Report for the World Economic Forum's
MENA Regional Business Council

Corporate Governance for Competitiveness in the Middle East and North Africa

Developed by
Crescent Enterprises
in collaboration with **Alissa Amico**

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Table of Contents

Foreword by Badr Jafar

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Trust underpins all economic activity, and economies flourish and fail to the extent that they establish or undermine institutions to support and promote it. The corporation is one of the most powerful of these institutions, and its ability to generate trust is central to its commitment to, and influence over, all of the stakeholders it interacts with.[1] Ultimately, earning and generating trust is what good corporate governance should seek to achieve. Recent events involving fraud, waste, nepotism, abuse of power, conflict of interest, and corruption have shone a light into the darkest corners of our corporate landscape. They have brought corporate governance, previously considered by some to be an arcane and technical topic, to the fore as a business imperative. It has become increasingly clear that corporate governance is not about policing or uncovering scandals; it is about creating long-term value, and building the environment of trust, transparency and accountability that is necessary for fostering investment, financial stability and business integrity. As a result, better corporate governance practices support stronger and more sustainable economic growth and help build more inclusive societies.

In practice, corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders and provides the core foundation and structure through which corporate objectives are defined, monitored and achieved. Even though certain pillars on which corporate governance rests are contained in laws and regulations, true corporate governance is about far more than just compliance and the adoption of generic standards. Rather, good corporate governance practices need to be fully integrated into the culture, strategy and operations of an organisation. When this occurs, corporate governance fundamentally improves the quality of decisions being made, enhances the substance and structures of internal controls, boosts competitiveness, encourages investment, and builds reputation and trust among stakeholders.

1.IFC Corporate Governance Knowledge Publication (2013) - Firms Behaving Nicely: Incentives and Commitment, by Michael Klein.

Corporate governance is crucial for the sustainability of privately-held, listed and state-owned companies across the Middle East and North Africa (MENA) region (the "Region"). It is critical for family businesses, many of which are undergoing generational change, for listed companies which are seeking to attract international investment, and for state-owned businesses backed by public funds and dependent on the trust of citizens.

While significant progress has been achieved over the past decade in establishing governance frameworks for listed companies in particular, and especially in countries with large capital markets, progress in improving governance of privately-held family firms has been slower. As a result, the quality of governance practices displayed by privately-held firms in the Region varies significantly. While some have embraced a culture of better governance, others are persisting with practices that are dangerously ill-suited to the Region's increasingly complex and globally-integrated economic environment.

The recent reform of company legislation, especially in the Gulf Cooperation Council (GCC) countries, heralds an important step forward in advancing shareholder rights and promoting disclosure from privately-held firms. However, in light of a lacklustre Initial Public Offering (IPO) pipeline in most countries of the Region, it is clear that creative solutions are still required to improve the governance arrangements within privately-held firms. Importantly, these solutions must strike an appropriate balance between the flexibility required by family businesses and the need for large, systemically-important firms – regardless of their ownership structure – to abide by internationally-recognised governance standards.

The economic significance of family firms should not be underestimated. In the next 5-10 years, over 1 trillion USD of assets in the hands of family firms is expected to pass from one generation to the next (the Economist, 2015), the majority of which are transitioning from the second to the third generation. This succession is where the greatest destruction of value has occurred in the past with, on average, only 30% of family businesses surviving beyond the third generation. Stronger corporate governance policies could serve as a key preventative measure to mitigate this huge risk which has the potential to have major ramifications on employment and economic activity in the Region. Importantly, while most family firms recognise the importance of corporate governance, implementation remains an issue. That is why policy reforms are needed to create a more enabling environment for improving governance within the Region's family businesses.

The quality of governance practices of listed firms in the Region has seen a significant improvement since Oman first introduced a dedicated corporate governance code in 2002. Since then, most countries in the Region have adopted a code for listed companies based on the Organisation for Economic Cooperation and Development (OECD) Principles of Corporate Governance. Yet, a number of areas – such as the effectiveness of boards of listed companies – have come under the spotlight recently for a number of reasons, not least due to the opening of Gulf markets to foreign investment. While the governance practices of listed firms have certainly improved in a number of ways, the quality of disclosure practices continues to be a key concern for foreign investors, hampering the ability of the Region to attract the same levels of institutional investment as other emerging markets.

Despite the significant privatisation momentum that emerged in the 1980s and 1990s, state-owned enterprises (SOEs) remain some of the largest employers and service providers in the Region. A key priority for further accelerating private sector development must therefore be to create a more level playing field between private and state-owned firms. Anti-corruption in SOEs and integrity in their relationship with the private sector as well as competition regulation are other areas of priority to address going forward.

The World Economic Forum's (WEF's) MENA Regional Business Council is well-positioned to develop suggestions on how good governance can contribute to greater sustainability, productivity and integrity at the micro level while addressing macro challenges such as the need to create jobs, stimulate innovation and promote integration of the Region's enterprises in global value chains. The private sector has much to gain from the adoption of better governance practices which can help lower the cost of capital, improve the management of strategic and operational risks, lower compliance and legal risks, and in turn boost the resilience of the MENA Region's economies.

The Economic Context

A new social and economic model in the making…

Events witnessed in the Middle East and North Africa over the past five years have resulted in a profound questioning of the economic and social model in several countries of the Region. The old formula, whereby governments act as the primary providers of essential goods/services and employment, is being tested by recent political and macro-economic developments. Notably, the falling price of oil and the resultant reduction in export revenues have resulted in reduced fiscal capacity for oil-exporting countries, while the economic performance of many oil-importing countries continues to be affected by conflict and instability.

ignores the role of corporations

Surprisingly, the role and responsibility of corporations as main actors of opportunity generation and distribution has not been subject to adequate debate beyond traditional discussions on corporate social responsibility. Equally important questions, relating to how corporations are governed, for whose benefit and to what end, have not been incorporated in the overall debate on how to address the most pressing regional challenges such as unemployment, inequality and poverty. And yet, well-governed corporations can improve outcomes in diversity, inclusive growth, innovation and entrepreneurship, ultimately boosting the global competiveness of MENA countries.

which could drive the adoption of better governance

Good corporate governance is clearly an essential part of the solution to some of the Region's greatest challenges, including corporate sustainability, attracting investment, and bolstering the international competitiveness of the Region's small and medium-sized enterprises (SMEs). For a variety of reasons, it is equally relevant to the largest companies in the Region- listed, private and state-owned- and has the potential to impact not only their profitability and sustainability, but also their contribution to improved employment and social outcomes.

While the specific governance structures and characteristics vary among companies depending on their sector, size and ownership, there is a universal consensus that well-governed companies are much more capable of sound business judgement, and applying the principles of integrity and ethics to balance the demands and protect the interests of their shareholders and stakeholders. Good governance structures provide a framework for efficient, transparent, and accountable decision making. They provide a way of reconciling divergent interests, planning for strategy and succession, accessing capital, cultivating the corporate image, and ensuring legal compliance. Corporate governance introduces internal controls that foster accountability and disclosure. Augmented with ethical codes of conduct and the leadership's tone from the top, proper corporate governance mechanisms are an important risk mitigation tool that can translate into tangible benefits.

> ***A study of S&P 500 firms by Deutsche Bank illustrated that firms with strong or improving corporate governance outperformed those with poor or deteriorating governance practices by about 19 percent over a two-year period.[2] Similarly, a study conducted by Harvard and Wharton researchers found that 1,500 U.S.-based firms with better governance had faster sales growth and were more profitable than their peers[3]***
>
> *(refer to Annex II for key characteristics of well-governed institutions).*

that is critical for competitiveness and sustainability.

As the Region's stock exchanges develop and as policymakers promote their respective financial centres as international hubs and destinations for foreign investment, the governance of listed companies has become a particular priority.

Across the Region, there are concerted efforts towards fostering entrepreneurship and supporting start-ups (through incubation hubs, accelerators and entrepreneurship development programs). It is therefore equally important to recognise the significance of early stage governance for start-ups. Without basic corporate governance frameworks, entrepreneurs risk building fragile businesses that stand a lower chance of raising the required growth financing and scaling up. To address this risk, a number of countries in the Region such as Lebanon and Morocco have introduced governance recommendations for unlisted firms, including SMEs.

Capital allocation is suboptimal

At the same time, corporate growth in the Middle East has been stymied by the lack of mechanisms to channel equity capital to the most productive sectors, firms and entrepreneurs. Most firms in the Region are reliant on bank financing to support investment, which impedes the development of capital markets.

2. Grandmont, Renato; Grant, Gavin; and Silva, Flavia. "Beyond the Numbers—Corporate Governance: Implications for Investors." Deutsche Bank, April 1, 2004.
3. Gompers, Paul; Ishii, Joy; and Metrick, Andrew. "Corporate Governance and Equity Prices." Quarterly Journal of Economics 118(1), February 2003.

The reliance on short-term bank financing limits growth opportunities for SMEs in the Region and has a negative impact on the long-term sustainability of corporations.

despite abundant financial and natural resources

Although a number of countries in the GCC region- and others such as Algeria and Iraq - are endowed with substantial natural and financial resources, the financial services sector - intended to play a role in intermediating these resources- often fails to reward entrepreneurial risk taking. This is especially so in countries such as Lebanon which, while boasting a robust banking sector, lack a strong capital market to channel equity capital to companies and raise standards of governance. Capital markets in Lebanon, Syria and Algeria in particular remain underdeveloped, especially relative to their potential. Hence, most companies in these economies are unlisted and are therefore not subject to the rigorous corporate governance requirements that apply to listed firms.

as equity markets do not adequately support growth companies.

Although access to equity for growth companies has emerged as a priority in the face of a global decline of initial public offerings, few capital markets in the Region facilitate it. According to a recent WEF report, the most crucial gap to address in the Region is financing to growth companies valued between half and eight million USD. Bank credit, reliant on collateral, does not and arguably cannot address this gap, especially considering that the average maturity of debt in emerging markets is 2.8 years (Group of Thirty, 2013).[4] The result of this is that growth companies which could contribute to innovation and diversification lack much-needed financing.

The Region has the lowest rate of new firm formation

While supporting entrepreneurship is a key stated objective in the Region, the sustainability of SMEs and growth firms remains extremely low. The MENA region has the lowest rate of new firm formation apart from Sub-Saharan Africa, a trend that stymies innovation, growth and the long-term competitiveness of the Region's private sector.

> ***While high-income countries register on average 4 new firms per 1,000 working-age adults, MENA countries register only 0.63 new firms (IMF, 2014).***

4. At 16% of the total loan portfolio, SME lending in Lebanon is among the highest in the MENA region, yet still half of the 30% target set by banks (UNDP, 2014).

In addition, the Region's firms are often concentrated in sectors characterised by low levels of innovation and intangible capital, high dependency on natural resource inputs, and formidable barriers to entry.

negatively impacting innovation.

This situation stands in contrast with the world's largest and most successful firms that are often characterised by high intangibles, ability to scale globally and a "networked" business model. It perpetuates the lack of competition in a number of key sectors, a characteristic that has a number of negative repercussions, including lower economic productivity, innovation and foreign investment. Finally, it affects both the short-term competitiveness and the long-term prospects of MENA-based firms for integration in global value chains, which have emerged as a key source of economic growth.

The development of capital markets goes hand-in-hand with the required improvements related to corporate governance considering that listed firms' governance tends to evolve much more rapidly. As explored in this report though, disclosure practices even in listed firms remain weak, especially in terms of non-financial disclosure and in countries with voluntary governance recommendations. The protection of shareholders and stakeholders is another priority to address as evidenced by the Doing Business rankings which assign a regional average of 97 out of 185 economies, against the OECD average of 61.

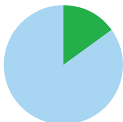
The challenges in all these areas for unlisted firms are more significant and arguably even more urgent since progress for them tends to be slower and since these companies remain the backbone of MENA economies.

The Opportunity

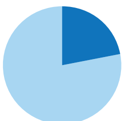
There is a clear business case for better governance

Corporate governance is a critical aspect of business and organisational management. It addresses fundamental organisational purposes (for every type of organisation - from micro-enterprises to multinational conglomerates) together with the most serious challenges arising from the globalisation of corporate and organisational structures and the markets they serve. Research clearly demonstrates that well-governed companies are able to attract and retain the best talent, attract greater investment, are much better equipped to deal with a volatile economic environment and are more sustainable in the long term. Good governance is essential in emerging markets in order to create an environment of trust for outside investors, especially when most companies are controlled by a single or a few shareholders and where the risks of shareholder abuse are perceived to be high.

INVESTORS ARE READY TO PAY A PREMIUM FOR GOOD GOVERNANCE, ESPECIALLY IN EMERGING MARKETS



15% of European institutional investors consider corporate governance to be more important than financial issues such as profit performance or growth potential.



It is estimated that **22%** of European institutional investors are willing to pay a premium of 19% on average for a well-governed company.

Source: McKinsey, 2002.

Institutional investors that consider environmental, social and governance (ESG) criteria in their decision-making process generally outperform market averages. However, institutional investors in the Region are yet to properly embed ESG criteria into their investment process which could mitigate risks in their portfolios and enable them to generate superior financial returns. Companies have real opportunities to attract investors with long-term perspectives by integrating ESG into their business model and strategy. Developing voting and engagement policies for regional institutional investors could not only support their performance but also raise the governance standards of listed firms.

which is increasingly evident among listed firms

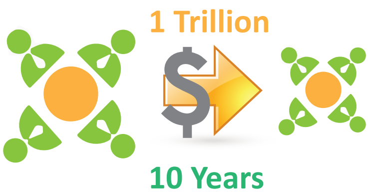
With GCC equity markets currently opening to greater institutional investment, good governance of listed companies is critical to attracting the portfolio allocations that foreign institutional investors are making to emerging markets. While the capital raised and investments in emerging markets have grown in recent years, the MENA region has captured little of the flows destined to emerging markets, to a large extent due to perceptions of weak governance practices. In Turkey, approximately half of the value of listed firms is held by foreign investors, whereas the level of foreign investment is much lower in the MENA region. With enhanced governance levels, the MENA region stands to gain by attracting greater institutional investment which could finance corporate expansion and employment creation.

but as critical, if not more, in family-owned enterprises

The governance of family-owned enterprises (FOEs) is a particular area of focus considering that in the GCC for example, an estimated 1 trillion USD of assets will be handed over to the next generation over the next 5-10 years (the Economist, 2015). While family businesses across the Region are often reluctant to open their capital to outside investors or make financial/non-financial information disclosures, their sustainability is contingent on adequate succession planning, the development of technical expertise and availability of long-term funding.

Improving the governance of family businesses remains a priority as most of the Middle East region's GDP outside the oil sector is generated by family-run or family controlled companies, making family businesses crucial to both economic activity and employment (PwC Family Business Survey 2013).

FAMILY-OWNED ENTERPRISES in the GCC are estimated to hand over 1 trillion USD of assets to the next generation over the next 5-10 years



Only 17% of GCC family businesses have put in place effective succession planning

Only 60% of board members believe that boards are moderately effective

12% of board members believe that boards are ineffective [5]

Sources: The Economist, 2015; McKinsey; GCC Board Director's Institute, 2015.

5. The top three barriers to board effectiveness cited by respondents were: issues relating to Board Composition & Directors' Capabilities (71%), lack of Formal Evaluation and Renewal Processes (47%), ineffective Board Dynamics (44%).

Improving succession planning, formalising boards and improving disclosure in family-controlled businesses is critical to unlocking the long-term potential of these firms, in the absence of which they may not be able to succeed in the long term. Considering that a minor percentage of the Region's corporate sector is listed, improving the governance of unlisted, generally family-owned companies is critical and requires solutions suitable to the concentrated ownership structure of these businesses. At the same time, these solutions need to address the concerns of minority investors such as private equity funds and banks which are a key source of formal corporate funding and financing in the Region.

and in SOEs where anti-corruption and risk management are key issues.

For SOEs, the adoption of internationally accepted good governance standards, such as the OECD Guidelines on Corporate Governance of State-Owned Enterprises, is crucial. The OECD Guidelines in particular contain a number of recommendations which are relevant to the Region, such as suggestions on the creation of a level playing field between state-controlled and private firms.

At the same time, an overreliance on SOEs in some parts of the Region and allegations of corruption in some SOEs and in their privatisation processes have eroded trust and hampered their restructuring. This highlights the need for a more strategic consideration of state-owned enterprises in MENA economies, recognising that many of them have important developmental objectives.

A re-examination of risk management in SOEs and their relationships with banks is also needed. For instance, Tunisian state-owned banks are currently estimated to have over 15% non-performing debts, in large part due to related lending to other SOEs (OECD, 2015c). Although its long-term consequences were contained, the fiscal crisis in Dubai in 2008-2009 highlighted the potential risks of overreliance on SOEs and non-arm's length lending practices. A number of important SOE reforms in the UAE were undertaken to address these concerns, including the requirement for SOEs to seek permission from the executive before taking further credit.

In summary, the premium on good governance in emerging markets tends to be higher than in developed markets and MENA firms stand to gain even more from being perceived as well-governed, transparent and compliant with international standards. Improving governance standards and practices in MENA firms can unlock multiple opportunities, including investment attraction, value creation, and ultimately greater long-term sustainability.

KEY HIGHLIGHTS

- Well-governed companies attract greater investment, trade at a premium, are better equipped to deal with volatile economic environments and are more sustainable in the long term

- GCC equity markets are currently opening to greater institutional investment, and good governance of listed companies is critical to attracting active portfolio allocations of foreign institutional investors

- The sustainability of family businesses and avoidance of colossal value destruction is contingent on robust corporate governance structures that would enable adequate succession planning and the development of technical expertise necessary to support innovation and internationalisation

- Suitable governance standards for SOEs are crucial to create a level-playing field between state-controlled and private firms and improve trust in these firms.

The Current State of Affairs

Listed companies

All countries of the Region apart from Yemen have a stock exchange

Considering that capital markets development is one of the key objectives of many governments in the Region, a number of which are seeking to establish themselves as financial centres, the development of MENA bourses has been relatively rapid and the Region is currently home to 18 stock exchanges. Their market capitalisation varies from Tadawul (the largest exchange in the Region), to Algerian and Lebanese markets that are relatively small. Although by global standards most markets in the Region (with the exception of Saudi Arabia) are small and illiquid, their growth in relative terms has been reasonably strong.

leading to evolution of capital markets regulatory infrastructure

Corporate governance frameworks in the Region for listed companies have evolved significantly in the past 15 years. While some of the MENA stock exchanges are several decades old,[6] the development of modern securities frameworks in most countries of the Region dates back a decade when the establishment of securities regulators across the Region was followed by the introduction of corporate governance codes, first in Oman in 2002 and then elsewhere across the Region.

including the development of new corporate codes

The ongoing development of capital markets has created a requirement for greater transparency and slowly but surely pushed disclosure and broader governance issues onto the policy agenda. Between 2005 and 2009, 11 corporate governance codes were introduced by national regulators, in addition to specialised guidance for state-owned enterprises, banks and family-owned companies. Today, all MENA jurisdictions except Iraq have a corporate governance code (refer to Annex III) and 10 out of the 17 of the Region's codes apply to listed companies on a comply-or-explain basis, requiring listed companies to comply or else justify their non-adherence.

and listing requirements imposed by exchanges.

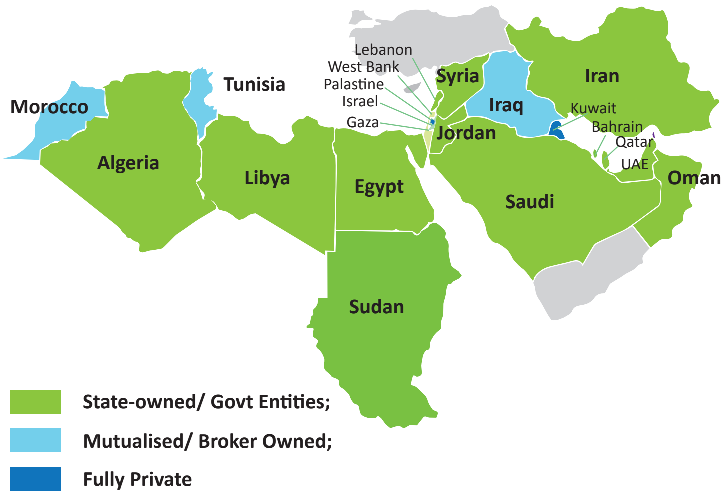
A number of regulators such as the Omani, Saudi and Egyptian capital market authorities have reviewed the requirements imposed on public companies in order to bring these in line with international standards and to incorporate lessons learned from the financial crisis.[7]

6. In particular, the Egyptian and Lebanese markets were established in late 19th century.
7. For instance, the Saudi Capital Market Authority has revised its code on several occasions, making mandatory specific provisions of the code which the regulator felt were crucial in terms of compliance.

In parallel, listing requirements have been reviewed and revised in a number of markets including Saudi Arabia, Kuwait, and Egypt and this trend is expected to continue, facilitated by structural changes in the stock exchange industry notably the expected privatisation and demutualisation of exchanges.

Unlike their larger global counterparts, most MENA exchanges are organised as state-owned corporations or unincorporated government entities: only 3 of the Region's exchanges are mutualised, broker owned organisations and only 1 exchange (the Palestine Stock Exchange) is fully private (refer to Annex IV).

OVERVIEW OF MENA STOCK EXCHANGES



As exchanges in the Region restructure their ownership – a process which has already started with the Kuwait Stock Exchange – their role in setting and enforcing corporate governance standards is expected to increase (OECD, 2012; OECD, 2013). This represents a significant development, considering that especially in the GCC countries, standard setting and enforcement powers currently lie almost exclusively with the securities regulators.[8]

8. Except in certain specific matters such as monitoring of insider trading which requires exchanges to coordinate with regulators.

A more active approach to enforcement

Following the introduction of corporate governance codes and related securities regulations to deepen capital market activity and improve the transparency of listed companies as well as market participants, the emphasis in the corporate governance debate has focused on the enforceability of these rules. A recent survey of enforcement activity of the Region's securities regulators demonstrates that their capacity requires further development in most countries of the Region, owing to their relatively recent establishment and lack of experience in prosecuting complex cases (OECD, 2014).

although focused on disclosure

Currently, regulator supervision and enforcement activity in listed companies is focused on disclosure practices.[9] This is in part due to the fact that disclosure is a key priority for governance improvements targeted by regulators, but also reflects the so far limited experience in investigating and prosecuting more complex governance breaches which could arise in the context of related party transactions, corporate mergers or de-listings, and which may require the expertise of outside valuation specialists and appeals to courts.[10]

and lenient in its use of sanctions

A review of sanctions levied by securities regulators in the Region highlights a relatively lenient enforcement approach taken by most securities regulators, with great reliance on warnings and generally small - by international standards - financial fines following generous "adaptation periods" given to companies to comply with local codes. In particular, one area that saw perhaps surprisingly little public or private enforcement is actions against directors. This is a linked to the fact that in many countries of the Region directors' duties are not suitably defined.

remains hampered by the inefficiency of courts

The lengthiness of court proceedings is still a challenge in the Region and a key obstacle for effective enforcement: resolving a commercial dispute through the courts in MENA economies takes 651 days on average (World Bank and IFC, 2012). In part to address lengthy court proceedings and concerns regarding impartiality and competence of courts in financial matters, financial centres in Qatar and Dubai established parallel court systems for adjudicating disputes concerning companies domiciled in their jurisdictions.[11]

9. Not all securities regulators in the Region provide a transparent disclosure of their enforcement activity as the concept of « naming and shaming » in public was not until recently commonly accepted in the Region.
10. There are nonetheless certain exceptions to this, such as the enforcement case against the UAE-based jewellery retailer Damas, which listed on NASDAQ Dubai in 2008.
11. The Egyptian Ministry of Justice also established specialised economic courts in 2008 with a mandate to deal with a range of capital market related offences.

and low rates of private enforcement.

The low rates of private enforcement by shareholders and stakeholders in the Region is in fact linked to the imprecise definition of director duties (duty of care and duty of loyalty) and the absence (in most countries of the Region) of regulatory support in the form of derivative or class action suits to protect the rights of minority shareholders. At the same time, the ability of regulators to intervene directly such as by cancelling illegitimate transactions is also limited, though some jurisdictions now allow regulators to reverse illegitimate related party transactions.[12]

KEY HIGHLIGHTS

- Corporate governance frameworks for listed companies in the Region have evolved significantly in the past 15 years
- All MENA countries except Iraq now have a corporate governance code; 10 out of the 17 of the Region's codes apply to listed companies on a comply-or-explain basis
- Listing requirements have been reviewed and revised in a number of markets including Saudi Arabia, Kuwait, and Egypt and this trend is expected to continue
- A recent survey of enforcement activity of the Region's securities regulators demonstrates that their capacity requires further development in most countries of the Region
- The lengthiness of court proceedings is still a challenge in the Region and a key barrier to effective enforcement.

12. In fact, approval of related party transactions was the area that saw most reform in the corporate governance space in 2015 in the Region.

Privately-held firms

Slow progress in unlisted firms

Progress in corporate governance of private firms has been much slower considering that the disclosure and transparency requirements they are subjected to are naturally much lower than governance requirements for publicly listed companies. Furthermore, in many countries, particularly tax-free jurisdictions where companies are not required to report financial results, companies tend to refrain from disclosing information perceived as sensitive. The impact of voluntary SME or family governance codes in the Region has also been generally weak, essentially serving to raise awareness by national institutes of directors and corporate governance centres.

Based on data from participant voting at Pearl Initiative events in the Gulf Region from 2013 to 2015 (>500 responses), In the Pearl Initiative's 2013 report based on face-to-face interviews with over 100 family firm leaders across the GCC, 63% of respondents said they have a code of ethics, but only a third of those are implemented; 45% said they have an anti-corruption policy and less than one-third implemented them; 30% have some form of a whistle-blowing policy, but very few are independent or adequately protect anonymity.

IN THE GULF REGION

Research by the Pearl Initiative shows that*:

Awareness among business leaders in the region is increasing:

- More than **80%** agree that bribery and corruption is a major problem in the Middle East.
- And almost **60%** believe that the business case for better standards and governance practices is not yet fully understood.
- **Half** of the respondents strongly agree that organisations in the region appear to have very specific definitions on acceptable levels of gifts and entertaining.
- **1/3** of the respondents agree that companies in the GCC insist that their agents and third party business partners comply with anti-bribery and corruption policies.

Implementations remains a challenge

- **63%** of GCC family firms say they have a code of ethics, but **2/3** admit it's not fully implemented.
- **45%** of companies say they have an anti-bribery and corruption policy, but again only **1/3** say it's fully implemented.
- **70%** of respondents think that companies in the Gulf Region are not carrying out comprehensive, systematic and regular risk assessments.
- **Over 1/3** of the respondents agree that their organisation is carrying out regular internal training on compliance and anti-bribery and corruption.

Source: Pearl Initiative Report – "At a Glance: Anti-Corruption Good Practice (2015)"
**Data from participant voting at Pearl Initiative events in the Gulf Region from 2013 to 2015 (>500 responses)*

This corresponds with the Pearl Initiative's perceptions data: only around 20% of professionals in the Region see from their experience that most companies are carrying out rigorous risk assessments and have fully implemented systematic compliance systems. Only around 10% agree that regular compliance training is the norm. A staggering 46% of compliance officers from family firms surveyed do not feel empowered and independent.

driven primarily by the revision of company laws

The reform of corporate laws across the Region, which in most countries were initially drafted during the pre-independence period, has had an impact on private firms insofar as the "new generation" of companies laws contains stronger shareholder protections. For instance, the revised Kuwait Companies Law adopted in 2012 contains a number of shareholder protections such as the right for the Ministry of Industry and Commerce to appoint an external auditor, the ability of shareholders to file personal or derivative suits against board members and stringent provisions regarding approval and disclosure of related party transactions.

The reform of the UAE Companies Law in 2015 also sought to strengthen shareholder protections while aiming to facilitate more IPOs of family companies by reducing the minimum free float requirement to 30% from previously 55%. Similarly, the recently announced Saudi Companies Law provides for better shareholder protections and eliminates previous inconsistencies with the national corporate governance code.

and creation of parallel courts

The creation of financial centres which have introduced separate, modern legal frameworks and a parallel courts system (e.g. Dubai International Financial Centre (DIFC) Courts) has had a positive impact on governance, strengthening recourse in case of abuses of shareholders and stakeholders, even for unlisted companies registered in these centres. Governance regulations for entities in these financial centres are set by the respective regulators such as the Dubai Financial Services Authority (DFSA) for the DIFC and are consistently monitored.[13] This model is currently being adopted in other jurisdictions such as the Abu Dhabi Global Market and should be considered by other countries of the Region in view of the challenges inherent in reforming the existing courts system.

13. The DSFA is the first regulator in the Region to have published a dedicated corporate governance review based on a survey of regulated entities. In addition, the DFSA has investigated and prosecuted a number of governance related breaches (i.e. Damas).

has exacerbated the variability of governance practices across the Region

While the reform of the company legislation and the establishment of financial centres with separate legal regimes has had a positive overall impact, there remains a wide variance as to the quality of governance regulations and practices in the Region.

For instance, the growing professionalisation of family offices in the Gulf has not necessarily been matched by improvements in family-owned firms in the Maghreb and the Levant, despite the introduction of voluntary codes for SMEs and family businesses in Morocco, Lebanon and a few other countries of the Region.

which are largely driven by local companies laws.

While large family offices in the Gulf have generally reviewed and revised their governance arrangements, going forward this process will be facilitated by the changing provisions of the Companies Laws and by efforts of governments to address the governance of unlisted, family-owned companies (systemically important and arguably too large to fail).[14] For instance, the revised UAE Companies Law now permits limited liability companies to increase their board size to beyond 5 members, thereby enabling large closely-held companies to broaden their board beyond family members.

KEY HIGHLIGHTS

- Progress in reforming the governance of private firms has been slower considering that the disclosure and transparency requirements they are subjected to are much lower
- The impact of voluntary SME or family governance codes in the Region has been generally weak, however the reform of corporate laws across the Region has been helpful in raising the bar
- The creation of financial centers which have introduced separate, modern legal frameworks and a parallel courts system has had a positive impact on governance
- The growing professionalisation of GCC family offices has generally not been matched by practices in family-owned firms across the Region as a whole.

14. Refer to Al Gosaibi vs Saad family dispute: http://www.newyorker.com/magazine/2015/04/13/the-kings-of-the-desert.

State-owned enterprises

Few state-owned enterprises…

The renewed focus on the governance of SOEs across the Region is linked not only to the significant size of state shareholdings,[15]but also owes to, on the one hand, rising expectations regarding public sector integrity, and on the other, the poor financial performances of some SOEs. SOEs in a number of MENA countries would greatly benefit from being reformed and restructured, including by strengthening their governance, regardless of whether they remain government-controlled or are eventually privatised.

are subject to governance codes

While listed companies have over the past decade been subjected to specific governance requirements as elaborated above, few MENA countries have subjected their SOEs to comprehensive governance reform, beyond privatisation. Only Egypt and Morocco have developed guidelines specifically targeted at SOEs, and governance guidelines applicable to listed firms do not necessarily address SOEs unless they have listed equity.[16] Furthermore, governance requirements included in the Companies Law only apply to those companies incorporated under these laws, which excludes many strategic companies.[17]

resulting in opaque governance models.

This has resulted in governance structures in MENA SOEs which are, on average, far less transparent as compared with listed companies and with their peers globally. Today, the quality of SOE governance varies significantly across the Region, whereby countries such as Algeria and Tunisia still lag compared with the majority of GCC countries which have made strides in professionalising SOE boards and in ensuring more effective oversight. In countries such as Iraq and Syria, SOE reform is at earlier stages, overshadowed by complexities of the ongoing internal conflict. In these countries, restructuring of SOEs is intricately linked to, on the one hand, public sector governance and systems of patronage, and on the other, their re-organisation in the context of the transition to a market economy.

15. For instance, 34 of the 100 largest listed companies in the Region are majority state-owned and a further 55 of these firms have significant state blockholding (10% - 50%) (Amico and Ozcelik, 2015).
16. Globally, a recent analysis by the OECD identified 33 corporate governance codes or guidelines specifically aimed at SOEs. In some countries such as the UAE even listed SOEs are exempt from the application of the corporate governance code.
17. Egypt is the only country in the Region which has a dedicated Law on governance of state-owned firms (Public Business Sector Law. However, it does not extend to strategic companies which are incorporated as statutory corporations with unique governance arrangements.

KEY HIGHLIGHTS

- The renewed focus on SOE governance in various countries across the MENA region owes to rising expectations regarding public sector integrity and the poor financial performance of SOEs in some countries
- Governance structures in SOEs are on average less transparent as compared with listed companies and with their peers globally
- The introduction of corporate governance codes for state-owned enterprises in countries such as Egypt and Morocco has proved to be successful and further work is required on their implementation
- The quality of SOE governance varies significantly across the Region, with firms in Algeria and Tunisia still lagging in the implementation of these standards in comparison with most GCC-based firms.

Policy Recommendations

Privately-held firms

Improving the governance of family firms is a priority

Apart from succession planning and board effectiveness, which are at the core of family business sustainability, issues such as management of operational and strategic risks, international partnerships and the need for private equity financing reinforce the importance of governance for family businesses across the Region. Disclosure practices of family businesses need to be addressed as a priority for them to obtain financing, build partnerships and internationalise. Yet, 80% of family businesses in the GCC do not provide any disclosure and 60% of respondents to a recent Pearl Initiative Survey of GCC companies believe that shareholders are not receiving necessary information.[18]

supported by ongoing company law reform

Disclosure requirements and shareholder rights are increasingly being addressed by legislation in some Gulf countries. Countries where company laws were recently amended (i.e. Kuwait, Saudi Arabia, UAE) have already introduced more sophisticated provisions regarding disclosure, auditing and shareholder rights, and these developments should be examined by other countries of the Region. On the other hand, the adoption of corporate governance codes for SMEs and family businesses, while serving as a useful awareness-raising tool, have generally had a limited impact on outcomes.

as well as awareness raising efforts.

Tangibly improving the quality of governance in private firms such as board effectiveness, disclosure practices and minority shareholder protections will require stronger standards to be embedded in company laws, alongside significant awareness raising efforts by relevant institutions. In particular, the entry of new shareholders such as private equity investors should be accompanied by an improved arsenal of shareholder rights which, while well defined in listed companies, are generally less defined in closely held companies in most countries.

Further training and resources need to be put at the disposal of private companies through national institutes of directors, corporate governance centres and chambers of commerce. While the latter are powerful and well resourced (especially in the Gulf), they do not generally provide governance-related training and do not support the national institutes that more commonly provide such services.

18. Participant voting data from Pearl Initiative events in the GCC in 2014 and 2015.

The SME support entities launched across the Region such as the Khalifa Fund in Abu Dhabi and the National Fund for SMEs in Kuwait could also support these activities.

Specific standards for large private companies

Policymakers might wish to consider introducing additional governance requirements for private firms whose capital is open to multiple shareholders to the point that they resemble a public company (as was recently done in Saudi Arabia). Similar obligations could apply to family companies exceeding a certain size as measured by financial and non-financial metrics such as number of employees or revenues. An example of this would be the recent EU directive requiring all companies with over 500 employees to disclose certain non-financial and diversity information in their annual reports.

In Saudi Arabia, the new Companies Law released in November 2015 sets a maximum limit of shareholders for a Limited Liability Company at 50. Under the Law, companies with more than 50 shareholders should be converted to joint stock companies, where specific governance requirements such as the separation of the Chairman and CEO roles are mandatory.[19] This is an interesting model to consider for other countries of the Region wishing to address governance in large but unlisted family firms.

can facilitate shareholder access and protection of their rights

Accessing internal corporate documents remains an area of particular difficulty for shareholders of private firms, as evidenced by the gap between the OECD and MENA Region averages in the Doing Business Report. To address this, enhancing and clarifying the role of the Companies Comptroller, the Ministry of Commerce or equivalent in the dissemination of the corporate information and in acting as a source of support to shareholders in private companies would be useful. In fact, this has already been done in some jurisdictions such as Kuwait. Improving the exercise of shareholder rights in private companies is also crucial for the development of MENA private equity, currently estimated at a value of 1.5 billion USD,[20] which remains lower than its pre-crisis levels.

especially as companies remain reluctant to list.

Boosting private equity is particular important due to the fact that many large family firms are reluctant to tap into public equity markets due to concerns linked to low valuations as well as dilution of control.

19. This is in addition to the voluntary family governance guidelines released by the Saudi government in 2015.
20. According to the MENA Private Equity association, 2014 saw 1.5 billion USD of investments conducted through 72 disclosed investments. The same report estimates that 30% of MENA Private Equity and Venture Capital investments are not announced.

When family businesses in the Region list, significant dilution of control is inevitable since multiple class shares or other control enhancing mechanisms are not permitted in most jurisdictions except for the Maghreb countries. A greater focus on mechanisms that would allow founding shareholders to retain control while introducing stringent minority shareholder protections is worthy of consideration. Even in private companies, enhancing shareholder protections through, for example, requiring specific approvals on material transactions by minority shareholders, is necessary.

Mechanisms allowing retention of control while introducing stringent minority protections are merited

Experiments aimed at financing growth companies through capital markets have proven challenging all over the Region. The first dedicated SME exchange in the MENA region – NILEX, launched in Egypt in 2007- currently has less than 25 listed companies and some more recent initiatives such as the Venture Exchange in Qatar have so far not attracted listings.[21] Attracting family companies to list remains a major challenge in the Region that needs to be addressed, not only to improve the sustainability of these companies, but also to enhance equity markets which remain relatively shallow and illiquid in all but a few countries.

KEY RECOMMENDATIONS

1. **Tangibly improving the quality of governance arrangements in private firms will require enhancing standards embedded in company laws**

2. **Policymakers should consider introducing specific requirements for private firms whose capital is open to multiple shareholders and/or large companies as measured by specific metrics**

3. **It is recommended to enhance the role of the Companies Comptroller, the Ministry of Commerce or equivalent in the dissemination of corporate information**

4. **Further thought as to mechanisms which would allow founding shareholders to retain control while introducing stringent minority shareholder protections is merited**

5. **Attracting family businesses and SMEs to list remains a major challenge in the Region which needs to be addressed in order to deepen equity markets and to provide new sources of equity financing for growth companies.**

21. Perhaps even more alarmingly, several markets in the Region, notably Kuwait, are currently seeing a surge of voluntary de-listings, with over 10% of the listed companies announcing their decision to de-list since 2014.

Listed companies

Encouraging growth companies' access to capital markets is crucial

For private companies looking to list, stock exchanges could provide additional support services. A number of MENA exchanges are looking to play a more active regulatory role as they transition to a self-regulatory organisation (SRO) status. Stock exchange disclosure platforms such as Tadawulaty in Saudi Arabia offer services related to the management of Annual General Meetings (AGMs) and financial disclosure that could be useful to many of the Region's private companies, beyond those that have made private placements.

At the same time, in emerging markets, the amount of equity capital raised through IPOs has more than doubled to 65 billion USD from 2008-2014 (OECD, 2015). Smaller companies from emerging markets have reached significant levels of equity financing over the past 7 years. It is therefore essential to investigate the reasons behind the low levels of public listings across the MENA Region in order to bring more dynamism to local equity markets, allow firms to access longer-term financing and develop new investment options for institutional investors in the Region.

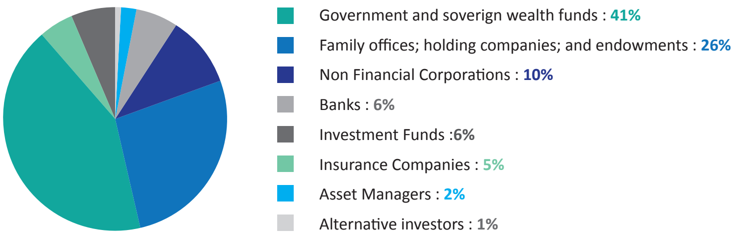
as is moving away from a compliance-driven view of governance.

For listed companies in the Region, governance behaviour tends to be driven almost entirely by evolving regulatory requirements, and most notably the corporate governance codes which contain most governance provisions. A number of these codes (e.g. as in Saudi Arabia, Oman and Egypt) have recently been and continue to be revised to address existing challenges that have arisen due to concentrated ownership of MENA companies, and to incorporate international requirements such as the newly revised OECD/G20 Principles of Corporate Governance and other standards.

The implementation of these standards has been driven almost entirely by compliance requirements and has not had an appreciable impact on corporate culture, except for the few companies that have set the tone from the top. Indeed, the compliance-oriented approach to governance is actually a global issue rather than a purely Regional one. Corporate governance lapses in remuneration, risk management, board practices and the exercise of shareholder rights in some of the most well-regulated markets around the world all contributed to the global financial crisis. Hence, it is not just more stringent regulations alone that can address these challenges. Rather, it is the genuine belief of managers, shareholders and all stakeholders that it is in every company's best interests to adopt better governance practices.

The financial crisis also demonstrated that the assumption that investors act as effective stewards of corporate wealth was overly optimistic. This observation is equally relevant to the MENA Region since institutional shareholders tend to be relatively passive owners of listed companies that generally do not engage with boards and executives on governance-related matters. A related reason for this compliance-oriented adoption of governance requirements is that the investor base in most markets is retail and retail investors do not have the resources or the stakes in listed companies to engage on strategic or governance matters.[22]

Institutional Ownership of MENA Equity markets [23]



Source: Amico and Ozcelik, 2015.

Stewardship by local institutional investors is key

Governments may wish to consider requiring investors such as sovereign wealth funds, but also pension funds and insurance companies, to formulate and disclose their voting policies and decisions pertaining to their local listed holdings. Securities and sectoral regulators responsible for the regulation and oversight of these investors should examine how they and their investment committees are governed and consider introducing requirements for some categories of investors to participate and vote in AGMs. Increasing demand for good governance practices by local institutional investors is an important prerequisite for attracting greater foreign institutional investment.

22. For instance, retail investors in Tadawul (Saudi Stock Exchange) account for 12% of ownership but account for over 80% of trading.
23. The figure is based on the ownership analysis of the 600 largest listed companies in the MENA region which accounts for 97% of market capitalisation in the Region.

KEY RECOMMENDATIONS

1 **The implementation of corporate governance standards by listed companies has been driven by compliance requirements and has not had the desired impact on the corporate culture**

2 **Governments may wish to consider requiring institutional investors such as pension funds and insurance companies to formulate and disclose their voting policies and decisions pertaining to their local listed holdings**

3 **Securities and sectoral regulators responsible for the regulation and oversight of investors should examine how they and their investment committees are governed and how they exercise their voting rights**

4 **Effective enforcement of corporate governance rules requires more rigorous public enforcement by securities regulators as well as a more effective framework for the private enforcement of shareholder rights.**

State-owned enterprises

For SOEs, public and corporate governance…

Given the diversity of ownership frameworks in the Region, governance of state-owned enterprises tends to be addressed rather heterogeneously. Unlike OECD countries, many of which have introduced ownership or coordination entities to oversee state shareholdings as a whole,[24] the oversight of state assets in the MENA Region remain dispersed. Only a few countries in the Region, such as Morocco and Tunisia, have seen a consolidation of oversight in the hands of one or two government entities, and some Gulf countries, such as Bahrain, in the hands of a sovereign wealth fund.

Considering the lack of clarity that can exist between ownership and regulatory functions in the Region, the role of sectoral regulation has emerged as a very important one. Yet, with the exception of a few sectors such as telecommunications and transport, sectoral regulators remain relatively rare and are not usually entirely independent. This exacerbates conflicts of interest faced by governments as owners of SOEs. Ultimately, the establishment of independent sectoral regulators is essential for creating a level playing field between SOEs and private competitors.

are two sides of the same coin.

The emergence of frameworks to address the potentially competition-distorting effects of SOEs is also a priority for private sector development in the Region. Competition authorities in most MENA countries have been relatively inactive and few competition authorities have been empowered to launch and pursue cases against SOEs which are not always included (or explicitly excluded) from the remit defined by the relevant legislation.[25] In most countries of the Region, strategic SOEs organised as statutory corporations (as opposed to incorporated by virtue of the Companies Law) are not subject to local competition legislation. They are also often exempt from the application of corporate governance codes, while SOE-specific governance codes exist in very few countries.

Even in countries where SOEs are subject to competition law, authorities are usually empowered to address only a narrow set of behaviours which could be considered anti-competitive. Adequately empowering competition authorities is crucial for creating a level-

24. Most OECD countries have introduced an ownership or a coordination entity. A number of countries have recently moved to centralise their ownership (e.g. Finland and New Zealand), others introduced a 'dual model' where ownership responsibility is shared between a sectoral ministry and a "central' Ministry or entity, commonly the Ministry of Finance or Treasury (e.g. Germany and Switzerland) (OECD, 2011).
25. In the UAE for instance, SOEs are explicitly exempt from the Competition Law and in Egypt and Oman, a narrower set of exemptions for SOEs is in place.

playing field with the private sector. Similarly, the private sector in the Region stands to benefit from, and should actively support, the creation and better resourcing of effectively mandated anti-corruption authorities.

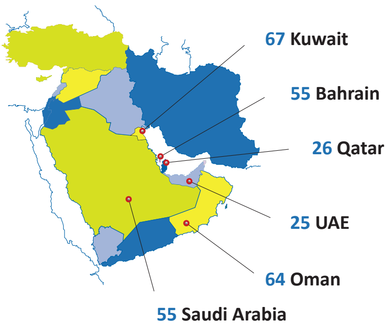
Perceptions of corruption remain high, including in SOEs

Perceptions of corruption in the MENA Region remain high, particularly among SOEs. Some high profile cases of bribery in SOEs are beginning to be prosecuted in the Region, including for example in Oman. The focus on SOE integrity is not surprising and indeed not limited to the MENA region: a global survey of 427 enforcement actions related to bribery of foreign public officials found that SOE employees were the largest target group for bribes and that 57% of all bribes were aimed at procurement transactions (OECD, 2014).

BRIBERY AND CORRUPTION IN THE GULF REGION

GCC Country Ranking in the Transparency International Corruption Perceptions Index 2014

(Out of 177 countries)



According to a study by PwC*

- **21%** of companies in the Gulf Region have been victim of some form of economic crime.
- **12%** of this group has suffered losses of at least **$5m** due to corporate corruption over the past two years, half of which have experienced over **$100m** in losses.
- **18%** respondents of the same study say their organisation has been asked to pay a bribe in the past.
- **24%** believe their organisation lost out to a competitor who paid a bribe.

Source: Pearl Initiative Report – "At a Glance: Anti-Corruption Good Practice (2015)"
**Global Economic Crime Survey – Economic Crime in the Arab World (PwC, 2014)*

The Pearl Initiative's interviews in the Region indicate that over 60% of respondents believe that their jurisdiction's current anti-bribery legislation is insufficient.[26] While whistleblowing, internal auditing and reporting practices can be strengthened to address corruption risks in all types of businesses, insofar as SOEs are subject to additional public sector oversight, it is recommended that state audit bodies are better resourced and that frameworks are established for the public to lodge complaints.

26. Participant voting data from Pearl Initiative events in the Gulf Region from 2013 to 2015.

State audit bodies in most countries of the Region are empowered to review the financial and non-financial performance of companies (usually where state ownership exceeds 25%), though few state auditors are authorised to examine all state shareholdings and all types of corruption and potential abuse of public goods.

and this has an impact on the performance and integrity of the private sector.

Unlike state audit bodies, anti-corruption entities can work on addressing corruption in both private and public companies. Anti-corruption entities have recently proposed a number of measures, including for civil servants to publicly disclose their sources of income. A better understanding of the sources of corruption related to SOEs is also required with a particular emphasis on key risks such as procurement, privatisations, and hiring practices. Furthermore, mechanisms to hold SOE boards and executives more accountable would help address and mitigate corruption risks in these firms.

A review of SOE governance arrangements in the MENA Region is necessary, with a particular focus on competitiveness between private and state-owned firms and on linkages between good governance and anti-corruption measures in SOEs in high-risk areas such as procurement. The practices of leading and successful SOEs in the Region as well as globally (e.g. SOEs in Singapore) should be shared in order to promote these standards across the Region.

KEY RECOMMENDATIONS

1. **The establishment of independent sectoral regulators is essential to create a more level playing field between SOEs and their private counterparts**
2. **Empowering competition authorities is crucial for creating a level-playing field with the private sector**
3. **The private sector in the Region stands to benefit from the creation and better resourcing of anti-corruption authorities as well as state audit bodies**
4. **The introduction of corporate governance codes or regulations for SOEs would be useful to bridge the governance gap between SOEs and publically listed firms**
5. **The practices of leading and successful SOEs in the Region and globally should be shared in order to promote them across the Region.**

Note: Refer to Annex I for a summary of the Policy Recommendations

Conclusion

Good corporate governance is an integral part of the solution to both the immediate and longer-term challenges facing most MENA enterprises, including corporate sustainability, investment attraction, internationalisation and competitiveness. The obstacles to improving corporate governance for listed, private and state-owned companies in the Region are often unique to each country and specific to the different types of enterprise. At the same time though, there are common themes identified in this report that deserve to be explored at the regional level, recognising that measures to improve governance need to be scalable and adaptable to the size and sophistication of equity markets, the prevalence of state-owned assets, and the unique characteristics of the SME sector that underpins all economies in the Region.

Improving governance in family businesses must remain a priority considering that 1 trillion USD of assets are expected to be passed on from one generation to the next in the GCC region alone within the next 5-10 years. Insufficient progress has been made on this front in the Region to date. Further requirements should be considered for large, systemically-important enterprises or firms that, while privately held, have a particularly wide shareholder base. Further progress is also needed to ensure minority shareholder rights in privately held firms are respected.

While having evolved at a faster pace, governance within listed companies also requires improvement in order to attract more institutional capital to the Region's markets, particularly following the opening of the Saudi stock exchange and the easing of investment limits for foreign investors in markets such as Qatar. Improvements in the governance of listed companies have been notable, especially in markets where corporate governance codes apply on a "comply-or-explain" basis, but less so in other markets where recommendations remain voluntary. The enforcement of corporate governance rules remains a challenge, even for listed companies, and legal changes are likely to be required to adequately address this issue.

Today, institutional investors in MENA markets are generally passive. This report suggests that institutional investors need to be more engaged in a stewardship capacity to create stronger demand for better corporate governance. They need to engage with the boards and executives of listed companies on issues they see as critical to the future success of these firms. It is recommended that governments require institutional investors such as pension funds and insurance companies to formulate and disclose their voting policies and decisions when they vote on specific issues at the AGMs of local listed companies.

Finally, this report provides a number of recommendations concerning the state-owned sector, noting that SOEs are generally not subject to competition law and other relevant legislation, or the corporate governance guidelines that apply to private firms. While questions of privatisation must rightfully remain with governments, creating a more level playing field between SOEs and private firms is needed to improve conditions for growth and employment in the private sector. The introduction of governance codes or regulations specifically aimed at state-owned companies based on internationally recognised principles could help to bridge the governance gap between state-owned and private firms in the Region.

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Annex I. Summary of Policy Recommendations

Privately held firms

- *Tangibly improving the quality of governance arrangements in private firms will require enhancing standards embedded in company laws*
- *Policymakers should consider introducing specific requirements for private firms whose capital is open to multiple shareholders and/or large companies as measured by specific metrics*
- *It is recommended to enhance the role of the Companies Comptroller, the Ministry of Commerce or equivalent in the dissemination of corporate information*
- *Further thought as to mechanisms which would allow founding shareholders to retain control while introducing stringent minority shareholder protections is merited*
- *Attracting family companies and SMEs to list remains a major challenge in the Region which needs to be addressed in order to deepen equity markets and provide new sources of equity financing for growth companies*

Listed companies

- *The implementation of corporate governance standards by listed companies has been driven by compliance requirements and has not had the desired impact on the corporate culture*
- *Governments may wish to consider requiring institutional investors such as pension funds and insurance companies to formulate and disclose their voting policies and decisions pertaining to their local listed holdings*
- *Securities and sectoral regulators responsible for the regulation and oversight of investors should examine how they and their investment committees are governed and how they exercise their voting rights*
- *Effective enforcement of corporate governance rules requires more rigorous public enforcement by securities regulators as well as a more effective framework for the private enforcement of shareholder rights*

State-owned enterprises

- *The establishment of independent sectoral regulators is essential to create a more level playing field between SOEs and their private counterparts*
- *Empowering competition authorities is crucial for creating a level-playing field with the private sector*
- *The private sector in the Region stands to benefit from the creation and better resourcing of anti-corruption authorities as well as state audit bodies*
- *The introduction of corporate governance codes or regulations for SOEs would be useful to bridge the governance gap between SOEs and publically listed firms*
- *The practices of leading and successful SOEs in the Region and globally should be shared in order to promote them across the Region*

Annex II. Key Characteristics of Well-Governed Institutions

Good governance has eight major characteristics - it is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive, and follows the rule of law. Good governance is responsive to the present and future needs of the organisation, exercises prudence in policy-setting and decision-making, and ensures that the best interests of all stakeholders are taken into account.

A well-governed organisation has:

- *A clear vision, mission, and plan*
- *Lean, clear, empowering bylaws*
- *Discipline and commitment to implementing policies, procedures and strategies*
- *An ethical decision-making process, including establishing a code of conduct and policies on diversity*
- *The ability to uphold the integrity of financial reporting to ensure transparency and accountability*
- *A Board educated about its role*
- *An active, diversified and engaged Board, with the right balance of independent directors*
- *Organisational values that are widely communicated and reflected in policies, plans, programs, decisions and actions*
- *Separation of governance and management roles*
- *Effective relationships within the Board, and between Board and staff*
- *Clear communication with stakeholders*
- *A socially responsible framework*

Annex III. Corporate Governance Codes in the MENA Region

Jurisdiction	Key national corporate governance codes and principles	Implementation mechanism			
		Approach C/E: Comply or explain B: Binding V: Voluntary	**Disclosure** in annual company report	**Basis for framework** L: Law or regulation LR: Listing rules	**Surveillance** SR: Securities regulator SE: Stock exchange P: Private institution CB: Central Bank
Algeria	Algerian Corporate Governance Code	V	No	No	No – P follow up
Bahrain	Corporate Governance Code	C/E	Yes	L	SE and CB
Egypt	Corporate Governance Code for Egyptian Companies	V	No	L and LR (for some provisions)	SE
Iraq	None	N/A	N/A	N/A	N/A
Jordan	Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange	C/E	Yes	L and LR	SR
Kuwait	Issuance rules of Corporate Governance Regulated by Capital Markets Authority	B	Yes	L	SE
Lebanon	The Lebanese Code of Corporate Governance	V	No	No	No – P follow up
Libya	Libyan Corporate Governance Code	V	Yes	LR	SE
Morocco	Moroccan Code of Good Corporate Governance Practices	V (C/E)	No	L	SE
Oman	Code of Corporate Governance for Public Listed Companies	B and C/E	Yes	L and LR	SE and SR
Palestinian Authority	Code of Corporate Governance in Palestine	B and C/E	Yes	L	SE

Qatar	Corporate Governance Code for Companies Listed in Markets Regulated by the Qatar Financial Markets Authority (Main market)	C/E	Yes	L	SR
Saudi Arabia	Corporate Governance Regulations	B and C/E	Yes	L	SR
Syria	Corporate Governance Act	C/E	Yes	L	SR
Tunisia	Code of Best Practice of Corporate Governance	V	No	No	SE
UAE DIFC	DIFC Market Law, Markets Rules, Companies Law	B and C/E	Yes	L	SE
UAE Federal	UAE Corporate Governance Code	B	Yes	L	SE
Yemen	Yemen Corporate Governance Guidelines	V	No	No	No – P follow up

Annex IV. Overview of MENA Stock Exchanges

Jurisdiction	Stock exchange(s)		Ownership Structure	Self-listing
Algeria	**SGBV**	Bourse d'Alger	State-owned	No
Bahrain	**BSE**	Bahrain Stock Exchange	State-owned	No
Egypt	**EGX**	Egyptian Exchange	Public Institution	No
Iraq	**ISX**	Iraq Stock Exchange	Mutualised	No
Jordan	**ASE**	Amman Stock Exchange	Public Institution	No
Kuwait	**KSE**	Kuwait Stock Exchange	Private	No
Lebanon	**BSE**	Beirut Stock Exchange	Public Institution	No
Libya	**LSM**	Libyan Stock Market	Public Institution	No
Morocco	**CSE**	Bourse de Casablanca	Mutualised	No
Syria	**DSE**	Damascus Securities Exchange	Public Institution	No
Oman	**MSM**	Muscat Securities Market	State-owned Company	No
Palestinian Authority	**PEX**	Palestine Exchange	Private	Yes
Qatar	**QSE**	Qatar Stock Exchange	State-owned	No
Saudi Arabia	**TASI**	Saudi Stock Exchange (Tadawul)	State-owned	No
Tunisia	**BVMT**	Bourse de Tunis	Mutualised	No
UAE DIFC	**ND**	Nasdaq Dubai	Majority state-owned	No
UAE Federal	**DFM**	Dubai Financial Market	Majority state-owned, listed	Yes
	ADX	Abu Dhabi Securities Exchange	State-owned	No

About Crescent Enterprises

Crescent Enterprises is a multinational company headquartered in the UAE, active in the fields of ports & logistics; power & engineering; business aviation; healthcare; private equity and business incubation. Through its group of 20 subsidiary and affiliate companies, Crescent Enterprises employs over 5,000 people across in 22 countries across five continents.

The Company acts on a long-term investment and operating philosophy and is a leader in growing diversified regional and global companies and building sustainable, scalable and profitable enterprises. CE-Ventures, one of the Company's divisions, also develops early-stage concepts into fully viable businesses that generate inclusive social impact.

Crescent Enterprises is a wholly-owned subsidiary of the Crescent Group, one of the most progressive family business groups, which has been actively contributing to the economic landscape of the Middle East and North Africa (MENA) Region for over 43 years. Crescent Group's other subsidiary, Crescent Petroleum, is the first and the largest indigenous, privately-owned upstream oil & gas company in the Middle East.

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