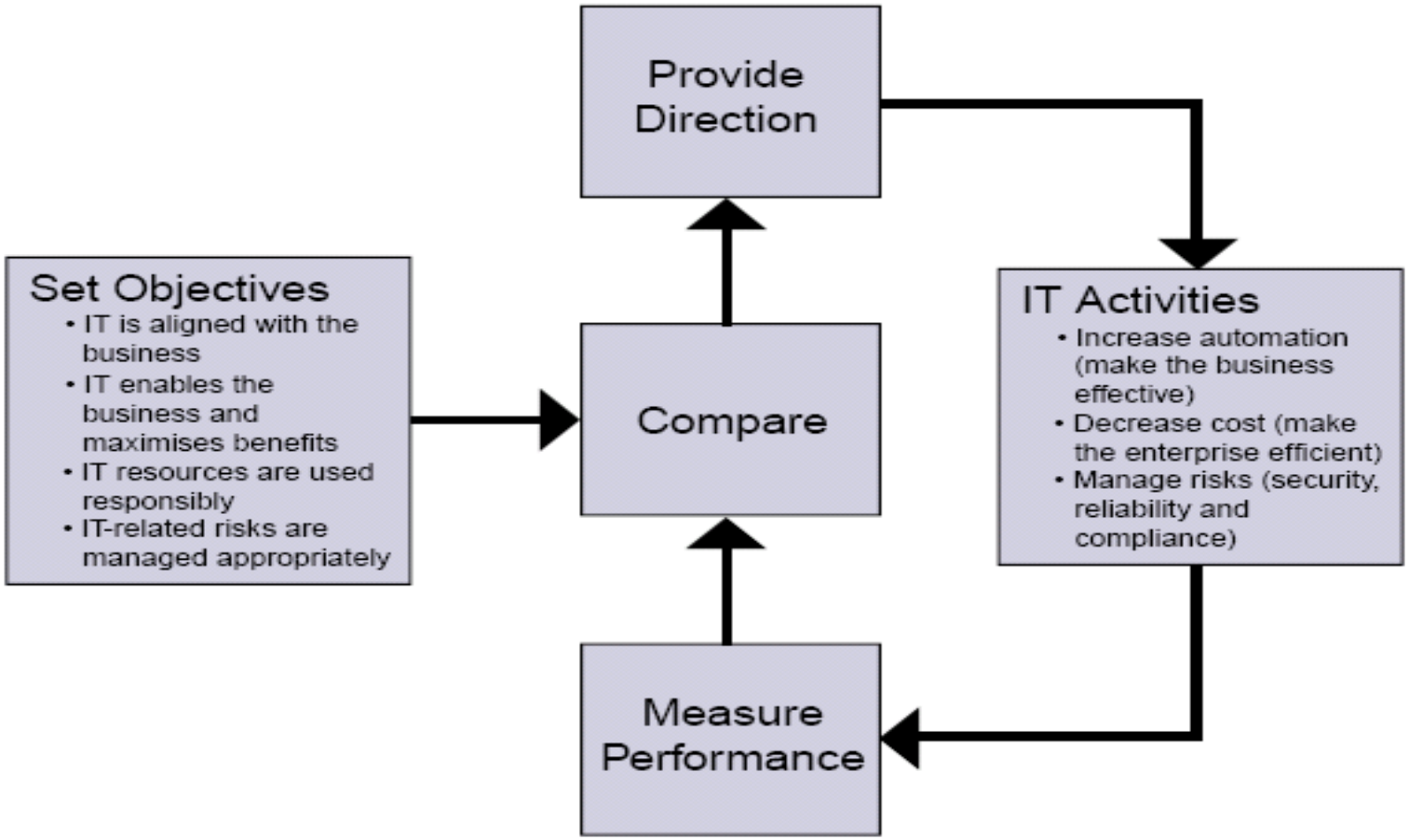
IT Governance (ISACA)

Figure 6

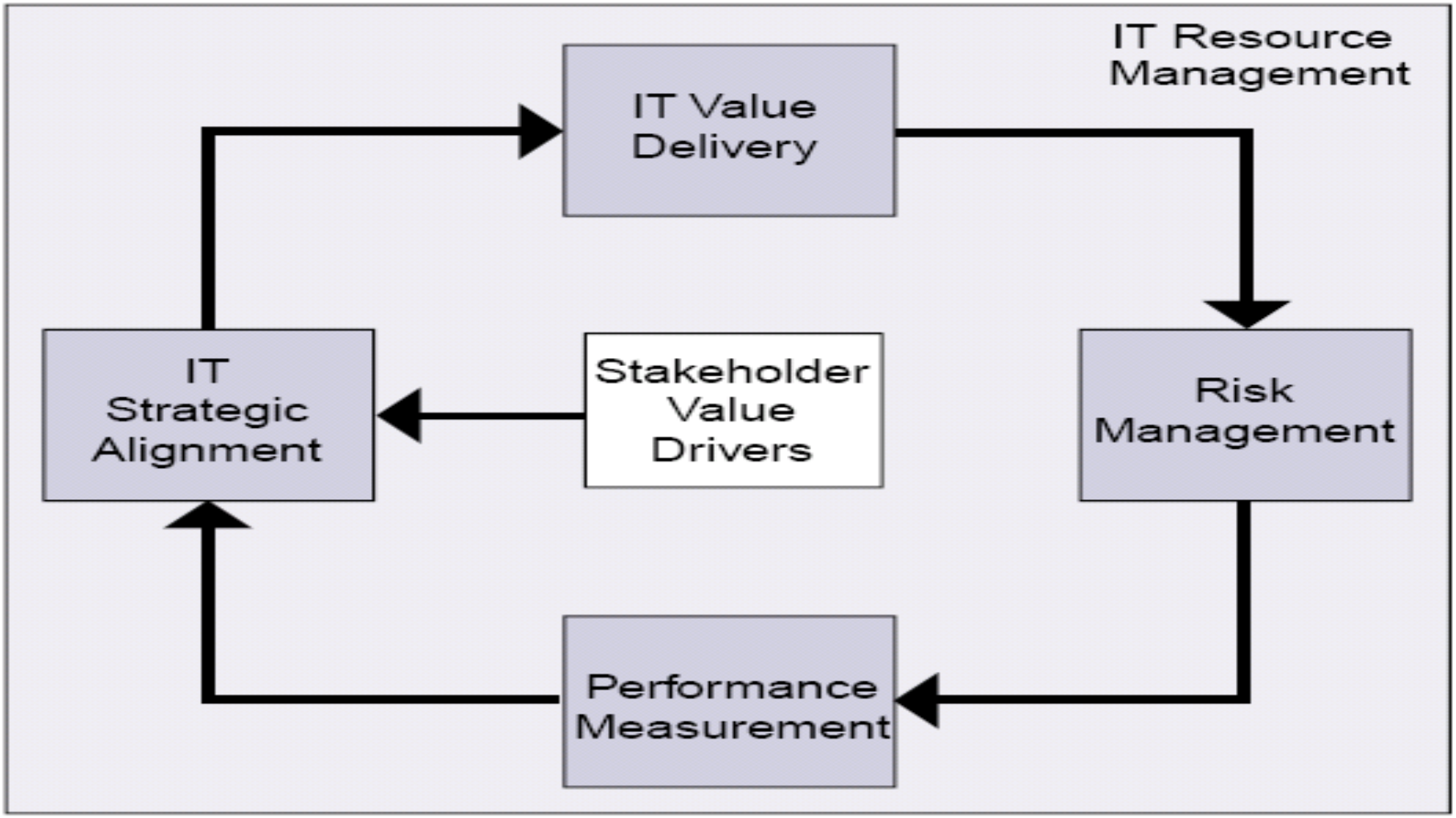


IT Governance requires management to think about the management of value, performance and risk

IT Governance Framework
(Source: ITGI)

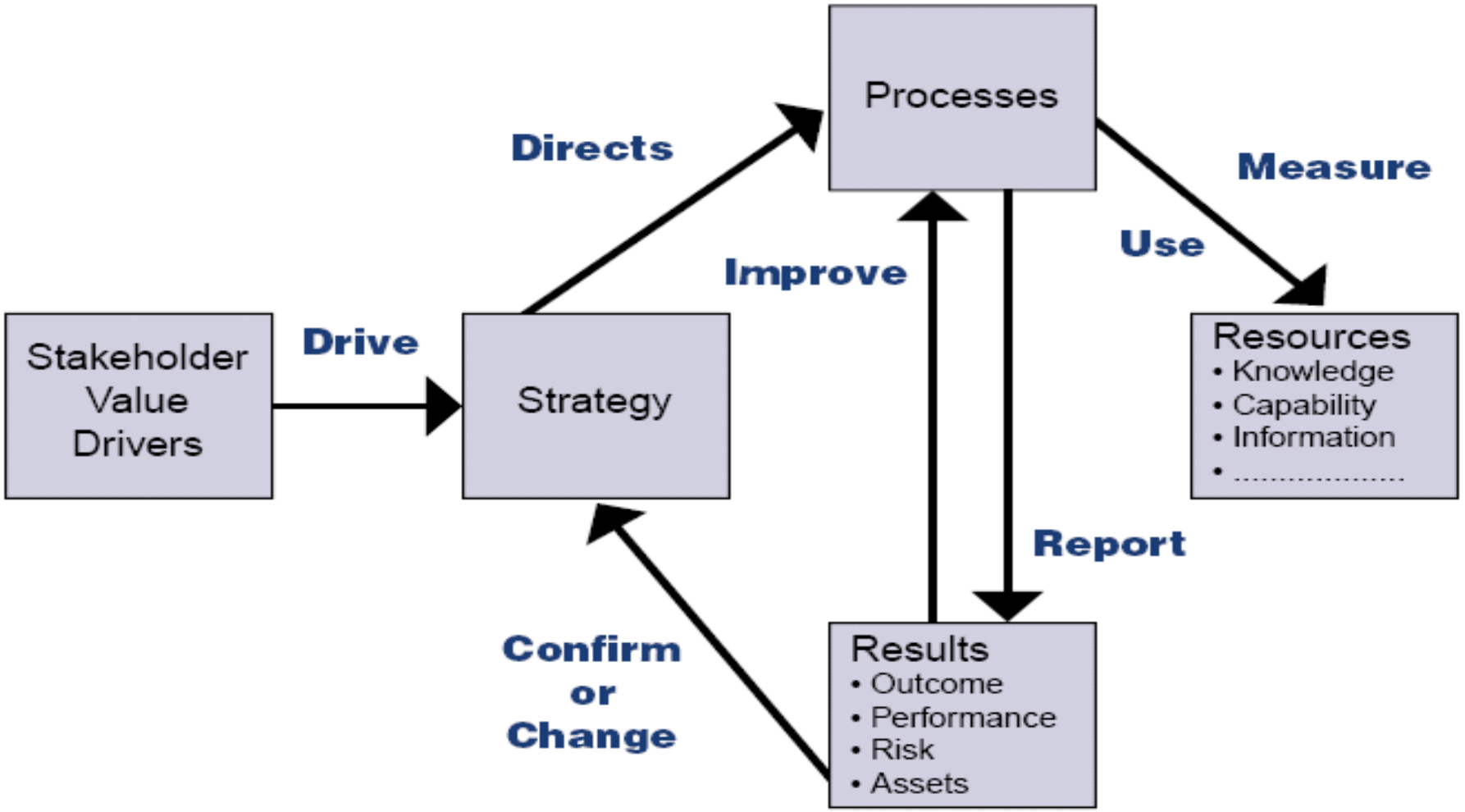


Main Areas of IT Governance
(Source: ITGI)



IT Governance Process

(Source: ITGI)



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Hawkamah Institute for Corporate Governance

- First Institute of its kind in the region
- An autonomous, international association, hosted by the Dubai International Financial Centre (DIFC), and serving the MENA countries, Central Asia and beyond
    - Premises in DIFC to be ready by March 2007 to host Hawkamah ICG and Hawkamah Institute of Directors (HIoD) as well as academic institutions
- Financially self-sustaining organisation with income from memberships, consultation, training, in addition to grants and sponsorship

Hawkamah – The Institute for Corporate Governance

- Strengthen institutional and capacity building by setting up a regional Institute of Directors.
- Source of Corporate Governance technical assistance, monitoring, analysis, research, consultation and reform.
- Develop home-grown Corporate Governance frameworks working with national task forces
- Foster communication and policy dialogue on Corporate Governance
- Natural bridge and intermediary for institutions promoting Corporate Governance in the region

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 – Academia: Raising Awareness, Building Capacity & conducting research on Corporate Governance**

Hawkamah Institute of Directors

Open to private and public sector companies, 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 consultancy services
- Affinity programs such as personal loans, liability insurance coverage, etc.
- Access to members only lounges and facilities

Strategic Partners

International Partners

- **Organisation for Economic Co-operation and Development (OECD)**
- **World Bank-International Finance Corporation**
- **WB Global Corporate Governance Forum**
- **Center for International Private Enterprise**
- **Institute of International Finance**
- **Financial Services Volunteer Corps**
- **INSOL (Insolvency Professionals)**
- **Information Systems Audit and Control Association (ISACA)**
- **Amsterdam Institute of Finance**

Regional Partners

- **Dubai International Financial Centre**
- **UAE Ministry of Economy**
- **Yemen Ministry of Finance**
- **Emirates Securities and Commodities Authority**
- **Oman Capital Market Authority**
- **Omani Economists Association**
- **Union of Arab Banks**
- **Abu Dhabi Chamber of Commerce and Industry**
- **Dubai Chamber of Commerce and Industry**
- **Jordanian Corporate Governance Association**
- **Egyptian Institute of Directors**
- **Egyptian Banking Institute**
- **Economic Research Forum**
- Arab Monetary Fund
- Dubai School of Government, Young Arab Leaders
- Countries participating in the MENA-OECD Investment Program
- Corporate Governance centers, universities

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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

Events

- **26 - 27 November**
  Hawkamah - Annual Corporate Governance Conference 2006
- **13 December**
  "The Role of Company Secretary" Course

Media Centre

28 November 2006
HAWKAMAH's First MENA Conference Issues Dubai Declaration on Corporate Governance
read more...

26 November 2006
Governor of the DIFC Inaugurates HAWKAMAH?s First MENA Corporate Governance Conference
read more...

22 November 2006
HAWKAMAH's First MENA Corporate Governance Conference Attracts Key

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Proposals for Action

- Raise awareness of CG issues and best practices
- Put CG on the policy agenda for SOEs in UAE
- Put IT governance on the agenda of the Boards of SOEs
- Set clear agenda for action
- Hawkamah & OECD are setting-up a SOE CG Task Force for MENA countries

Hawkamah
BUILDING INSTITUTIONS FOR THE REGION

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