



INTERNATIONAL FINANCE CORPORATION  
WORLD BANK GROUP



# **Corporate Governance Survey Middle East and North African Countries**

## **IFC and Hawkamah Institute of Corporate Governance**



# Presentation Scheme

- **Section I. Background**
- **Section II Corporate Governance Practices in the MENA region (Survey results)**
- **Section III. Outcomes for special type of legal entities**
- **Section IV. One on One Interview: Overview of Countries**

# Section I. Background

# Section I. Background

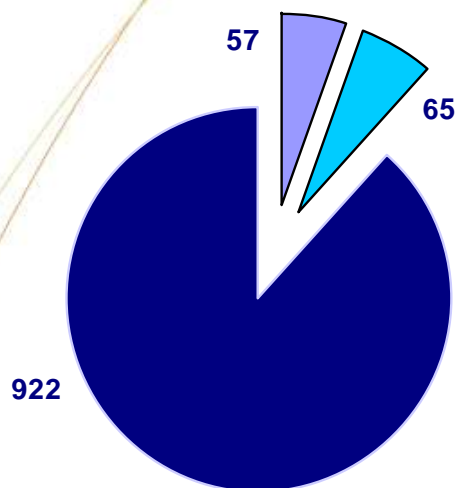
## Why the Survey was done?

**The second Roundtable for the MENA region was held in Beirut during 2004 and focus in the key steps of how to approach an effective program to disseminate Corporate Governance in the MENA region countries. Participants agreed on the following priority areas or outputs on which to focus their future work:**

- **(i) MENA regional corporate governance survey,**
- **(ii) MENA survey of corporate governance of banks,**
- **(iii) National corporate governance codes,**
- **(iv) Corporate governance of non-listed companies,**
- **(v) Corporate governance of state-owned enterprises, and**
- **(vi) Awareness rising.**

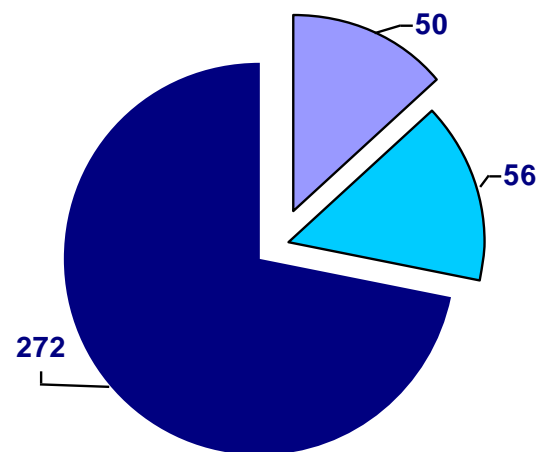
### Main data regarding the Survey

- Eleven (11) countries of the MENA Region:  
**Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, UAE, West Bank.**
- **Scope:** Listed Companies and Banks
- **Size:**
  - » **Population: 1.044**



■ No listed banks ■ listed banks ■ listed companies

**Sample: 378**



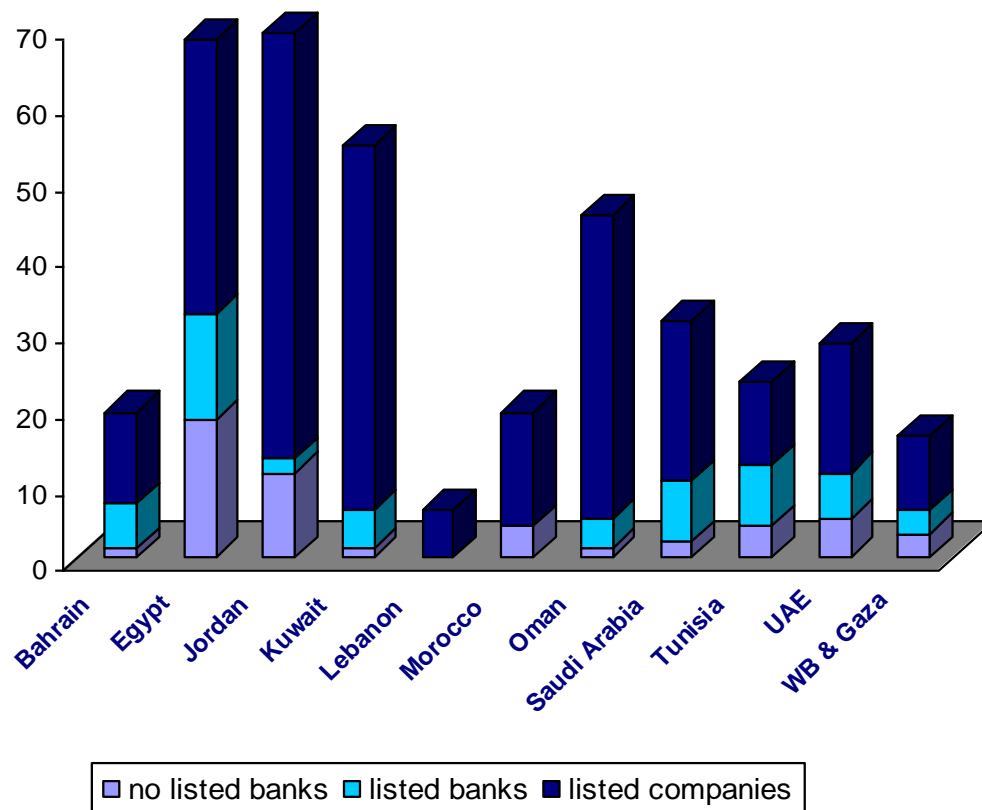
■ No listed banks ■ listed banks ■ listed companies

# Section I. Background

## Methodology

### Sample distribution

	no listed banks	listed banks	listed companies	TOTAL
Bahrain	1	6	12	19
Egypt	18	14	36	68
Jordan	11	2	56	69
Kuwait	1	5	48	54
Lebanon	0	0	6	6
Morocco	4	0	15	19
Oman	1	4	40	45
Saudi Arabia	2	8	21	31
Tunisia	4	8	11	23
UAE	5	6	17	28
WB & Gaza	3	3	10	16
<b>TOTAL</b>	<b>50</b>	<b>56</b>	<b>272</b>	<b>378</b>





# Section I. Background

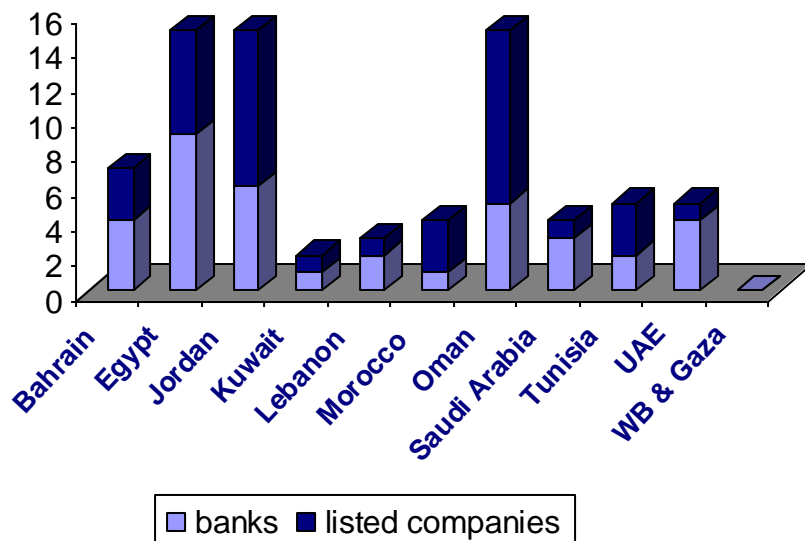
## Methodology

### ✓ Survey Approach: Quantitative and qualitative

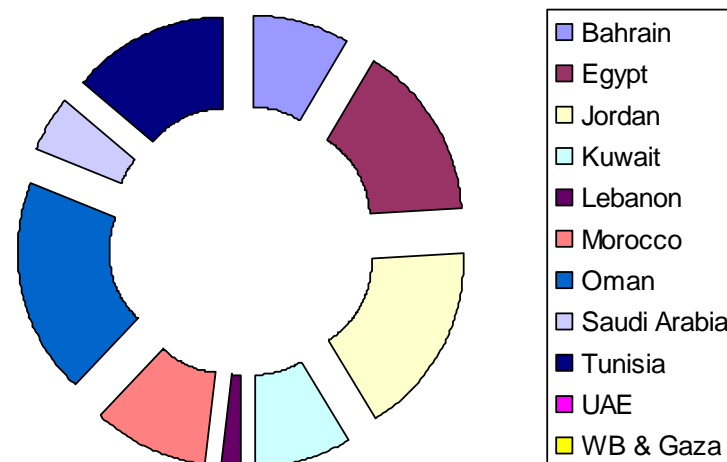
- **Quantitative:** web-based questionnaire ([www.hawkamah.org/survey](http://www.hawkamah.org/survey))
- **Qualitative:** 1-on-1 interviews with COBs, CEOs, members of the Board and key executives

### ✓ Results obtained

Web-based questionnaire



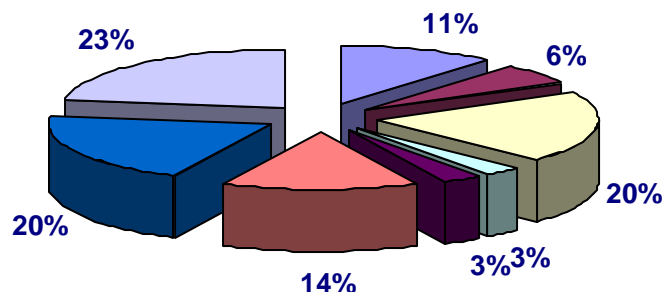
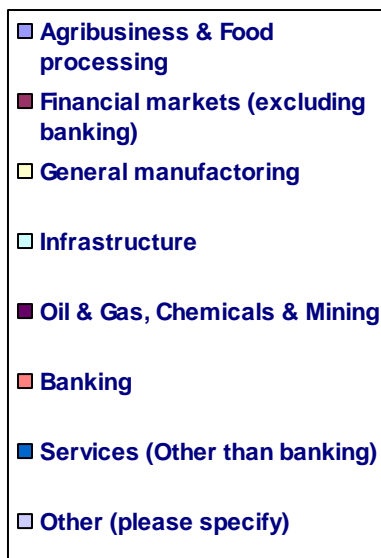
1-on-1 interviews



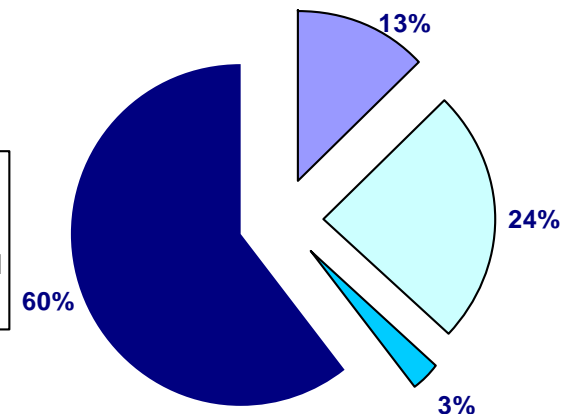
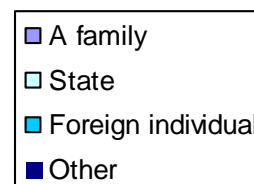
# Section I. Background

## Methodology

### ▪ Sectors considered (listed co.)



### Ownership structure



Statistical margin error: <10% →

→ Survey results statistically relevant



# Presentation Scheme

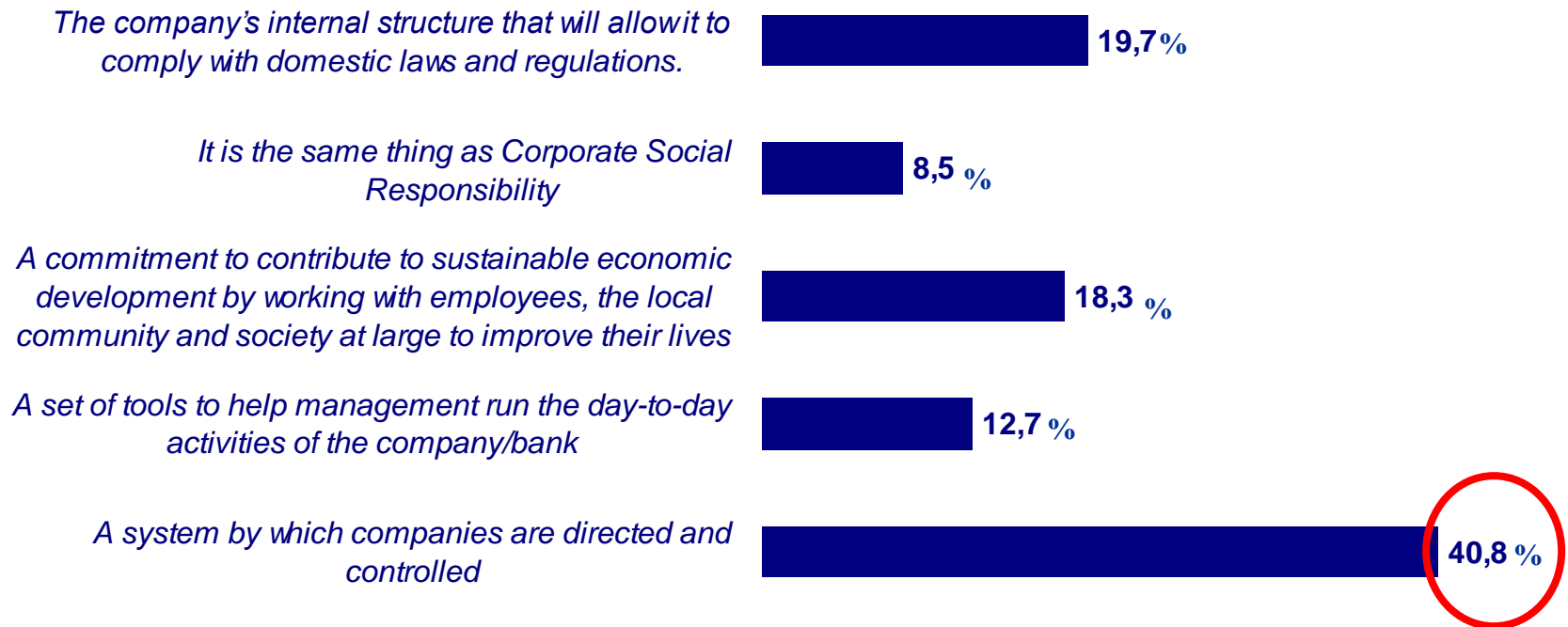
- Section I. Background
- **Section II Corporate Governance Practices in the MENA region (Survey results)**
- Section III. Outcomes for special type of legal entities
- Section III. One on One Interview: Overview of Countries

## Section II. Corporate Governance Practices in the MENA region (Survey results)

# Section II Survey results

## How does the MENA region view corporate governance?

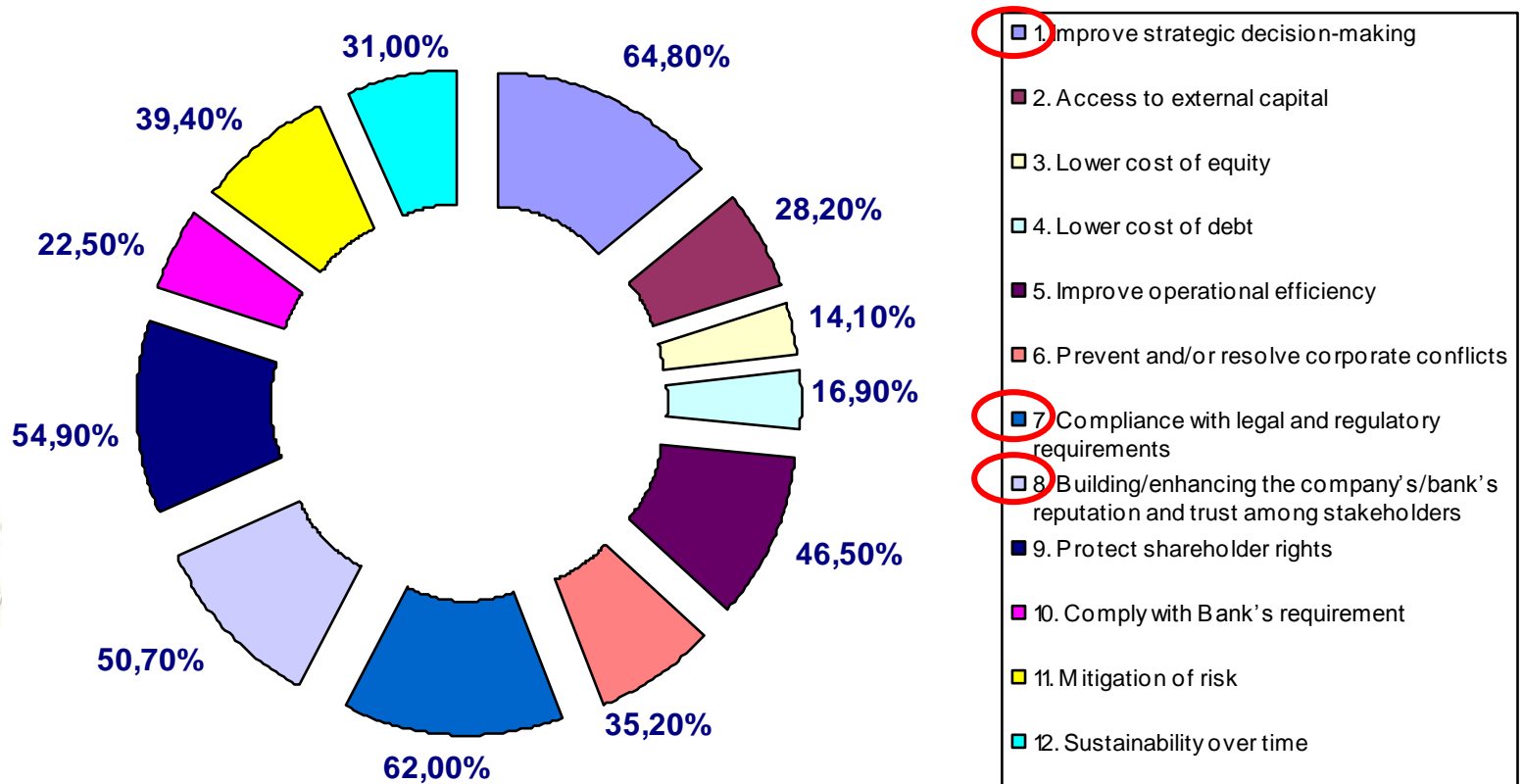
### “What is Corporate Governance for MENA banks and companies?”



# Section II Survey results

How does the MENA region view corporate governance?

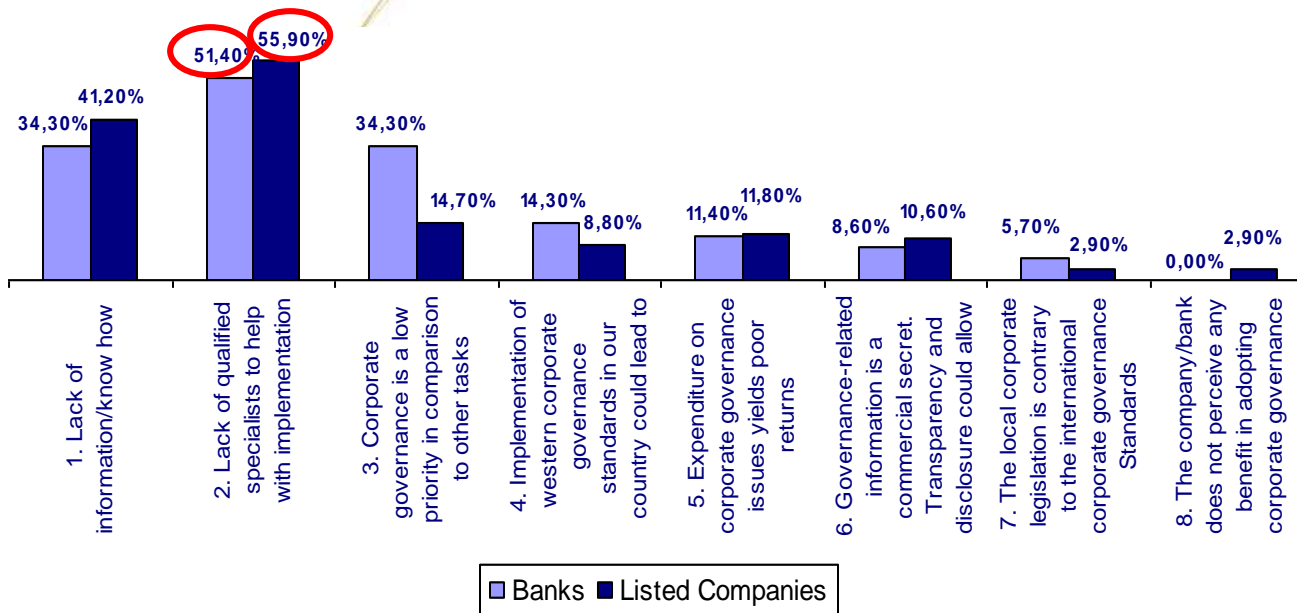
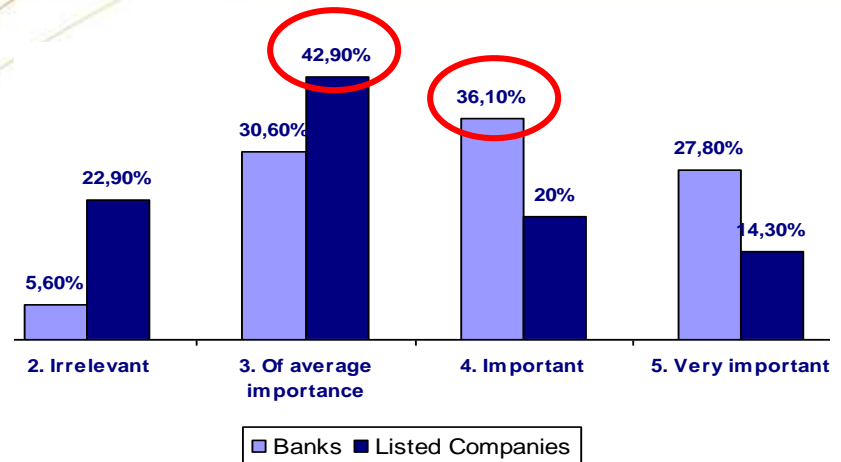
“What are the main benefits perceived by the companies and banks, by implementing corporate governance?”



# Section II Survey results

## How does the MENA region view corporate governance?

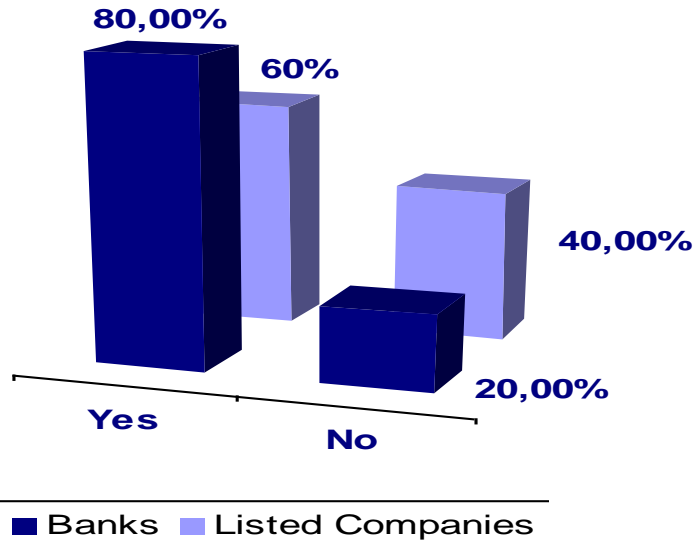
What is the level of importance of adopting Corporate Governance Practices for MENA companies and banks?



What are the main barriers to implementing corporate governance standards for companies and banks?

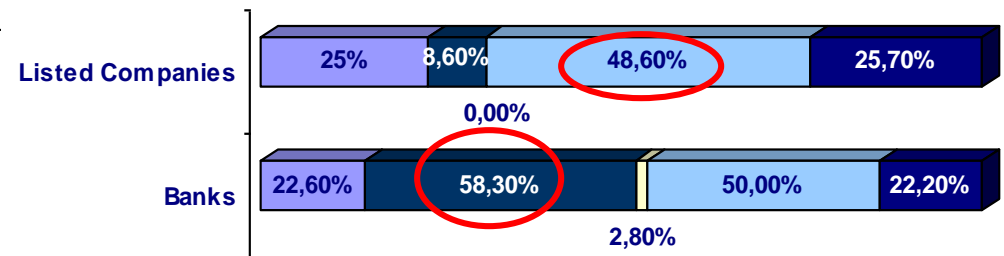
# Section II Survey results

## How do MENA companies and banks embrace Corporate Governance?



Are key officers familiar with OECD Principles?

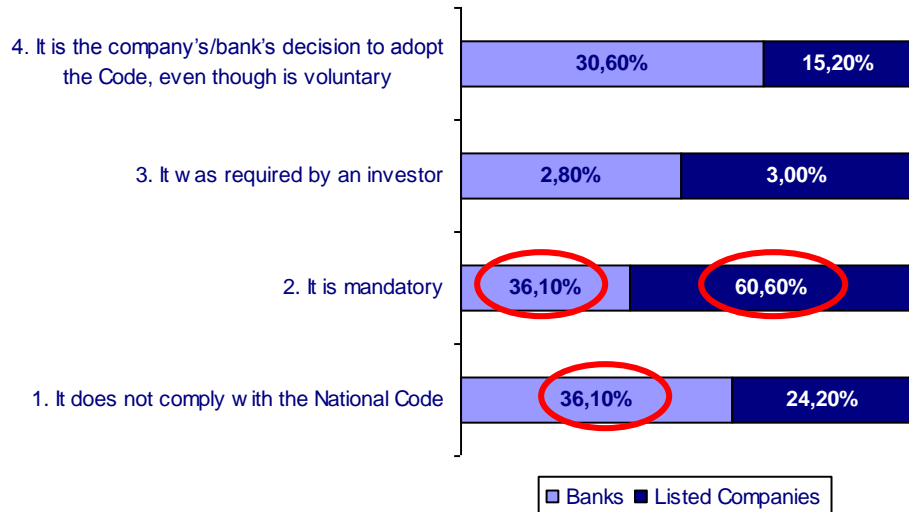
What are the main standards of Corporate Governance followed by MENA banks and companies?



- 1. The OECD Principles
- 2. The recommendations of the Basel Committee on Banking Supervision (BCBS)
- 3. The Commonwealth corporate governance Principles
- 4. You country's National Code of corporate governance
- 5. None

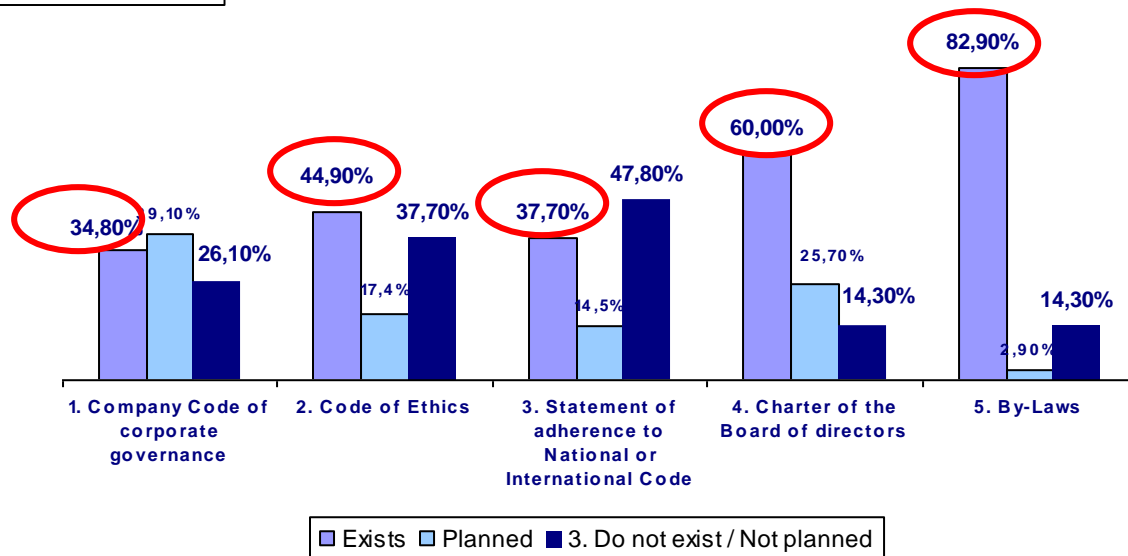
# Section II Survey results

## How do MENA companies and banks embrace Corporate Governance?



Reasons why companies and banks comply with national benchmarks

What documents do companies and banks from the MENA region formally have adopted or intend to adopt to improve corporate governance practices?





# Section II Survey results

## How do MENA companies and banks embrace Corporate Governance?

What are the priorities for banks and companies in the MENA region in terms of improving corporate governance during the next year?

	Banks	Listed Companies
Implement International Accounting Standards	41,70%	41,20%
Introduce independent directors to the Board of directors	30,60%	32,40%
Establish Corporate Secretary position	11,10%	2,90%
Implement remuneration system for executives	33,30%	8,80%
Establish Board committees	33,30%	32,40%
Approve a corporate governance Code	38,90%	29,40%
Seek full corporate governance plan	47,20%	14,70%
Train Board members on corporate governance issues	22,20%	23,50%
Seek consultancy on specific corporate governance issues	27,80%	20,60%
Establish General Shareholder Meeting procedures	16,70%	14,70%
Establish Board of directors Charter	22,20%	11,80%
Establish conflict of interest and related party transactions administration procedures	25,00%	14,70%
None	13,90%	23,50%

# Section II: Shareholders rights and equitable treatment

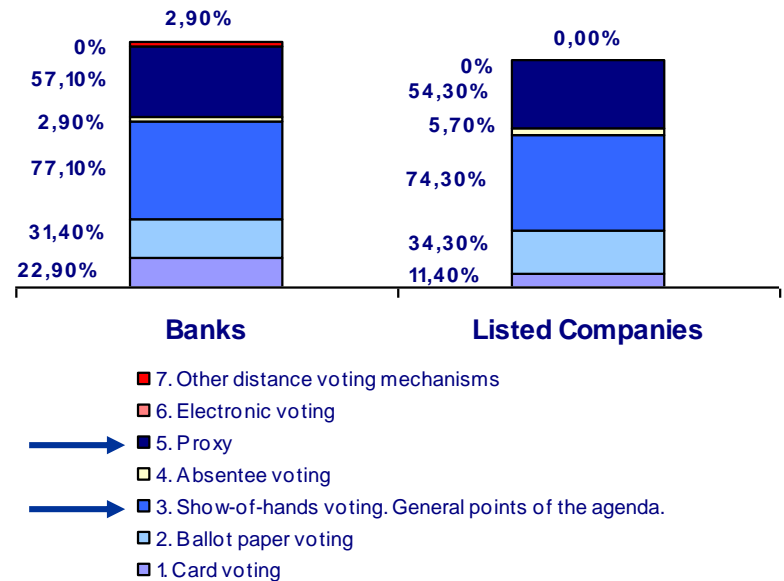
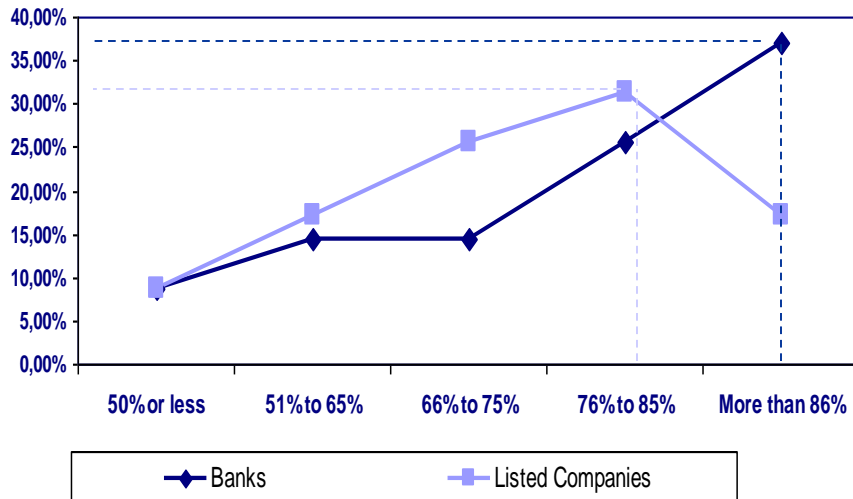
# Section II Survey results

## Shareholders Rights and Equitable treatment

OECD Principle: *Basic shareholder rights should include the right to: participate and vote in general shareholder meetings;*

Level of attendance of shareholders to the last annual meeting

Percentage of shareholders



OECD Principle: *Shareholders should be able to vote in person or in absentia, and equal effect should be given to votes whether cast in person or in absentia*

Voting Mechanisms most used in the MENA region

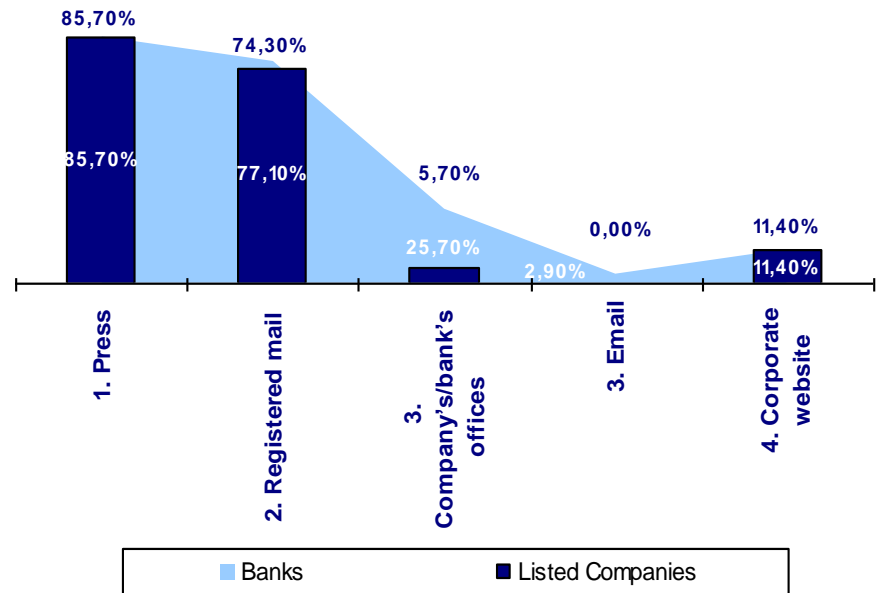
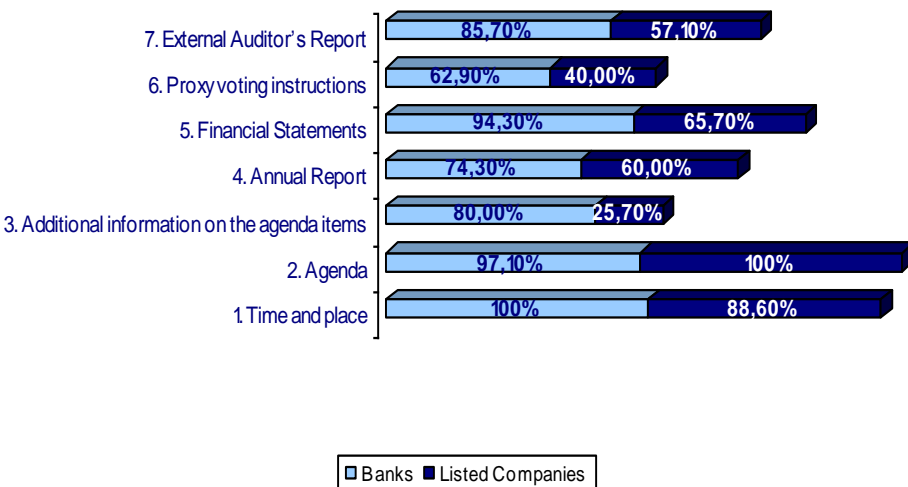
# Section II Survey results

## Shareholders Rights and Equitable treatment

*OECD Principle: Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.*

### Information provided to Shareholders before the General Meeting in the MENA region

### Mechanisms used in the MENA region for notification of the General Meeting of Shareholders

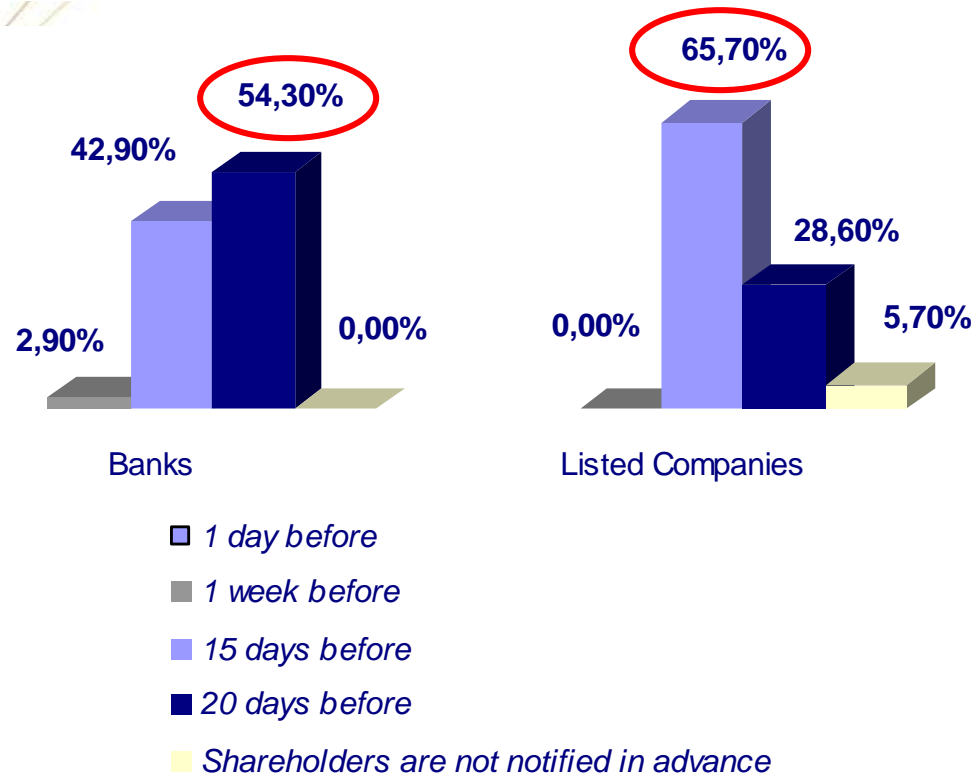


# Section II Survey results

## Shareholders Rights and Equitable treatment

*OECD Principle: Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be decided at the meeting.*

### Time of notice for the Annual General Meeting of Shareholders in the MENA region

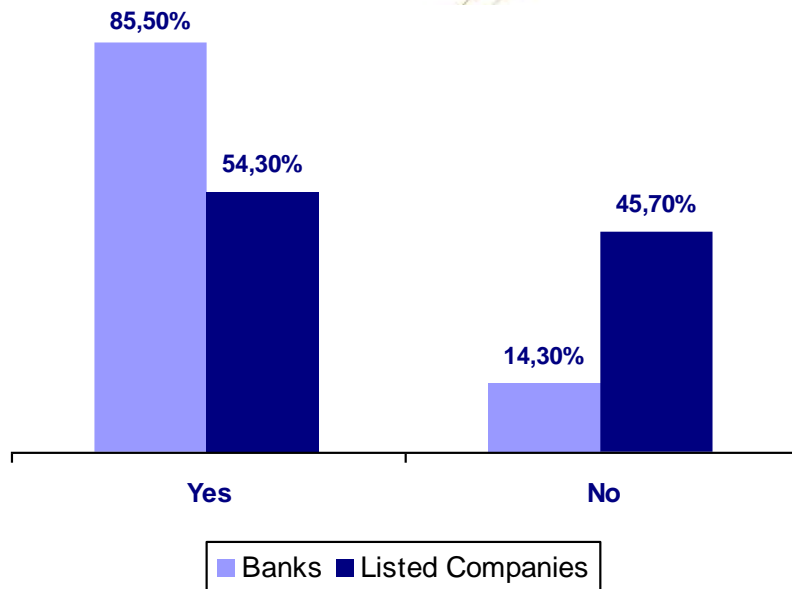


# Section II Survey results

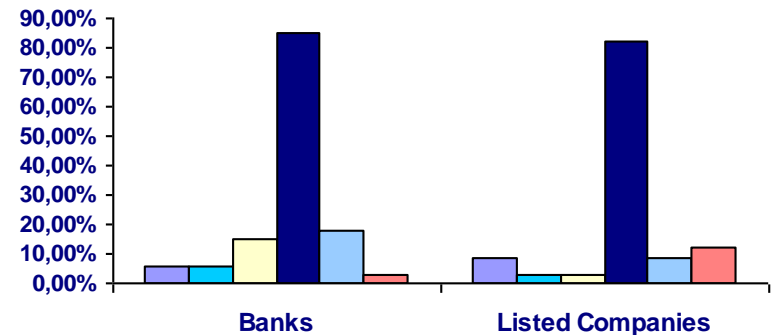
## Shareholders Rights and Equitable treatment

*OECD Principle: Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.*

### Companies and banks that require Board Members to disclose conflicts of interest



*OECD Principle: Within any series of a class, all shares should carry the same rights. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase.*



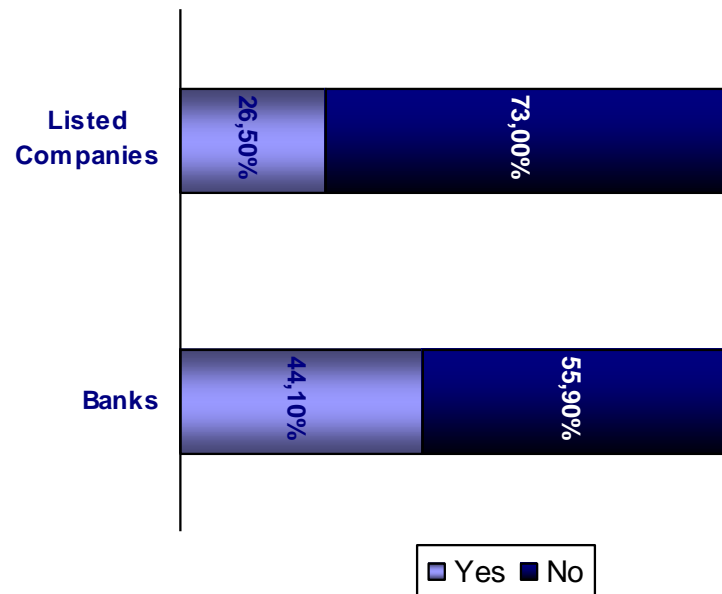
- 1. Cumulative voting
- 2. Block voting
- 3. Blocking vote
- 4. Equal treatment with respect to voting rights and subscriptions rights
- 5. Clear policies with respect to treatment of shareholders when changes of control occur
- 6. None

# Section II Survey results

## Shareholders Rights and Equitable treatment

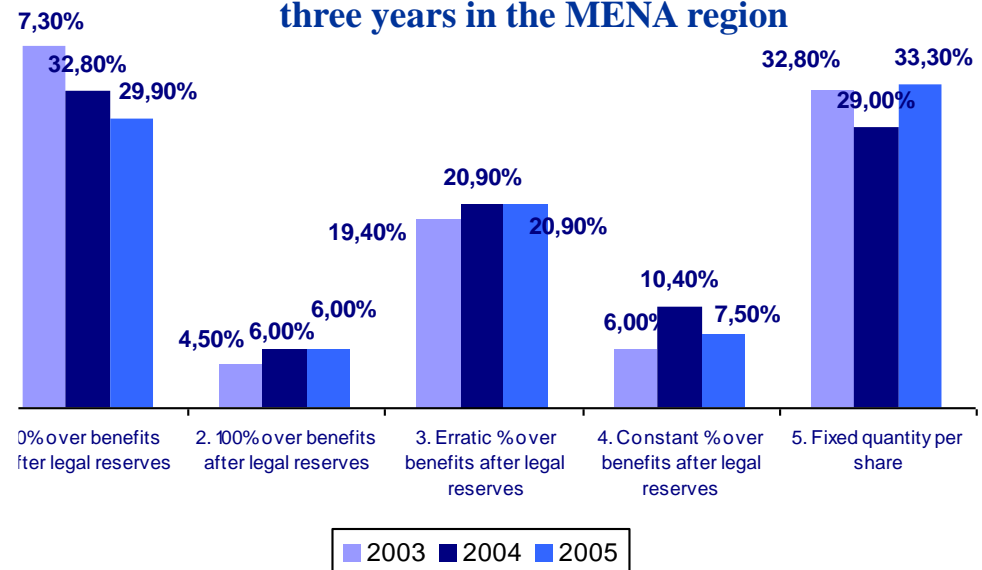
*OECD Principle: Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.*

Tag-along rights in the MENA region recognized by companies and banks



*OECD Principle: Basic shareholder rights should include the right to: ...*  
*6) share in the profits of the corporation.*

Policy of dividends during the past three years in the MENA region





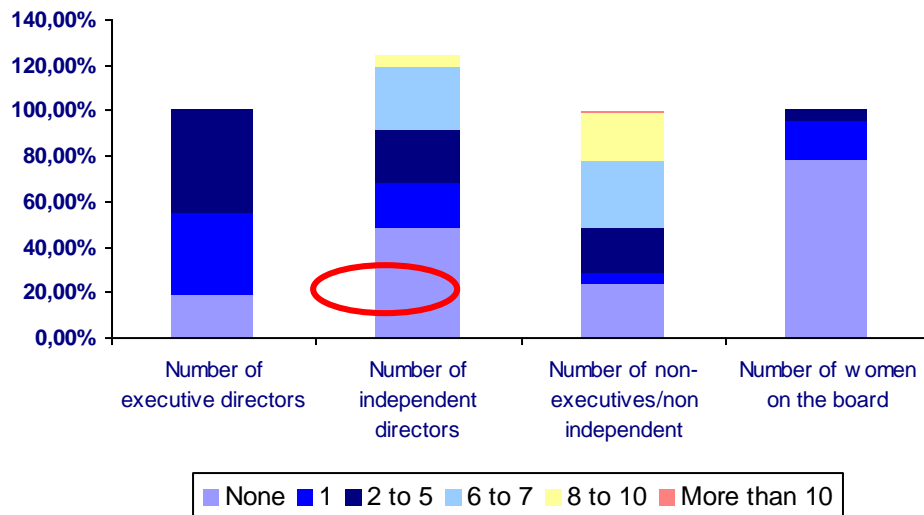
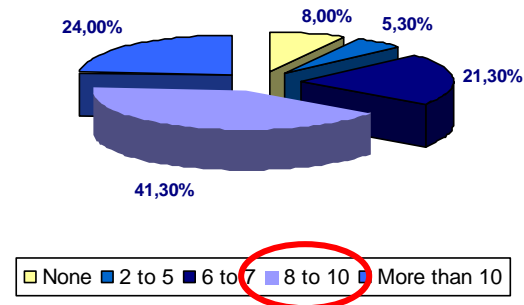
# Section II: Board practices, structure and composition

# Section II Survey results

## Board practices, structure and composition

OECD Principle: *Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest.*

Average number of members of the Board in the MENA region



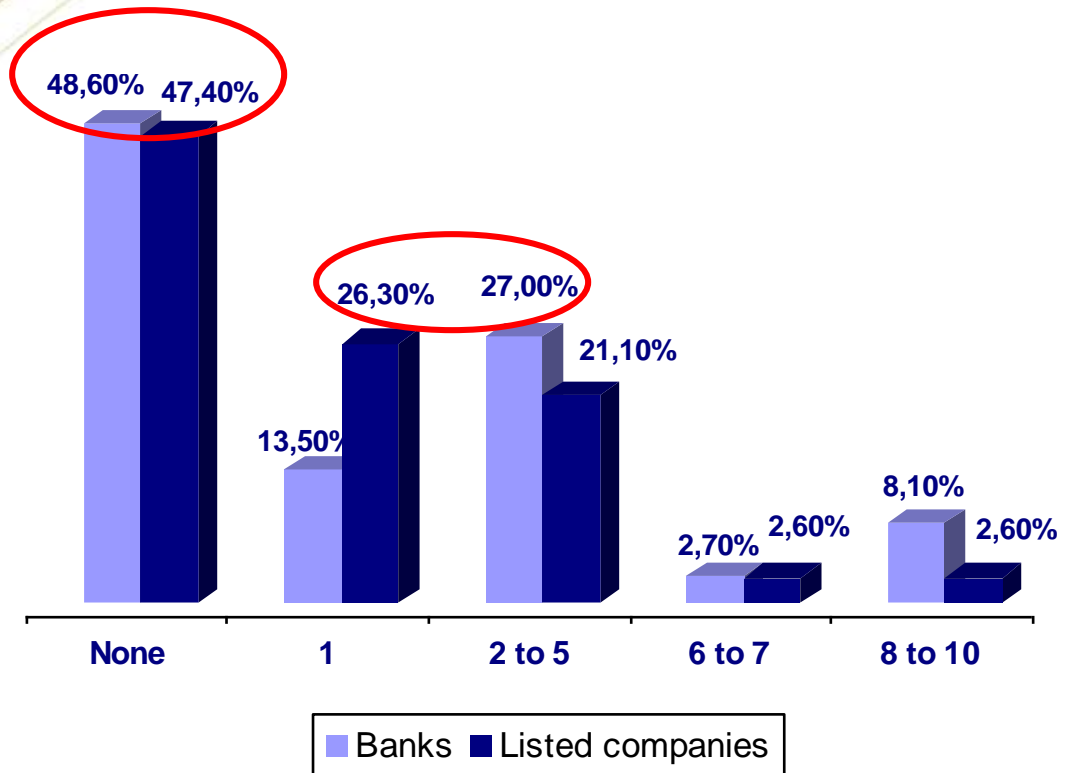
Composition of the boards in the MENA region

# Section II Survey results

## Board practices, structure and composition

*OECD Principle: Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest.*

### Independent Directors Listed Companies vs Banks

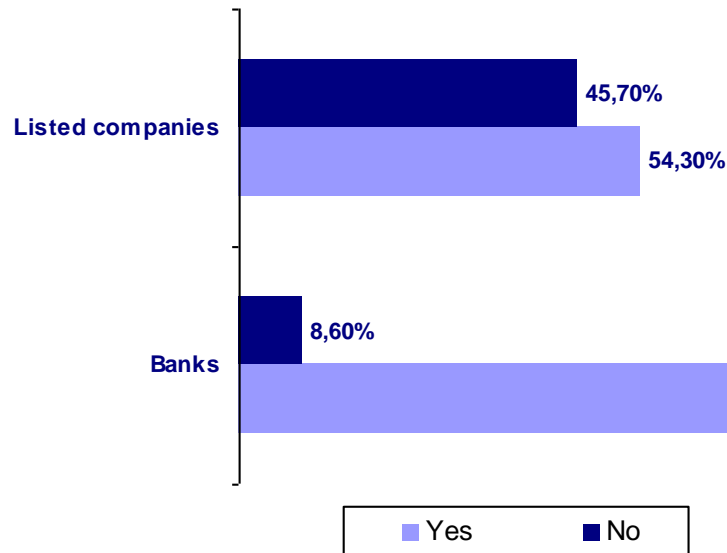


# Section II Survey results

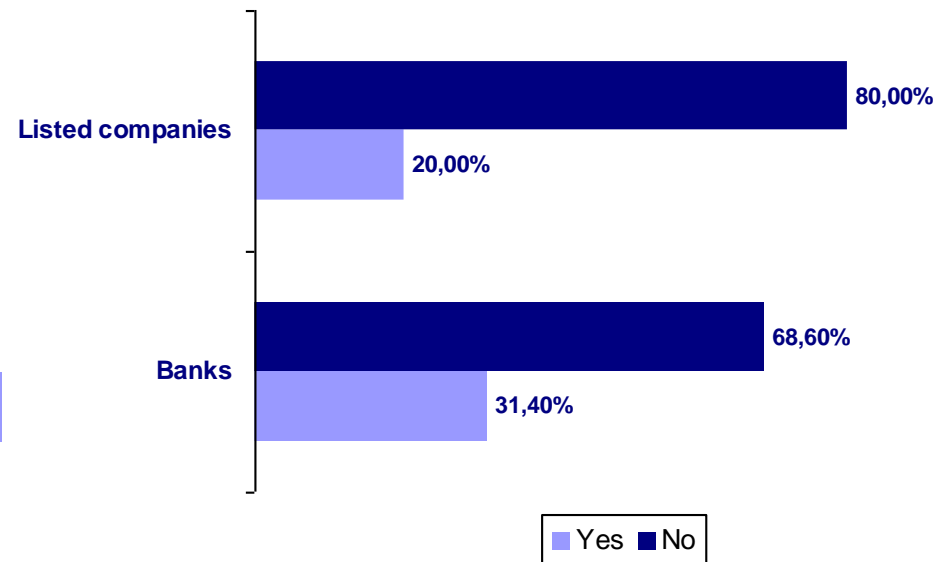
## Board practices, structure and composition

OECD Principle: *Boards should consider assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest.*

Does the company's/bank's governing document require that Board members and management disclose and abstain from voting on issues when there is a conflict of interest?



Separation of CEO and COB

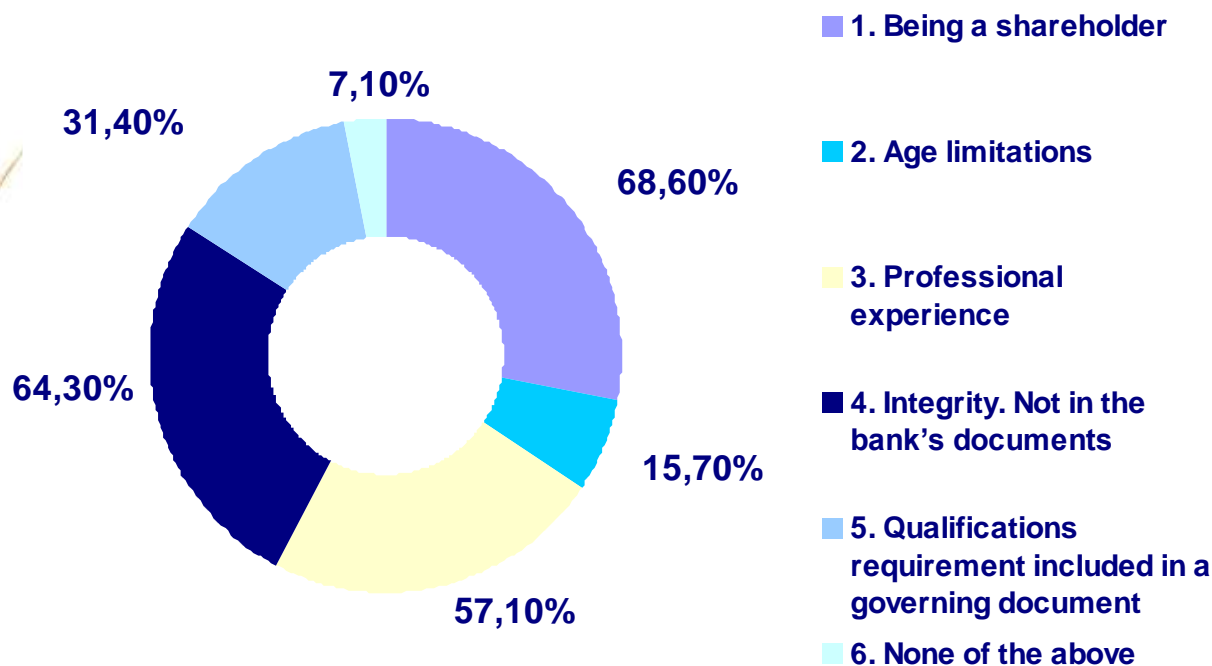


# Section II Survey results

## Board practices, structure and composition

OECD Principle: *The board should be able to exercise objective independent judgment on corporate affairs.*

### General criteria for electing members of the Board of Directors in the MENA region

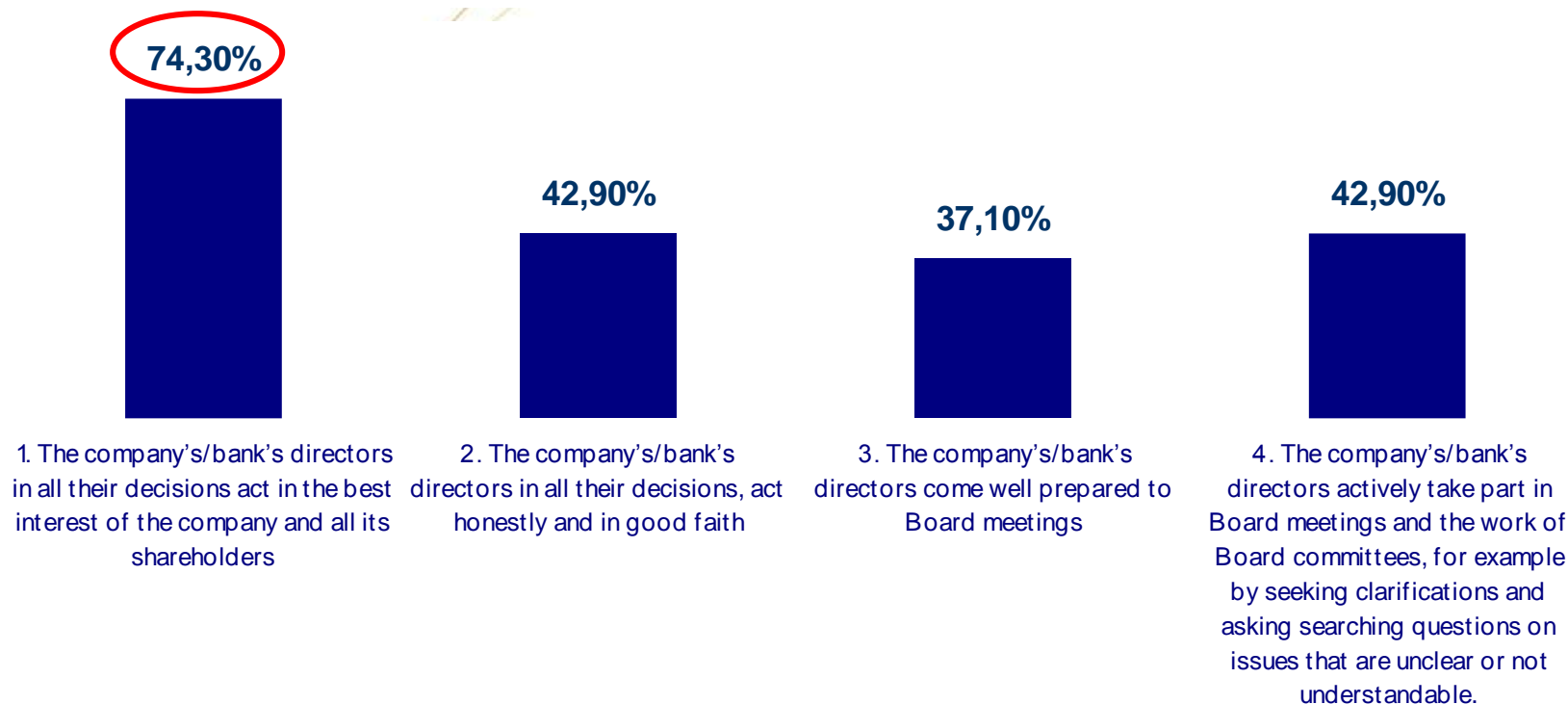


# Section II Survey results

## Board practices, structure and composition

**OECD Principle: *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders***

### How is Duty of Care understood by companies and banks of the MENA region

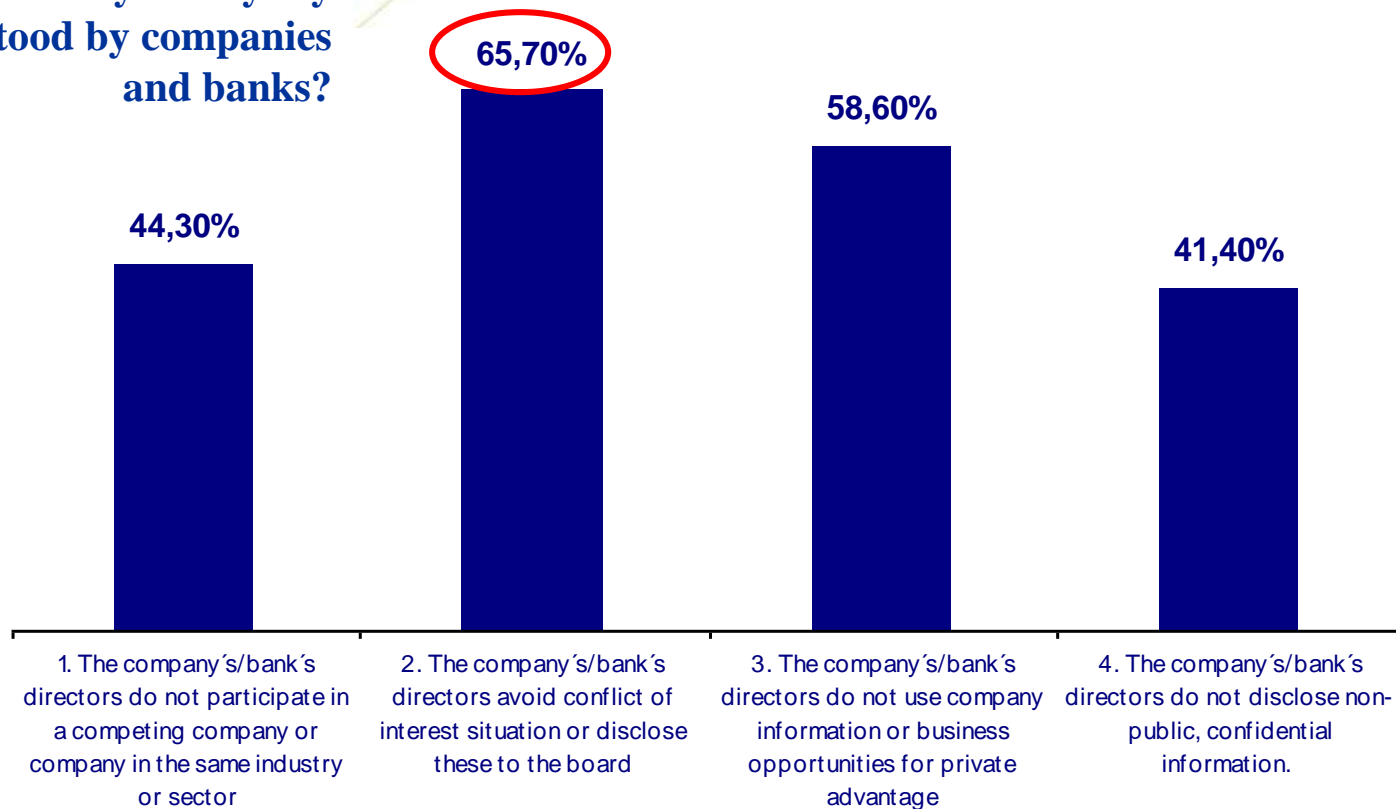


# Section II Survey results

## Board practices, structure and composition

OECD Principle: *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders*

How is Duty of Loyalty understood by companies and banks?



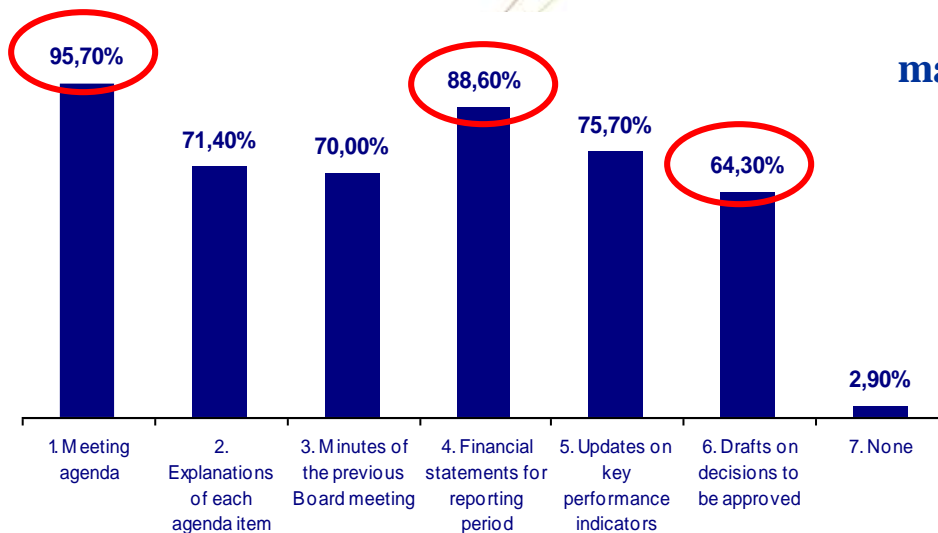


# Section II Survey results

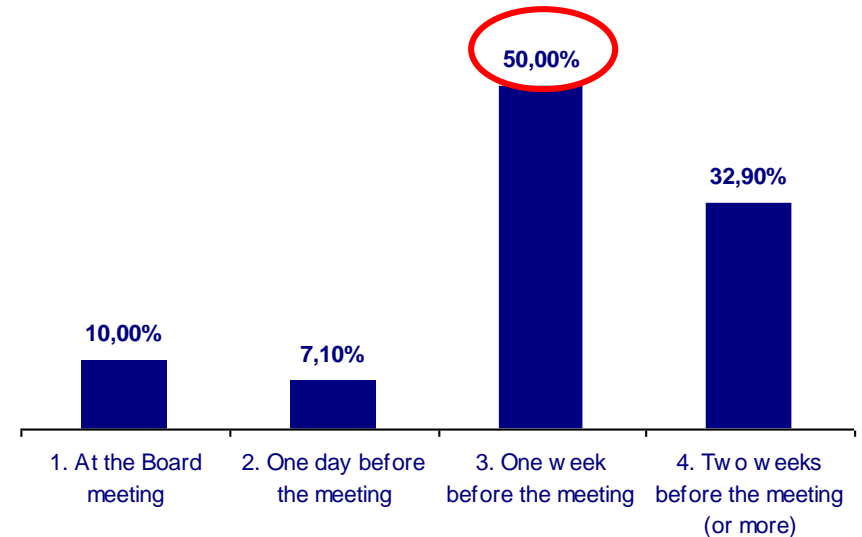
## Board practices, structure and composition

OECD Principle: *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders*

### What information is provided to the Board Members in the MENA region?



### When are directors furnished with background materials for Board meetings in the MENA region?



# Section II Survey results

## Board practices, structure and composition

*OECD Principle: The Board should fulfill certain key functions including: reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.*

Which are the key functions of Boards in the MENA region?

### Banks (1/2)

	Board	CEO	GMS
1. Electing/appointing and dismissing the Chairman of the Board	81,8%	0,0%	36,4%
2. Electing/appointing and dismissing Members of the Board	33,3%	3,0%	72,7%
3. Electing/appointing and dismissing the CEO/GD	93,9%	6,1%	6,1%
4. Electing/appointing and dismissing other key executives/managers	60,0%	68,6%	5,7%
5. Approving the remuneration of the Members of the Board	36,4%	6,1%	72,7%
6. Approving the remuneration of the CEO/GD	79,4%	5,9%	17,6%
7. Setting Corporate Strategy	97,1%	23,5%	5,9%
8. Approving annual budgets of the company	80,0%	17,1%	17,1%
9. Placing additional shares / increasing the charter capital	41,2%	14,7%	70,6%
10. Approving transactions with a value below 25% of the book value of company's/bank's assets	73,3%	36,7%	13,3%

# Section II Survey results

## Board practices, structure and composition

*OECD Principle: The Board should fulfill certain key functions including: reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.*

Which are the key functions of Boards in the MENA region?

### Banks (2/2)

	Board	CEO	GMS
11. Approving transactions with a value of 25%-50% of the book value of company's/bank's assets	86,7%	6,7%	20,0%
12. Approving transactions with a value of over 50% of the book value of company's/bank's assets	66,7%	6,7%	36,7%
13. Appointing external auditors	41,2%	2,9%	70,6%
14. Approving the Annual Report, including annual financial statements	54,3%	11,4%	62,9%
15. Overseeing the risk management system	78,8%	48,5%	3,0%
16. Overseeing the internal audit function	88,6%	17,1%	n.d.
17. Overseeing the internal control system	77,1%	45,7%	5,7%
18. Conducting the General Meeting of Shareholders	90,9%	27,3%	6,1%
19. Approving the succession plan (if any. If not, live the space blank)	77,8%	50,0%	5,6%
20. Approving Disclosure Policies	85,3%	29,4%	5,9%

# Section II Survey results

## Board practices, structure and composition

OECD Principle: *The Board should fulfill certain key functions including: reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.*

Which are the key functions of Boards in the MENA region?

### Listed Companies (1/2)

	Board	CEO	GMS
1. Electing/appointing and dismissing the Chairman of the Board	61,8%	11,8%	41,2%
2. Electing/appointing and dismissing Members of the Board	31,3%	3,1%	78,1%
3. Electing/appointing and dismissing the CEO/GD	84,8%	12,1%	21,2%
4. Electing/appointing and dismissing other key executives/managers	65,6%	59,4%	0,0%
5. Approving the remuneration of the Members of the Board	44,1%	8,8%	52,9%
6. Approving the remuneration of the CEO/GD	84,8%	3,0%	18,2%
7. Setting Corporate Strategy	85,3%	32,4%	8,8%
8. Approving annual budgets of the company	75,8%	18,2%	21,2%
9. Placing additional shares / increasing the charter capital	48,6%	14,3%	60,0%
10. Approving transactions with a value below 25% of the book value of company's/bank's assets	71,4%	32,1%	3,6%

# Section II Survey results

## Board practices, structure and composition

OECD Principle: *The Board should fulfill certain key functions including: reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.*

Which are the key functions of Boards in the MENA region?

### Listed Companies (2/2)

	Board	CEO	GMS
11. Approving transactions with a value of 25%-50% of the book value of company's/bank's assets	67,9%	25,0%	21,4%
12. Approving transactions with a value of over 50% of the book value of company's/bank's assets	58,6%	20,7%	37,9%
13. Appointing external auditors	35,3%	5,9%	64,7%
14. Approving the Annual Report, including annual financial statements	39,4%	21,2%	57,6%
15. Overseeing the risk management system	72,4%	41,4%	3,4%
16. Overseeing the internal audit function	78,1%	34,4%	n.d.
17. Overseeing the internal control system	64,5%	51,6%	3,2%
18. Conducting the General Meeting of Shareholders	81,3%	34,4%	3,1%
19. Approving the succession plan (if any. If not, live the space blank)	66,7%	16,7%	16,7%
20. Approving Disclosure Policies	76,7%	46,7%	10,0%

# Section II Survey results

## Board practices, structure and composition

*OECD Principle: When Committees of the Board are established, their mandate, composition, and working procedures should be well defined and disclosed by the Board*

### Board Committees and their composition

	Audit	Nominations /CG	Remuneration	Executive	Supervisory Board	Management Board
It will be created (if so continue with the next question)	9,0%	14,3%	9,4%	8,5%	nd	1,9%
Exist	79,1%	14,3%	15,1%	47,5%	10,4%	32,7%
With majority of independent directors	22,4%	3,6%	5,7%	6,8%	nd	3,8%
With majority of non-executive and non-independent directors	35,8%	5,4%	1,9%	20,3%	4,2%	1,9%
With majority of executive directors	10,4%	1,8%	3,8%	11,9%	nd	13,5%
None of the above	7,5%	71,4%	75,5%	42,4%	89,6%	65,4%

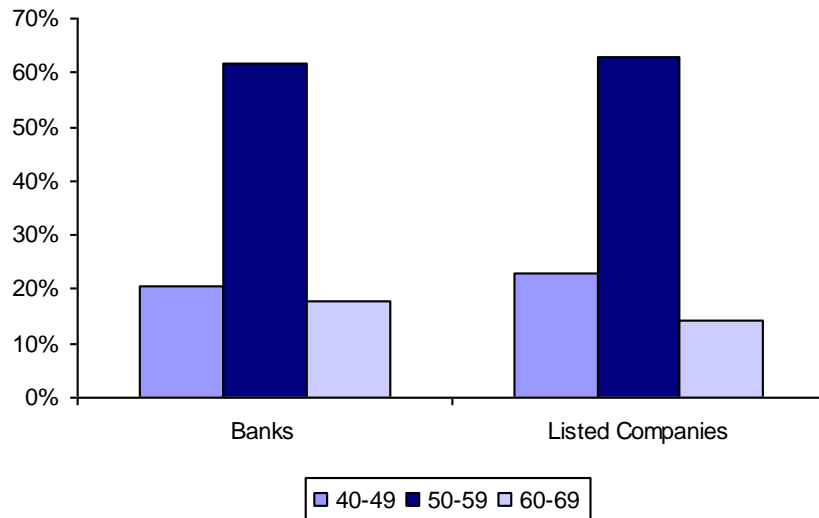


# Section II Survey results

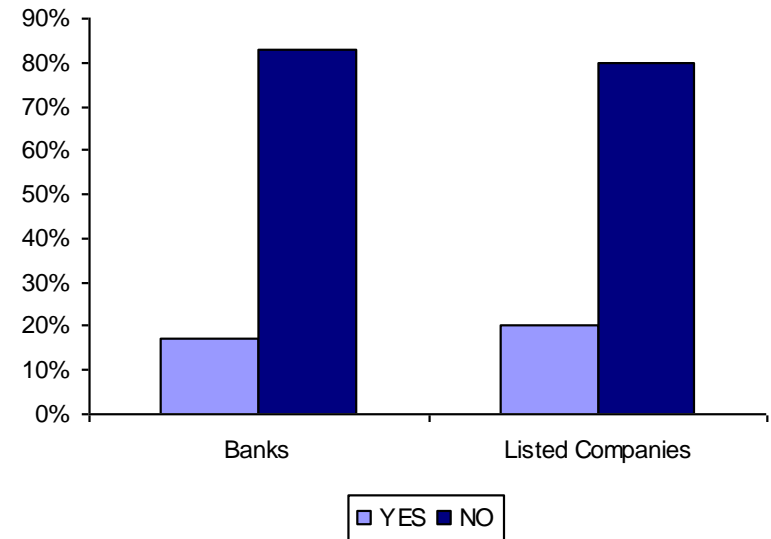
## Board practices, structure and composition

OECD Principle: *Other key aspects of Board structure, composition and evaluation*

### Average age of the Board members



### Do Board perform self-evaluations on a regular basis?



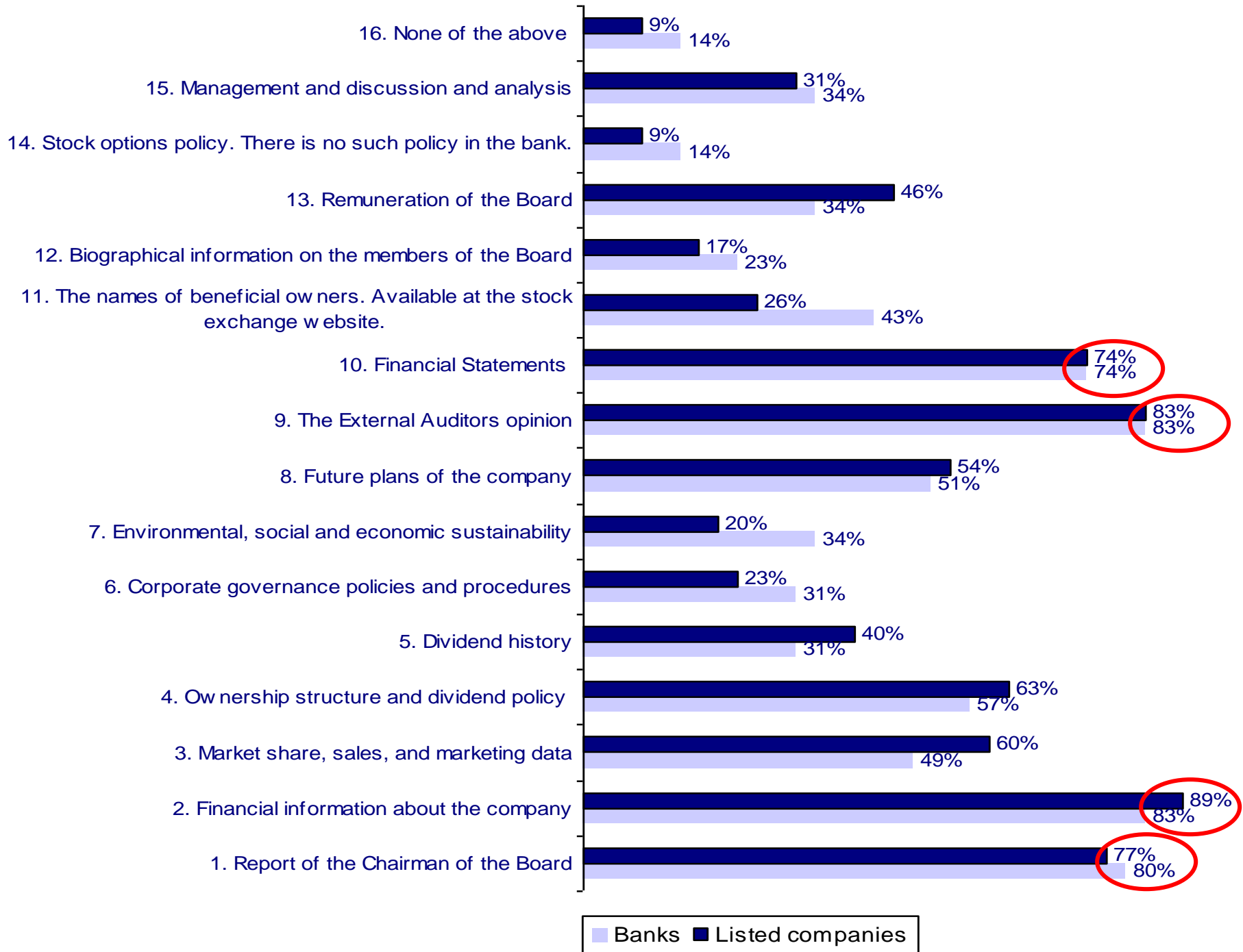


# Section II: Transparency, disclosure and control environment

# Section II Survey results

## Transparency, disclosure and control environment

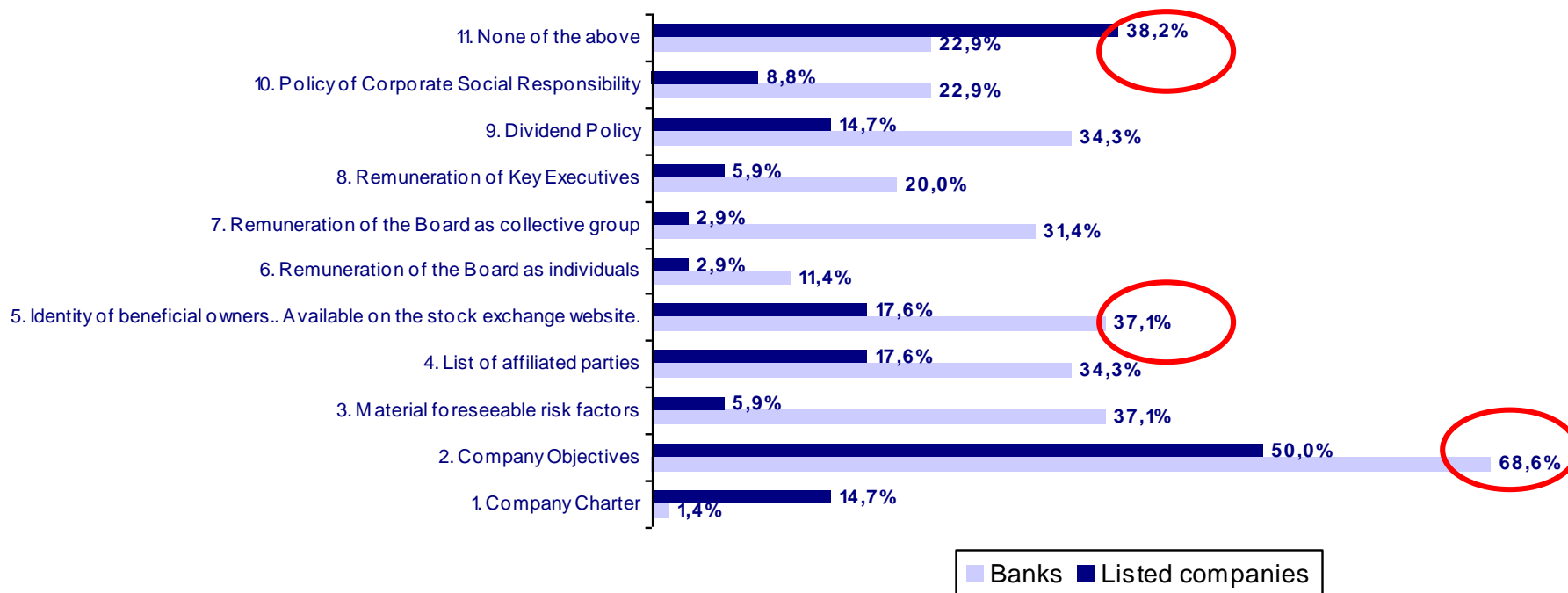
OECD Principle: *Disclosure should include, but not be limited to, material information on: 2. Company objectives, 3. Major share ownership and voting rights, 4. Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board,... 6. Foreseeable risk factor,.. 8. Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.*



# Section II Survey results

## Transparency, disclosure and control environment

### Non-financial information provided through the company/bank website in the MENA region

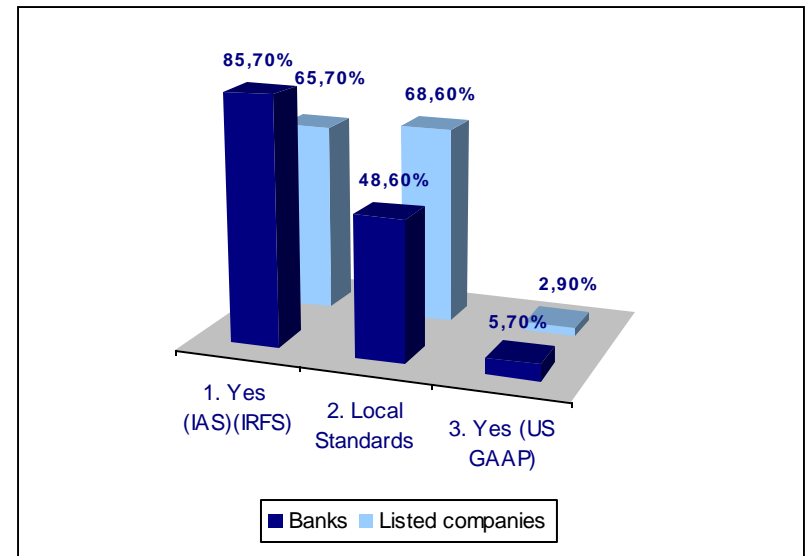
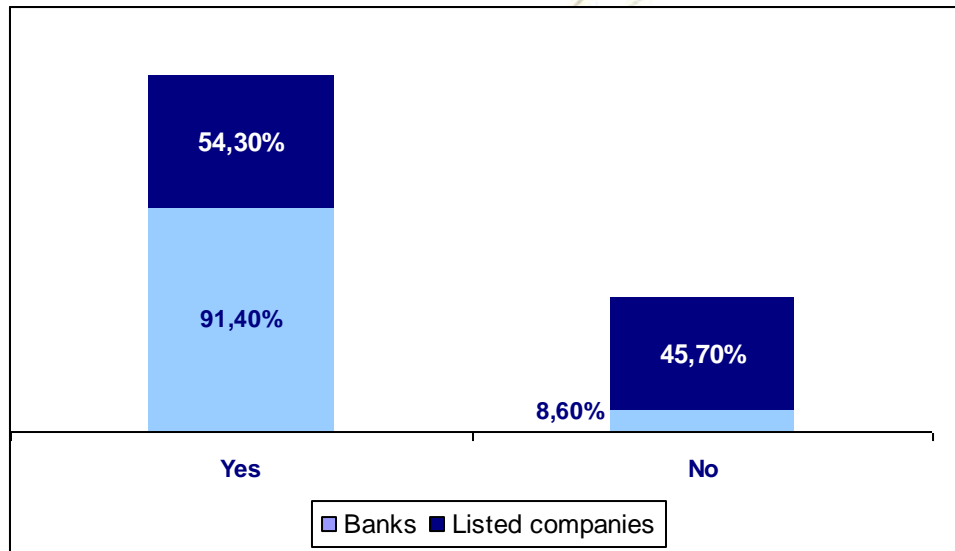


# Section II Survey results

## Transparency, disclosure and control environment

OECD Principle: *Disclosure should include, but not be limited to, material information on:... 5. Related party transactions*

### Mandatory disclosure of Related Party Transactions in the MENA region



### Accounting standards used by the banks and the companies of the MENA region

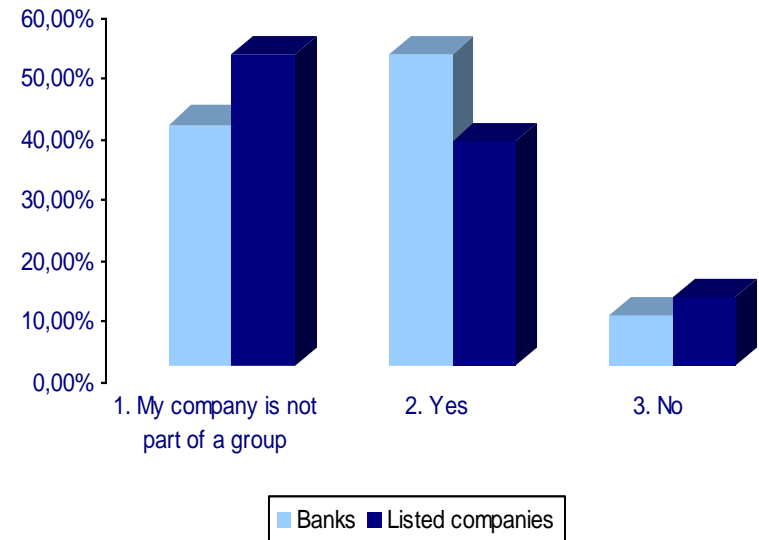
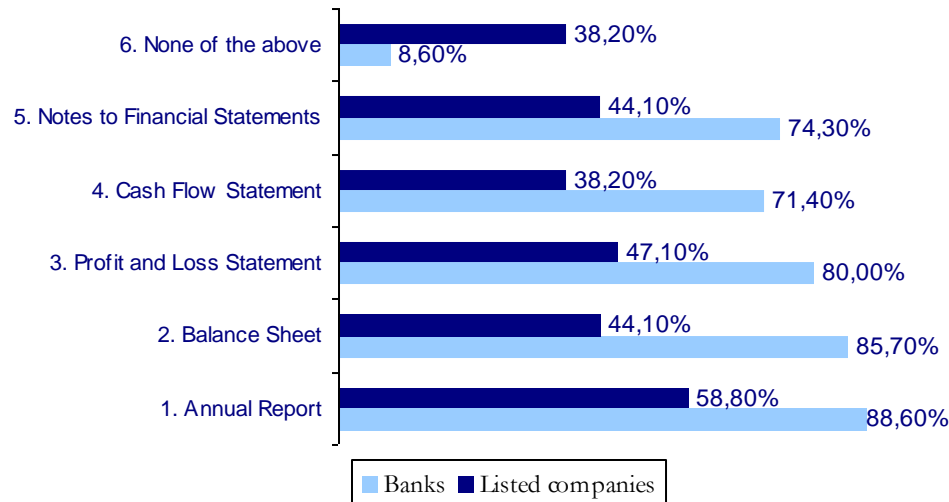
OECD Principle: *Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.*

# Section II Survey results

## Transparency, disclosure and control environment

OECD Principle: *Disclosure should include, but not be limited to, material information on: 1. The financial and operating results of the company.*

### Financial information provided through websites in the MENA region



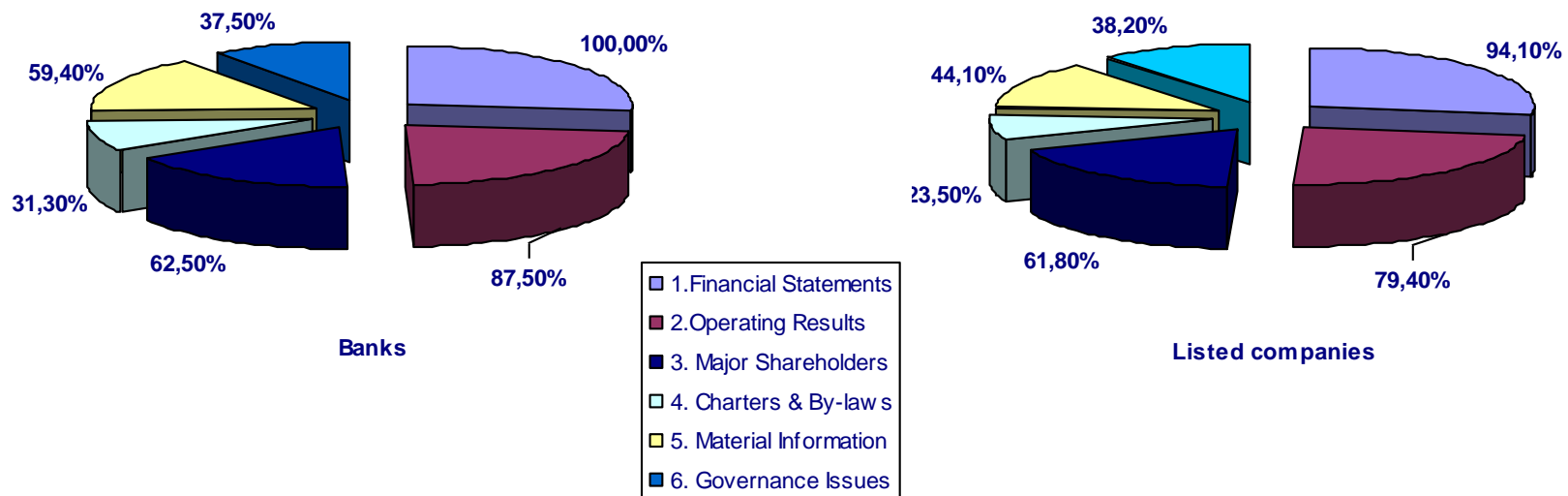
### Consolidated financial information for conglomerates in the MENA region

# Section II Survey results

## Transparency, disclosure and control environment

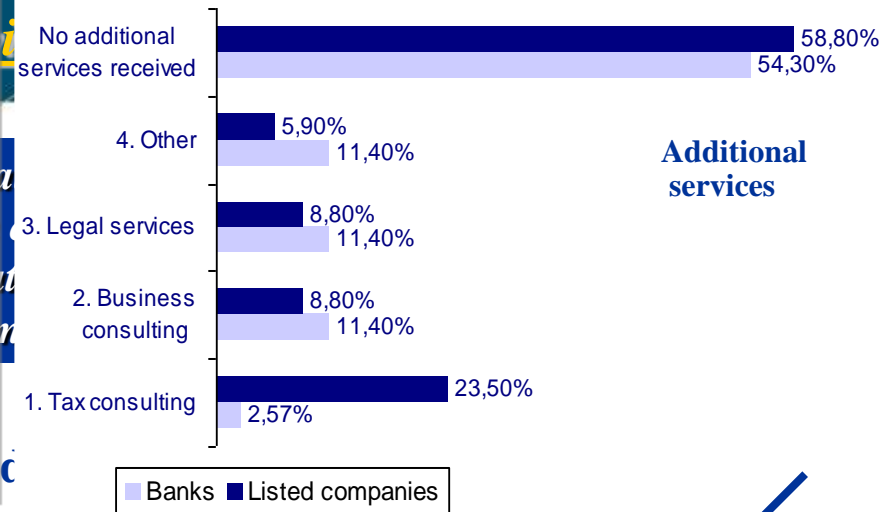
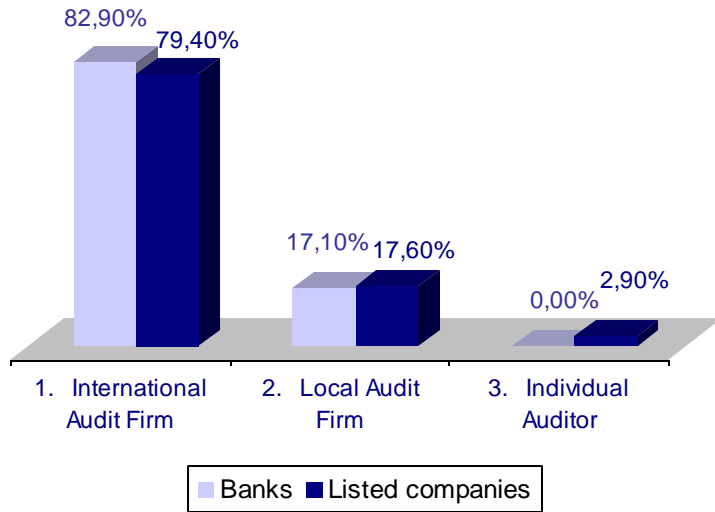
*OECD Principle: Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users.*

### Mechanisms and information provided to shareholders for obtaining information in the MENA region

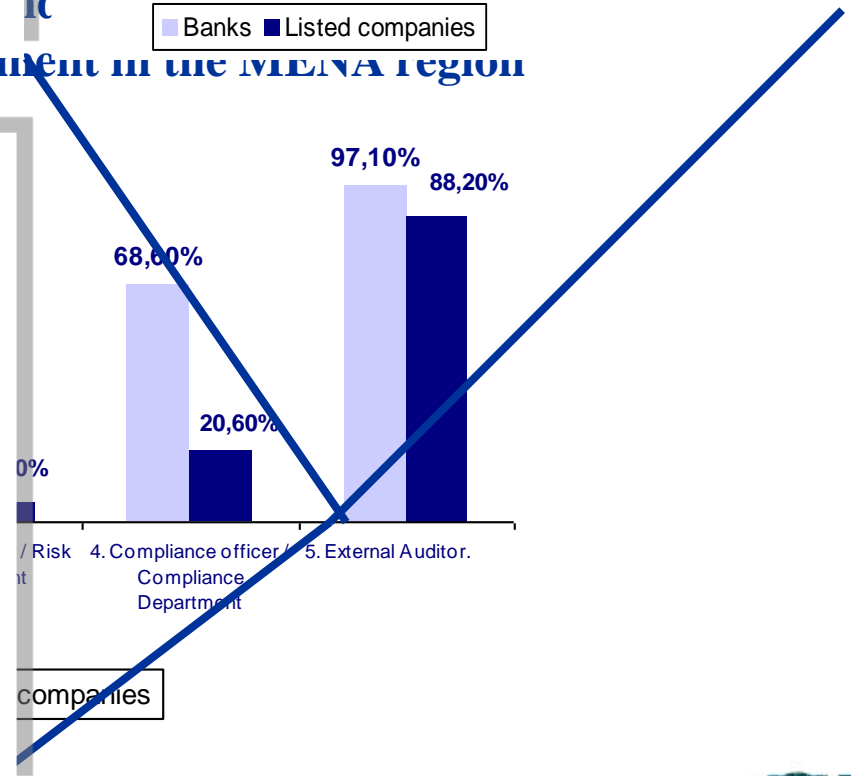
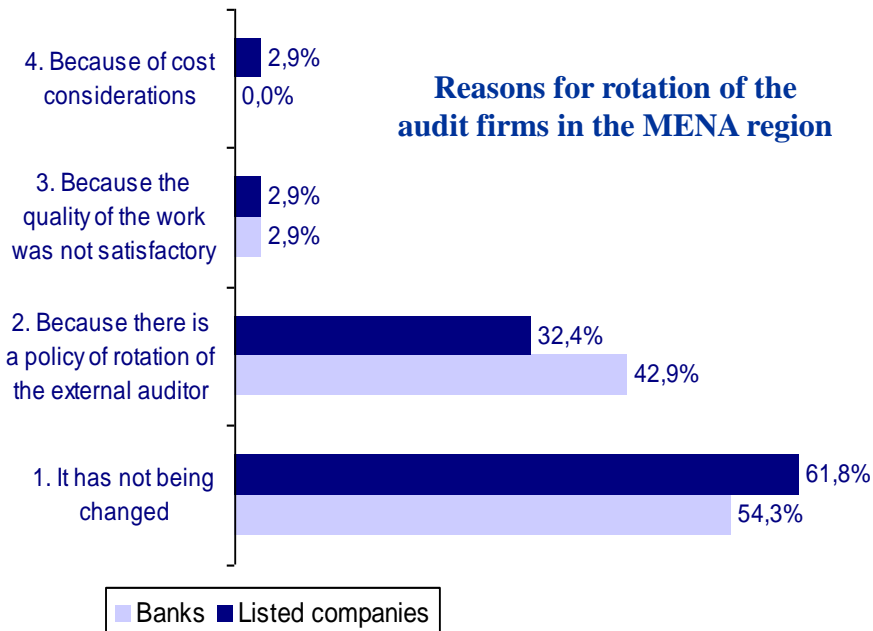




# Section II Survey results



## FOR THE CONTROL ENVIRONMENT IN THE MENA REGION



# **Section III: Outcomes for special types of legal entities**

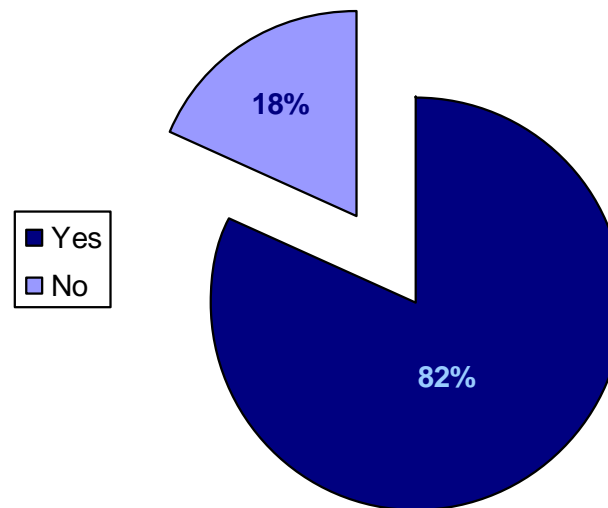
# Section III Outcomes special entities

## BANKS

To which person / governing body do the following divisions report to?

	Audit Committee	Board	CEO	COB	GMS
Risk Management	22,6%	19,4%	67,7%	6,5%	3,2%
Internal auditor	50%	28,1%	34,4%	12,5%	3,1%
External auditor	34,4%	37,5%	12,5%	15,6%	34,4%
Compliance Officer	23,3%	6,7%	76,7%	3,3%	0,0%

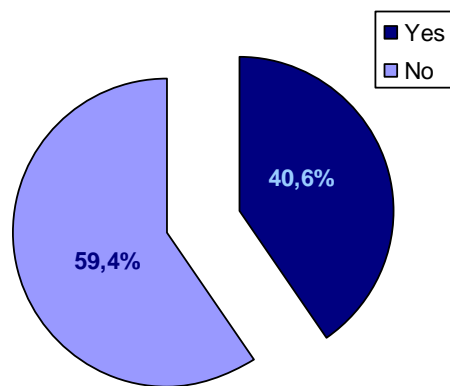
Are key officers and directors familiar with the BIS Guidelines on Corporate Governance?



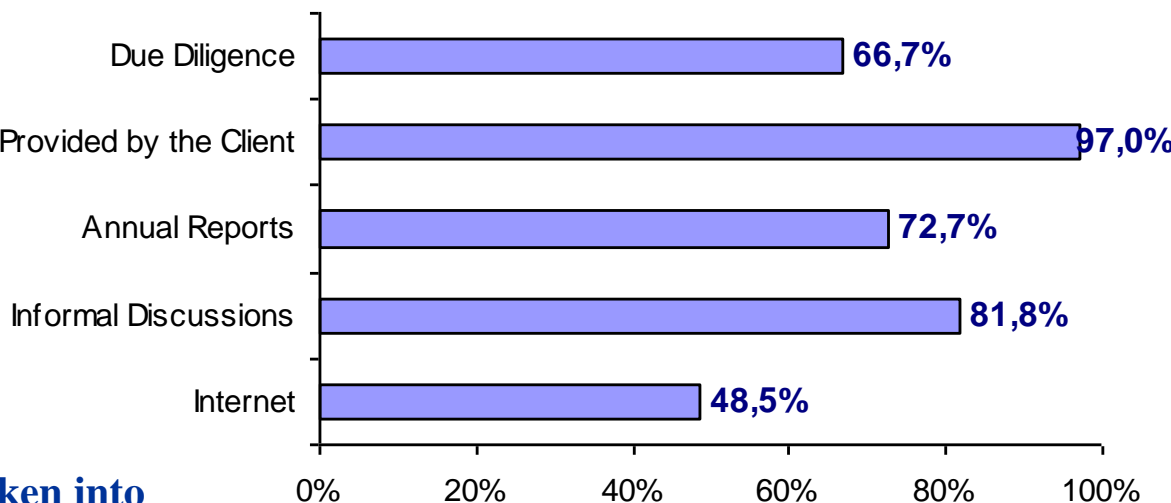
# Section III Outcomes special entities

## BANKS

Does the bank system of credit scoring include an evaluation of the client corporate governance practices?



What resources does the bank use to obtain information on the CG practices of the client?



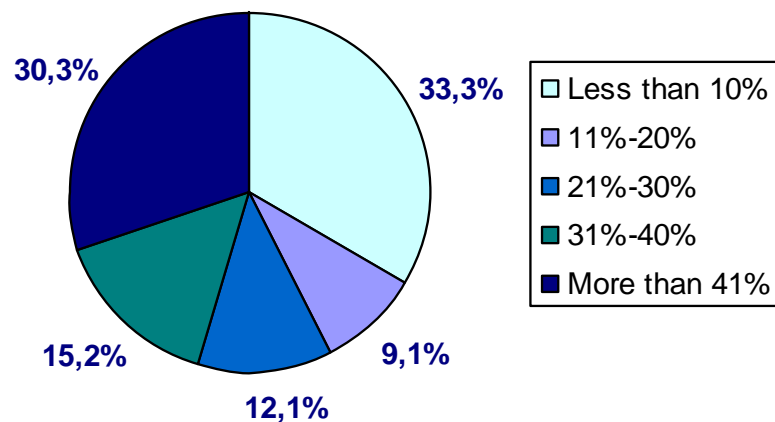
Which of the following criteria are taken into consideration in the credit decision-making process?

Existence of formal corporate documents	66,70%	Regular financial reporting	87,90%
Adequate composition of the Board	30,30%	Solid structures for protecting minority shareholders	15,20%
Audit Committee with majority of independent directors	12,10%	Existence of an external auditor	78,80%
Transparent accounting practices	78,80%	Disclosure of remuneration of Board and management	24,20%
Disclosure of ownership structures	66,70%	Disclosure of related party transactions	57,60%

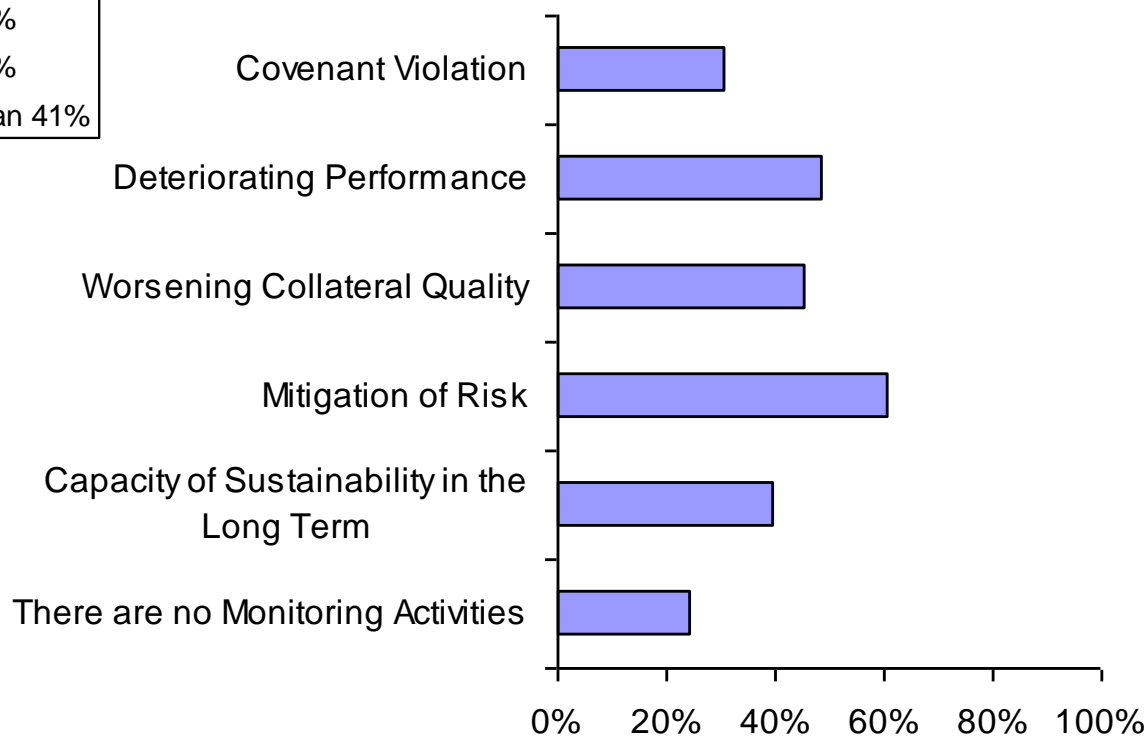
# Section III Outcomes special entities

## BANKS

How much weight do this criteria carry in the positive credit decision making process against adequate pledge, cash flows, financial soundness and guarantees?



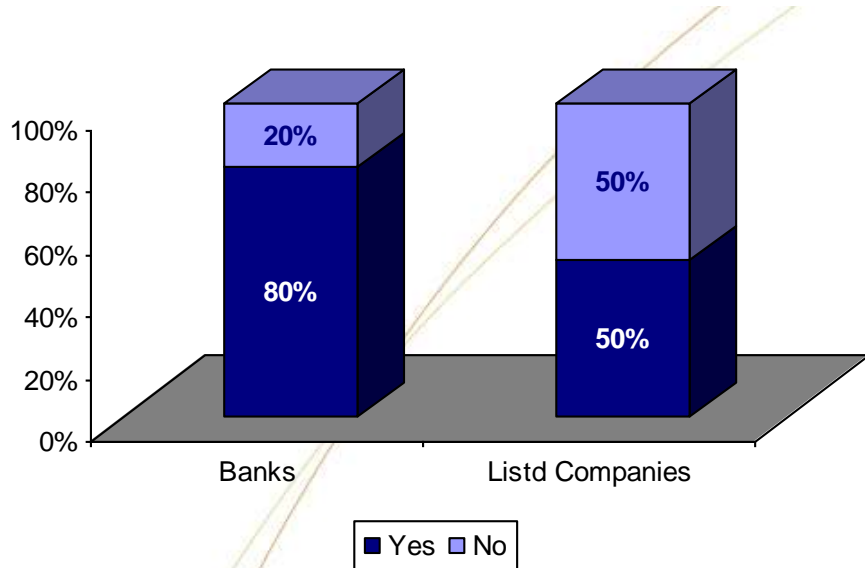
What are the banks main incentives to monitor corporate governance practices of its corporate clients?



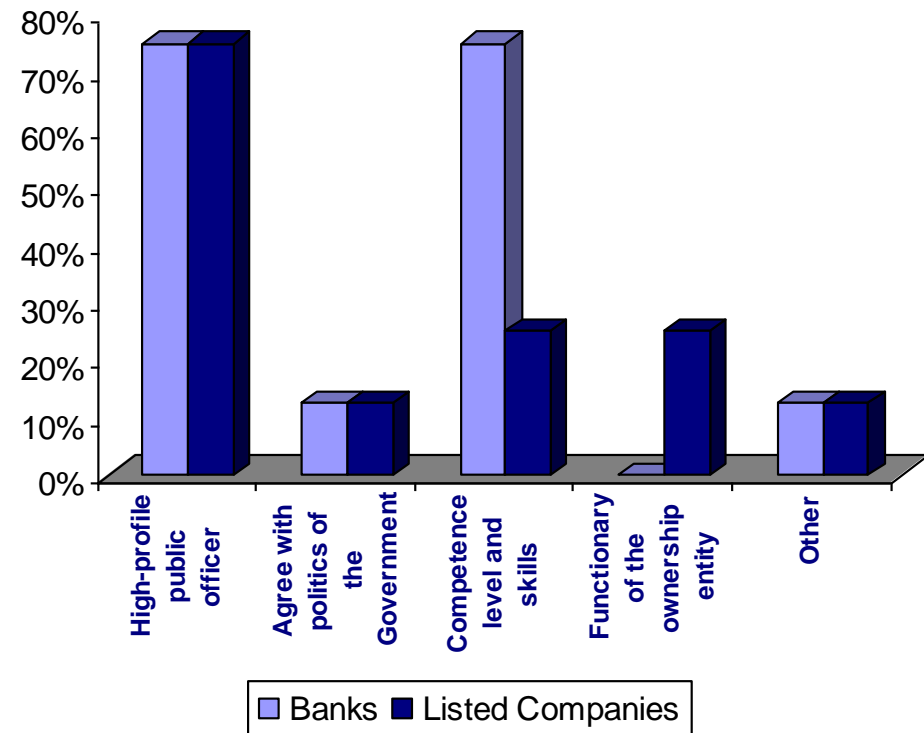
# Section III Outcomes special entities

## State Owned Enterprises

Are key officers and directors familiar with the State-owned enterprises Guidelines of the OECD?



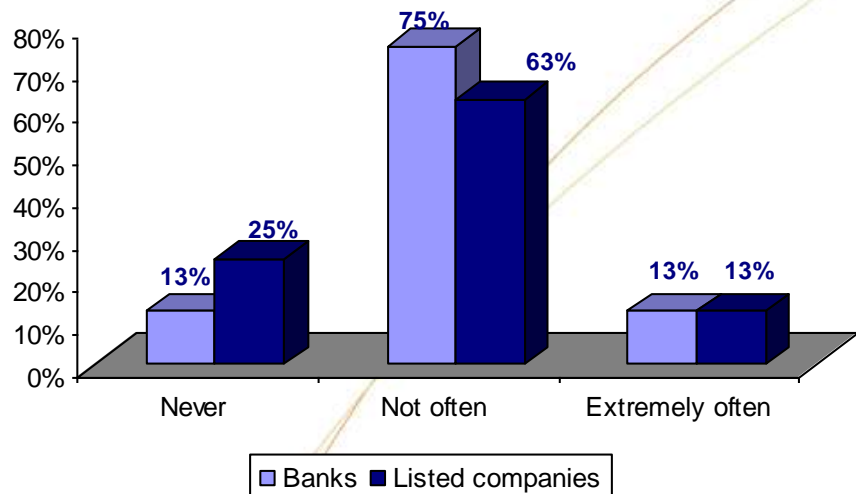
On what basis does the Government appoint members of the Board?



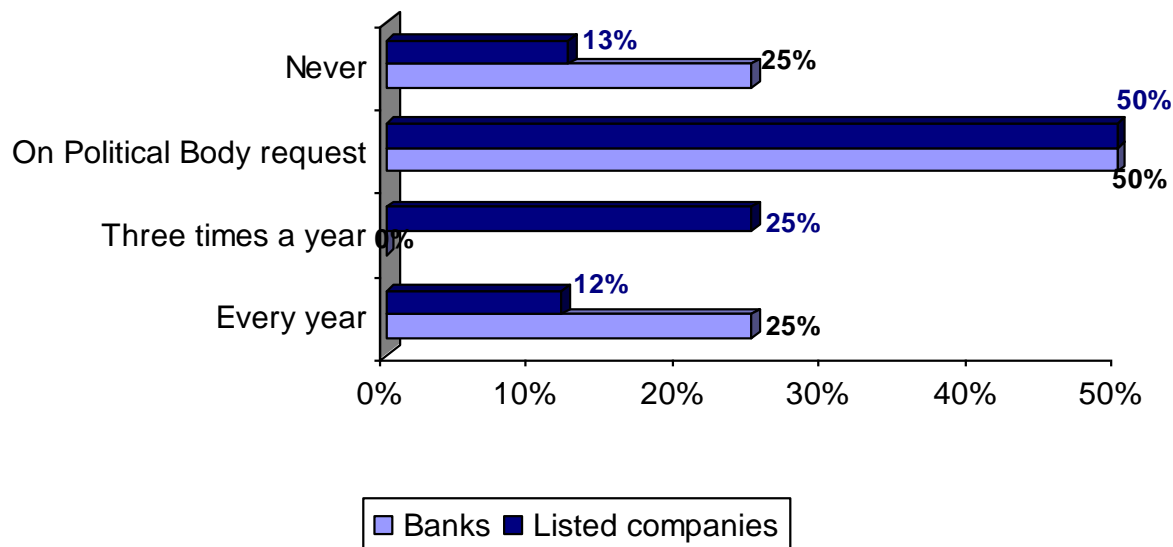
# Section III Outcomes special entities

## State Owned Enterprises

How often did related party transactions occur during the last 5 years between the company / bank and another SOE?



How often does the company / bank report to the political oversight Body?

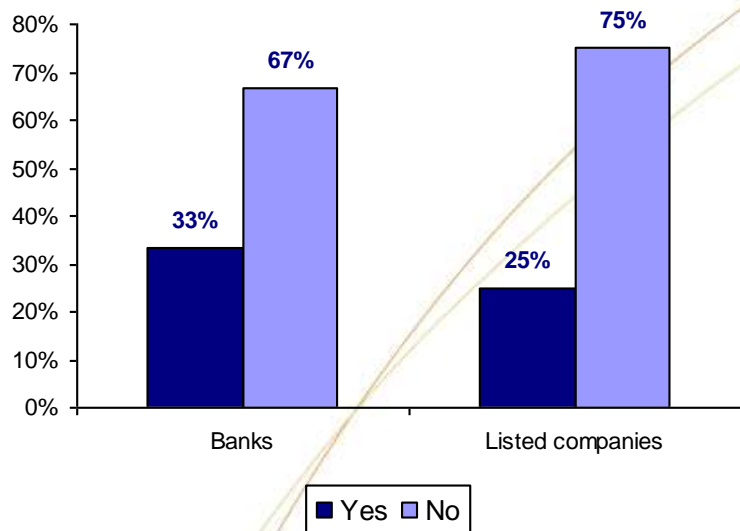




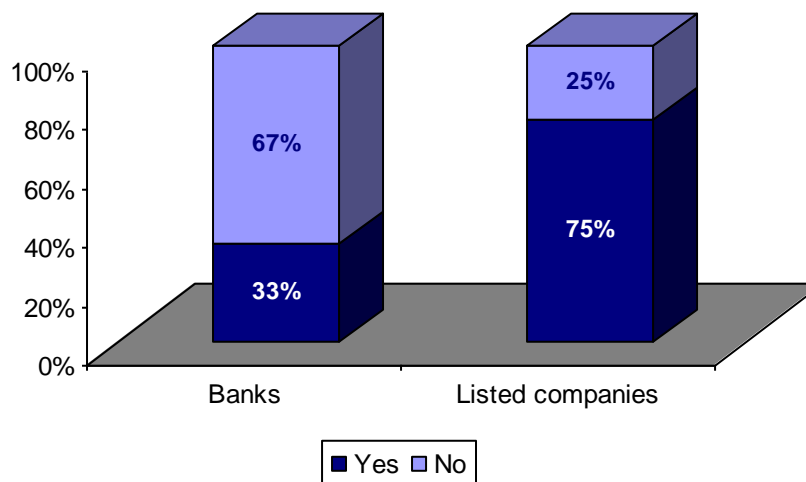
# Section III Outcomes special entities

## Family Owned Enterprises

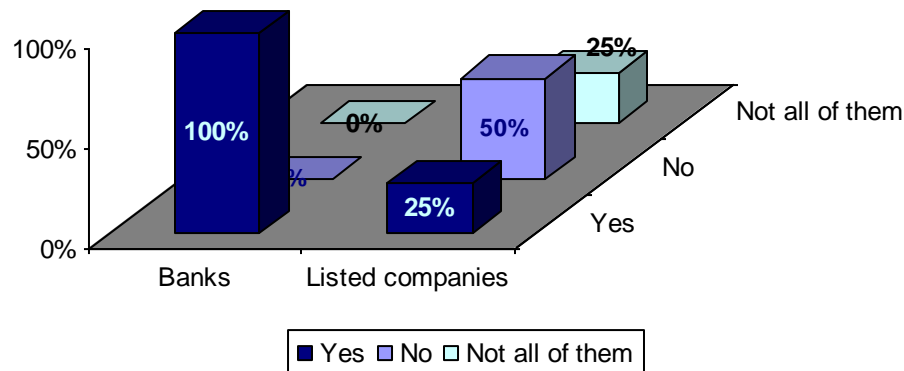
Does your company / bank have a succession plan?



Is the Board composed of a majority of family members?



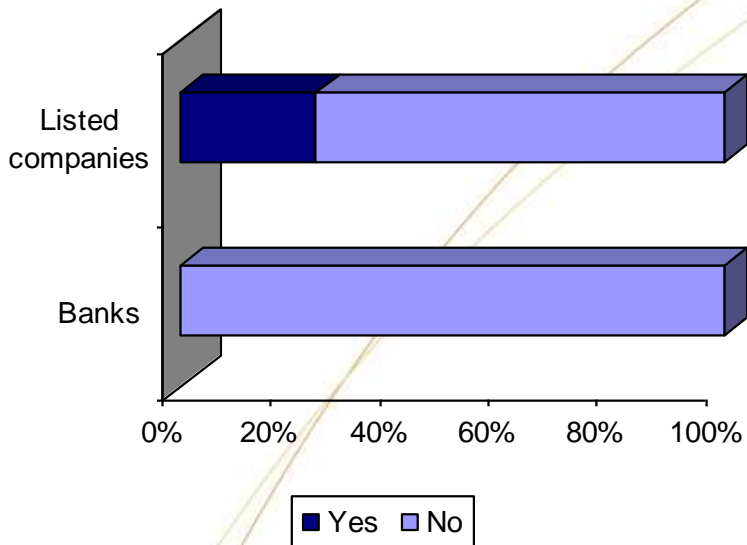
Are the members of the family who are also members of the Board required to comply with the requirements for being a Director?



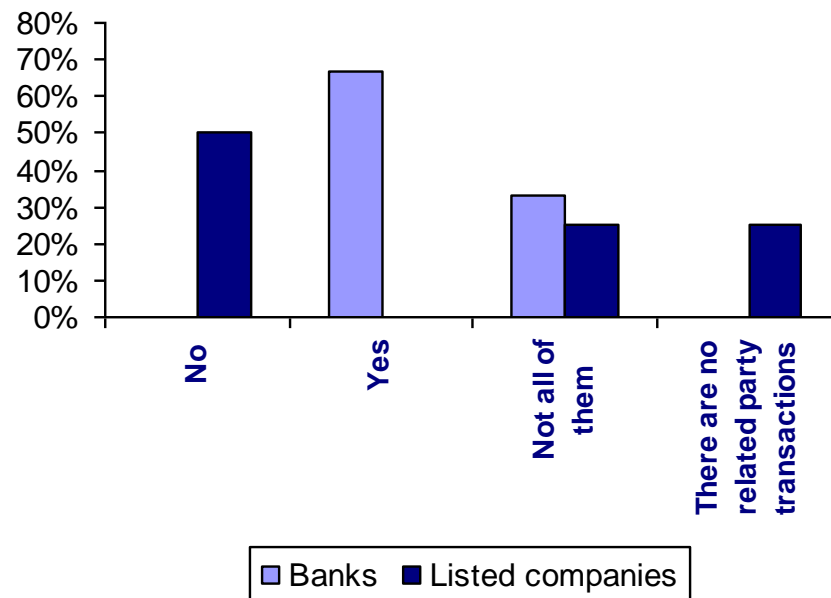
# Section III Outcomes special entities

## Family Owned Enterprises

Does the company / bank have a family council?



Do transactions between the family members and the company / bank have to be approved by the Board?



# **Section III: One on one interviews – Overview of countries**

**Thank you**