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Global Contributor to Doing Business 2008: Hawkamah

Hawkamah gathered feedback from 17 Middle East and North African countries in support of the recently issued *Doing Business 2008*, a global benchmark survey. *Doing Business 2008* is the fifth in a series of annual reports investigating the regulations that enhance business activity and those that constrain it. *Doing Business* presents quantitative indicators on business regulations and the protection of property rights that can be compared across 178 economies and over time.

Endorsing the initiative, Dr. Nasser Saidi, Hawkamah Executive Director said, "*Doing Business* surveys have become a reference point for reformers around the world as a way to support private sector development. Hawkamah is delighted to have taken part in this initiative with the World Bank because it provided us with hard data supporting corporate governance reform, particularly on the strength of investor protection as well as insolvency regimes in the region."

On the area of investor protection, looking at transparency of transactions, liability for self-dealing, and shareholders' ability to sue officers and

directors for misconduct, Kuwait leads the region in the strength of its investor protection with an investor protection index of 6.3, and Djibouti as having the least investor protection with an index of 2.3.

Another area that Hawkamah is working on is the area of Insolvency. The *Doing Business 2008* survey looked at the time it takes to go through the insolvency process, the cost to go through the process and the recovery rate and how much of the insolvency estate is recovered by stakeholders taking into account the time, cost depreciation of assets and the outcome of the insolvency proceeding.

It takes 1.3 years to go through insolvency in Tunisia and 5.1 years, by contrast, in the UAE. The cost of insolvency is about 1% of the estate in Kuwait, and about 30% of the estate in the UAE. The recovery rate for an insolvency proceeding in Tunisia is 51.5 cents on the dollar, and 10.1 cents on the dollar in the UAE.

Hawkamah, with the World Bank, Organisation for Economic Cooperation and Development and INSOL, the insolvency professionals, have launched a regional task force to address improving insolvency and creditor rights systems in the region. ➤

Economic Journalist Program Launched

Hawkamah and Zawya Dow Jones, the Middle East's leading newswire service covering the Middle East's financial markets, delivered corporate governance programs this year for economic journalists in Dubai and Amman on September 8-9 and 10-11 respectively. The training program brought together over 30 participants from both cities representing 12 news agencies.

The program featured Randolph Walerius, Dow Jones Newswires' editor for enterprise reporting in Europe, the Middle East and Africa. Mr Walerius specializes in training and has extensive experience of reporting in the region.

There is consensus that the region lacks a well-trained pool of financial journalists. As a result, Hawkamah and Zawya Dow

Jones is taking concrete steps to develop local journalists' ability to report effectively on finance, business economics, and corporate governance matters.



This training program will allow the media to play a greater role in strengthening corporate coverage, by training business journalists to fine-tune their skills in reporting on boardroom decisions and financial results of Arab companies.

Hawkamah and Zawya Dow Jones will be conducting more of these kinds of training programs to foster more corporate governance related reporting in the region. ➤



Member Contributions

Hawkamah welcomes the contributions of members to highlight corporate governance trends and practices in the region. This section reflects the opinion of the author and does not necessarily reflect Hawkamah's views.

Corporate governance reporting for Arab economic journalists

- By Randolph Walerius, Training Editor, Dow Jones Newswires, London

As entrepreneurs and capital increasingly move across borders to find one another, the need also increases for greater accountability and transparency in the companies that use the capital. To reduce their risk, investors are going to demand better corporate governance structures and practices among companies or are going to exact a premium to cover the risk inherent in investing in them.

Boards of directors, shareholders, managers and stakeholders of all kinds will carry the ultimate responsibility for most governance behaviour. But journalists, who still deliver most investors news about companies, will be part and parcel of the process. Most people take it for granted that capital markets are biggest where corporate governance is best. Less noticed, but just as important is that capital markets are also deepest in those countries where news flows easily between the company and the investor.

Good corporate governance encompasses many things: independent directors and committees having access to key information, managers hired on their merits, fair treatment of minority stockholders, succession planning, adequate risk assessment, and the right incentive plan. Only Boards, shareholders and regulators can compel the right outcomes in those areas. But journalists are crucial to the one thing that makes all of the above more likely: transparency.

Journalists can and should be aggressive about gathering material on bad and good corporate governance. In most countries, the companies themselves will accept this obligation and be willing to reveal their governance practices. But even when companies aren't willing to reveal those things that are taken for granted in Europe, United States and parts of Asia, journalists can and should, within the limits of the law, be aggressive about revealing those details.

Everybody is best served when companies themselves see the benefits of adopting best practice. Even in the internet age, when companies can easily talk directly to shareholders, journalists look likely to be the main relayers of that information to readers, listeners and viewers. Not just to investors, but to everyone else who has an interest in a profitable business sector.

The Arab world, however, has many companies that fall short on the basics. The shortcomings are, of course, found all too often even in developed markets, but they are more prevalent in the Arab world. That's an opportunity for a good and aggressive business press.

In big and growing companies, especially in ones that are increasingly drawing their professional expertise from western educational institutions and their capital from around the world, there is no shortage of potential sources to allow journalists to chip away at the resistance. Where governance is poor, there will almost certainly be stakeholders – shareholders, trade and financial creditors, employees, customers, and regulators – unhappy with the behaviour, and willing to bring about change.

Journalists have to be ready, by knowing what best practice generally is and by finding ways to tell stories that let the audience know who is achieving best practice and who is falling short. If the companies don't invite journalists through the front door by providing direct answers, the journalists must find other doors with the answers.

Many of the big corporate scandals in the United States and Europe in the last decade were uncovered not because the companies disclosed them, but because journalists, often tipped off by people who cared, did enough digging to bring some transparency to the company's behaviour. The obstacles may be higher in the Arab world, but the challenge is no different. ↗

Internal Auditors & CG

Hawkamah and the Institute of Internal Auditors (IIA), UAE Chapter jointly conducted a breakfast seminar on "Current Corporate Governance Practices and the Role of Internal Audit" in September 2007.

Dr. Nasser Saidi, Hawkamah Executive Director, addressed over 30 internal auditors for the seminar and highlighted the key role that internal auditors play in advancing governance in the companies in which they work. He also added that the role of internal auditors as change agents in companies is influenced by the maturity level of the organization's governance processes and structure, and the organizational role and qualifications of internal auditors.

Some of the roles that internal auditors play in advancing corporate governance include:

- Providing independent, objective assessments on the appropriateness of the organization's governance structure and the operating effectiveness of specific governance activities;
- Acting as catalysts for change, advising or advocating improvements to enhance the organization's governance structure and practices;
- Evaluating whether company-wide governance components work together as expected;
- Analyzing level of reporting transparency among parts of governance structure;
- Comparing governance best practices;
- Identifying compliance with recognized and
- Applicable governance codes.

Hawkamah and IIA's partnership calls for joint activities, public events, and research on corporate governance. This event was a first step towards fostering the Hawkamah-IIA partnership. ↗

Hawkamah Taps the Compliance Officers Network Group

An informal network of Compliance Officers of companies operating in the Dubai International Financial Center invited Hawkamah to present on corporate governance trends in the region in September 2007. The Dubai Mercantile Exchange hosted the event.

Highlighting that their mere presence at the DIFC shows their commitment to international corporate governance standards, Dr. Saidi urged the Officers to endorse and take part in Hawkamah's regional work of advancing corporate governance by being members and actively contributing to Hawkamah's regional task forces. ↗

Did You Know?

As part of Hawkamah's ongoing efforts to collect information and data to assist in building the business case for corporate governance using latest research produced by various institutions, Hawkamah is introducing this part as a regular feature of its newsletter for your reference.

■ Did You Know... what steps family companies take when they get serious about corporate governance?

- Establish a "family constitution"
- Establish a family employment policy – and separate family members' rights and responsibilities as shareholders and as employees
- If the firm will not pay dividends, set up a fund or other mechanism to buy out family shareholders who prefer, for example, annuity income over owning a growth stock
- Create a succession plan for owner / founder / CEO / chairman
- Develop transparent systems for financial accounting, management accounting, human resources and strategy development
- Create a board which can seriously add value to the business itself

■ Did You Know... that under Lebanon's new corporate governance Code, companies are encouraged to keep shareholders informed of their rights?

The Code, which was released in 2006, states that when an investor buys stock in a company, that company should automatically send him or her a "List of Shareholders' Rights". This list, according to the Code, should spell out voting and other powers shareholders have under the law. The Code also states that shareholders should be updated whenever the list is revised, and that the list should be made available to any shareholder upon request.

Of course, compliance with the Code is only voluntary for Lebanese companies. However, as companies in the Middle East continue to look ways to draw outside investors to the region, look for this and other good corporate governance practices to take hold there.

[Source: IFC] ↗



Code of Ethics for Hawkamah Institute of Directors

The Hawkamah Institute of Directors (HIOD), established in the DIFC by the Hawkamah Institute of Corporate Governance, and shortly to begin accepting members, is a professional membership Institute for directors, aspiring directors and professionals in the field of governance of enterprises from around the region.

HIOD will provide members with targeted learning and training opportunities, a forum for networking, sharing and contributing ideas for the benefit of the profession, relevant news, information and research, and support services to its members.

From the outset HIOD will adopt best international practices and standards for its members and has set out the following **Ethical Principles**. Members will be asked to agree, at all times for so long as they remain members of Institute:

- To practice responsible stewardship as directors acting in the interests of the company, and accountable to its owners.
- To exercise due care and diligence in carrying out duties and responsibilities;
- To act within competence, and with leadership, enterprise and judgment;
- To apply high standards of ethics and personal moral values;
- To be trustworthy and conduct themselves professionally with integrity, fairness and justice;
- To keep abreast of current good practice;
- Not to bring the profession or the Institute into disrepute;
- To make only proper use of information and respect confidentiality;
- To manage conflicts transparently, disclose all interests that may infer bias, and seek independent advice where needed;
- To respect the truth, be honest and never knowingly misrepresent;
- To comply with all relevant law and honour obligations;
- To act with social responsibility, contribute to the well-being of society and avoid harm to others; and
- That fair competition is fundamental to the free enterprise system and to support laws regulating restraints of trade, unfair practices, abuse or the unscrupulous use of economic power and avoidance of collusion. ↗

A Dynamic and Changing Environment: Corporate Governance in MENA

- **Dr Nasser Saidi, Executive Director, Hawkamah Institute for Corporate Governance & Chief Economist, Dubai International Financial Centre**

Strong economic growth and abundant liquidity have fuelled a spectacular resurgence of the asset and capital markets in the Middle East and North Africa (MENA) countries.

Stock markets grew more rapidly than economies : market capitalisation jumped from an average of some 65% of GDP in the MENA countries to over 100% of GDP between 2002 and 2006, with the GCC (Gulf Co-operation Council) markets out-performing emerging and developed markets. However, the leading stock markets in the region soon began experiencing important corrections and investor confidence was shaken by the uncertainty and volatility that has characterised the region's equity markets.

Corporate governance has become an increasingly important factor when assessing the investment climate in the region as a result of the turbulence that has characterised the region's equity markets.

Policy and regulatory reforms in the MENA countries have been led by international convergence and adoption of prudent regulatory Codes and standards, such as the Anti Money Laundering (AML) and Counter Terrorism Financing (CTF) regulations, and Basel banking supervision core principles.

The region as a whole has been advancing in developing corporate governance frameworks. The first Code of corporate governance was launched in Oman as early as 2002. Egypt has published two corporate governance Codes, one for listed companies and one for State Owned Enterprises. Bahrain, Morocco, Qatar, and Tunisia are in the process of preparing a corporate governance Code.

Lebanese Corporate Governance Task Force has spearheaded the development of a Code of corporate

governance for non-listed companies and is working with Lebanese companies for voluntary compliance. In the UAE, the Central Bank has drafted corporate governance guidelines for banks, and the UAE Securities and Commodities Authority has issued a corporate governance Code, setting a national governance standard, for both the Dubai Financial Markets and the Abu Dhabi Securities Market.

Family-owned enterprises (FOEs) constitute more than 85% of non-listed companies in the region and these companies have weak corporate governance practices and are reluctant to change the 'old' ways of doing business. Nevertheless, if equity markets are to deepen in the region, it is important for authorities to introduce incentives and corporate governance reforms aimed at FOES.

Bank financing continues to be the largest source of external funding for many MENA businesses. Up to now, banks in the region have played a limited role in scrutinising governance practices of borrowers. Banks are important stakeholders in MENA companies and can play a significant role in improving corporate governance practices in borrowing firms by requiring firms to provide governance related information.

The recent Dubai Declaration says that self-regulatory measures and corporate governance Codes should be developed as a complementary mechanism for improving enforcement in the region.

Better corporate and public governance improves the investment environment and creates better institutions, which enables diversification of economic activity and sustainable economic growth.

The article was published in the [International Corporate Governance Network 2007 Yearbook](#).



Forthcoming Events

Oct 22 – 23

Director Development Workshop (Part I) Hawkamah – Dubai, UAE

Oct 24 – 25

Director Development Workshop (Part II) Hawkamah – Dubai, UAE

Nov 6

OECD-MENA Working Group 5 Bank Corporate Governance Task Force Meeting – Doha, Qatar

Nov 7

UAB-Hawkamah Bank Corporate Governance Award – Doha, Qatar

Nov 21

2nd Annual Hawkamah Conference DIFCweek/ Hawkamah – Dubai, UAE

Nov 22

OECD-MENA Working Group 5 Meeting – Dubai, UAE

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