

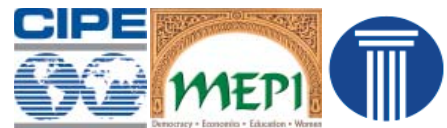
Conference Report

REGIONAL CORPORATE GOVERNANCE FORUM PRIVATE SECTOR CONSULTATIVE MEETING

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Preface

As part of a larger strategy to modernize the Arab private sector, the Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber of Commerce, and its Arab private sector partners have embarked on a comprehensive program to address corporate governance reform in the Arab world. CIPE's corporate governance outreach program for the Arab business community, sponsored by the Middle East Partnership Initiative (MEPI), promotes the values of transparency, accountability, responsibility, and rule of law as the basis for the region's economic and political development. CIPE's program emphasizes that adoption of sound corporate governance principles can create safeguards against corruption and mismanagement while attracting new investment and helping the region benefit from integration into the global marketplace.

The corporate governance program has expanded in response to the demand for corporate governance information and training from Middle East and North Africa (MENA) countries. CIPE has been working with the Global Corporate Governance Forum (GCGF), the Organisation for Economic Co-operation and Development (OECD), and local partners throughout the region to address the corporate governance needs of the MENA business community. CIPE partners are actively involved in the MENA-OECD Initiative on Governance and Investment for Development. This initiative aims to support the ongoing reform process by creating a regional network for policy dialogue and enhancing capacity for policy reform. Successful implementation of the initiative is expected to make a substantive contribution to creating better conditions for economic growth and investment, help create jobs, encourage private initiative, promote efficient, transparent, and accountable public sectors, and foster regional cooperation.

CIPE's strategy for corporate governance reform focuses on four elements: initial assessment and advocacy, outreach and institutional development, capacity building, and consolidation. The first element involves assessing corporate governance failures and rating country standards versus best practices. It is imperative for the MENA region to adapt OECD principles at this stage and to build awareness at senior business and policy levels. Stakeholders must be identified to generate greater public demand for reform, making public education campaigns important. The translation of the OECD principles into Arabic and building a common language on corporate governance in Arabic were an essential step in advancing corporate governance in the Middle East.

A key partner in efforts to raise awareness is an informed media, one that is well-versed in the nuances of business and corporate governance reporting. To assist MENA media outlets in providing quality and accurate information, CIPE developed a pilot economic journalist training program with Al-Ahram Regional Press Institute on private sector, economic reform, and corporate governance reporting. The pilot program brought together 35 economic journalists from 10 countries, including Iraq, and involved in-depth discussions with high-level officials from the Cairo Alexandria Stock Exchange. Follow-up journalist training programs will be implemented in the Maghreb and the Gulf.

In October 2004, CIPE and OECD published "Corporate Governance in MENA Countries: Improving Transparency and Disclosure," which outlines policy prescriptions to advance corporate governance in the Arab world and was distributed in policy circles, including the G-8's Forum for the Future, the OECD Initiative to Improve the Investment Climate in the Middle East and North Africa, and several national conferences all over the region. The publication assesses the state of corporate governance in the MENA region and promotes recommendations on the next steps business leaders and policymakers must take to improve corporate governance in their countries.

Assessment of the corporate governance environment is the first step, but in order to build functional corporate governance systems there must be outreach and institutional development. This includes the development of corporate governance codes and internal control mechanisms. Shareholder activism is vital at this stage. Regulatory and enforcement frameworks must be improved, and an informal corporate governance promotion network must be created within civil society, business, and regulatory bodies. With funding from MEPI, CIPE and Egypt's Institute of Directors supported the development of the first corporate governance code written in Arabic by and for the Egyptian private sector. This code will be used as a benchmark for similar private sector-driven initiatives in the region.

CIPE's program has also produced national agendas to advance corporate governance reform in Morocco, Jordan, Lebanon, and Egypt. In consultation with the private sector (including executives representing many of the large firms in each country), public officials, stock exchanges, and national business associations, CIPE's local partners produced a list of priority items that need to be tackled to advance corporate governance in each country.

Corporate governance has been positioned as a key linkage point between market economy and democratic development in a series of seminars and workshops held in cooperation with leading business groups in Tunisia, Jordan, Bahrain, and Oman. The 1,000 business executives involved in this effort represent many of the leading companies in the region. By getting involved they have aided in the creation of an informal corporate governance promotion network. Additionally, schools in Morocco, Lebanon, and Palestine have developed university level academic programs for business students focusing on various aspects of corporate governance.

CIPE's program has created multiplier effects by communicating the results of the MEPI/CIPE partnership through CIPE's Arabic/English regional corporate governance newsletter and corporate governance Arabic portal, www.hawkama.net. The publication is being distributed quarterly to over 3,000 business leaders in the Arab world.

Capacity-building and further institutional development follows, which includes training and certification programs for managers, directors, and financial intermediaries. Institutes of directors are established and ratings systems for investors are created. CIPE has already initiated the development of institutes of directors in Egypt and Morocco.

The final step in corporate governance reform is consolidation of the various efforts. Shareholder rights groups and institutes of directors must be strengthened and risk rankings must be conducted by ratings agencies. Legal and institutional enforcement are necessary if the system is to function. There must be ongoing evaluation, including Reports on Standards and Codes (ROSC). ROSCs have been drafted for Morocco and Egypt, but many MENA countries are still in the institutional building stages and are not yet developed. CIPE will continue to assist these countries in this effort.

Executive Summary

The private sector is poised to assume a leading role in the development of corporate governance mechanisms in the Middle East and North Africa. Corporate governance in the region is slowly becoming a buzzword for private sector modernization and economic development. In a region where more than 90% of businesses are small and medium, family-, and state-owned enterprises, the challenges in adopting corporate governance practices are stark. Building on international practices of corporate governance, the Arab private sector community can start shaping its own corporate governance environment. These efforts will improve business performance, attract much needed foreign investment, promote economic growth, and enhance national competitiveness.

The Center for International Private Enterprise (CIPE), together with the Middle East Partnership Initiative (MEPI), National Endowment for Democracy (NED), Global Corporate Governance Forum (GCGF), and the Organisation for Economic Co-operation and Development (OECD), brought regional private sector associations together in Amman, Jordan, on January 25, 2005 to highlight regional private sector-driven initiatives advancing corporate governance reform. Close to 50 private sector representatives and members of the media attended the corporate governance private sector consultative meeting from countries such as Algeria, Bahrain, Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia, United Arab Emirates, and Yemen.

In its discussions, the group highlighted that a majority of the companies in the region are small and medium-sized enterprises and quite a number are family owned. Stock exchanges, which have been the focal point for corporate governance reform in many developed economies, are not fully developed in the region. Therefore, the group concluded when developing strategies advancing corporate governance, the region should look to other capital providers (such as banks and other lending institutions) and the financial services sector to instill the values of transparency, accountability, and responsibility within these firms.

For good corporate governance practices to take root in the region, private and public sector leaders need to build awareness of the benefits of corporate governance. Success stories demonstrating how good corporate governance has resulted in increased investment need to be highlighted. The media also plays an important role in the awareness process by building an understanding of corporate governance concepts and holding the public and private sectors accountable for their actions. Lastly, efforts should be made to increase the awareness of the next generation of business leaders by teaching the values and concepts of corporate governance in universities.

Beyond internal governance of firms, the region should look at developing - and in some cases implementing - the institutional foundations from which corporate governance is based. These foundations

Next steps

- Build a culture of corporate governance in the region, rather than simply creating a regulatory framework
- Target SMEs and family-owned businesses in corporate governance reform
- Build a wider awareness of corporate governance reform in the region
- Introduce corporate governance into schools' curricula and raise the next generation of leaders
- Create corporate governance task forces to sustain the momentum of corporate governance reform
- Increase regional cooperation
- Promote success stories
- Increase private sector participation in economic decision-making, including corporate governance reform

include: property rights, disclosure regulations, contract law, exit mechanisms (bankruptcy and foreclosure), minority shareholder protection, accounting standards, financial sector regulations and supervisions, a competitive commercial environment, an independent and well-functioning judicial system, strong administrative and enforcement capacity of government agencies, strong reputational agents, an active and integrity-based business community, and an investigative and informed media.

Success stories highlighted during the program included:

- Palestinian Businessmen Association's outreach to universities to develop a corporate governance course for emerging business leaders.
- Moroccan Employers Federation's corporate governance survey to assess the degree of acceptance of corporate governance concepts of transparency, accountability, and responsibility, among private sector firms.
- Institute for Arab Chiefs of Enterprises' (Tunisia) program to link corporate governance and business ethics.
- Egyptian Capital Markets Association's integrated program to build the capacity of their members' understanding of corporate governance and the capital markets.
- Lebanese Corporate Governance Task Force's coalition of business associations, professionals and other civil society organizations working to elevate the debate on good governance in Lebanon by engaging public officials, legislators, economic media, and other stakeholders.

It was clear from discussions among the private sector participants that they see corporate governance as one of the keys to the success of the region's economic development ambitions. The participants called for the development of a regional secretariat to facilitate the sharing of best practices and to further develop the corporate governance network.

Proceedings

Ambassador John Bohn, CIPE Chairman

Good corporate governance requires the institution of laws, regulations, and cultural norms that create effective self-governing firms. These institutions ensure that the internal governance procedures adopted by firms are enforced and that the management of these firms is responsible to the owners - the shareholders - and to the other stakeholders, whether they are sources of debt, the community, or employees. All of these stakeholders have an interest in the performance of the corporation and conversely, the corporation has an interest in all of these stakeholders.

The goal is a self-governing enterprise that sets its own strategy, that is innovative and takes intelligent risk, but is also responsible and transparent. For this to happen, the enterprise must disclose its operations and its activities. A self-governing enterprise must embrace a system whereby management and independent directors have a duty of loyalty and care to the stakeholders. They must be attentive to the interests of the company as a whole, not simply the interests of one or more block holders or shareholders.

There is an emerging consensus on when and how this works best. Part of this consensus is that the company itself must have a healthy corporate governance culture. However, internal conditions of the company are not the only consideration. Perhaps the most important point is that the private sector must participate in the development of corporate governance mechanisms. Too often, international and development institutions directly engage the securities regulators and other regulatory commissions and bodies and inflict on a society their ideas of best practices, whether it is the OECD principles, the Sarbanes-Oxley laws in the United States, or others. Superimposing an external system on a society cannot work. The development of a corporate governance system must be a product of the private sector working with the government to produce an effective mechanism that works to create value in a country.

Market participants must be engaged in adapting these international ideas if they are to work. Otherwise, one has a situation where there is only talk with no subsequent change. The reward, if the implementation is accomplished correctly, is increased investment and growth. The ability of the private sector to attract technology investment, foreign partners or the best domestic or regional partners is very much a function of how they and the operation of their enterprises are viewed. This is about improving business performance, and, by doing so, enhancing national competitiveness. Both are required if a business community is to take advantage of globalization and not be overrun by it.

CIPE and its partners have been working extensively to advance corporate governance in the Arab World. Over the past five years, with the support of regional partnerships, the Middle East Partnership Initiative, the OECD, and the Global Corporate Governance Forum, CIPE has

Amb. John Bohn served 7-1/2 years as the president and CEO of Moody's Investors Service. Prior to that, in 1981, he was appointed as special assistant to Treasury Secretary Don Regan, and subsequently appointed by President Ronald Reagan as U.S. ambassador and executive director of the Asian Development Bank. In 1984, President Reagan appointed Mr. Bohn to the post of vice chairman of the Export Import Bank of the United States and thereafter to the position of chairman and president of the Bank, in which capacity he served until 1989.

Ambassador Bohn currently serves as chairman of GlobalNet Venture Partners, LLC, a global financial advisory and consulting firm which provides market focus, strategic advisory and active client development services as well as management and capital to U.S. and foreign enterprises. Mr. Bohn also serves as chairman of the board of directors of The Center for International Private Enterprise in Washington, D.C.

A graduate with honors from Stanford University, Mr. Bohn attended the London School of Economics as a Fulbright scholar, and received his JD from the Harvard Law School. A member of the California State Bar and the bar of the Supreme Court of the United States, Ambassador Bohn serves as trustee of Northern Trust Multi-Advisor Funds. He is a member of The Council on Foreign Relations in New York, a director of the World Affairs Council in San Francisco, and a director and member of the Executive Committee and the Audit Committee of the U.S. Chamber of Commerce in Washington, D.C.

held two regional corporate governance forums, supported national corporate governance conferences, commissioned corporate governance studies, and supported a regional training program for economic journalists to enhance their ability to report on economic issues.

In 2003, the first regional corporate governance conference was organized in Cairo, with the aim of bringing together an Arab response to the update of the OECD corporate governance principles.

In 2004, a second regional corporate governance forum was organized in Beirut, with the goal of improving practical recommendations to advance corporate governance reform in the region. Jordan is holding a national conference at the end of January, and Bahrain, with the leadership of the Bahraini Ministry of Commerce, has organized a corporate governance committee comprised mostly of private sector board members.

This month the Al-Ahram Regional Press Institute and the International Center for Journalists, with support from CIPE and the Middle East Partnership Initiative, organized a regional economic journalist training program in Cairo, with close to 50 journalists participating. The program is primarily focused on economic reporting techniques, but also demonstrates how to report on corporate governance issues.

The private sector regional corporate governance forum is growing. One can see the momentum building. Over the last few years, various private sector groups have implemented a series of corporate governance programs in their countries.

The purpose of this event today is for private sector groups to highlight their initiatives, share with each other the challenges to corporate governance in their countries, and develop strategies for the private sector to stay on top and maintain their own corporate governance initiatives. In short, it is for the private sector to take on a proactive role in the development of corporate governance. After all, it is they who are affected by corporate governance, and it is in their best interest to help shape the corporate governance environment in their countries.

Ms. Elena Miteva, MENA and OECD's Initiative on Governance for Investment and Development

The Organisation for Economic Co-operation and Development has embarked on a Governance for Investment and Development Initiative after a year-long consultation process with various MENA and OECD member countries. The G-8 meeting in June last year, in its plan for reform in the Middle East and North Africa, states in particular the importance of the OECD program and its support for it.

Ms. Elena Miteva is an economist and administrator at the Corporate Affairs Division of the Organisation for Economic Co-operation and Development (OECD) in Paris, France. She holds a PhD in applied economics from the Institut de Sciences Politiques de Paris. She is currently responsible for the design and implementation of the corporate governance program of the OECD Middle East and North Africa Investment Initiative. Ms. Miteva also manages the OECD Corporate Governance Roundtable for Eurasia and the Forum for Asian Insolvency Reform, which is an initiative of the OECD, World Bank and the ADB. Ms. Miteva began her career at the OECD in 1992. In recent years, she worked for the OECD Privatization Network and its Advisory Group on Privatization in non-OECD economies, as well as for the OECD Steering Group on Corporate Governance. She has also authored various OECD publications and reports, including comparative research on corporate governance and country studies.

The initiative has two pillars: One on governance, aimed at modernizing government structures and processes, and one on investment aimed at improving the policies and environment for attracting local and international investment. Until now, there have been two steering group meetings responsible for leading the work of the MENA OECD Initiative. At the meetings, members committed to making the program results-oriented. The steering group is also working to define the fundamental reforms needed to help MENA countries decide on the mechanisms by which they will monitor and assess the progress of their reform efforts. Participating countries will also report to one another in order to establish peer pressure within the groups formed on governance and investment.

The OECD Initiative has been organized in the same format as most other initiatives carried out under

the auspices of the OECD – within a framework of multilateral policy dialogue. The initiative will rely on a network of MENA and OECD officials, representatives of the private sector, and NGOs to engage in a practical exchange of experience and establish a process of real change. The three-year initiative has been organized into working groups with a specific sequence of events in mind. The first step will be issue and need identification in order to have an informed basis for the second step, which is the development of action plans. The third step will be implementation of the action plans.

In order to avoid a duplication of effort, partnerships have been established (or are in the process of being established) with the UNDP, the World Bank Group, the European Union, other multilateral bodies, and members of the private sector in MENA countries. The initiative will support both regional and country-specific projects in addition to its policy dialogue components.

The working groups are tasked with coordinating the implementation of all programs. The co-chairs of the steering group will consult with members, establish agendas for the annual meetings, invite participants, interact with other external participants, and act as working group speakers in the steering group. Country-specific economic teams are also being formed to help ensure the effectiveness of the programs. The economic teams will be responsible for country-level coordination, and will be in charge of the design and implementation of the action plans proposed by the various working groups and/or proposed by ministers, governments, and other experts within a country.

The program will have an institutional focus to ensure that the initiative is not simply a policy dialogue and unstructured exchange of experience, but rather a chance for real implementation of reform.

The investment program is made up of five working groups. The first working group will address transparency and open investment policies. Its member countries are Jordan and Japan. This working group will hold its first consultative meeting on February 1-2, 2005 in Dubai. The second working group will focus on the role of investment promotion agencies and business associations. Its member countries are still being determined. It will hold its first consultative meeting on February 2-3, 2005. The third working group will focus on the tax frameworks needed for investment and investment incentives. Its member countries are Bahrain and Turkey. The first consultative meeting for this group was held January 26-27, 2005 in Bahrain. The fourth working group will focus on the financial sector and enterprise development. Its member countries are Saudi Arabia and the UK. They will hold their first consultative meeting in Jeddah on February 7-8, 2005. The fifth working group will focus on improving corporate governance. Its members are the Lebanon Corporate Governance Task Force and the OECD Secretariat. They will hold their first consultative meeting on February 14, 2005 in Amman.

The fifth working group builds on previous work done by the Regional Corporate Governance Forum (RCGF), which has outlined important issues on which to focus: First, the RCGF will focus on raising awareness of corporate governance. This is in response to the perception by many in the MENA region that corporate governance is highly theoretical. Programs will range from the creation of a task force to dissemination of information on already existing action plans, reforms, and recommendations. Another short-term action will be the preparation of a comparative corporate governance survey to support the need for the development of an action plan for corporate governance reforms in the region.

The OECD will be working with CIPE to support their work with the private sector and will report on their programs at the Regional Corporate Governance Forum. The consultative meeting, scheduled for February 14, 2005, will address the main issues to be identified in the comparative regional corporate governance survey. Developments in governance of listed

companies will be discussed, as will challenges to financial institutions, the next steps for the Working Group Five, and the Regional Corporate Governance Forum.

The corporate governance survey is currently being developed and will include a short reference table and a comparative table on the legal framework of corporate governance in the region. The survey will also focus on the corporate governance landscape, national corporate governance initiatives currently underway, and regional cooperation. The corporate governance landscape section of the survey will have a chapter on ownership and control which will discuss patterns of ownership in the region – namely, what types of companies exist in the region, their legal form, whether they are widely held, closely held, and whether the widely held companies have a controlling shareholder. Concentration of power will also be evaluated. Next, the legal and regulatory framework of corporate governance will be examined, with subchapters on enforcement, the role of courts, securities regulators, and self-regulatory organizations. Existing public sector reforms and private sector initiatives will also be assessed including surveys, corporate governance codes, and the work of business and professional associations. There will also be a chapter on regional cooperation.

The Working Group Five and the Regional Corporate Governance Forum are involved to serve and support corporate governance work in the region. It is good to have regional initiatives and policy dialogue initiatives, but in order for changes to take root, there must be a simultaneous indigenous initiative. Public sector reforms cannot change the corporate governance landscape without the private sector adhering to good corporate governance standards.

Dr. Omar Aljazy, Jordanian Center for Dispute Resolution

Jordan recently completed a country assessment on corporate governance - Report on Observances of Standards and Codes (ROSC) administered by the World Bank. The ROSC

assessment uses the OECD corporate governance principles as the starting point, and primarily covers the rights of shareholders, treatment of shareholders, role of stakeholders in corporate governance, disclosure transparency, and the responsibilities of boards of directors.

The assessment identified key features of the ownership and control pattern of publicly listed companies; the main elements of the legal and regulation systems affecting corporate governance; specific provisions that offer protection for shareholders; the role of different stakeholders in relation to corporate governance; and the function and responsibilities of the board of directors. During the assessment process, work was divided into the following sections: capital market overview; shareholder protection; the role of stakeholders in corporate governance; financial and non-financial disclosure, and the main governing body, the board of directors. The methodology used in conducting the assessment was based on examination of relevant pieces of legislation and analysis of the Jordanian capital market. The team of experts conducting the survey was composed of two respected economists, a senior researcher, and a lawyer.

Dr. Omar Aljazy holds a PhD in International Commercial Arbitration Law from the University of Kent at Canterbury in the United Kingdom. He also holds an MA in International and Comparative Business Law from London Guildhall University and a BA in Law from University of Jordan. Dr. Aljazy has extensive expertise in the areas of international transactions, intellectual property, shipping and maritime issues, competition, and antitrust matters.

Dr. Aljazy participated in the drafting of various Jordanian laws and regulations in conformity with the international conventions that Jordan has ratified. Currently, Dr. Aljazy is a member of the Drafting Committee of the new Jordanian Maritime Law in association with the International Maritime Organization. He is also a member of the International Chamber of Commerce Commission on Competition. Dr. Aljazy is currently the official correspondent for the Global Competition Review in Jordan, and the current president of the Jordanian Competition Association. Dr. Aljazy is also representing Jordan as an alternate member of the ICC International Court of Arbitration. Additionally, he has written many papers and articles on international commercial arbitration. Dr. Aljazy headed the Founding Committee of Arbitration and Mediation Center for Intellectual Property Disputes recently established in Jordan under the auspices of the Arab Society for Intellectual Property.

Findings from the assessment include:

- There is no sufficient jurisprudence regarding gross groups of shareholders against directors in Jordan.
- The general assembly, which is composed of all shareholders, has the right to remove the chairman of the board of directors or any of its members, with the exception of members representing the shares of the government or any corporate body, wholly-owned by the government.
- There are many companies that are private shareholder companies or other forms of companies wholly-owned by the government without having any private sector representatives on the board. This cannot be done unless there is an order to call for an extraordinary meeting upon assigned request of shareholders. It was generally agreed that this percentage or threshold should reach 30 percent of the company shares. There were some calls to reduce this percentage to 15 or less.
- There are no rules governing the composition of the board of directors.
- There are not enough clear guidelines governing the balance of power between executive and non-executive directors. The concept of an independent director is not well established in Jordan. Frequently, there are cases of the same person holding both the chairman and managing director positions.
- The process of appointing members of committees, such as the audit committee, is neither wholly transparent nor efficient since the board of directors does not have to obtain approval from the general assembly when they decide to appoint or remove any director. There is a certain level of transparency and credibility related to the disclosure process conducted by the boards of directors.

The legal environment in Jordan has not substantially incorporated good corporate governance practices. Yet, the foundation has been laid and there is increasing awareness of, and respect for, the culture of corporate governance among different stakeholders. What is needed now is for this foundation to materialize into a strong and brave initiative.

Dr. Hisham Awartani, Palestinian Business Association

The concept of corporate governance has recently obtained unusual significance in Palestine given the new political setting in the region, and the optimism emerging in Palestine in response to recent political developments.

Once the guns are silent, talk will begin about a prosperous future for Palestine. This will require significant changes in many directions. Currently, the private sector's main problem relates to what Israel has done or not done in the past, particularly on the question of draconian restrictions on mobility. However, the Palestinian Authority (PA) must also work to improve the democratic climate.

For these problems to be addressed, the private sector in Palestine must focus its energies on improving the quality of corporate governance operating in its private sector. Currently, the state of corporate governance in the Palestinian private sector is inferior to the region as a whole. It is essential to correct this if Palestine is to take advantage of the globalization, trade, and investment.

The quality of corporate governance in Palestine has evolved during the past 40 years under very odd circumstances. Since 1967 up to the early 1990s, Israel has held a military presence in Palestine, making life, and certainly economic functions, very difficult.

For example, if a company wants to produce the most basic certificate, such as a tax certificate, they must first pay a fee. Under this kind of setting, healthy corporate governance and transparency cannot exist. The survival instincts of the Palestinian firms have served them well

under Israeli occupation, and firms have “bent their necks” in terms of the size of their capital portfolio and in terms of the size of their workforce.

The family structure of firms was one of the survival features created by that time. When the PA was established in the early 1990s, people all of a sudden became more euphoric about the future, and thought that things would change overnight, which they didn't. So the private sector was once again caught in a corner. People expected a lot, but then the prerequisites for achievement were not there.

At the same time there was political instability and growing security issues. On top of all of that, the Palestinian business community was shocked by the economic policies of the newly emerging Palestinian regime. The private sector believed that the Palestinian government would do their best to produce what they had been doing all around the region, except that they failed to do it at home. So, under this rather strange setting, the quality of corporate governance did not pick up positively and at the pace originally anticipated.

Some improvement has been witnessed in terms of the number of incorporated companies registered. However, given the minute size of the Palestinian community, CPSD has become aware of gross transgressions in corporate governance in the public sector. This has rocked the psychology of the business community, and served as a signal that something must be done about corporate governance in Palestine.

CIPE and the Palestinian Businessmen Association have embarked on a joint corporate governance project. A baseline study was conducted to ascertain the major facets of improper governance and to identify the predisposing causes of those forms of improper governance.

The study involved nearly 200 firms and some of the major results are cited below. Senior staff was asked about the employee makeup of their businesses, including the employment of family members. CPSD found that 85 percent of the presidents and CEOs of firms are either the primary owners or a first kin; first kin meaning a son, daughter, brother, etc. 51 percent of the executive directors are also either owners or first kin. The percentage for vice presidents was at 43 percent and 57 percent for chief accountants.

The senior staff was next asked to evaluate the performance of relative-employees on a scale of 100. The median score was 55 percent. The non-relative employees received a median score of 61 percent. On the topic of devotion to work the scores were 58 and 72 percent, respectively. On the topic of timeliness, the scores were 61 and 81 percent, respectively. For financial reliability, relative-employees received a score of 62 percent and non-relatives, a

score of 72 percent. Surprisingly, 54 percent of the senior staff participating in the survey went on to say that they thought that this kind of family structure has a positive impact on business.

Accounting was found to be one of the weaknesses of the Palestinian private sector. Nearly one-third of all interviewed firms had only one part-time accountant and only one-fourth of the sample had one full-time accountant. In terms of qualification, 82% held university degrees, while the rest held lesser degrees.

On the topic of maintenance of internal control procedures, in 88 percent of those businesses interviewed, the auditor was independent from the accountant. In 68 percent of the businesses interviewed, the accountant held a separate position from that of the treasurer. Further, only 30 percent of those interviewed rated themselves as practicing good corporate governance. On the question

As the executive director of the Palestinian Business Association's Center for Private Sector Development (CPSD), Dr. Hisham Awartani has been involved in research and advocacy relating to economic development in Palestine for more than 20 years. His interest has been manifest in numerous papers on the various aspects of the Palestinian economy, with a special focus on the performance of public sector institutions and their impact on the investment climate. He has also been involved in the inception and management of several research and development programs.

Dr. Awartani is a graduate of the American University of Beirut (B.Sc. and M.Sc. in Agricultural Economics), and has earned his PhD in Economic Development at Bradford University (England). He has also attended training courses at the Salzburg Seminar and the International Marketing Institute (Tufts University).

of whether they had plans or intentions to incorporate their firms, 7.5 percent answered in the affirmative and 63 percent answered in the negative.

With the help of CIPE, CPSD has held a series of workshops involving bank managers and senior business people, as these are two groups who are sensitive to corporate governance in Palestine. Relations are now better between the two sides.

The most interesting part of this project involved universities. It was found that Palestinian universities have not yet incorporated corporate governance into the curriculum of their B.A. in Business Administration. In response to this, a corporate governance manual has been prepared and distributed to professors at most of the Palestinian universities. A course was also held in conjunction with the distribution of the manual and was made up of six sessions. The students participating in the workshops were noted to be very receptive to the material.

As can be seen, there is much that needs to be done to improve the Palestinian private sector. Palestinians are now cautiously optimistic and believe that Mr. Abbas is the person to talk to and the person to institute real changes in Palestine.

The Palestinian Legislative Council (PLC) has also its own work to do and many believe that they stand a good chance of doing something.

Ms. Chadia El Meouchi, Lebanese Corporate Governance Task Force

The LCTF was incorporated at the end of 2002 as an LTA initiative. It is composed mostly of prominent and very dynamic representatives from the Lebanese private and public sectors. The LCTF's objectives are two-fold. First, it seeks to identify structural and functional innovations in the Lebanese private sector so that it can promote and enhance productivity, growth, job creation, and development of the banking sector and the financial markets. Second, the current status and practice of corporate governance in Lebanon is assessed, and from that evaluation recommendations are generated on how to implement better corporate governance standards at the financial markets level.

The LCTF operates through four committees. The first is the Accounting and Auditing Committee, which promotes corporate governance from an auditing and accounting perspective. The second is the Legal and Regulatory Committee, which brainstorms and lobbies for legislative changes and developments. The third is the Information, Communication, and Media Committee. Its role is to guarantee that any documents that are prepared by the task force reach the appropriate stakeholders and the widest audience possible. The fourth is the Membership and Funding Committee. The main objectives of that committee are to find funding to support our activities, as well as to attract potential members, chambers of commerce, business associations, companies, firms, and academia.

The LCTF has based its work on the following reports and principles. The cadre report is used given the prominence of small- to medium-enterprises and family-owned enterprises in Lebanon. It also focuses on the OECD principles and its guidance on state-owned enterprises. It has also adopted the principles of disclosure from BASEL-1 and BASEL-2.

To ensure that Lebanon and Lebanese companies comply with corporate governance, LCTF has created a network of companies that adhere to corporate governance principles and is now seeking to promote the concept of "leading by example." That way, companies are going to be attracted by the fact that they are one of these network companies that is actually a good corporate governance company.

Ms. Chadia El Meouchi works as an attorney for Etude Badri & Salim El Meouchi in Lebanon. She is also a member of the Lebanese Corporate Governance Task Force and treasurer of the Lebanese Transparency Association. Ms. El Meouchi graduated from Concordia University, Montreal with a bachelor's degree in commerce degree. She continued on to law school where she earned a bachelor's in civil law (Concordia University) in 1998. Ms. El Meouchi holds a Certificate in Arbitration and ADR from the Quebec Arbitration Center (McGill University) as well as master's of laws degrees from Georgetown University, (Washington, DC) and La Sagesse University, Beirut.

Lastly, LCTF is always looking for innovative communication channels to communicate corporate governance related topics to a wide audience made up of members from both the public and private sectors.

LCTF works through the creation and implementation of actions plans. Each subcommittee creates their own action plan, with all ultimately working to address the main corporate governance principles. LCTF aims to maximize the rights and equitable treatment of shareholders through any legal and regulatory framework, to engage the widest variety of stakeholders - employees, trade unions, creditors, suppliers, and consumers. It also seeks to install clear guidelines for disclosure, transparency, compliance with international accounting standards and international standards of auditing, and to ensure periodical disclosure of financial and non-financial information; and finally to render all boards accountable.

To bring this about, LCTF is working to build a consensus for policy, regulatory, and institutional reforms at the local level by involving as many players as possible. It is also assisting as much as possible in the adoption and implementation of these corporate governance principles in Lebanon.

For this to occur, the corporate governance culture in Lebanon must change. LCTF is pushing this forward by proposing amendments to the commercial codes, better corporate governance in the banking sector, and amendments to laws and institutions. Further, LCTF plans to implement essential credit organization for the purpose of reporting on sources and uses of credit - market-based bank, non-bank, and supply credit.

Evaluating LCTF programs by subcommittee, the Accounting and Auditing Subcommittee is currently working on proposing amendments to the laws so as to render absolutely mandatory the application of the IAS standards and of the ISA international standards of auditing. The subcommittee is also working to reform the Higher Council of Auditors and Accountants, and is contributing to the final draft of the corporate governance survey for Lebanon, specifically its auditing and accounting section.

As for the Legal and Regulatory Subcommittee, one of the projects that is currently being worked on is the amendments to the Code of Commerce. This includes strengthening minority and foreign shareholder rights, and implementing these changes proposed by the Auditing Committee to impose IAS and ISA standards. It is also working to improve board of directors' accountability, disclosure and transparency, and to amend the bankruptcy procedure.

A second project that the Legal and Regulatory Committee is working on is the adopting of a set of corporate governance principles for Lebanon. Three sets of corporate governance principles have been developed for companies to adopt; one set for publicly listed companies and corporations; one for small to medium enterprises and family-owned enterprises; and one for state-owned enterprises. The third project undertaken by the subcommittee involves aiding the drafting of the capital markets law, securities law, freedom of information act, and the data privacy act. The Legal and Regulatory Committee is working to advance corporate governance in the banking sector.

The Information, Communication, and Media Subcommittee is working to formalize the mission statement of the task force and to reach out to the widest possible audience. LCTF is employing various projects to accomplish this. As an example, an interactive web site – which includes a data bank - has been established on the topic of corporate governance.

For family-owned companies and small and medium enterprises, for whom the need to adopt corporate governance principles is not so clear, LCTF has created a detailed user manual which will facilitate the adoption of corporate governance principles. While LCTF has done much, there is still much left to address and improve.

Ms. Rym Bedoui, Institut Arab des Chefs d'Entreprise (Tunisia)

The Institute Arab des Chefs d'Entreprise (IACE) is a think tank created in 1984 with about 500 members. It is part of the Arab Forum of Young Entrepreneurs. Through its programming the IACE brings together academicians, researchers, and private sector representatives to address private sector development.

IACE has worked with the World Bank, the European Union, CIPE, and U.S. State Department through the MEPI Program on Corporate Governance. In partnership with the World Bank, IACE runs the Observatoire de l'Entreprise, a business barometer survey applied every three months to the Tunisian private sector to see how the investment climate is doing and what the entrepreneurs are feeling about the current economic conditions.

IACE is not the only organization addressing corporate governance issues in Tunisia. The Tunisia-American Chamber of Commerce and the Tunisian Association of Accountants and Auditors have also been working to advance corporate governance reform.

However, IACE's work takes on a different perspective. On October 8th, 2004, IACE held a seminar on corporate governance in Tunisia to increase awareness of corporate governance in the country and to look at the views of managers on corporate governance.

Highlights from the event are as follows:

- There is a clear disconnect between existing corporate governance legislation and its implementation. This "reality gap" must be addressed.
- Several issues also emerged through looking at the Tunisian stock market. Tunisia has 45 companies in its stock market, representing only 9 percent of GDP. Further, 90 percent of Tunisian companies are family-owned businesses.

Tunisia signed a free trade agreement in 1995 with the European Union, and Tunisia is meant to fully enter the agreement between 2008 and 2010. That means that a lot of European companies will be coming to Tunisia and that the trade flow will increase. Tunisia is therefore very aware of its need to improve the local business climate. As such, the government embarked on an aggressive economic reform program starting in 2000 when the government focused on reforming the commercial codes.

In 2001, IACE began holding annual meetings for heads of businesses. The business leaders, about 600, were brought together to discuss a specific topic, with the topic that year being taxation. There was open debate and the government took into account the IACE members' concerns during their amendment of the taxation law.

Currently the government is formulating Tunisia's equivalent of the Sarbanes-Oxley Act. The law will be passed in the first term of 2005. IACE is asking that the law require greater transparency and accountability from Tunisian companies.

The government has made some progress and expects to make more changes. Owing to IACE's position of working with both the private and public sector, its input is often requested from the government in brainstorming sessions as well as to make recommendation lists for ministries involved in the creation of new laws, codes, and reforms.

Ms. Rym Bedoui is currently the founder and president of Bedoui & Co. Consulting, located in Tunis. Bedoui & Co. Consulting represents the regional programs of the business development office of the U.S. Agency for International Development: Global Trade and Technology Network and the International Executive Service Corps. In addition, Bedoui & Co. Consulting works on partnership design and assistance, market development, and international marketing strategies with both international and Tunisian companies.

Ms. Bedoui is an ex-officio board member of the Tunisian American Chamber of Commerce, a member of the Young Entrepreneurs division of the Institut Arabe des Chefs d'Entreprise, and a member of the Association des Anciens Etudiants des Universités Canadiennes in Tunis. Ms. Bedoui was vice president, public relations of the Alumni Association of Université Laval, Canada.

Ms. Rym Bedoui holds a BS in Marketing from Université Laval (Canada) and an MBA in International Business from The Zicklin School of Business, Baruch College (USA). Ms. Bedoui spent her childhood in such diverse places such as Senegal, Switzerland and Canada. She now resides full time in Tunis, Tunisia.

IACE also organizes awareness campaigns to target the private sector, as well as training sessions, and open forums for discussion so that the private sector is aware of the changes in the country and can provide input on how different reforms address their needs.

Further, IACE conducted a survey in 2004 of their 500 members to gauge managers' views on business ethics and corporate governance. Highlights from the results of the survey are as follows.

Managers were asked to identify the most important relationship they had with their external environment. The majority recognized the client relationship. They were given a choice between client, supplier, competition, shareholders, and government. Conversely, government came out with a very low rank. There is a clear lack of trust between Tunisian companies and the government.

Managers were also asked to identify their top responsibility towards employees. Communication, attention, and dialogue were ranked as being top priorities. This shows that trust helps to establish business ethics. Lastly, when the managers were asked to identify the most important business practices managers must follow when dealing with customers, the highest ranked responses were promises, and commitment. So managers felt it very important to keep their promises to clients. Accountability and respect were also given as top priorities.

The managers identified as the worst behavior, the embezzlement of company funds. Bribery also came out as a major issue.

One-to-one interviews were also held, and in talking about corporate governance, several issues became clear. Firstly, those managers who were instituting corporate governance said they were doing so out of necessity. They felt that in a small country like Tunisia if a company has a bad image most citizens will be aware of this fact. So, corporate governance was being instituted to avoid being tagged as having bad ethics and to preserve the company image. Conversely, many also pointed out that in a country where many companies are operating in a less than honest way, corporate governance is bad for business as it decreases competitiveness.

The private sector has become used to hiding profit and activities from the government. Companies interviewed felt that this is a major issue that must be attended to. The black market is also still pervasive in Tunisia and managers felt that its presence strongly impacts their business ethics and behavior.

In response to the issues identified in the survey, IACE is planning a national study on the issue of business ethics. There are also plans to develop a code of ethics in Tunisia that would complete the code of corporate governance.

Dr. Rachid Belkahia, Moroccan Employers Federation (CGEM)

CGEM represents approximately 2,000 companies, including the main industrial, financial, and commercial companies within the Kingdom.

Firstly, the global framework of corporate governance in Morocco will be evaluated. Morocco's company law, voted on in 1995, established a bicameral structure with a supervisory board and a management committee. Besides this form of organization, there is a classical form of management with a board of directors. There is one weak point remaining - the absence of separation of the position of chairman and CEO, which CGEM is pushing within the framework of their company law reform program.

Under the external support framework, the company law lays out the responsibility of board members, governed by the penal code. Its institution caused a mass migration from corporations to limited liability companies.

Dr. Rachid Belkahia is a board member and president of the Moroccan Employers Federation (CGEM) Ethics committee. He is also a professor of finance and management at King Hassan II University, where he created a master's level corporate governance program. Dr. Belkahia studied at Lille University in France where he received masters' degrees in finance and accounting, as well as PhDs in business administration and economics. Dr. Belkahia is also a member of the economic think tank Maroc 2020.

Besides the company laws, there is the accounting law, which has enabled Morocco to generate a good base of professional chartered accountants who work according to international standards. For listed companies, it is compulsory to have a double control through auditors.

Besides the accounting law, there is an organization called the Société Marocain des Analistes Financiers. This organization works to increase professionalism and adherence to international standards among financial analysts. It is currently working on a project on ethics and codes of conduct.

However, a weak point in the corporate governance Moroccan landscape is the lack of rating agencies, which hurts investment.

Concerning supervision authorities, Morocco now has a National Accounting Council. Morocco is also currently in the process of adopting the new International Financial Reporting Standards (IFRS) standards. It has a national monetary and savings council, a financial institutions council, and a market authority for stock market regulation called the Conseil Deontologique des Valeurs Mobilières. It is the equivalent of the SEC in the U.S.A. or COB in France.

There is also a judicial authority with innovations concerning the commercial courts. However, in the field of capital markets, there is a weak level of class action due to a lack of activism from shareholders, and minority shareholders in particular.

CGEM works in the following areas. It works to raise awareness on the importance of business ethics and corporate governance. In 1997, they adopted an ethics charter and frequently organize conferences, workshops, seminars, and round tables. A corporate governance course was also held in a master's degree program at Hassan Second University, and was dedicated to addressing shareholder value and corporate governance. There is also work being done to create a code of corporate governance best practices with the market authority, to be completed in 2005.

Past successes of CGEM include the launching of a corporate citizenship award in partnership with the Moroccan-American Chamber of Commerce during 2001-2003. The award was based on four criteria: a company's relationship with its customers, employees, shareholders, and the community.

The goal now is to identify the strategy needed to reach small and medium-sized enterprises, since the Moroccan economy is essentially made up of family businesses. Within the family-run businesses, it is very difficult to guarantee accountability. Therefore, CGEM feels that targeting this segment is essential to improving the corporate governance culture in Morocco. In this vein, CGEM is working on forming partnerships with the Groupement Professionnel des Banques to identify possibilities of cooperation in this direction.

CGEM is also working to promote corporate governance in the public sector since the concept of governance is a global concept. It is looking to identify partnership projects between the private and public sector and to create success stories which it can use to emphasize the importance of corporate governance principles.

Mr. Alaa Amer, Egyptian Capital Markets Association

The Egyptian Capital Markets Association (ECMA) is an association that groups together all the players, individuals, and companies working in the capital market in Egypt. It was founded 10 years ago with 32 members and has increased that number to 220, made up of both individuals and companies.

The goal of ECMA is to be a self-regulatory organization in the capital markets in Egypt. Currently ECMA provides training for obtaining licensing in the Egyptian stock exchange. It has also developed a code of conduct that is enforced on all participants in the capital

market approved by the Capital Market Authority. ECMA holds monthly meetings with the stock exchange chairman, capital market authority chairman, the Minister of Investment, and representatives from other ministries as well. ECMA has also created a dispute resolution mechanism to help mediate conflicts between members, as well as between members and regulators.

Currently, ECMA is working to increase awareness of and action towards implementation of good corporate governance. Events have been held where topics such as rule of law, minority shareholder rights, and rules of shares were discussed. A future conference is currently being planned to discuss such topics as financial reporting and disclosure, listing rules, minority shareholder rights, management responsibilities, duties of boards of directors, audit committee responsibilities, insider transactions, auditor independence, as well as accounting standards. ECMA is also currently partnering with the Banking Institute, headed by Dr. Hala Said, to promote corporate governance reform.

Good governance structures require institutional reforms as well as policies and programs. This will include public expenditure management programs, public administration programs, legal system reform, institutional capacity building, as well as public accountability policy. The private sector has the potential to be the main player in economic development. It should transcend civil society and its role as the third partner in development.

Banking sector and capital market reform as well as competition rules are the core component of the reform program that should lead to better public governance, which is the prerequisite for good governance.

A recent study published by the World Bank proves that corporate governance can affect economic development at the country level, at the firm level, and even at the individual level. It provides five main benefits: Firstly, corporate governance increases firm access to external financing. Good governance will attract institutional investors who manage funds for entrepreneurs as well as insurance companies and pension funds to allocate the resources among better-managed markets in the world. The company that applies good corporate governance rules will attract such institutional investors, who will balance the risk and the return factor. This, in turn, will lead to more investment, higher gross domestic product, and higher employment.

Another benefit is that a well-governed company will attract finance at a lower cost, which entails a higher valuation because of the use of a lower discount rate. In addition, a well-governed company has a better operational performance through improved allocation of resources due to good corporate governance at the managerial and board of directors level. This will ultimately create more wealth for society.

Good corporate governance can also be associated with reduced financial risk. The failure to adhere to good corporate governance can result in corruption cases such as Enron, which led to erosion of trust, lowering of prices in the stock market, and lowering of activity in the stock market, which led, in turn, to an economic slowdown. It has the potential to affect an entire society.

Additionally, a well governed company will have a good relationship with its labor force, leading to a better image, which will further induce trust in the market, leading to better performance and growth.

Corporate governance cannot work alone. It has to work in concert with the following economic development reforms. First, access to finance is a major factor for the development of companies. There is a clear correlation between the development of the banking sector, measured by private credit as a share of GDP, and per capita growth. A study published by the World Bank proves that a doubling in the rate of private credit from 19 percent to 38 percent with a simple regression will lead to a two percent increase in gross domestic product.

Second are the roles of banks and securities markets. Both provide long-term financing to the market and require good governance in order to perform well. The same study actually proves that countries with a more liquid stock market have grown faster than those with less liquid stock markets. However, the per capita GDP is higher if the banking system is more developed. So there is a correlation between the development of the banking sector and the capital market as well as the per capita GDP of the country.

The third element is the legal foundation. The legal foundation includes enforcement of property rights, disclosure regulations, accounting standards, and financial sector regulations and supervision. If the legal foundation is properly applied, it leads to higher growth in the capital market.

The fourth element of economic development is openness and competition. Openness is vital for good governance. Mistreatment of minority shareholders has been proven to be a function of a lesser degree of competition and a lesser degree of protection in the market.

These are the main four reforms, which must be implemented simultaneously to facilitate corporate governance efforts. Establishing the framework for core values of corporate governance should not prove difficult. A recent study completed by the World Bank and the OECD found that many of the core corporate governance principles are already in place in Egypt. However, more work must be done to change the cultural barriers to full implementation of international corporate governance principles.

Dr. Fouad Shaker, Union of Arab Banks

Corporate Governance principles emerged mainly in response to corporate failures and market crises. The banking sector is no stranger to corporate scandals; the secondary banking crisis of the 1970s in the United Kingdom is one example, as is the U.S. Savings and Loan debacle of the 1980s. The Lebanese banking sector, the most stable and developed in the region, has had its shares of similar stories with Bank Intra and Bank Al Madina.

Principles of governance, namely transparency, disclosure, and accountability have proven to be essential to the efficient functioning of an economy, forcing developing and transition economies to acknowledge the pressing need of putting them into practice. These countries realize that healthy corporate competition is key to sustained growth. Good governance not only helps economies withstand economic shocks, but it has proved to be a source of competitive advantage. It is critical to economic and social progress, especially in an increasingly globalized world.

Consequently, Middle East and North Africa countries have recognized that having supportive institutions and human resources is critical for sound corporate governance. The challenge that these countries face is two-fold: first, to determine a specific corporate structure and implementation capacities; second, to adapt international corporate governance standards to fit each country's specific and unique features. However, measuring corporate governance compliance remains the biggest challenge.

Recent initiatives such as the creation of the Regional Corporate Governance Forum (RCGF), the Second MENA Regional Forum on CG that took place in June 2004 in Beirut and the publication of Corporate Governance in MENA Countries: Improving Transparency & Disclosure have all shed light on the urgency of addressing CG in the region. Aiming to measure governance in the region is thus an ambitious and vital initiative. The banking sector naturally appeared as the favorite candidate, and the participation of internationally recognized organizations and their partnership with local and regional champions were seen as imperative to building confidence in the work being undertaken.

Given the importance of banks, the governance of banks themselves assumes a central role. If bank managers face sound governance mechanisms, they will more likely allocate capi-

tal efficiently and exert effective corporate governance over the firms they fund. In contrast, if bank managers enjoy enormous discretion to act in their own interests rather than in the interests of shareholders and debt holders, then banks will be correspondingly less likely to allocate society's savings efficiently and exert sound governance over firms.

The consensus is that investors and capital markets are the main drivers of converging governance practices. Nevertheless, for developing countries, where capital markets are still at an embryonic stage, the banking sector - being the sole capital provider - is a strategic player.

While banks serve an important function in an economy, this alone does not motivate a separate analysis of the governance of banks. Banks are firms. They have shareholders, debt holders, boards of directors, competitors, etc. This suggests that one can simply think about the governance of banks in the same way that one thinks about the governance of an automobile company or a pharmaceutical company.

Banks, however, have two related characteristics that inspire a separate analysis of the corporate governance of banks. First, banks are generally more opaque than non-financial firms. Although information asymmetries plague all sectors, evidence suggests that these asymmetries are larger within banks.

In banking, loan quality is not readily observable and can be hidden for long periods. Moreover, banks can alter the risk composition of their assets more quickly than most non-financial industries, and banks can readily hide problems by extending loans to clients who cannot service previous debt obligations. The comparatively severe difficulties in acquiring information about bank behavior and monitoring ongoing bank activities hinder traditional corporate governance mechanisms.

Second, banks are frequently very heavily regulated. Because of the importance of banks in the economy, because of the opacity of bank assets and activities, and because banks are a ready source of fiscal revenue, governments impose an elaborate array of regulations on banks. At the extreme, governments own banks. Of course, banking is not the only regulated industry and governments own other types of firms. Nevertheless, even countries that intervene little in other sectors tend to impose extensive regulations on the commercial banking industry.

The Basel principles issued in 1999 as a supplement to the OECD principles set out the key elements of corporate governance for the banking sector. They also encourage strengthening corporate governance practices under various structures and assist supervisors in the aim of promoting the practice of corporate governance by the banking sector of each country. They function through a wide range of mechanisms, such as establishing corporate strategy, monitoring conflict of interest, and setting corporate governance standards and principles.

Accordingly, the responsibility of monitoring and overseeing falls to bank supervisors whose duty it is to require banks to include checks and balances in the structure of their organizations, as well as guarantee that the senior management and boards of directors are able to fully achieve their duties and are held accountable for lapses. The supervisors should set methods for monitoring corporate governance. These methods include on-site examinations, off-site surveillance, meetings with bank management, supervision of auditors' work, and periodic reporting.

Bank corporate governance should be based on ethical behavior, as embodied in a Code of Banking Ethics. The code consists of a series of rules dealing with ethical and sound conduct, setting a framework for the relationship between banking institutions and their clients. The objectives of the Code of Banking Ethics include the establishment of standards for good banking practice, raising the level of transparency and openness, strengthening the level of trust, generating healthy competition, guaranteeing that the rights of clients, shareholders, and institutions are honored, and ensuring that the staff behave in an ethical way, free from self-interest.

The 13 principles of the Code of Banking Ethics are:

1. Integrity and fairness
2. Confidentiality
3. Professionalism
4. Compliance with directives
5. Monitoring procedures
6. Sound implementation
7. Transparency of transactions
8. Good customer service
9. Promotion of banking services (advertising)
10. Transactions giving rights to suspicion
11. Collecting and keeping information on customers
12. Handling customer complaints
13. Inter-bank relations and rotations with other parties

Good corporate governance in the MENA banking system can pave the way for corporate governance practice in other sectors of the economy. Through these mechanisms, banks enhance their level of corporate governance and influence corporations to follow the lead, influencing by example and good management practice.

In light of the above, the Union of Arab Banks conducted a survey of the Arab banking sector's adherence to and compliance with corporate governance principles.

Based on the several studies conducted by the UAB along with the use of the UAB's extensive database, the Arab banking sector was categorized into three main distinct tiers from the perspective of advancement, modernization and financial strengths (for example, while Gulf banks are fairly advanced, banks in a country like Yemen are in need of additional efforts).

A preliminary study was carried out to assess the adherence of Arab banks to the corporate governance principles; with no marked difference found between one country and another in spite of the huge differences in other areas. Accordingly, such an apparent paradox strongly suggests the need to conduct a countrywide survey above and beyond the individual surveys that may be conducted in any Arab country.

Moreover, from a banking industry perspective, corporate governance involves the manner in which their supervisory boards govern the business and affairs of individual institutions and senior management, affecting how banks:

- Set corporate objectives to generate sustainable economic returns to owners;
- Run the day-to-day operations of the business;
- Consider the interests of recognized stakeholders;
- Align corporate activities and behaviors with the expectation that banks will operate in a sound manner and in compliance with applicable laws and regulations; and,
- Protect the interests of depositors.

The countrywide survey will therefore assess the level of corporate governance sophistication among banks and quantify the following through a cross-country comparative analysis:

Awareness and commitment to the Corporate Governance Principles; the functions and responsibilities of the supervisory board and management board; the specific provisions that offer protection to shareholders, particularly minorities; the role of stakeholders in relation to corporate governance; operations; the easy accessibility of material financial and non-financial disclosures relevant to corporate governance; compliance of Arab banks with Basel II with respect to corporate governance, as stated in the accord either explicitly or implicitly as to

disclosure and transparency; identify steps, recommendations and remedial action that can be drawn on for strengthening the corporate governance of banks in the Arab region; raise the said recommendations to the Corporate Governance MENA Forum; and, serve as a basis for future technical assistance programs.

This project can be accomplished in four phases over nine months:

Phase I: Survey Template Design

Phase I aims to adopt a template that would allow interpretation of the survey's results in terms of international practices that is still adaptable to the region's specific requirements and features, including a pilot test for the survey.

Phase II: Coalition Building and Survey Completion

Organizers will contact the governors of MENA central banks to introduce the survey's requirements and objectives. Meetings are intended to be informative and to help gain the support of the central banks. Subsequently, one-day seminars will be conducted in each country and will precede the survey completion exercise. It is important to explain the survey's goals and objectives as well to simplify the process of completing the survey to ensure higher rates of response among participants.

Phase III: Results Analysis

The study of the results would be commissioned to independent economic analysts. The analysis will underline areas of strength and weakness. The analysis will be conducted both at local and regional levels through cross-country comparisons.

Phase IV: Results Sharing and Action Plan Development

The fourth phase entails sharing the results of the survey with different regional players and with representatives from international organizations such as the IFC, OECD, CIPE, World Bank Group and others. The results of the survey and the agreed-upon set of recommendations of the conference would be compiled into one publication that should serve as an action plan to reform and enhance the MENA banking sector.

Next Steps for Corporate Governance Programs

The program concluded with a discussion on the next steps that should be taken to advance corporate governance in the Arab world. Mr. Fawaz Shalan, who heads Medicare Jordan and sits on a number of corporate boards, moderated this interactive session. The dialogue began with a comment on how it is necessary for the private sector to drive corporate governance initiatives and to not only create a regulatory framework, but to actually build a culture of corporate governance in the region. There was some question on where to begin with this. Many participants said that the starting point for forging this culture is small- and medium-sized enterprises and family-owned businesses, which make up a vast majority of MENA companies. Others argued that large corporations that are listed on the stock exchanges are the best place to begin. As Lena Hundaileh, president of the Young Entrepreneur Association in Jordan, stated, "We need to prioritize- where do we want to focus? Are we focusing on SMEs, big corporations, multinationals, or family businesses?" There were a few who disagreed that the private sector was the place to begin governance reform and did not see the link between public governance and corporate governance.

Regardless of where to start, everyone agreed that the MENA business community must be made aware of corporate governance if it is to take root. From journalists like Mr. Hamoud Al-Bakheety who credited CIPE for raising awareness to executives like Fouad Zmokhol who have already begun to communicate corporate governance principles to their associations, these reformers understand that perception by the business community is a vital prerequisite for economic development and reform in their countries. Mr. Jasim Al-Ajmi from the Bahrain

Transparency Association used the example of a conversation with his brother to demonstrate the lack of awareness in Bahrain. “I was talking to one of my brothers who has a business outside Bahrain, and he told me this: the only way to make money is through conflict of interest. When I talked to him about corporate governance, he said, please, don’t waste my time. I go to a country, and I make money only through conflict of interest.”

Amr Al-Abd, chairman of the Entrepreneurs Business Association of Egypt, asked the question, “Why not introduce [corporate governance] into the curriculum and the education system so that future generations will grow up and have this mentality of corporate culture developed in their minds?” Indeed, Dr. Hisham Awartani of the Center for Private Sector Development has been trying to do just that, and participants were interested in further examining the course he has developed for potential adaptation of it to the university curriculums in their own countries.

In assessing the corporate governance needs of the region and in the individual countries, several participants expressed their desire to create corporate governance task forces. Lebanon has established a task force, and some participants thought it could be a model for the establishment of task forces in other countries. As Alaa Amer of the Egyptian Capital Markets Association stated, “Each country in the region is in a different stage of development and in a different stage of addressing corporate governance issues. A task force should be created in each country to address the issues of awareness of corporate governance, implementation of the rules, and the relationship between corporate governance and public governance.” Some participants indicated their interest in forming a regional council of corporate governance. Rose Hosani of the American Chamber of Commerce in Jordan briefly explained the formation protocol that was signed by the American Chambers of Commerce in Jordan, Iraq, Morocco, Lebanon, and Egypt, which could be a model for a regional task force.

The use of models and learning from others’ experiences was a central theme of the discussions. There were several requests to examine the surveys and studies that various participants had conducted, and there was a genuine interest in each other’s projects. Fouad Shaker, secretary general of the Union for Arab Banks, summed up the shared sentiment of cooperation in saying, “I’m going to contact each person here to benefit from all of their experiences.”

The participants maintained an insatiable thirst for success stories. Mehdi Ben-Abdallah of the Tunisian Employers Association (UTICA) put it best when he said, “I travel around the world to promote Tunisia... and I can make beautiful speeches on Tunisia and on investment incentives in Tunisia for hours and hours. That’s good, but when I bring with me one success story, one person who succeeded in doing business in Tunisia, in two minutes if you say I went to Tunisia, invested one dollar, came back with ten, it is much more effective than three hours of my speech. We have to try to create success stories in the use of corporate governance in each country.”

One could see the country-specific disparities in corporate governance development in the discussions, as those in the Gulf tended to speak about enforcement and building ratings systems, while representatives from lesser-developed countries were spoke about task forces and assessment. However, there was recognition that all of the countries were at different stages in corporate governance development. There was discussion on how corporate governance follows an evolutionary process and how countries must be willing to adapt to changes in the both the economic and political environments. Countries vary greatly depending on their political freedom, from authoritarian, closed states like Saudi Arabia to budding democracies like Iraq. Raid Rahmani, chairman of the Iraqi Economy Development Center, said “The private sector has not been given the chance to participate in economic and political decisions by the present government, but we are working hard with CIPE so that all the economic

business associations have a strong voice and participate in decisions in the current and future parliaments.”

Mr. Shalan gave an overall optimistic outlook on corporate governance in the MENA region by saying, “The region lags behind a bit in corporate governance, but that also gives us the advantage of leapfrogging. We can avoid common pitfalls and avoid what’s called the law of unintended consequences and learn from others’ experiences.”

CIPE Corporate Governance Resources

For more information on corporate governance, visit the following websites:

Center for International Private Enterprise: www.cipe.org

Organisation for Economic Co-operation and Development: www.oecd.org

Global Corporate Governance Forum: www.gcgf.org

CIPE’s Corporate Governance Publications:

In Search of Good Directors: A Guide to Building Corporate Governance in the 21st Century

Corporate Governance in Development

Corporate Governance Trends Newsletter for MENA Countries in English and Arabic

Corporate Governance in MENA Countries by Nasser Saidi

Dozens of Economic Reform Feature Service articles about corporate governance reform are available at www.cipe.org/publications/fs/index.htm