

## ***Corporate Governance in the Arab Countries:***

### ***Role of the Banking System in Ensuring Transparency & Disclosure\****

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*Forum on Corporate Governance in Banks and Financial Institutions in Line with  
International Standards & Practices  
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Excellencies, Ladies and Gentlemen,

1. It is a special pleasure and honour for me to participate in this important forum promoting the benefits of good corporate governance, helping disseminate knowledge and discussion and increasing awareness of the underlying issues. The aim is to improve governance of our banks and financial institutions and more generally of the non-bank corporate sector. I would like to thank my good friends, HE Mr. Hamoud Ben Sangour Al-Zadjali and Dr. Joseph Torbey for their leadership and for their important initiative in promoting corporate sector reform. Good corporate governance in the banking and financial sector is fundamental in ensuring financial sector stability and in helping to enforce good corporate governance practice in the non-bank corporate sector.
2. My remarks today fall under three main headings:
  - The importance of corporate governance principles and standards in an increasingly inter-connected world, and evidence on the relationship between corporate governance and economic efficiency, investment and growth.
  - The special governance problems of the banking & financial sector and the role of the banking and financial sector in the adoption of good CG practices in the non-bank sector.
  - Policy measures and an action plan for promoting CG in the MENA countries, with a focus on the special role of the monetary and bank supervisory authorities.
3. The Asian crisis that swept the financial markets and economies of the major Asian economies did not result from macroeconomic mismanagement or weak

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economic fundamentals, nor did it result from extraneous shocks. The underlying problem was one of governance, of the range of institutions and practices by which authority was practiced in both the public and private sector. Specifically, the Asian crisis exposed the severe weakness in financial sector governance as well as corporate malfeasance. We discovered that financial crises, banking and exchange rate (or balance of payments crises) were linked to governance. The Asian crisis illustrates the dangers and systemic risks that arise when banks are subject to political influence, and where management is weak and lacks accountability and responsibility. The costs of ‘mal-governance’ induced financial crises can be high. In the case of Indonesia, one of the hardest hit by the crisis, the fiscal cost for the government having to make good on the obligations of the private banks exceeded 100% of GDP<sup>1</sup>. In addition, the financial crises induced severe recessions and increase in poverty rates, threatening social and political stability.

4. Mal-governance and corporate malfeasance were not limited to the emerging markets of Asia. Russia and many of the countries of the Former Soviet Union countries discovered that the costs of adjustment and transition to a market economy were made higher as a result of bad governance. A major lesson from the Russian experience is that privatization and divestment of State Owned Assets (SOAs) and State Owned Enterprises (SOEs) requires the prior compliance of SOAs and SOEs with the basic principles of sound corporate governance. However, it was the recent experiences of corporate malfeasance in the US and Europe that revealed the magnitude of governance problems. ‘Bad governance’, the concealing of information along with inadequate monitoring and supervision, fraud and the dissemination of incorrect and deceitful information on financial status and corporate actions, underlies the demise of Enron, WorldCom, Tyco, Vivendi, Marconi, Ahold and Arthur Andersen and more recently Shell and Parmalat.
5. In many of our countries, our media fill their pages with the tales of corporate corruption, of waste and bribery in government Ministries, bureaucracies, SOAs and SOEs. The international capital markets have severely punished listed companies with ‘bad governance’. However, Governments, politicians and the judiciary are not as forceful in their actions and judgment in combating bribery and corruption in government! A recent report by the World Bank has advanced some startling numbers on the extent of bribery and corruption in the world. It estimates that on annual basis some US\$1,000 billion (a trillion dollars!) is exchanged in bribes, or a staggering \$2.7 billion per day is paid in bribes in both developing and rich countries! This compares with an estimated total size of the global economy of about \$30 trillion. The evidence also suggests that the economic crimes associated with bribery and corruption, are not limited to poor countries, a particular political ideology, rightist or leftist regime, specific

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<sup>1</sup> See the discussion in Litan et al. editors, (2002), “Financial Sector Governance”. The Brookings Institution, Washington, DC.

cultures, religions or geographical regions. The cancer of corruption and bribery is a world-wide phenomenon<sup>2</sup>. Whether “Grand” or “Petty”, “Active” or “Passive”<sup>3</sup>, corruption and bribery, constitute one of the most challenging obstacles to investment, economic growth and development. Corruption acts like a tax on investment and growth. Recent empirical evidence shows that “an increase in either the tax rate on multinational firms or the corruption level in the host governments would reduce inward foreign direct investment. An increase in the corruption level from that of Singapore to that of Mexico would have the same negative effect on inward FDI as raising the tax rate by fifty percentage points...”<sup>4</sup>

6. A recent study provides an eloquent summary: “Systematic research conducted recently by a number of authors finds that the more corrupt a country, the slower it grows. There are several channels through which corruption hinders economic development. They include reduced domestic investment, reduced foreign direct investment, overblown government expenditure, distorted composition of government expenditure away from education, health, and the maintenance of infrastructure, towards less efficient public projects that have more scope for manipulation and bribe-taking opportunities.”<sup>5</sup> We need to put in place effective anti-corruption strategies. The framework for fighting corruption lies in good corporate governance.
7. Corporate malfeasance and mal-governance in the US, made investors, worldwide, lose confidence in the financial information and statements disclosed by corporations and the ability of market regulators. The result was a sharp decline in securities prices, loss in financial wealth and decline in investment and real economic growth. The official reaction included the passage of the Sarbanes-Oxley Act in the US and similar legislation in other countries. At the international level, institutions including the World Bank, the IMF, the OECD, the BIS and IOSCO reacted by proposing codes and principles intended to incorporate lessons learned from banking and financial crises.

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<sup>2</sup> See Kaufmann, D. et al., (2004).

<sup>3</sup> Grand corruption is corruption that pervades the highest levels of a national Government, leading to a broad erosion of confidence in good governance, the rule of law and economic stability.

Petty corruption can involve the exchange of very small amounts of money, the granting of minor favors by those seeking preferential treatment or the employment of friends and relatives in minor positions.

Active bribery usually refers to the offering or paying of the bribe.

Passive bribery refers to the receiving of the bribe. This is the commonest usage. In criminal law terminology, the terms may be used to distinguish between a particular corrupt action and an attempted or incomplete offence. For example, "active" corruption would include all cases where payment and/or acceptance of a bribe had taken place. It would not include cases where a bribe was offered but not accepted, or solicited but not paid

Source: United Nations, The Global Programme Against Corruption: Anti Corruption Toolkit.

<sup>4</sup> See Wei, S-J, “How Taxing is Corruption on International Investors?”, in The Review of Economics and Statistics, February, 2000, Vol. LXXXII, Number 1. The paper studies the effect of corruption on foreign direct investment. The sample covers bilateral investment from twelve source countries to 45 host countries.

<sup>5</sup> See the study by Wei, S-J, (1999) “Corruption in Economic Development: Beneficial Grease, Minor Annoyance, or Major Obstacle?” National Bureau of Economic Research, Working Paper.

8. The “12 Key Standards for Sound Financial Systems”, developed by the Financial Stability Institute are intended to promote the sound and efficient functioning of financial markets and prevent financial crises. These cover standards for the conduct of Macroeconomic and Monetary Policy, Data Transparency; Institutional and Market Infrastructure; and Financial Regulation and Supervision.<sup>6</sup> They are intended to address the governance problems arising from uninformed investors investing in securities without access to adequate, reliable information; the inadequate provision of information, inadequate disclosure and dissemination, poor transparency, by firms and governments. The aim is also to remedy the poor quality of regulation of the banks and capital markets; improving the incentives to avoid excessive risk-taking in private and public institutions, and addressing the inadequacy of insolvency regimes<sup>7</sup>. Market economies require a ‘soft’ infrastructure of formal rules including codes to protect shareholder rights, bankruptcy statutes, and protection of property rights and enforcement of contracts. However, these cannot be a substitute for reputation and trust. Reputation, honouring one’s word is fundamental to the economic value of corporations. That intangible is capitalised into the ‘goodwill’ on some balance sheets<sup>8</sup>.
9. The OECD has issued a revised set of Principles of Corporate Governance aiming to provide a framework for sound corporate governance. The Principles cover: I) Ensuring the basis for an effective corporate governance framework; II) Rights of shareholders and key ownership functions; III) Equitable treatment of shareholders; IV) Role of stakeholders; V) Disclosure and transparency; and VI) Responsibilities of the board. These set a standard for corporate governance for listed companies. Where do we stand compared to this international benchmark?
10. Recent surveys and reports agree that there is a Corporate Governance gap in the region, with available indicators suggesting that the companies and countries of our region stand far behind in terms of the implementation of principles and standards vis à vis the benchmark of the OECD CG Principles and practice in industrialized countries.<sup>9</sup> The corporate sector in the Arab countries has to initiate a “mise à niveau” process for implementing CG. However a CG action plan and corporate sector reform programs require information and detailed assessment in order to prioritize actions and formulate remedial government policy responses. Table 1 shows that only six countries in the region (Algeria, Jordan, Kuwait, Morocco, Tunisia and the UAE) have completed and published Reports on the Observation of Standards and Codes (ROSC Reports). Some countries (including Egypt and Lebanon) have undertaken and completed reports on a number of

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<sup>6</sup> See the [FSF - Financial Stability Forum: 12 Key Standards for Sound Financial Systems](#) .

<sup>7</sup> See the discussion of the consequences of the failures of governance in R. Litan et al., “Financial Sector Governance”, 2002.

<sup>8</sup> See the Remarks by Alan Greenspan on corporate governance, at the Conference on Bank Structure and Competition, Chicago, Illinois, 2003.

<sup>9</sup> See the discussion in N. Saidi., “[Corporate Governance in MENA Countries: Improving Transparency & Disclosure](#)”,2004.

topics (e.g. payment systems, data dissemination, and banking supervision in the case of Lebanon) but have not published the reports or made them widely available. Unfortunately, the lack of wide availability and dissemination of the reports reduces their usefulness in leading to change in policies, reform and modernization.

Similarly, only one country, Kuwait has undertaken and published a Financial Sector Assessment Program, which the International Monetary Fund (IMF) and the World Bank undertake with countries to assess the strengths and remedy the weaknesses of a country's financial system, including observance and compliance with relevant financial sector standards and codes. With respect to CG, only two countries (Egypt and Morocco) have finalized and published a CG survey, though Lebanon, Jordan and Tunisia are committed to undertaking and publishing surveys. The recently formed **MENA Regional CG Forum**, with participation from a number of countries in the region and support from the OECD, The World Bank, CIPE and other international organizations, as well as regional organizations including the Union of Arab Banks, will be undertaking CG surveys of the Arab countries.

**Table 1: MENA Published ROSC Reports\***

| TOPIC   | COUNTRY   | DATE OF PUBLICATION   |
|---|---|---|
| ROSC Report on Banking Supervision  | Algeria<br>Kuwait<br>Morocco<br>Tunisia<br>United Arab Emirates | May 17, 2004 & June 23, 2001<br>May 24, 2004<br>July 17, 2003<br>June 17, 2002, January 29, 2001 & September 30, 1999<br>January 27, 2003 |
| ROSC Report on Monetary & Financial Policy Transparency                     | Algeria<br>Morocco<br>Tunisia<br>United Arab Emirates           | May 17, 2004<br>July 17, 2003<br>June 17, 2002, January 29, 2001 & September 30, 1999<br>January 27, 2003                                 |
| ROSC Report on Data Dissemination   | Jordan<br>Morocco<br>Tunisia                                    | February 10, 2004 & October 16, 2002<br>April 4, 2003<br>January 29, 2001 & September 30, 1999  |
| ROSC Report on Anti-Money Laundering & Combating the Financing of Terrorism | Kuwait  | May 24, 2004  |
| ROSC Report on Accounting & Auditing  | Egypt<br>Lebanon<br>Morocco                                     | August 15, 2002<br>May 7, 2003<br>July 25, 2002   |
| ROSC Report on Securities Regulation  | Kuwait<br>Morocco<br>Tunisia                                    | May 24, 2004<br>July 17, 2003<br>June 17, 2002, January 29, 2001 & September 30, 1999   |
| ROSC Report on Insurance Supervision  | Morocco<br>Tunisia  | July 17, 2003<br>June 17, 2002  |

| TOPIC  | COUNTRY   | DATE OF PUBLICATION  |
|--|---|--|
| ROSC Report on Payment Systems               | Morocco<br>Tunisia<br>United Arab Emirates                      | July 17, 2003<br>June 17, 2002<br>January 27, 2003                                 |
| ROSC Report on Fiscal Transparency           | Tunisia<br>Iran, Islamic Republic of                            | January 29, 2001 & September 30, 1999<br>December 10, 2002                         |
| ROSC Report on Governance Survey             | Egypt<br>Morocco  | 2001 & 2003<br>2003  |
| Financial System Stability Assessment (FSSA) | Algeria<br>Kuwait<br>Morocco<br>Tunisia<br>United Arab Emirates | May 17, 2004<br>May 24, 2004<br>July 17, 2003<br>June 17, 2002<br>January 27, 2003 |
| Financial Sector Assessment Program (FSAP)   | Kuwait  | November 8, 2004   |

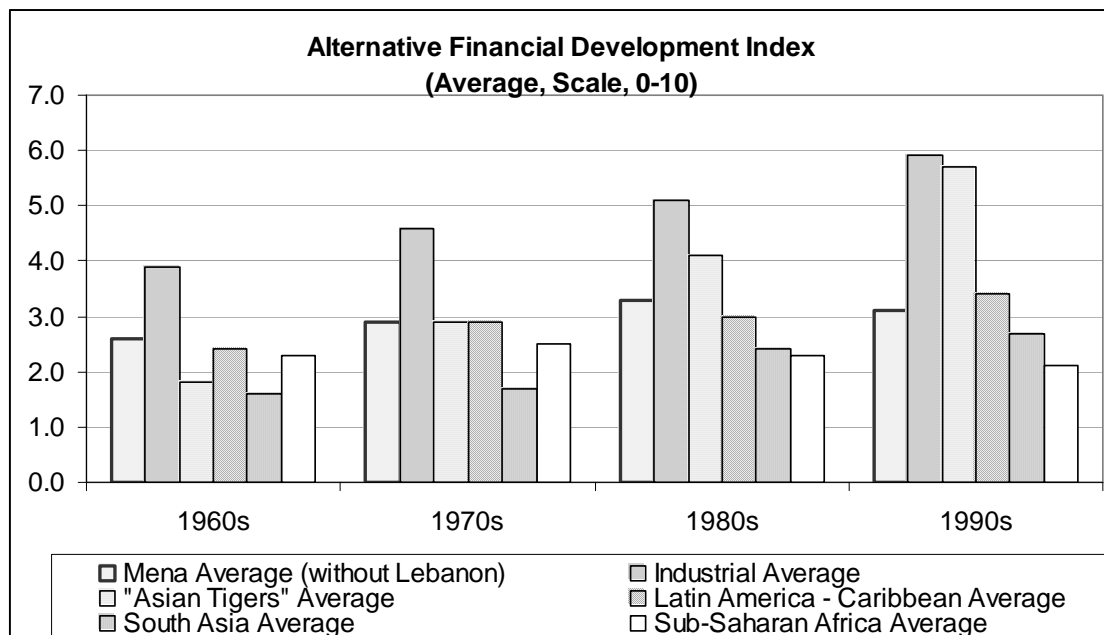
\*As available on the IMF and World Bank sites on 12/01/05

Source: IMF, World Bank

11. On a practical level, however, we should be aware that our small and medium enterprises (SMEs) and Family Owned Enterprises (FOEs) will have difficulty enforcing the principles & standards of corporate governance. Thus, the question of how to reduce the cost of compliance and transparency must be addressed. We need to develop a set of CG principles appropriate for SMEs and FOEs that is self reinforcing. The other major area of concern is the state of governance of SOEs. Here, the MENA RCGF will be developing CG Principles addressing the special CG problems of SOEs.
  
12. So, how do we advance corporate governance in the Arab world? It is important to get the stakeholders on board in order to find feasible and pragmatic ways to implement the sound principles of corporate governance. We must be pro-active with business groups –such as Chambers of Commerce & Industry- to induce them to *formally* adopt the principles of corporate good governance and seek compliance by their members. Within the business groups, public discussions should be held on this issue. We should also reach out to academia, the media, and politicians. Corporate governance implementation requires leadership and awareness. The main message here is that groups advocating corporate governance reform should formulate an action plan and mobilize themselves, with the assistance of the media and local civil society organizations. Seeking implementation of the 12 core standards for sound financial systems should be part of the action plan. We also should focus on the economic incentives to self-motivate, drive companies to adopt corporate governance principles, and not attempt to impose these principles on them. A combination of economic incentives, self-regulation and enforcement of laws and regulations is needed for corporate governance to flourish. But it all starts with the private sector being pro-actively *engaged* in the development of the corporate governance

environment. A private sector task force promoting corporate governance (as was done in Lebanon through the establishment of the Lebanon Corporate Governance Task Force) or business associations developing codes of corporate governance for its members are promising starting points. The stakes are high: better corporate and public governance improves the investment environment and leads to better institutions and higher, sustainable economic growth.

13. Progress has been achieved in the corporate governance of our banking sector in the Arab countries, by complying with the Core Principles for Effective Banking Supervision –as issued by the BIS- and related prudential and regulatory measures, and by instituting effective bank supervision authorities, and acting to ensure market integrity through Anti-Money Laundering and Terrorist Financing legislation and instituting Anti-Money Laundering Commissions. Indeed, a recent survey of the financial system in the MENA countries by the IMF provides evidence that bank regulatory authorities are in line with international best practice and benchmarks. Indicators relating to the Regulation & Supervision of the banking and financial sector show good performance for the majority of the Arab countries with developed banking sectors<sup>10</sup>. It is countries that have either repressed their financial systems or are dominated by State owned institutions that show weak governance of the financial sector.



Source: Source: "Financial Sector Development in the Middle East and North Africa", Creane, S., Authors' calculations.

<sup>10</sup> See Creane S. et al., "Financial Sector Development in the Middle East and North Africa" IMF Working Paper (2004) and comments by N. Saidi, "Financial Sector Development in MENA and Remedial Policy Action", 2004.

14. Banks face special governance problems<sup>11</sup> because their activities are more opaque and diverse, making them more difficult to monitor and to assess the value at risk in their portfolios and activities. Disclosure and transparency are at a premium good banking CG. For this reason it is important to impose financial disclosure standards in accord with international accounting and auditing standards. The OECD states the disclosure and transparency principle clearly: *“The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.”* Banks are also a sector subject to extensive government regulation, which limits or prevents takeovers and other measures for corporate control and accountability. In our region, as in many emerging markets, extensive government ownership of banks prevents competition and the contestability of banking and financial markets. Finally, government deposit insurance programs and other financial safety nets imply greater incentives for risk taking by banks and fewer incentives for depositors to monitor their activities. To offset these problems, our governments, monetary and bank supervisory authorities should encourage more market discipline by encouraging entry into the banking system, and the rating and stock market listing of banks. The other main structural reform is for divestment, for the privatization of State owned banks and financial institutions. Privatization would establish a level regulatory playing field, avoid conflicts of interest and prevent the abuse of the banking and financial system by government and politicians.

**MENA Countries: Financial Development Index, 2002/03 1/**  
(Based on Qualitative and Quantitative Data, Scale: 0-10) 2/

|                      | Financial Development Index | Banking Sector | Nonbank Financial Sector | Regulation and Supervision | Monetary Sector and Policy | Financial Openness | Institutional Environment |
|----------------------|-----------------------------|----------------|--------------------------|----------------------------|----------------------------|--------------------|---------------------------|
| Bahrain              | 7.7                         | 7.3            | 5                        | 9.3                        | 7.8                        | 8                  | 8.9                       |
| Lebanon              | 7                           | 8.7            | 3.3                      | 7.7                        | 8.3                        | 7                  | 5.2                       |
| Jordan               | 6.9                         | 7.1            | 6.3                      | 8.7                        | 6.5                        | 8                  | 5.4                       |
| Kuwait               | 6.8                         | 7.4            | 5                        | 8                          | 6.6                        | 8                  | 5.9                       |
| United Arab Emirates | 6.6                         | 7.9            | 5                        | 6.7                        | 5.8                        | 8                  | 5.9                       |
| Saudi Arabia         | 6.4                         | 7.8            | 3.3                      | 8                          | 6.4                        | 8                  | 4.2                       |
| Pakistan             | 6                           | 5.8            | 6.3                      | 7.7                        | 7.4                        | 4                  | 3.9                       |
| Oman                 | 5.9                         | 6.1            | 5                        | 8.3                        | 4.2                        | 8                  | 4.8                       |
| Qatar                | 5.7                         | 6.8            | 0.7                      | 6.7                        | 5.7                        | 8                  | 6.3                       |
| Tunisia              | 5.6                         | 7.7            | 4.7                      | 5.3                        | 4.5                        | 5                  | 5                         |
| Morocco              | 5.5                         | 5.6            | 4.7                      | 7.3                        | 6.8                        | 4                  | 3.8                       |
| Egypt                | 5.4                         | 6              | 6.3                      | 5.3                        | 5.6                        | 6                  | 3.2                       |

<sup>11</sup> See the discussion in Ross Levine, “The Corporate Governance of Banks: A Concise Discussion of Concepts and Evidence”, Global Corporate Governance Forum, July, 2003.

|                      | Financial Development Index | Banking Sector | Nonbank Financial Sector | Regulation and Supervision | Monetary Sector and Policy | Financial Openness | Institutional Environment |
|----------------------|-----------------------------|----------------|--------------------------|----------------------------|----------------------------|--------------------|---------------------------|
| Sudan                | 4.7                         | 5.7            | 0.7                      | 3.7                        | 6.2                        | 7                  | 4.5                       |
| Djibouti             | 4.1                         | 3.8            | 1.3                      | 5                          | 6                          | 7                  | 2                         |
| Yemen, Republic of   | 3.9                         | 4.1            | 0.7                      | 3.3                        | 5                          | 9                  | 2.2                       |
| Mauritania           | 3.5                         | 3.8            | 0.7                      | 3                          | 3.9                        | 5                  | 4.5                       |
| Algeria              | 3.2                         | 2.5            | 3                        | 3.5                        | 4.4                        | 4                  | 2.3                       |
| Iran, Islamic Rep.   | 2.5                         | 1.9            | 3.3                      | 4.7                        | 0.5                        | 4                  | 2.4                       |
| Syrian Arab Republic | 1.1                         | 1.9            | 0.7                      | 0                          | 0.9                        | 0                  | 2.4                       |
| Libya                | 1                           | 1.3            | 0.7                      | 2                          | 0.5                        | 0                  | 1                         |
| <b>Average</b>       | <b>5</b>                    | <b>5.5</b>     | <b>3.3</b>               | <b>5.7</b>                 | <b>5.1</b>                 | <b>5.9</b>         | <b>4.2</b>                |

1/ Original "subjective" weighted index.

2/ Scale: Very low=below 2.5, Low=2.5-5.0, Medium=5.0-6.0, High=6.0-7.5, Very high=above 7.5.

Source: "Financial Sector Development in the Middle East and North Africa", Creane, S., Authors' calculations.

15. For the banking sector, the road to implementing the provisions of Basel II passes through the implementation of CG principles in the banking system and at the level of the corporate clients of the banking system. Basel II is essentially about monitoring, controlling and managing risk. It requires the implementation of a well-functioning credit rating process and system. The implementation of CG at the level of the banks' corporate clients facilitates the process of risk assessment, of estimating the value at risk in the loan and investment portfolios of banks, a major requirement in the implementation of the Basel II principles. Hence, our banking systems have an important stake in (a) the implementation of CG principles in the banking system and (b) at the level of the corporate clients of the banks.
16. Good CG in our banking systems can pave the way for CG in other sectors of the economy. Implementing international CG principles means that our banks enhance their level of CG and influence the non-bank corporate sector to follow the lead, influencing by example and good management practice. For the emerging markets of the Arab countries, CG has the potential to be an instrument for corporate reform. In particular, good CG: (1) is a source of financial health for the development of corporations; (2) is an anti-corruption tool; (3) requires sound internal and external environments; (4) has as a major pillar, disclosure; (5) helps promote transparency and the International Financial Reporting Standards (IFRS); (6) emphasizes that banks have a key role in promoting better governance and (7) involves the interrelation of transparency, disclosure, and the implementation of the Basel II accord.<sup>12</sup>

<sup>12</sup> See the discussion in N. Saidi., "Corporate Governance in MENA Countries: Improving Transparency & Disclosure", 2004.

## 17. An Action plan and Building Blocks for CG in the Arab countries

Developing and implementing CG is a matter of investing in institution building. It is in this context that I would like to advance the following Action Plan and its building blocks.

- a. It is important to start with basics and undertake CG surveys for each country in the region, to establish an 'état des lieux' in terms of the relevant legal infrastructure (company and commercial, capital market and securities laws and other), the regulatory structure, capital markets development, adoption of recognized international accounting and auditing standards and related governance issues. The 12 Key Standards for Sound Financial Systems developed by the Financial Stability Forum provides a reference framework and benchmark for a regional action plan.
- b. Our Chambers of Commerce, Industry and Agriculture, our business associations should seek to develop and adopt CG principles.
- c. Institution-building is an important part of the CG process. An enabling and supportive legal and judicial framework has to be established for CG in the MENA countries. Consideration should be given to:
  - The establishment of national '**Institute of Directors**', and eventually a regional institute for regional harmonization and integration of CG frameworks and provide information and play an important role in terms of training, raising awareness and education for CEOs, directors and board members.
  - The establishment of '**Companies' Houses**' in the various countries of the region which would act as a corporate registrar and provide and disseminate financial reports and information on board & management actions and act as reliable sources of publicly available information about corporations.
  - The development of '**Capital Markets**' with the objective of facilitating the transition of SMEs and FOEs to listed companies. As the experience of Egypt, Jordan and Morocco has shown, capital market reforms have been instrumental in improving the investment climate through increased transparency and better disclosure.
- d. Central banks and bank supervisors can provide an important mechanism for the implementation of CG and ensuring transparency and disclosure in financial statements and other material information, by issuing regulations and directives to: (a) request the implementation of CG principles at the banks and other entities they regulate and supervise, and (b) by requesting that the corporate clients of the banks comply with CG as part of the process of credit rating and risk assessment. Bank supervisors along with the banks' auditors –both internal and external – would be responsible for ensuring compliance with CG principles in the banking sector. Importantly, the proposed mechanism would also help in addressing the issue and challenge of implementing CG in the SME and FOE sector.

- The availability of corporate credit and financial information can be enhanced through the establishment of ‘**Central Credit Reporting**’ organizations in the countries of the region, providing information on bank and non-bank (including supplier credit) provided credit to companies and individuals’ thereby increasing transparency and disclosure. Local centralized credit reporting agencies can collect, organize and analyze valuable, material information in an efficient manner, making it available for wide dissemination.
  - ‘**Credit Rating Agencies**’ (CRAs) which would provide risk assessments and credit ratings for the companies and governments of the area, leading to an improvement in the availability and dissemination of information and helping the banking systems and corporate sector in their process of compliance with Basel II standards. CRAs have an important role to play in improving transparency and disclosure. Credit rating agencies should aim to be objective, in order to have greater utility, power, and impact on the capital market. The establishment of credit rating agencies is important for capital market development and for the implementation of the Basel II accords, by providing credit benchmarks for the local markets and increasing transparency and disclosure for listed and non-listed companies.
- e. *The elaboration and implementation of CG programmes requires wide participation and cooperation of stakeholders* including the support of NGOs, Chambers of Commerce, the media, business associations, as well and importantly, support from politicians, elected representatives and Members of Parliament and official government support from interested Ministries. It is important to have collaboration between the public sector and the private sector, in order to produce a workable CG programme. It is for the people from each country of the region that have formed coalitions and task forces, to implement CG and corporate reform and make it work. This requires a very strong commitment from all parties, but this process will gain the support of the international community and make them pro-active.
- f. *Implementing and complying with CG is a matter of institution-building.* Institutions, laws, regulations and practices based on international norms and standards would enable the countries of the MENA region to modernize their corporate sectors, enabling them to attract technology and foreign investment and become internationally competitive, reducing political and sovereign risk and de-linking economic performance and outcomes from ruling political régimes. Functions should be spread among different institutions: the capacity and role of institutions might be limited in terms of their ability to change laws, regulations, listing requirements, establishing transparency and disclosure. At this point, governmental

intervention is required. With this proviso, and in the context of institution building, a number of proposals warrant serious examination:

- Encourage and support the establishment of *corporate governance education programmes* at Universities, Business Schools, Academic Institutes and Colleges, with specialized courses provided on ethics and CG.
- Encourage the set-up of local Establish a *MENA CG Gateway* that would promote and disseminate information relating to all the dimensions of CG in the countries of the region as well as regional initiatives.
- Given the fact that the corporate sector in MENA is mainly comprised of SMEs, it is important to: (a) *Reduce the cost of compliance with CG principles* by providing training, tool-kits and other means of support; (b) *Develop positive incentives* for compliance with best practices for disclosure and Corporate Governance, by providing public recognition and establishing a reward system for good CG corporations. The above-mentioned CG Gateway, could provide a network, list and provide links to corporations that have a verifiable record of CG compliance. In effect a network of ‘CG Leaders and Champions’ would be created and motivated.

18. We care about CG because it is part of the institutional infrastructure (laws, regulations, institutions and enforcement mechanisms) underlying sound economic performance in our countries. Better CG is highly correlated with better operating performance and market valuation of companies. By preserving and protecting property rights –in particular those of minority and foreign shareholders- it encourages innovation and long-term investment in human and physical capital, foreign direct investment, as well as the creation of intellectual property. By stimulating performance, generating higher returns and profitability of companies, it encourages higher total factor productivity growth, a major source of economic growth. By limiting the abuse of power by corporate insiders, it creates an efficient mechanism for transferring wealth between generations. By monitoring managers of companies in both the financial and ‘real’ sectors and making them accountable for their actions, it protects investors’ interests; in turn, this encourages both domestic and foreign direct as well as portfolio investment.

19. We are trying to compete in an increasingly global business and policy environment. I am now increasingly convinced of the important role that the private sector, our business organisations, our NGOs and civil society can play as agents for change and reform. I hope you will join me in advocating good governance, in fighting bribery, waste and corruption. It is a strategic venture and investment we owe our children and grand-children, and for which they will thank you.

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