



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

What Is Corporate Governance and Why Do We Need It?

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LCGTF CG Code Workshop
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Agenda

- **Basics: what is Governance?**
- Corporate Governance: issues, importance
- CG in Lebanon
- 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

1. *Data Dissemination*
2. *Monetary Policy*
3. *Fiscal Policy Transparency**

Agency

IMF

IMF

IMF

Market and Infrastructure

4. *Governance*
5. *Accounting*
6. *Auditing*
7. *Insolvency*
8. *Money Laundering/CTF***

OECD/ World Bank

IFAC

IFAD

World Bank

FATF

The 12 Core Standards for Sound Financial Systems

Financial System

- 9. *CP Bank Supervision***
- 10. CP Insurance Supervision
- 11. CP Securities Supervision
- 12. Systemically Important Payment Systems

Agency

BIS
IAIS
IOSCO

BIS

Italics: Lebanon has initiated compliance

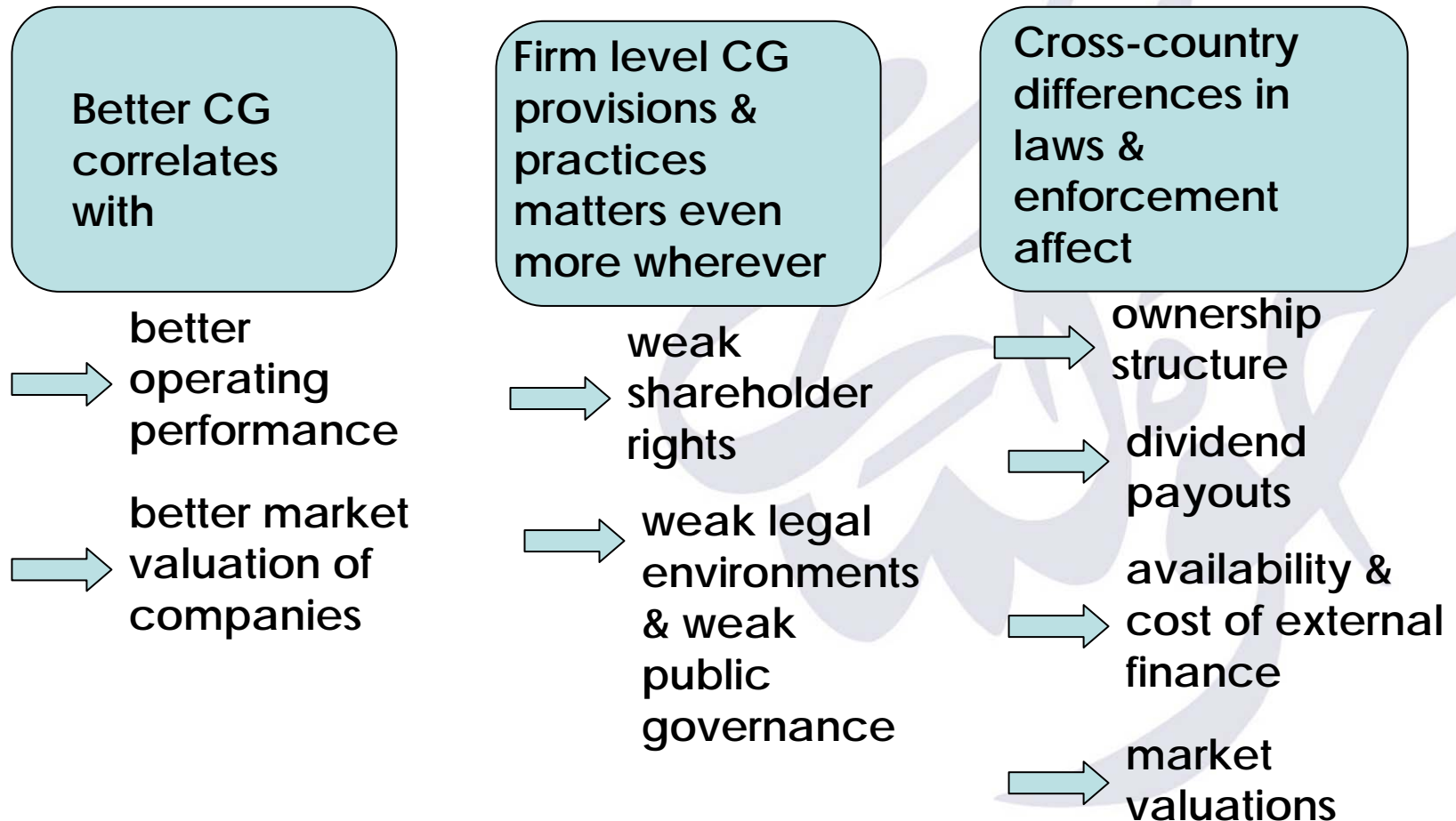
*: Some compliance

** : Broadly compliant

Why the Core Standards?

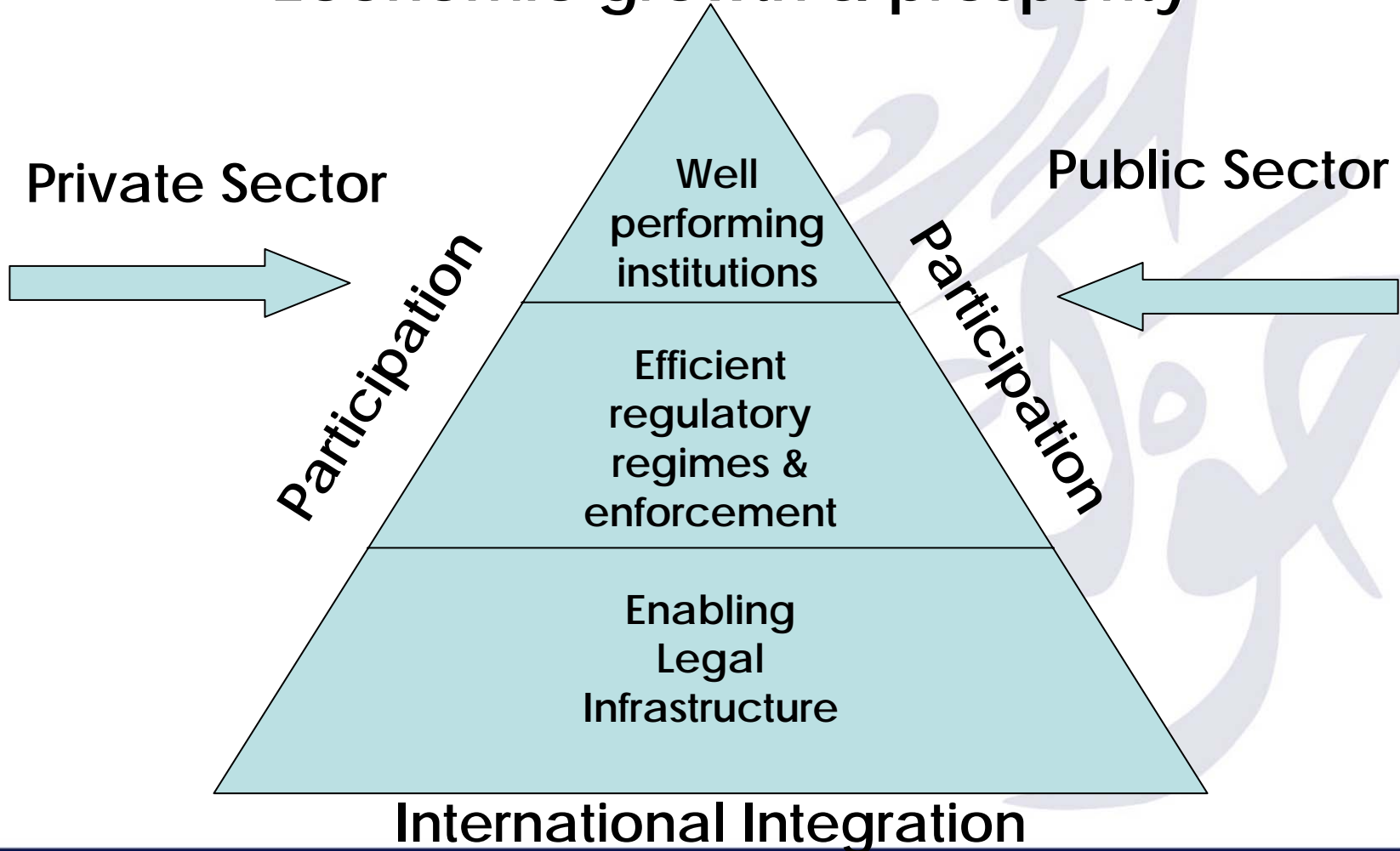
- Deficiencies in these policy areas were a source of crises, and magnified, complicated and extended economic & financial crises
- Countries complying with core standards can achieve:
 1. Transparency of economic risks
 2. Economy characterized by well governed institutions and companies valued and 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.

Corporate Governance : Performance in Emerging Markets



CG integral element of sustainable economic growth & development

Economic growth & prosperity



“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

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.

What is Corporate Governance?

- ***CG applicable to***
 - ***Listed companies***
 - ***Banks***
 - ***Non-bank Financial institutions: e.g. insurance, asset management***
 - ***Family-Owned Enterprises, SMEs***
 - ***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**

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

BIS: Sound CG Principles for Banking Organizations I

Principle 1 Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank.

Principle 2 The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation.

Principle 3 The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation.

Principle 4 The board should ensure that there is appropriate oversight by senior management consistent with board policy.

BIS: Sound CG Principles for Banking Organizations II

Principle 5 The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors, and internal control functions.

Principle 6 The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.

Principle 7 The bank should be governed in a transparent manner.

Principle 8 The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures, that impede transparency (i.e. "know-your-structure").

Challenges for SMEs/Family Business Owners

Challenge

Access Capital

Diversify wealth

Manage succession

Issues

- Finance growth
- Balance debt/equity

- Manage risk
- Provide liquidity
- Diversify activity

- 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

Issues Facing FOfEs

- Succession: who will succeed?
- Separation of ownership and management: trade-off
- Separation: allows specialization in mobilizing capital (shareholders / creditors) and efficient resource use (management)
- Large v/s minority shareholders and dealing with ownership dilution over successive generations

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)

CG in Lebanon: nascent

Benchmarks:

- RDCL/LTA: Ethics Code, April 2004; voluntary
- BDL Bank CG Circular No.106, 26/7/2006: mandatory; based on BIS bank CG guidelines
- LCGTF SME CG Code November 2006: voluntary; based on OECD CG Code

Surveys: (a) CEO Survey June 2004; (b) Bank CG Survey,

Lebanon CG Priorities

- 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 IFRS
- Build on Bank CG Guidelines to ‘cascade’ to non-bank corporate sector

Lebanon CG Priorities

- Lebanon CG TF to develop set of Core Principles for Good Corporate Governance for:
 - 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

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**

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
- Countries participating in the MENA-OECD Investment Program
- UAE Ministry of Economy
- Yemen Ministry of Finance
- Central Bank of Jordan
- 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
- **LCGTF**
- Dubai School of Government, Young Arab Leaders
- Corporate Governance centers, universities

Hawkamah Institute of Directors

- **Mission is to develop and train effective, knowledgeable and competent directors for MENA region**
- **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 advisory services



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

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

Thank you and bravo!

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