



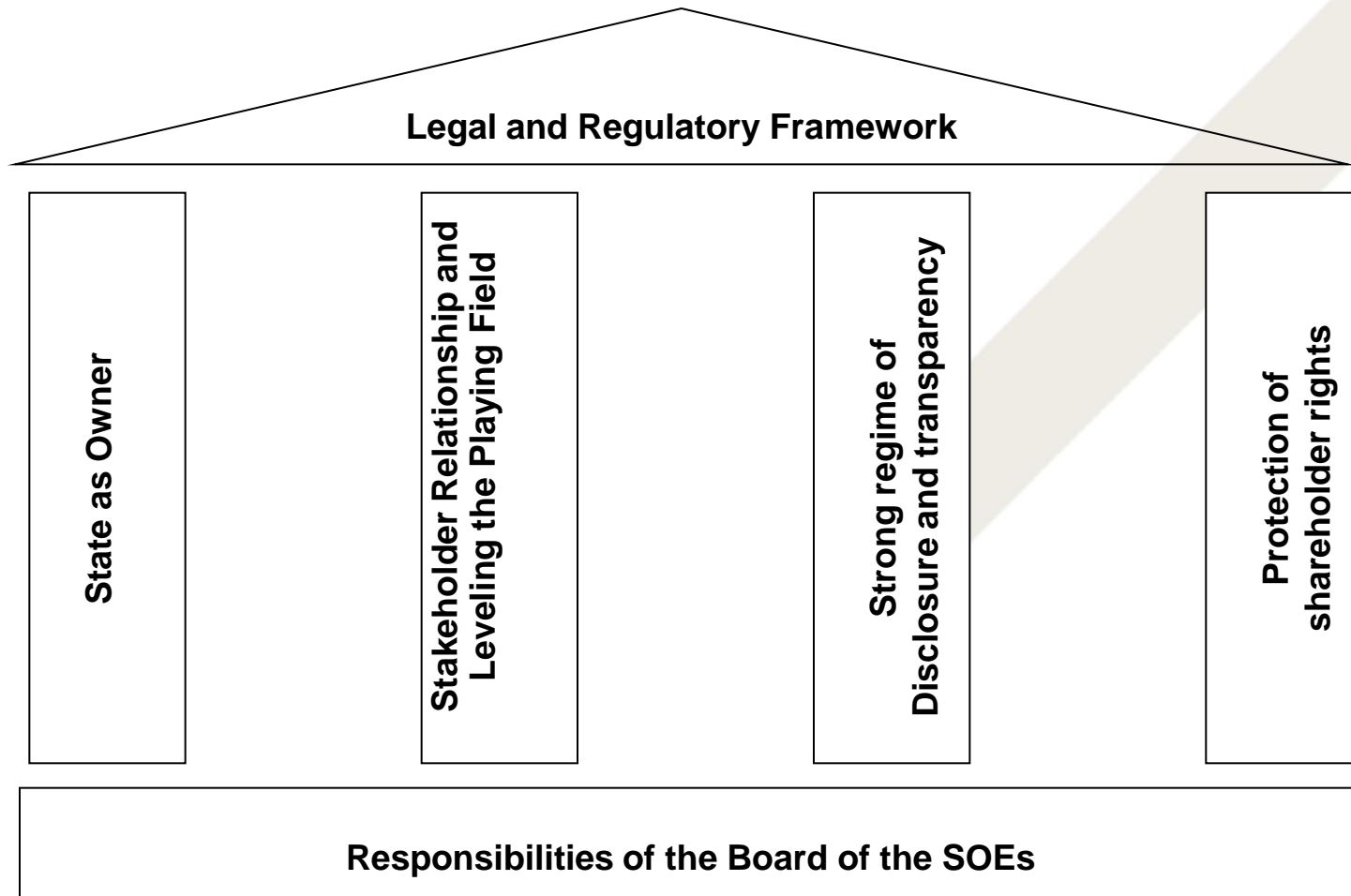
HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

Stock Taking Report on Corporate Governance Practices of MENA SOEs

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The Framework for the OECD Guidelines on Corporate Governance of State Owned Enterprises



Hawkamah-OECD Task Force on Corporate Governance of SOEs

- Recognising the importance of Corporate Governance for SOEs , Hawkamah jointly with the OECD established a Task Force on Corporate Governance of State Owned Enterprises.
- Objectives
 - to take stock of the existing Corporate Governance Framework of State Owned Enterprises in participating MENA Countries
 - to develop a MENA Policy Brief on Corporate Governance of SOEs
 - to identify priorities and propose concrete recommendations.

The Survey Questionnaire

- A questionnaire was developed based on the International Codes and Best Practices on Corporate Governance of Public Sector Enterprises
- The survey questionnaire was sent to 13 MENA Countries (ministries and regulatory agencies from Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Pakistan, Qatar, UAE, Yemen Saudi Arabia)
- Received a response from 7 countries Bahrain, Egypt, Iraq, Oman, Lebanon, UAE, and Pakistan
- Draft Policy brief ready which contains specific Policy recommendations for reform in the SOE Governance area.

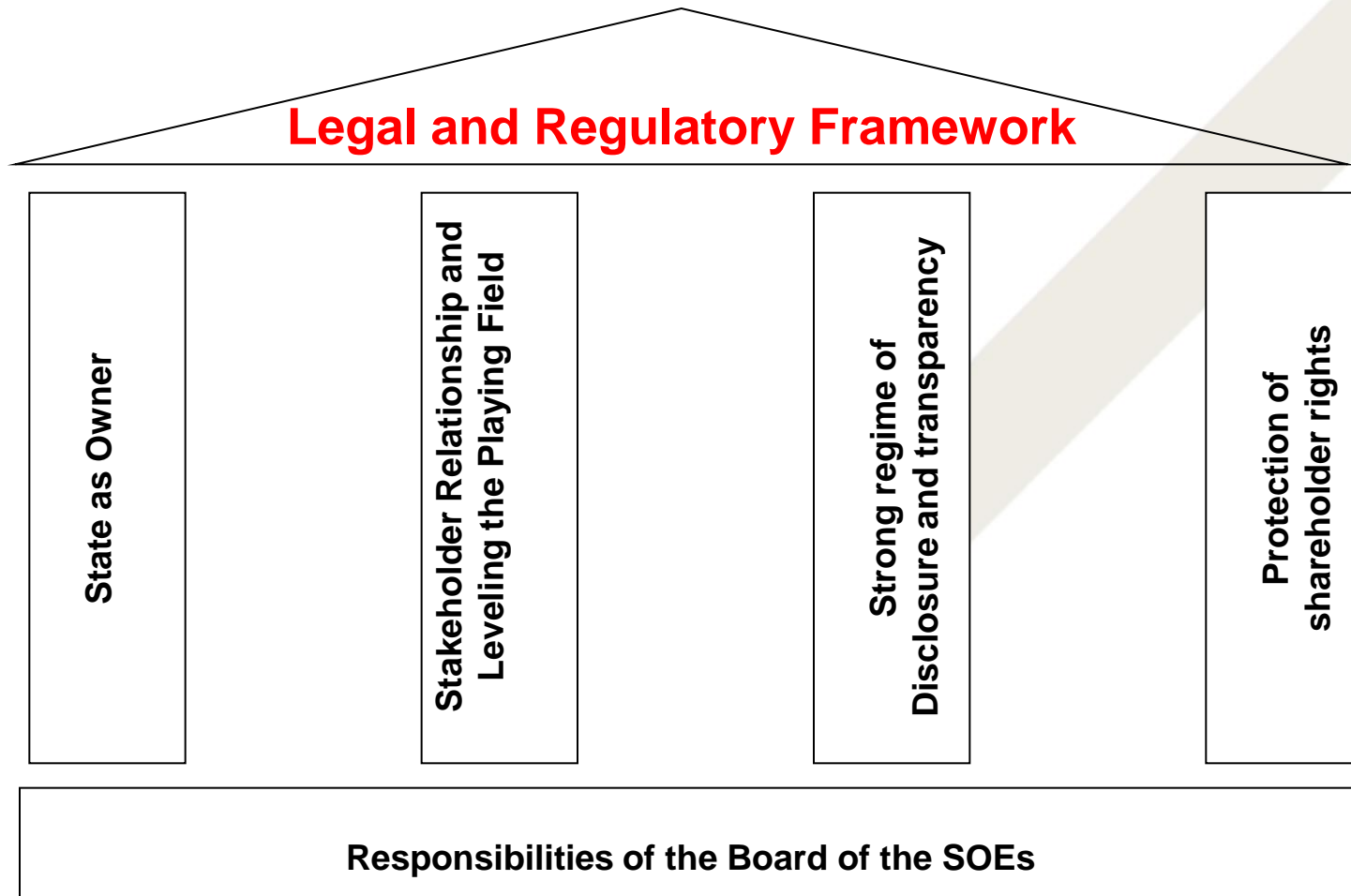
What are these State-Owned Enterprises?

- Public corporations established by special legislation or decrees where government owns and/or controls at least 50% of share capital
 - 95 SOEs in Saudi Arabia
 - 71 SOEs in Oman
 - 47 SOEs in Jordan
 - 30 SOEs in Bahrain (Mumtalakat)
 - 26 SOEs in UAE
 - 20 in Lebanon
 - Approximately 100-300 SOEs in Egypt
 - Close to 180 SOEs in Iraq
 - 244 non-financial SOEs in Pakistan
 - 59 SOEs in Kuwait (and more entities where government holds less than 50% equity)
- In many countries, SOEs are the 'employer of last resort' (public sector employment accounts to 32% of total employment in the region)
- Prominent in energy, infrastructure and network industries, such as air travel; electricity, gas and water supply; oil and telecommunications; heavy and light manufacturing sector. Also significant players in the banking and network industries and in other services sector like hospitality.

Sovereign Wealth Fund and Sovereign Investment Funds

Country	Fund Name	Assets Billion \$	Inception	Type of Entity
UAE – Abu Dhabi	Abu Dhabi Investment Authority	\$875	1976	SIC
Saudi Arabia	SAMA Foreign Holdings	\$433	n.a.	
Kuwait	Kuwait Investment Authority	\$264.4	1953	SIC
UAE - Dubai	Investment Corporation of Dubai	\$82	2006	
Qatar	Qatar Investment Authority	\$60	2003	
Libya	Libyan Investment Authority	\$50	2006	
Algeria	Revenue Regulation Fund	\$47	2000	SWF
Oman	State General Reserve Fund	\$8.2	1980	
UAE – Ras al Khaimah	RAK Investment Authority	\$1.2	2005	

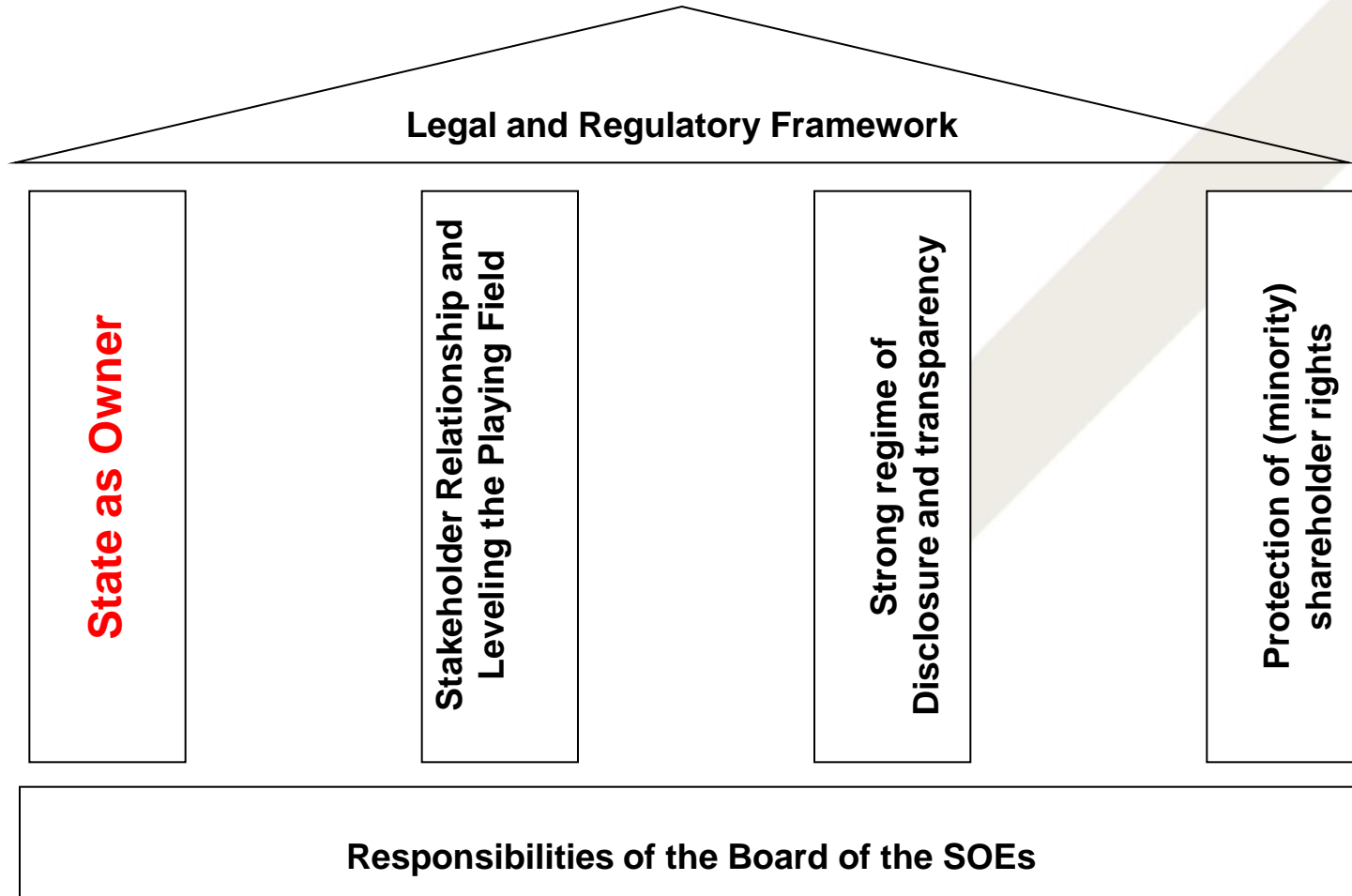
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Corporate Governance Codes in MENA Region

Country	Code	Status
Bahrain	Code for Listed Companies	Passed in 2010
Oman	Code for Listed Companies	Passed in 2002, and going through updates
Qatar	Code for Listed Companies	Passed in 2009
Egypt	Code for SOEs issued by EIoD Code for Listed companies	Passed in 2006 Passed in 2005, and going through updates
Jordan	Code for Listed Companies (Jordan Securities Commission)	Passed in 2007
Lebanon	Code for SMEs Code for Listed Companies	Passed in 2004 In Process
Morocco	Code for Listed Companies Code for SMEs	Passed in 2008 Passed in 2008
Saudi Arabia	Code passed as regulation by CMA	Passed in 2007
UAE	CG Regulation issued by SCA	Passed in 2007, implemented 2010

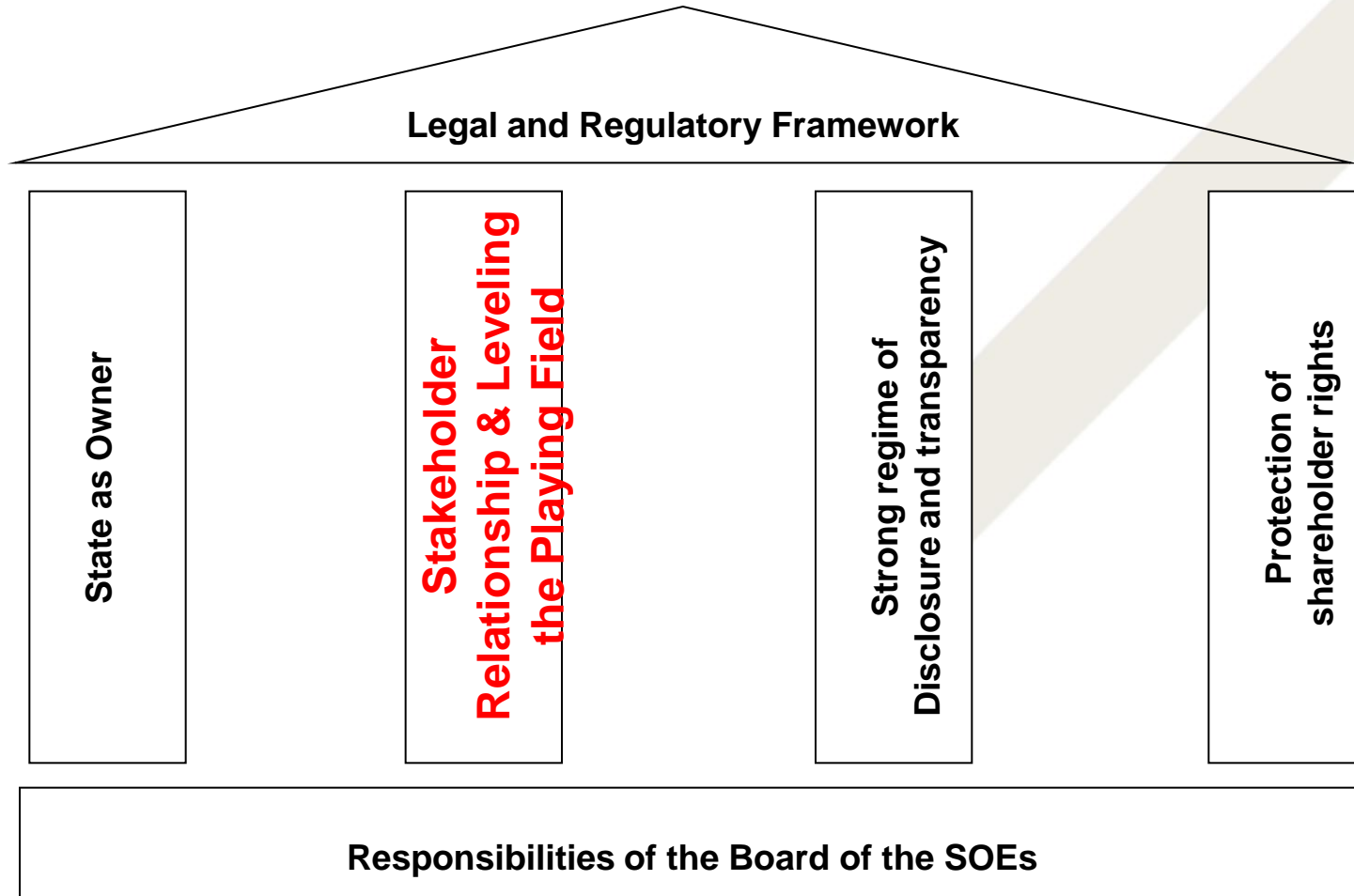
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State as Owner

- Defining ownership policy
 - Few countries have clearly defined ownership policy (Lebanon, Oman, Egypt, Iraq, Bahrain)
- Defining legal status of SOEs
 - Bahrain, Oman, KSA, UAE: (1) statutory companies and (2) state-owned companies established under relevant companies legislation
 - Jordan, Kuwait, Lebanon: (1) government limited companies established as joint stock companies; (2) statutory public corporation established by act of legislatures; and (3) departmental organisations subject to direct control of administrative entities
- Centralization of ownership function
 - Holding companies (Abu Dhabi, Bahrain, Egypt)
 - One ministry (Iraq, Egypt)
 - Single ownership entity (Jordan)
 - Dual system of sector ministries share ownership responsibilities with MoF (Kuwait, Lebanon, Oman, Pakistan, KSA, UAE, Yemen)

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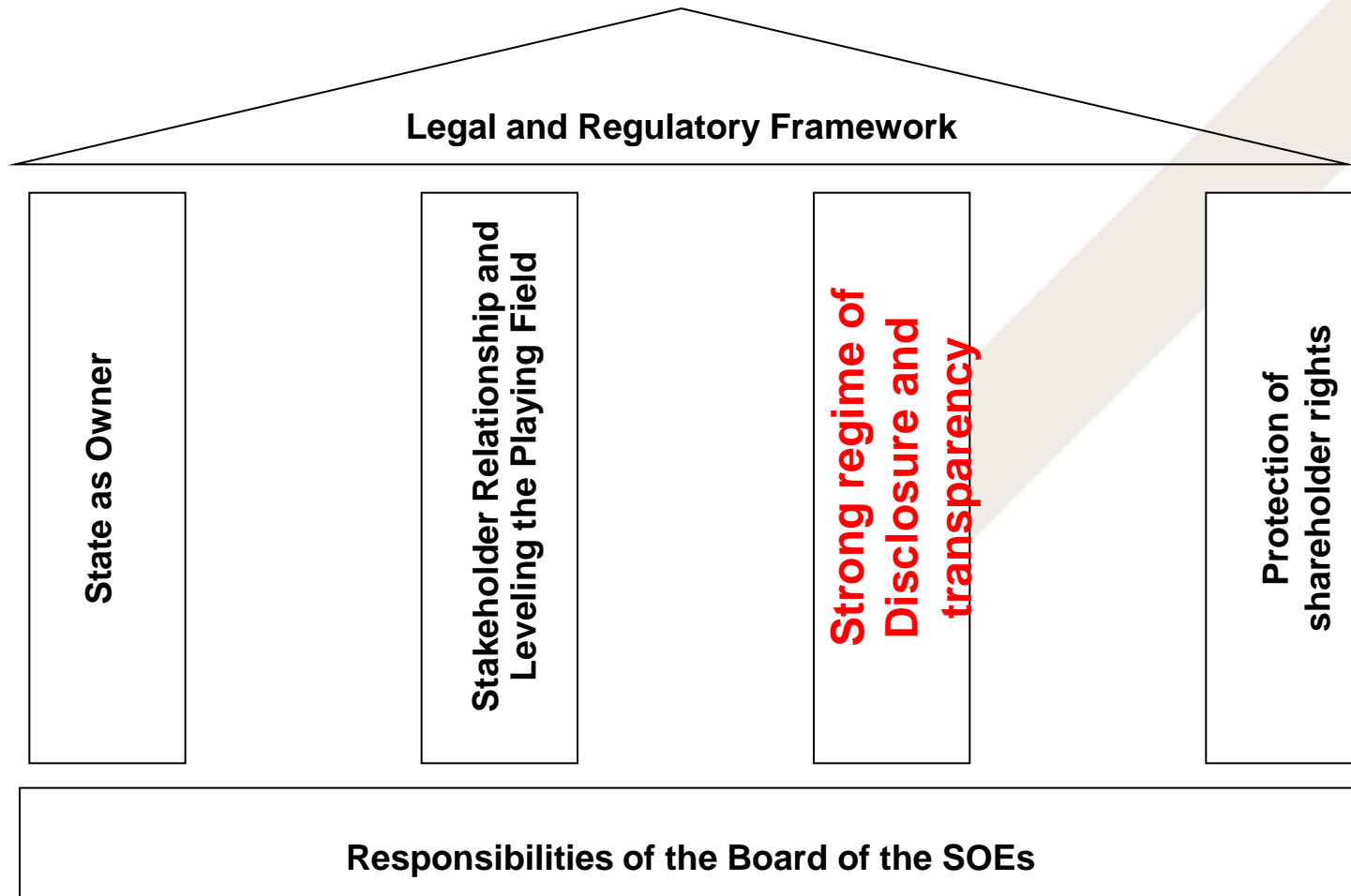
Stakeholder Relationship and Leveling the Playing Field

- Accountability to representative bodies, including state supreme audit institutions
 - Holding companies in Egypt communicate performance to General Assembly and media channel, coordinated with Ministry of Investment
 - In Iraq, Ministry of Investment and Minerals report to Parliament
 - Mumtalakat (Bahrain) is liable to parliament and the National Audit Court
 - Parliamentary control in Jordan is equivalent to Ministerial control, and Minister has to answer to Parliament
 - SOE reports to Shura Council or advisory or consultative council that reports to the King or the Council of Ministers (GCC countries)
- Respect of stakeholders' rights
 - Bahrain - in process of drawing up policies towards employees, investee companies, community
 - Lebanon – no responsibilities towards stakeholders
 - Oman – SOEs have specific responsibilities towards stakeholders and sectoral ministries report activities of SOEs undertaken for benefit of stakeholders

Objectives Document, Content and Stakeholders Involved

Country	Name of Document	Content	Institutions Involved
Egypt	Annual business plans	Portfolio management objectives at the Holding Company level and business-related objectives at the Associated companies level	Specific objectives are set forth by the BoD and approved by AGMs
Morocco	Program Contracts	Economic Projections, financial, economic and investment plans	Ministry of Economy and Finance
Pakistan	Objectives Statement, Statement of Core Values, Aims and Objectives included in the Memorandum of Association and Articles of Association of PSEs		Sectoral Ministries, Law Ministry, Finance Ministry, Economic Coordination Committee (ECC) of the Cabinet)

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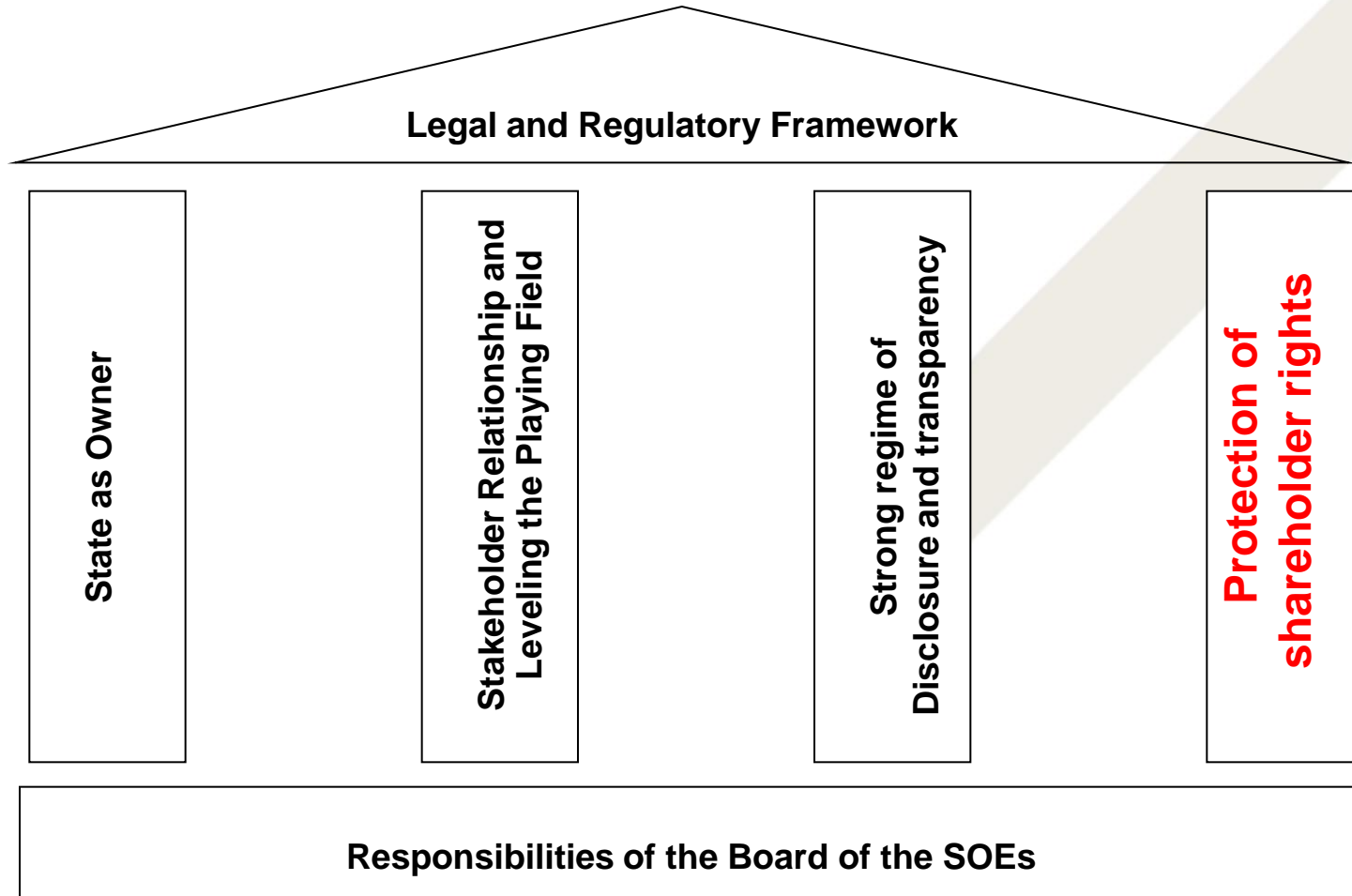
Disclosure and Transparency

- Degrees of implementation of ISA and IFRS are discretionary, and significant gaps exist between accounting and auditing practices and ISA and IFRS
 - In KSA, public enterprises may set their own accounting standards
 - In Bahrain, accounts are published in accordance with IFRS
- Internal audit function is often necessary
 - Bahrain, Oman, KSA: mandatory for SOEs to have an internal audit department and audit committee
 - Egypt, Iraq, Kuwait, UAE: each public enterprise has an internal audit department
 - No specific requirement for public enterprises in Jordan and Lebanon
- External Audit
 - Bahrain: BoD recommends external auditors
 - Iraq and Lebanon: No requirements for SOEs accounts to be audited
 - Jordan: public enterprises can choose their external auditor
 - Kuwait: Commercial companies law oblige appointment of licensed auditor
 - UAE: no restrictions on employment of commercial auditors

Transparency and Accountability

- State Audit Institution (SAIs)
 - In Bahrain, audit by SAI is mandatory when state owns more than 50% state in company
 - Egypt: Central Auditing Apparatus audits civil service agencies, companies and banks where there is public money
 - Audit Bureau in Jordan conducts performance audit, and discloses deficiencies and suggests methods that contribute to managing resources
 - Kuwait's SAI no longer confined to a mere accountancy audit or regularity and compliance audit, and now extends to evaluation of overall performance of SOEs
 - Oman's SAI conducts annual audit of companies where government owns at least a 50% share
 - General Auditing Bureau of KSA conducts comprehensive financial, social and performance audits of all public enterprises
 - UAE's SAI has been set up as an independent authority attached to the FNC, and audits federal public corporations where government holds at least 25% of shares
 - Yemen: Central Organization of Control and Auditing audits and checks the soundness of financial activities within the Governments

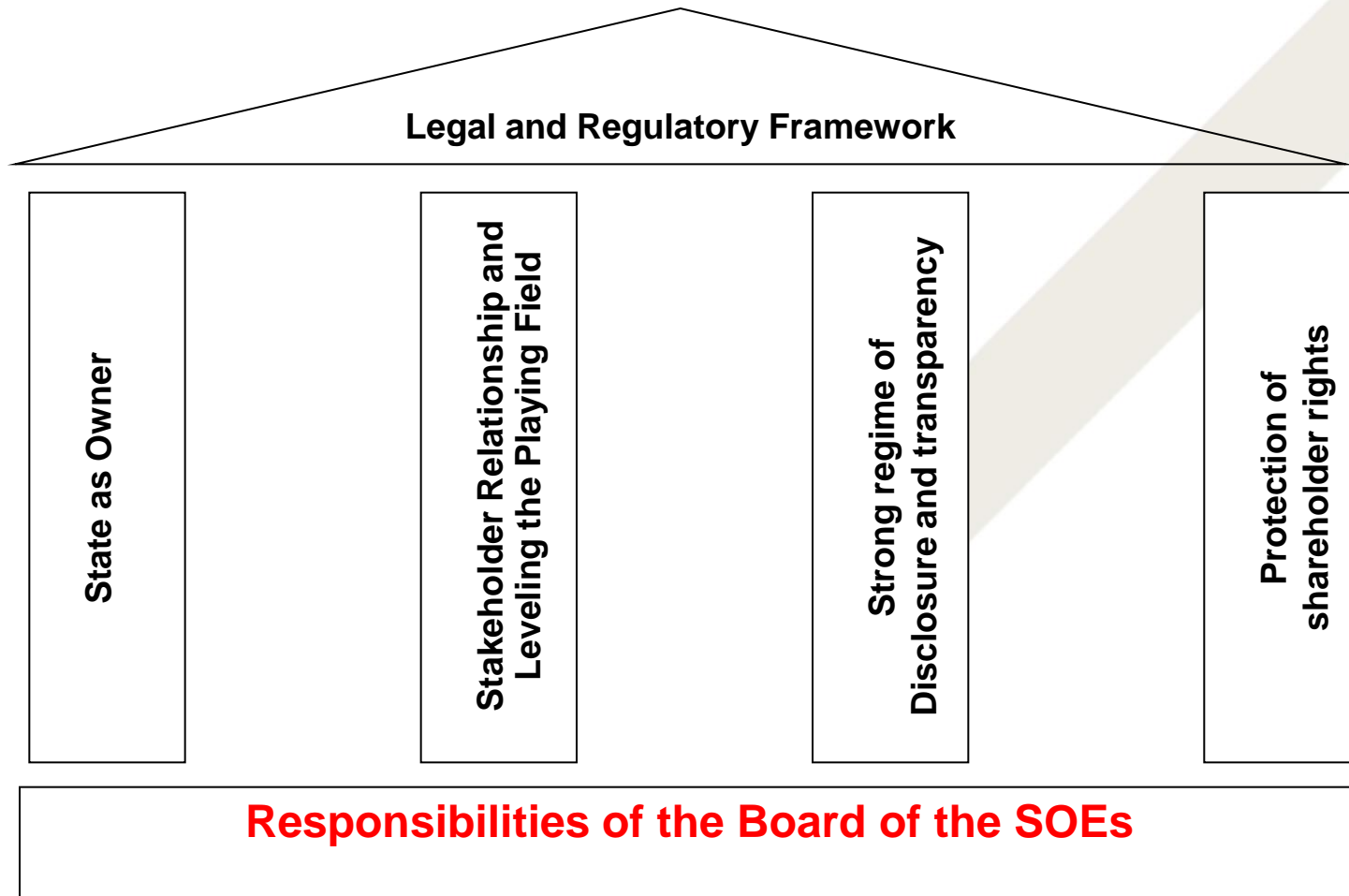
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Shareholder Rights

- Treatment of non-controlling shareholders
 - Mumtalakat (Bahrain) policy aims to safeguards the interests of non-controlling shareholders
 - Oman: shareholder agreement considers interests of minority shareholders
- Effective participation in shareholders' meetings
 - Generally, shareholder meetings are routine and do not signal activism, except occasionally by employees
- Related party transactions (RPT)
 - Bahrain: individual SOEs are required to report on RPTs
 - Lebanon: any transaction with related entities need to go through Council of Development and Reconstruction

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Boards of SOES

- Nomination and composition of SOE boards
 - Most of the SOE board positions are by government officials and/or Royal Family members
 - Egypt's Public Enterprise Law 203 for 1991 tries to separate ownership from management
 - In Jordan: Boards generally consist of a full-time chairman/MD, or only a full-time managing or functional director, part time government representatives and part time members representing outside interests. Boards typically headed by PM or a minister or any high ranking official
 - Lebanon: state is represented in shareholders meeting through Chairman
 - Nomination process in most MENA countries involve the finance ministry and line ministries, and only a few countries (Bahrain) have SOE boards effectively involved in board nomination process.

Boards

➤ Competence and Experience

- Hawkamah-IFC report (2008) 62% believe that being a high-profile public officer remains the primary criteria for nominating a director to the Board of an SOE; Competency and skills are secondary requirement (52%)
- Egypt: Board members elected tend to be union leaders
- Iraq: outside directors tend to be specialists with university backgrounds
- Jordan: Board appointments takes into account special requirements of office, with experience and qualification
- Lebanon: more than any specific business criteria, political consideration plays heavily as per the quota system
- Oman: no formal criteria, but usual practice is to nominate people with background in industry

Boards

- Evaluating and remunerating SOE boards
 - Egypt, board evaluation is performance based and in accordance with annual performance appraisal by General Assembly
 - Mumtalakat (Bahrain) has finalized a board evaluation system introduced in June 2008
 - No regular formal evaluation of SOE boards in Lebanon, and their remunerations are based only on their attendance in board meetings and are lower than the private sector's
 - Oman: board decides on its remuneration and government approval is informally sought
 - KSA: public corporations are usually managed by an individual or a company especially commissioned for the purpose and paid a fixed fee or specific percentage of the undertaking's profits or revenues

Monitoring management and appointing CEOs

- Appointment of CEOs of large SOEs remains a prerogative of governments in most MENA countries, and is often a politicized process. Few SOEs have the authority to choose the CEOs on the basis of professional criteria.
 - Bahrain: no specific policy regarding CEO selection and appointed. Chairman typically has the final say, and appointment needs to be endorsed by the Crown Prince.
 - Lebanon: top management is monitored by Civil Service Authority, although not all SOEs fall under the jurisdiction of the Civil Service Authority. Annual report must be submitted to CSA
 - Oman: board appoints CEOs through search committees which make recommendations to the board. Main elements of CEO's remuneration are fixed monthly salary and laid down in service contract and performance bonus in certain SOEs

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