

Advancing Transparency and Accountability

by Jen Maceyko

Egypt undertook comprehensive reforms in the 1990s, including large-scale privatization and development of the capital market, as it shifted toward a market economy. Despite these efforts, the financial collapse of a number of major companies revealed the need for widespread adoption of corporate governance principles within the Egyptian business community. In a 2005 survey commissioned by the Center for International Private Enterprise (CIPE) of owners of listed and unlisted Egyptian companies, 92 percent agreed that corporate governance is one of the best ways to protect a company and promote economic development. The adoption of sound corporate governance principles creates safeguards against corruption and mismanagement while promoting transparency.

In October 2005, the Egyptian Institute of Directors (EIOD) issued the Egypt Code of Corporate Governance, developed by CIPE and local partners in consultation with the business community, accountants, and auditors. This was the first national governance code in the world to be written entirely in Arabic. It was created from scratch to suit Egypt's legal and regulatory environment and stakeholder requirements.

The code aims to promote transparency, openness, ownership, and responsibility, and to incorporate these values into Egypt's changing cultural mindset. "Implementing corporate governance in the right manner is not limited to respecting a set of rules and interpreting it literally in a restricted manner; it is also a culture and way of managing the relationship between owners of the company, its directors, and its stakeholders. Hence the interest of the whole community becomes more achievable when more people apply the code provisions."* By advancing best practices and concurrently enhancing the reputations of companies that adhere to the code, this governance initiative has laid the groundwork for an improved investment environment.

Creating the Code

EIOD and CIPE developed the governance code in several stages. The first stage conducted a review of international best practices in the realm of corporate governance in order to provide the group with a solid foundational understanding of corporate governance. The review formed an in-depth picture of the development and implementation of similar codes in other countries. The next stage carried out a review of the current legal framework in Egypt – including local literature, reports issued by Egyptian and international organizations, and summaries of discussions held at workshops and seminars previously held by CIPE. This stage was followed by discussions with the EIOD to establish the legal nature and scope of the code. While voluntary in nature, the code would be based on the capital market and company laws.

Dr. Ziad Bahaa El-Din, a local expert on investment and trade, drafted the first version of the code, which was presented to meetings of private sector and government representatives in early 2005. These groups included representatives from the Cairo and Alexandria Stock Exchange, the Egyptian Capital Market Authority, the Egyptian Banking Institute, and numerous business associations. At a series of workshops and seminars, they were asked to evaluate how the draft code could be more effective and applicable to economic and private sector development in Egypt. CIPE also surveyed business owners on individual items in the draft code. Responses from the groups were incorporated into the final version of the code, which was then presented to the EIOD for approval.

CIPE's partnership with EIOD produced the first national corporate governance code in the world to be written entirely in Arabic. The code serves as a model for similar private sector-driven initiatives in the region.

A Guide for All

Written in language accessible to all potential users, the Code of Corporate Governance defines the rights and responsibilities of corporate shareholders, boards of directors, internal and external auditors, and audit committees. It calls for full disclosure of

financial information and corporate policies to shareholders, board members, staff, and the public. The code also prescribes measures to avoid conflicts of interest.

While the code was written primarily to aid publicly traded corporations and financial institutions, it also applies to small and privately owned businesses. In the Middle East, as many as 90 percent of businesses are family-owned. All types of companies are urged to comply with the code to the best of their ability and to embrace the principles of accountability, responsibility, transparency, and trust that serve as its foundation. While the governance mechanisms of family-owned businesses differ from those of publicly traded companies, these businesses still contribute to a societal culture of corporate governance and must address the interests of their stakeholders.

The Egyptian code will be used as a model for similar private sector-driven initiatives in the region. It is hoped that external auditors and legal advisors will press corporate directors to abide by the code, and that banks and credit rating institutions will consider corporations' adherence to the code as part of their assessments. Corporations that comply with the code will reap the benefits of investor and public confidence in addition to improved performance.

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Note

* *Egypt Code of Corporate Governance, Guidelines and Standards* (Oct. 2005) section 1.4.

Sources

Egypt Code of Corporate Governance, Guidelines and Standards (Oct. 2005).

"Egypt Releases Corporate Governance Code," *Corporate Governance Trends* 8 (Summer 2005).