



HAWKAMAH
THE INSTITUTE FOR CORPORATE GOVERNANCE

Governance in the Arab World

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Agenda

- Arab Economic Renaissance and Sustaining Growth
- Macroeconomic & Microeconomic issues
 - Governance Indicators
 - Cost of Doing Business
- MENA Institutional Building to Address Governance Challenges
- Hawkamah Institute for Corporate Governance

MENA Sustaining Growth

- Central challenge is to use oil wealth and demographic dividend to create economic and financial incentives for sustained growth.
- Economic reforms, diversification and state divestment and privatization.
- Growing private sector participation in infrastructure across MENA countries.
- Sizeable infrastructure developments around the region with an estimated value of projects planned or under development in GCC & Iran in excess of USD 1.4 trillion.
- Greater regional and international economic integration: WTO, RTAs, FTAs, GCC Monetary Union in 2010, lower trade barriers, Greater Arab FTA
- With economic diversification and liberalization attractive prospects exist across many sectors.
- **But key to sustaining growth is addressing governance challenges.**

GCC Policy Challenges

- Undertake and maintain economic and financial policy reforms
- Adjustment to higher oil prices: increase pass-through, reduce subsidization and create social safety nets
- Invest in infrastructure and human Capital
- Invest in and Accelerate pace of Regional & International Economic Integration to create markets: infrastructure, policy harmonization, institutional structures
- Management and Governance of natural resource wealth: develop MENA financial markets and undertake FDI
- Divorce oil wealth and its management from fiscal policy
- Monitor and manage balance sheet risk of banking and financial system resulting from exposure to real estate and asset markets
- Focus on Financial Market development for economic growth and development

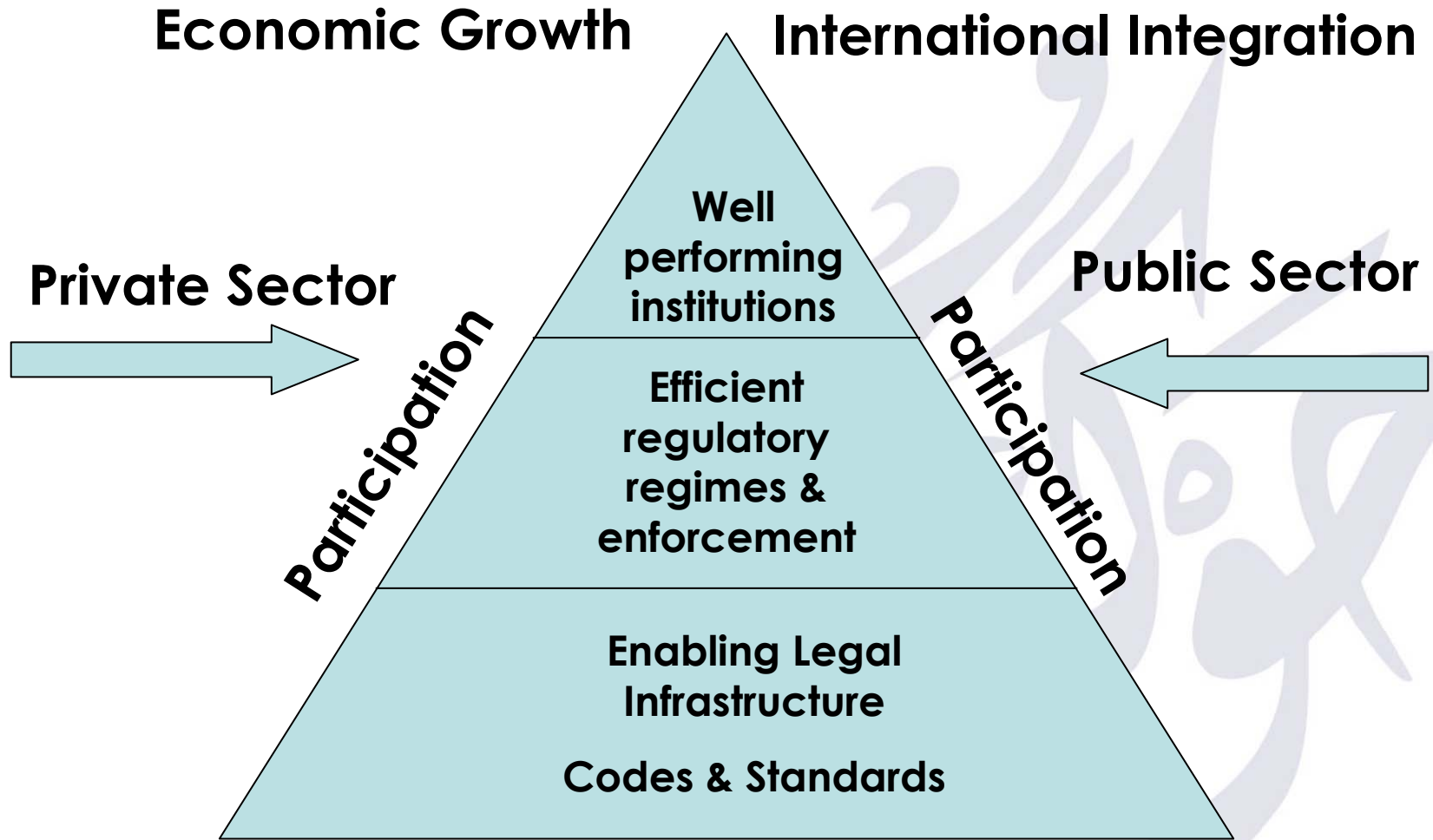
Governance Definitions

- “The exercise of political authority and the use of institutional resources to manage society's problems and affairs”,
- “The use of institutions, structures of authority and even collaboration to allocate resources and coordinate or control activity in society or the economy”,
World Bank

“Good Governance”

- Well performing institutions, enabling legal infrastructure, regulatory regimes and enforcement, “good governance” are major contributors to economic growth & prosperity and democracy
- “Good governance” is required by both the public sector and the private sector in the MENA
- There is a Governance ‘gap’ in the region

Governance is integral element of sustainable economic growth & development: it is an imperative



MENA Governance Issues

- Substantial natural resource wealth has not resulted in prosperity or economic growth
 - The region is ‘wealthy’ in natural resources, but poor in economic performance
- Governance issues along with wars, violence and insecurity have been retarding factors
- WB states: *“At the root of MENA’s growth gap is its governance gap. Indeed, simulations find that if MENA had matched the average quality of administration in the public sector for a group of good-performing Southeast Asian countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand), its growth rates would have been higher by about one percentage point a year.”*

International Standards for Financial Soundness & Stability

Macroeconomic Policy and Data Transparency

- Data Compilation & dissemination: GDDS & SDDS
- Transparency in Monetary and Financial Policies
- Fiscal policy transparency

Institutional and Market Infrastructure

- Insolvency
- Accounting
- Corporate governance: OECD CG Principles
- Auditing
- Market Integrity: Anti-Money laundering
- Payments and Settlements Systems

Financial regulation and supervision

- Banking supervision
- Securities regulation
- Insurance supervision

Why The Core Standards?

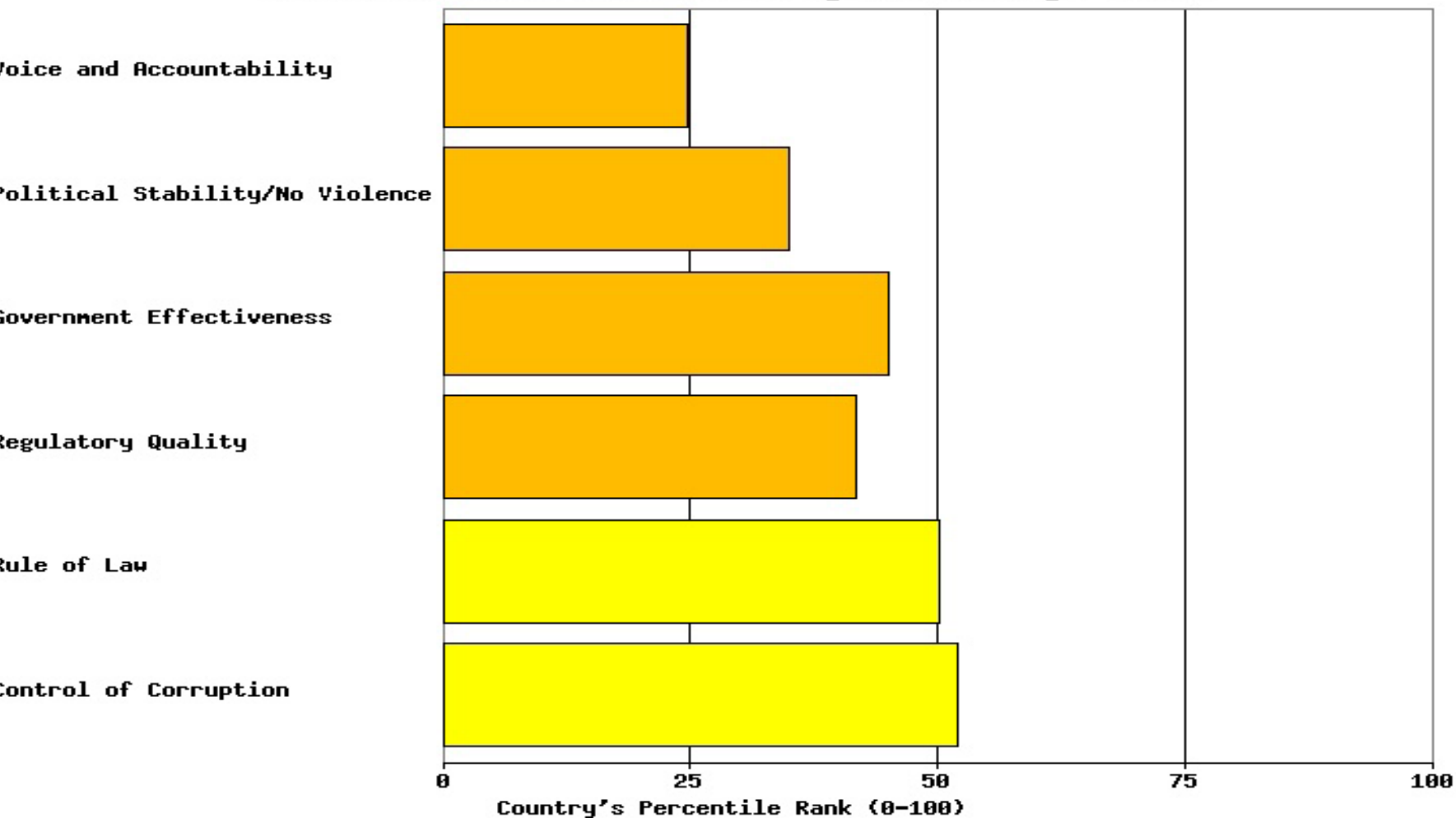
- Deficiencies in these policy areas were a source of crises, and magnified, complicated and extended economic & financial crises
- Countries complying with core standards can achieve:
 1. Transparency of economic risks
 2. Economy characterized by well governed institutions and companies valued and audited according to agreed upon international conventions protects contracts & property rights
 3. An ethical business environment
 4. A financial system governed and regulated in a safe and sound manner, which serves the nation efficiently and sustains on going growth and economic development.

WB: Dimensions of Governance

- **Six Dimensions of Governance Measured**
- **The process by which those in authority are selected and replaced [Political Governance]:**
 - **1. VOICE AND ACCOUNTABILITY**
 - **2. POLITICAL STABILITY & ABSENCE OF VIOLENCE/TERRORISM**
- **The capacity of government to formulate & implement policies, and deliver services [Economic Governance]:**
 - **3. GOVERNMENT EFFECTIVENESS**
 - **4. REGULATORY QUALITY**
- **Respect of citizens and state for institutions that govern interactions among them [Institutional Governance]:**
 - **5. RULE OF LAW**
 - **6. CONTROL OF CORRUPTION**

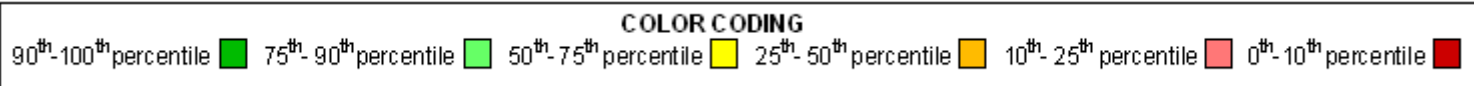
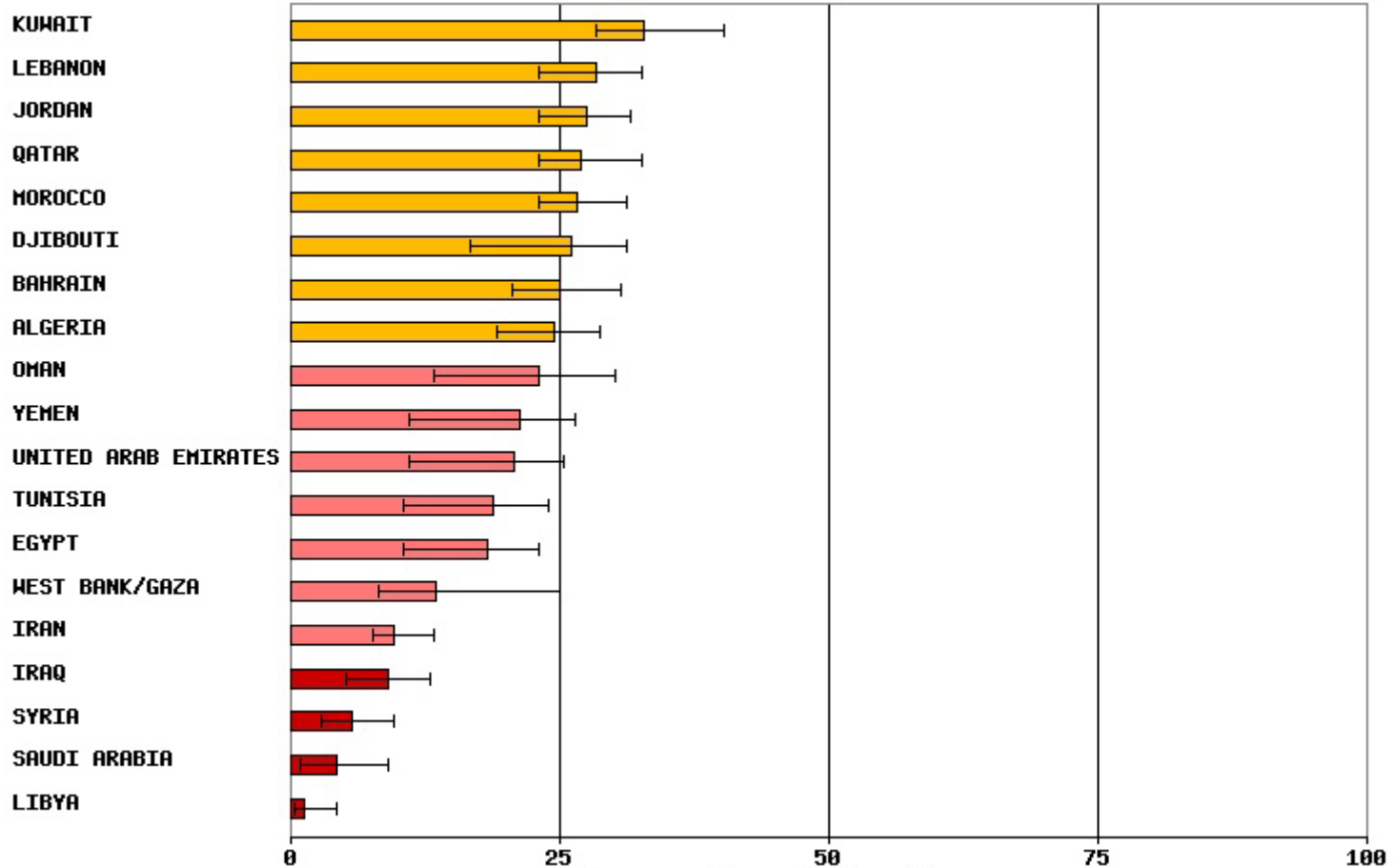
MENA Governance

Middle East & North Africa – Regional Average (2005)



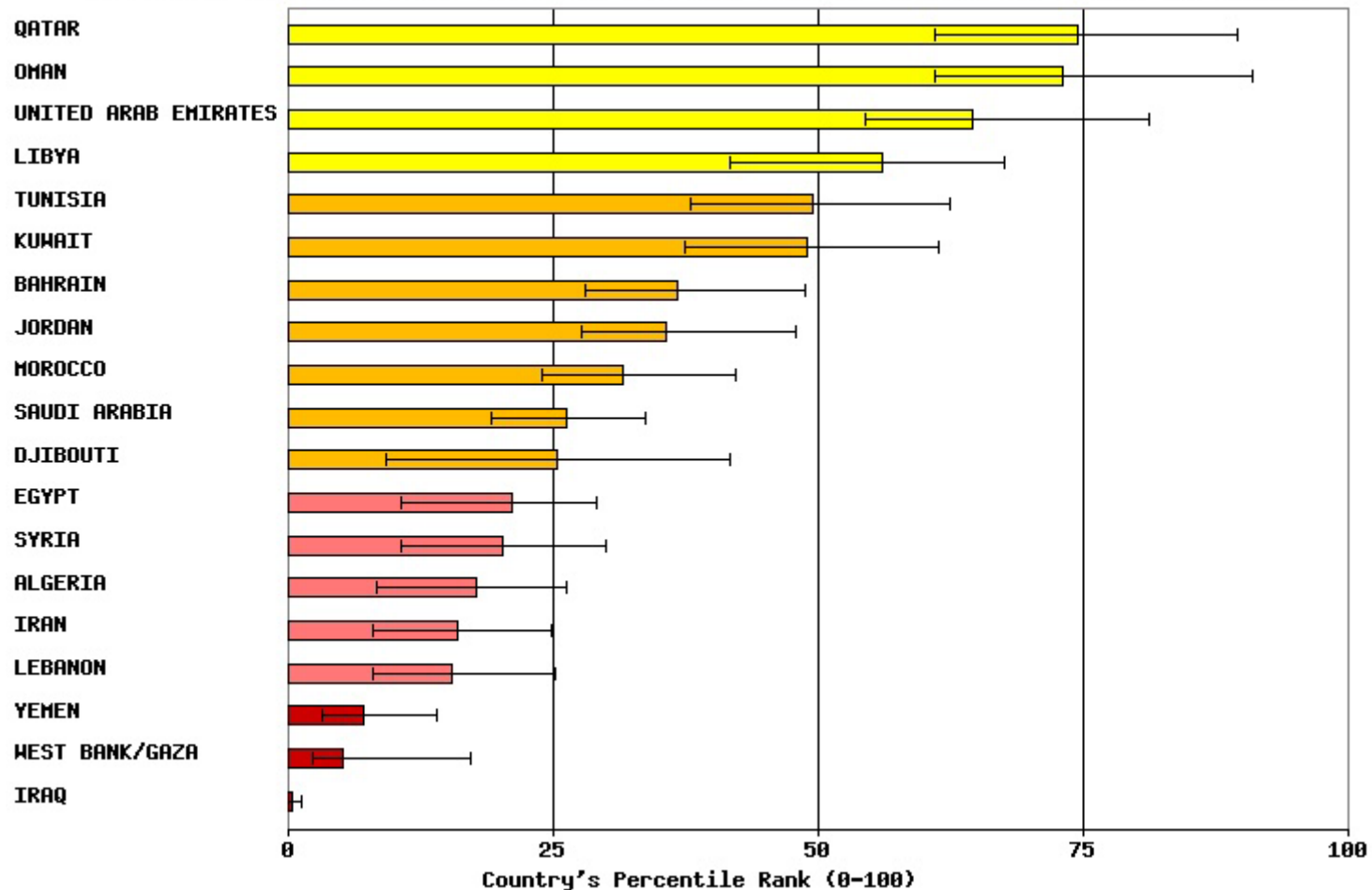
Voice and Accountability

Voice and Accountability (Middle East & North Africa region, 2005)



Political Stability

Political Stability/No Violence (Middle East & North Africa region, 2005)

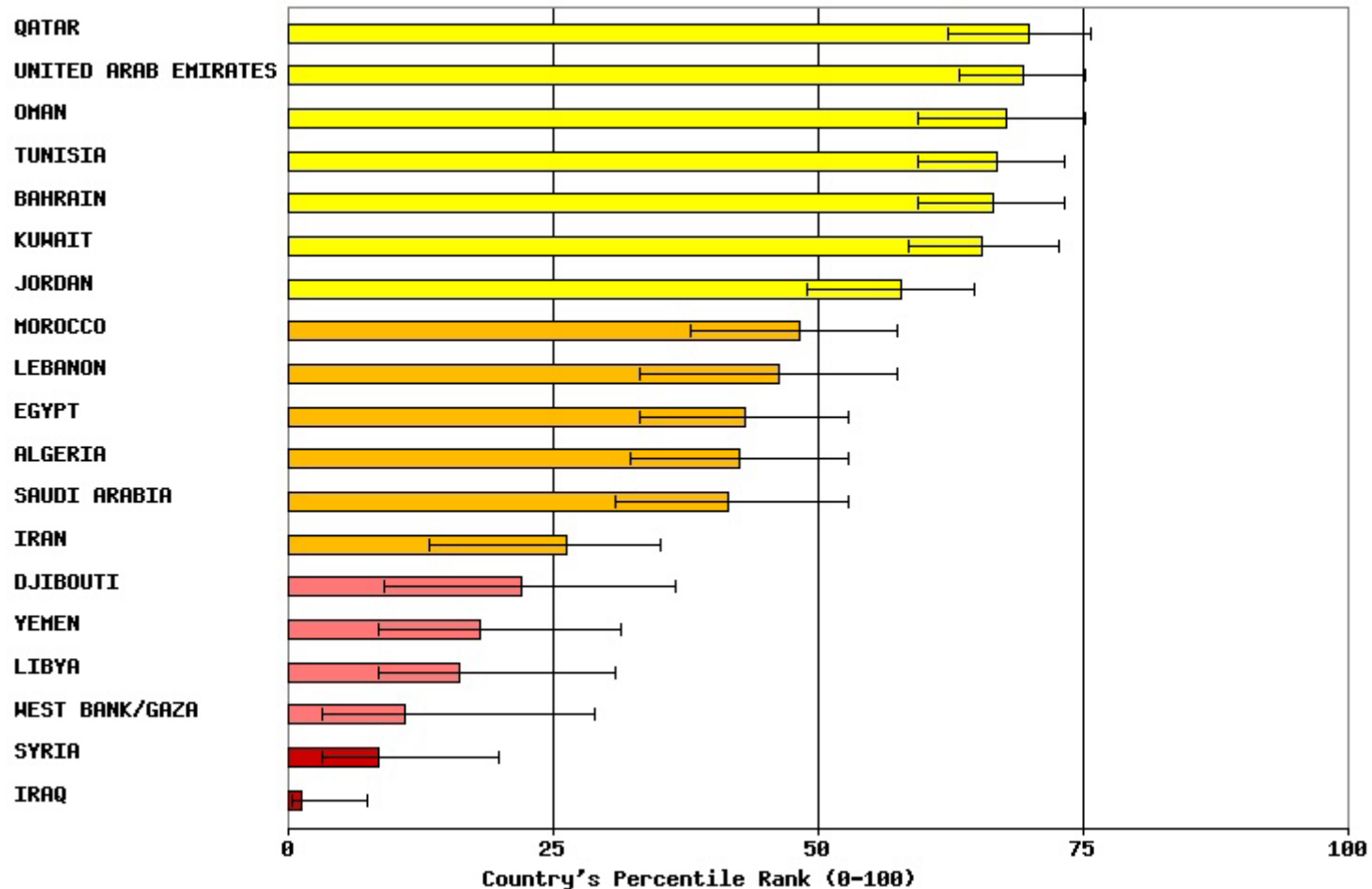


COLOR CODING

90th-100th percentile 75th-90th percentile 50th-75th percentile 25th-50th percentile 10th-25th percentile 0th-10th percentile

Government Effectiveness

Government Effectiveness (Middle East & North Africa region, 2005)

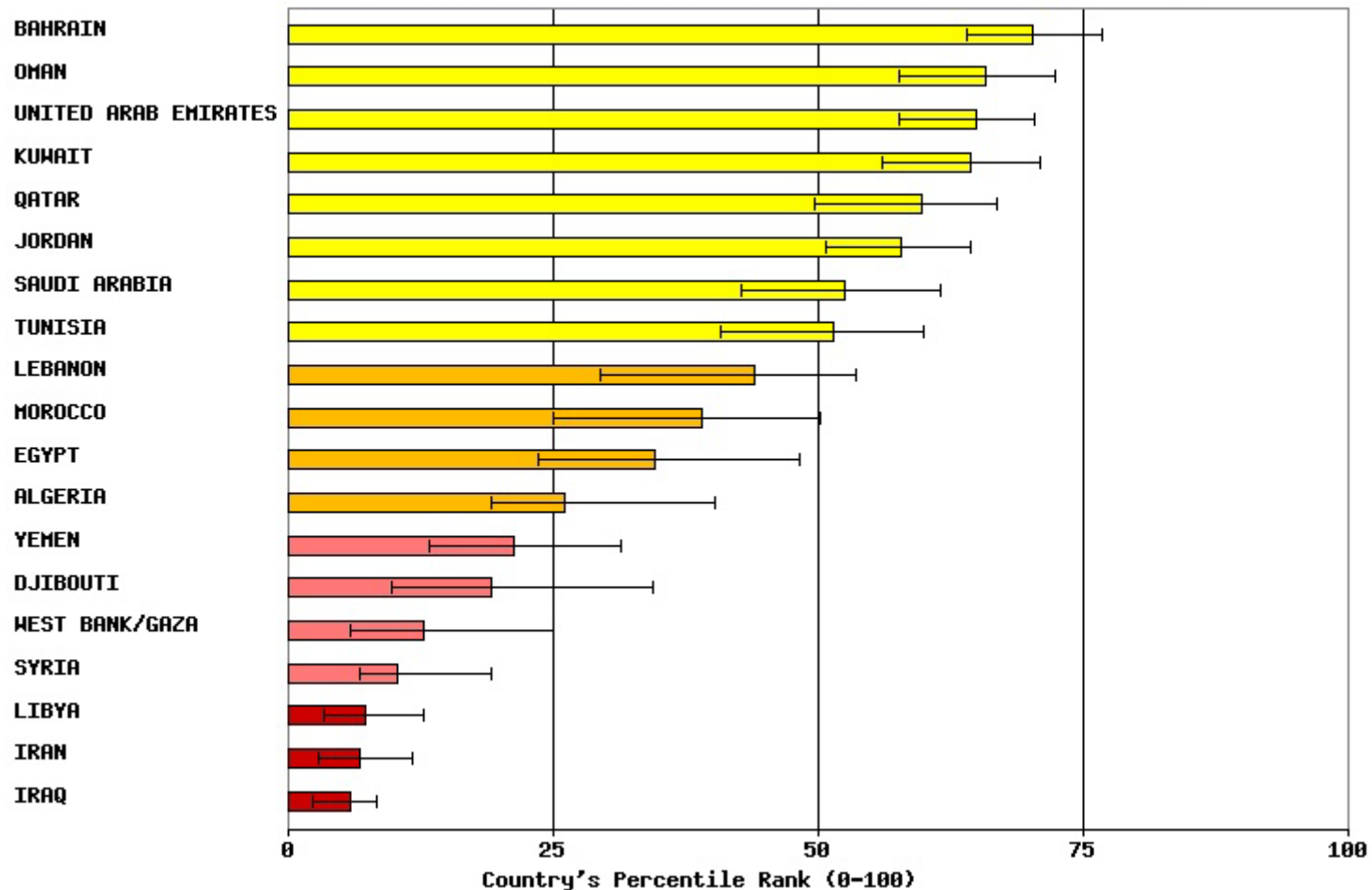


COLOR CODING

90th-100th percentile 75th-90th percentile 50th-75th percentile 25th-50th percentile 10th-25th percentile 0th-10th percentile

Regulatory Quality

Regulatory Quality (Middle East & North Africa region, 2005)

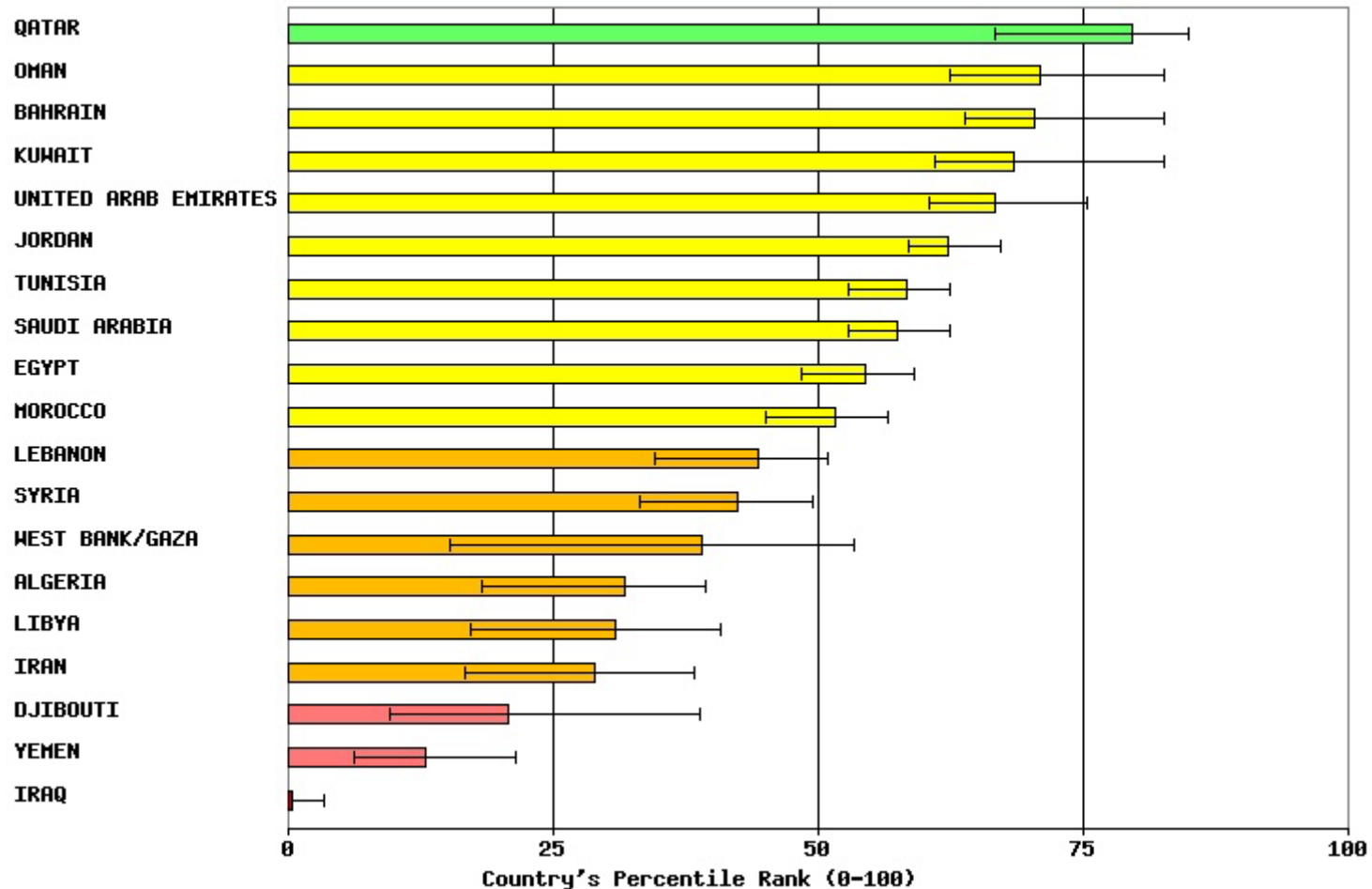


COLOR CODING

90th-100th percentile (Dark Green) 75th-90th percentile (Light Green) 50th-75th percentile (Yellow) 25th-50th percentile (Orange) 10th-25th percentile (Pink) 0th-10th percentile (Red)

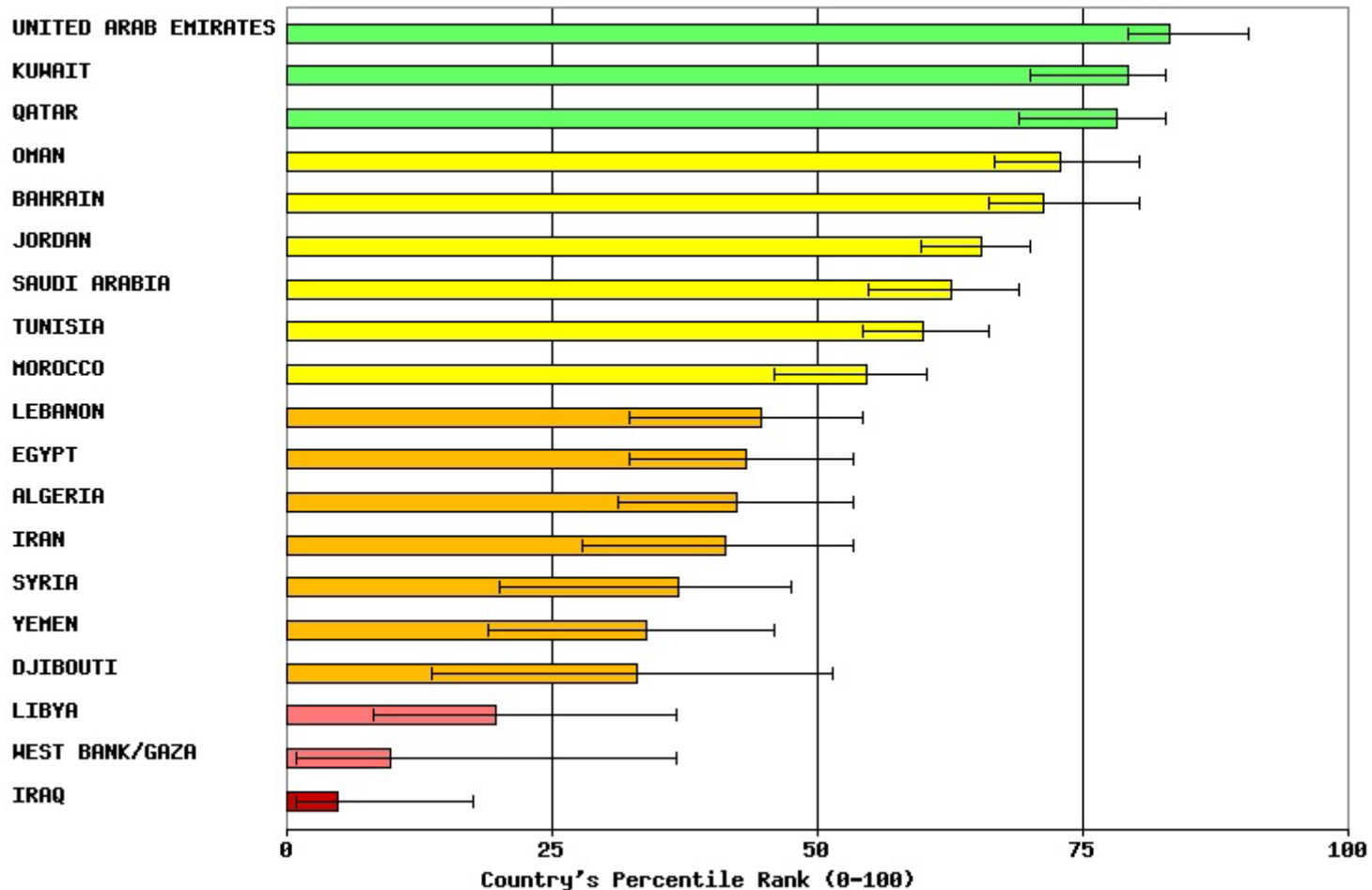
Rule of Law

Rule of Law (Middle East & North Africa region, 2005)



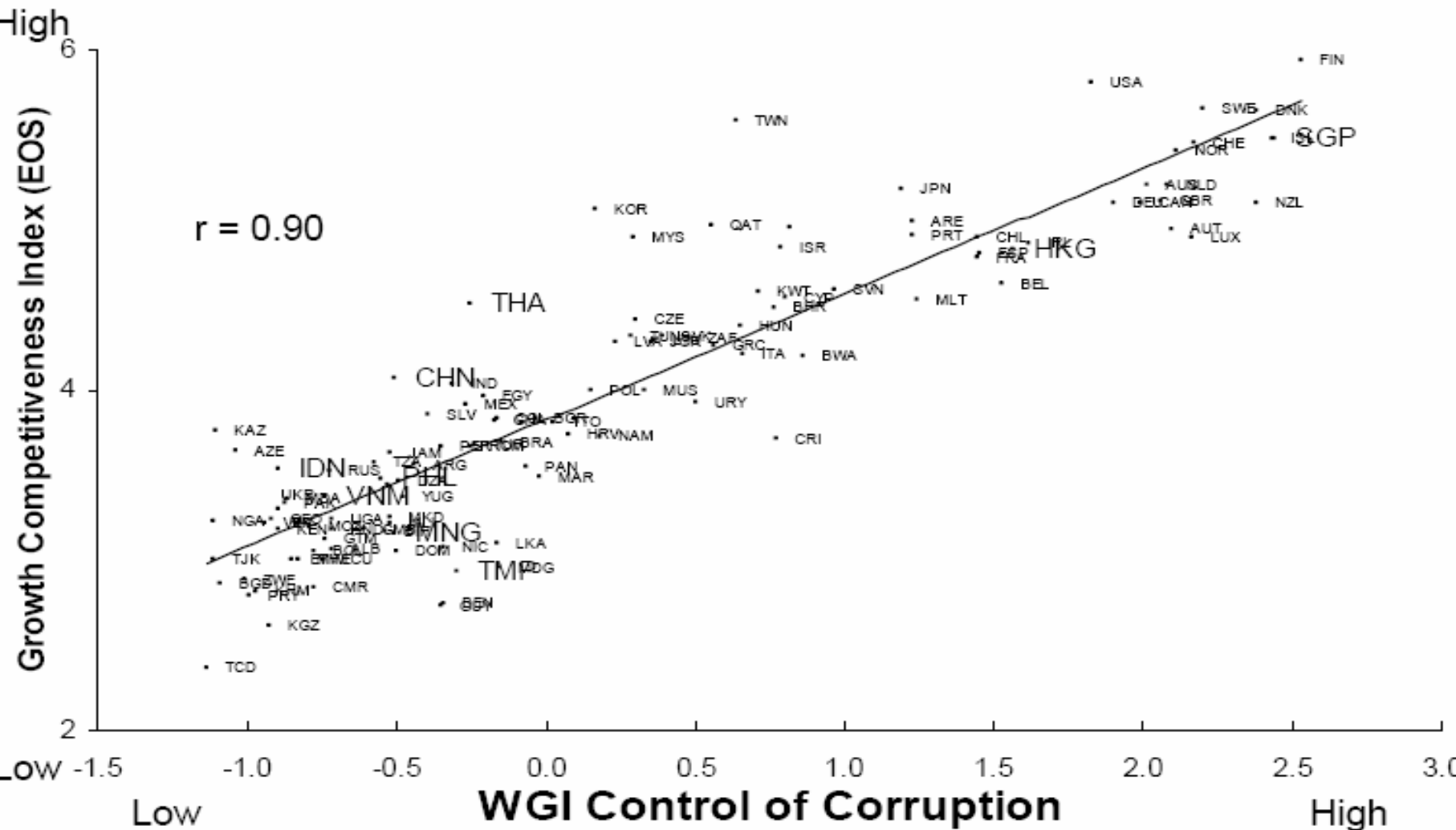
Control of Corruption

Control of Corruption (Middle East & North Africa region, 2005)



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Good Governance associated Country's Competitiveness



Sources: GCI drawn from EOS firm survey, WEF 2005 – 117 countries; Control of Corruption from Kaufmann, Kraay and Mastruzzi, 'Governance Matters IV: Governance Indicators for 1996-2004'.

Growth & Investment Climate

- Investment climate affected by many factors: economic development & growth prospects, taxation, laws & regulations, economic diversification, development of banking and financial markets, governance and transactions costs
- Economists have been highlighting the importance for promoting investment of: (a) good governance :both public and corporate; (b) burden of “red tape” and regulations; (c) corruption and bribery as major factors affecting investment, both domestic and FDI; (d) good infrastructure services & logistics
- World Bank has developed indicators of the ‘cost of doing business’ which provide quantitative measures of the effects of laws & regulations, fees, transactions costs and their impact on business decisions.

Transactions Costs: Cost of Doing Business Survey

- Developed by the World Bank to compare 175 economies on the regulatory framework and enforcement to support businesses and private sector development.

Doing Business Survey

Country	Ease of Doing Business Rank
Algeria	116
Djibouti	161
Egypt	165
Iran	119
Iraq	145
Jordan	78
Kuwait	46
Lebanon	86
Morocco	115
Oman	55
Saudi Arabia	38
Syria	130
Tunisia	80
United Arab Emirates	77
Yemen	98

Looks at 10 indicators:

- Starting a Business
- Dealing with Licenses
- Employing Workers
- Registering Property
- Getting Credit
- Protecting Investors
- Paying Taxes
- Trading Across Borders
- Enforcing Contracts
- Closing a Business

Starting a Business

Country	Starting a Business				
	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)	Min. capital (% of income per capita)
geria	120	14	24	21.5	46
bouti	157	11	37	222	571.4
ypt	125	10	19	68.8	694.7
n	64	8	47	5.4	1.3
q	150	11	77	67.6	57.1
rdan	133	11	18	73	864.4
wait	104	13	35	1.6	100.8
banon	116	6	46	105.4	56.5
rocco	47	6	12	12.7	66.7
nan	81	9	34	4.5	84.7
udi Arabia	156	13	39	58.6	1,057.50
ria	142	12	43	21.1	4,233.50
nisia	59	10	11	9.3	28.3
ited Arab Emirates	155	12	63	36.4	338.2
est Bank and Gaza	173	12	93	324.7	1,889.60
men	171	12	63	228	2,565.70

Dealing with Licenses

Country	Dealing with Licenses			
	Rank	Procedures (number)	Time (days)	Cost (% of income per capita)
Algeria	117	25	244	58.9
Djibouti	106	15	203	1,050.60
Egypt	169	30	263	1,002.00
Iran	167	21	668	684.5
Iraq	97	14	216	833.2
Jordan	70	16	122	503.2
Kuwait	109	26	149	210.1
Lebanon	99	16	275	176.9
Morocco	133	21	217	264.9
Oman	127	16	242	883.1
Saudi Arabia	44	18	125	70.2
Syria	87	20	134	298
Tunisia	110	24	79	1,031.90
United Arab Emirates	79	21	125	210
West Bank and Gaza	108	21	134	823.4
Yemen	39	13	107	306.4

Employing Workers

Country	Employing Workers						
	Rank	Difficulty of Hiring	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (weeks of wages)
Algeria	93	44	60	30	45	27.5	17
Djibouti	125	67	40	30	46	15.7	56.3
Egypt	144	0	60	100	53	26	186.3
Iran	141	78	60	10	49	23	90.7
Iraq	114	78	60	40	59	12	4
Jordan	30	11	20	50	27	11	4.3
Kuwait	20	0	40	0	13	11	42.7
Lebanon	43	33	0	40	24	21.5	17.3
Morocco	156	100	40	50	63	17.7	85.1
Oman	51	44	60	0	35	9.8	4.3
Saudi Arabia	21	0	20	0	7	11	80.1
Syria	89	0	40	50	30	17	79.8
Tunisia	92	17	40	80	46	21.8	17.3
United Arab Emirates	57	0	60	0	20	12.5	83.6
West Bank and Gaza	97	33	40	20	31	13	91
Yemen	53	0	60	40	33	9	17.3

Registering Property

Country	Registering Property			
	Rank	Procedures (number)	Time (days)	Cost (% of property value)
Algeria	152	15	51	7.5
Djibouti	137	7	49	13.3
Egypt	141	7	193	5.9
Iran	143	9	36	10.5
Iraq	37	5	8	6.6
Jordan	110	8	22	10
Kuwait	69	8	55	0.5
Lebanon	95	8	25	5.9
Morocco	45	4	46	4.4
Oman	14	2	16	3
Saudi Arabia	4	4	4	0
Syria	88	4	34	27.9
Tunisia	71	5	57	6.1
United Arab Emirates	8	3	6	2
West Bank and Gaza	118	10	72	2.4
Yemen	43	6	21	3.9

Getting Credit

Country	Getting Credit				
	Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% adults)
Algeria	117	3	2	0.2	0
Algeria	117	4	1	0.2	0
Egypt	159	1	2	1.5	0
Iran	65	5	3	13.7	0
Iraq	143	4	0	0	0
Jordan	83	5	2	0.7	0
Lebanon	83	4	3	0	16.1
Libanon	48	4	5	4.3	0
Morocco	143	3	1	2.3	0
Oman	143	3	1	17.5	0
Saudi Arabia	65	3	5	0.2	12.5
Syria	117	5	0	0	0
Tunisia	101	3	3	11.6	0
United Arab Emirates	117	3	2	1.7	0
West Bank and Gaza	65	5	3	0.7	0
Yemen	117	3	2	0.1	0

Protecting Investors

Country	Protecting Investors				
	Rank	Disclosure Index	Director Liability Index	Shareholder Suits Index	Investor Protection Index
Algeria	60	6	6	4	5.3
Djibouti	168	5	2	0	2.3
Egypt	118	5	3	5	4.3
Iran	156	5	4	0	3
Iraq	99	4	5	5	4.7
Jordan	118	5	4	4	4.3
Kuwait	19	7	7	5	6.3
Lebanon	83	9	1	5	5
Morocco	118	6	6	1	4.3
Oman	60	8	5	3	5.3
Saudi Arabia	99	8	5	1	4.7
Syria	118	6	5	2	4.3
Tunisia	151	0	4	6	3.3
United Arab Emirates	118	4	7	2	4.3
West Bank and Gaza	99	7	2	5	4.7
Yemen	118	6	4	3	4.3

Paying Taxes

Country	Paying Taxes						
	Rank	Payments (number)	Time (hours)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
Algeria	169	61	504	9.9	29.6	36.9	76.4
Djibouti	51	36	114	18.7	18.2	4.8	41.7
Egypt	144	41	536	12.9	28.9	8.6	50.4
Iran	96	28	292	16.7	26.7	3.1	46.4
Iraq	47	13	312	9.4	29.2	0	38.7
Jordan	18	26	101	15.3	12.8	3.9	31.9
Kuwait	41	14	118	44.7	11	0	55.7
Lebanon	54	21	208	11.9	24.9	0.5	37.3
Morocco	128	28	468	30.3	20.5	1.9	52.7
Oman	3	14	52	8.8	11.3	0.1	20.2
Saudi Arabia	6	14	75	2.1	12.8	0	14.9
Syria	59	21	336	14.8	19.8	0.8	35.5
Tunisia	139	45	268	11.1	25.3	22.5	58.8
United Arab Emirates	3	15	12	0	14.5	0.5	15
West Bank and Gaza	55	50	154	15.9	15.1	0.5	31.5
Yemen	89	32	248	30	10.4	7.6	48

Trading Across Borders

Country	Trading Across Borders						
	Rank	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
Algeria	109	9	15	1,606	9	22	1,886
Djibouti	148	15	25	2,035	14	26	2,035
Egypt	83	8	20	1,014	8	25	1,049
Iran	87	5	26	700	11	38	1,220
Iraq	164	10	105	1,010	19	135	2,060
Jordan	78	7	24	720	12	22	955
Kuwait	54	5	18	675	11	27	1,170
Lebanon	82	6	22	969	12	34	752
Morocco	77	6	18	700	11	30	1,500
Oman	115	9	23	987	13	27	987
Saudi Arabia	33	5	13	654	9	34	604
Syria	147	9	40	1,300	11	49	1,962
Tunisia	39	5	18	770	8	29	600
United Arab Emirates	10	4	18	392	6	16	398
West Bank and Gaza	65	7	27	705	7	41	755
Yemen	107	6	33	1,129	9	31	1,475

Enforcing Contracts

Country	Enforcing Contracts			
	Rank	Procedures (number)	Time (days)	Cost (% of debt)
Algeria	61	49	397	10.3
Djibouti	169	59	1,225	27
Egypt	157	55	1,010	18.4
Iran	33	23	520	12
Iraq	131	65	520	15.3
Jordan	75	43	342	16.2
Kuwait	79	52	390	13.3
Lebanon	148	39	721	27.8
Morocco	127	42	615	16.5
Oman	101	41	598	12.9
Saudi Arabia	97	44	360	20
Syria	153	47	872	21.9
Tunisia	40	21	481	17.3
United Arab Emirates	112	34	607	18.5
West Bank and Gaza	100	26	700	20.2
Yemen	37	37	360	10.5

Closing a Business

Country	Closing a Business			
	Rank	Time (years)	Cost (% of estate)	Recovery rate (cents on the dollar)
Algeria	41	2.5	7	41.7
Djibouti	122	5	18	15.9
Egypt	120	4.2	22	16.6
Iran	109	4.5	9	19.7
Iraq	151	No practice	No practice	0
Jordan	84	4.3	9	28.2
Kuwait	63	4.2	1	34.5
Lebanon	111	4	22	19
Morocco	61	1.8	18	35.1
Oman	60	4	3.5	35.4
Saudi Arabia	87	2.8	22	27.3
Syria	77	4.1	9	29.6
Tunisia	29	1.3	7	51.2
United Arab Emirates	137	5.1	30	10.4
West Bank and Gaza	151	No practice	No practice	0
Yemen	82	3	8	28.6

Governments, Oversight & Cost of Doing Business

- Focus on legal and regulatory burdens on business and the economy
- Barriers and regulations, high transactions costs and procedures, lack of respect & enforcement of property rights drive people and business into 'informal sector', encourage bribery & corruption and negatively affect the most vulnerable groups: women and the young
- Focus on government related transactions costs as they affect: business, labor market, housing, property, trade, investment
- Focus on streamlining procedures and on reducing rigidities and barriers to entry, production and competition
- Focus on improving overall economic and financial governance in accord with international best practice and standards
- Reports on the Observance of Standards & Codes (ROSC) provide an entry point to examine efficiency, transparency and disclosure of policies in the areas of macroeconomic policies and data, market integrity and structure and financial market soundness

MENA ROSCs, FSAs Completed and Published, December 2006

OSC	Alge ria	Bahr ain	Egyp t	Jord an	Kuw ait	Leban on	Moro cco	Oma n	KSA	Tuni sia	UA
Accounting & Auditing			X '02	X '04		X '03	X '02				
AML/CTF		X '06			X '04						
Banking Supervision	X '04	X '06			X '04		X '03		X '06	X '01	X '0
Corporate Governance			X '04	X '04			X '03				
Data Dissemination			X '05	X '04			X '03	X '05		X '01	
Fiscal Transparency	X '05			X '06		X '05	X '05			X '01	
Insolvency & Creditors											
Insurance Supervision		X '06					X '03			X '02	
Monetary & Financial Transparency	X '04						X '03		X '06	X '02	X '0
Payments							X '03		X '06		X '0
Securities Regulation		X '06			X '04		X '03			X '01	
SAP/FSA	X '04	X '06	X '05		X '04		X '03		X '06	X '02	X '0

Oversight Bodies: building capacity to enhance government effectiveness, oversight & accountability

- Oversight Bodies/Parliaments in the MENA region typically lack the capability and resources to oversee the fiscal and budgetary activities of government and may face legal and/or constitutional restrictions
- Ensuring fiscal disclosure and transparency, accountability and oversight by Parliament requires dedicated resources: a Parliamentary Budget Office is an institutional innovation that helps fill the gap
- Government Accounting Office or 'Cour des Comptes' need extensive modernization and restructuring to ensure independence and strong oversight

ROSCs & Oversight Bodies

Oversight Bodies/Parliaments/Councils should give special attention to the:

- ROSC Report on Governance Survey
- ROSC Report on Monetary & Financial Policy Transparency
- ROSC Report on Data Dissemination
- ROSC Report on Fiscal Transparency
- Legal and Judicial Sector Assessments undertaken by the World Bank

ROSCs important in that they also allow cross-country and regional comparisons

Hawkamah was created to support corporate sector reform.

MISSION: Assists the countries and companies of the region to develop and implement sound and globally well integrated corporate governance frameworks.

VISION: Drives institution building, corporate sector reform, good governance, and sustainable economic development and growth in the region.

We Serve ...

- Government Ministries and Agencies
- Central Banks and Regulatory Agencies
- Banks and Financial Institutions
- Listed Companies, Capital Market Authorities, Stock Exchanges
- Family Owned Enterprises
- State Owned Enterprises
- Private sector institutions
- Media
- Academics

What we do:

- Provide technical assistance on regulatory and firm levels to develop the optimal corporate governance environment
- Conduct CG assessments and prepare CG improvement plans
- Provide advisory services
- Conduct consultations with various stakeholders
- Develop and implement training programs: Board Development Programme, Board Secretary Programme
- Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Monitor & Report on the state of corporate governance

Proposed Actions & Tools

1. Form National Committees with an agenda to address reforms aiming to reduce Cost of Doing Business
2. Produce ROSC Reports:
 1. Governance
 2. Data Dissemination
 3. Monetary & Financial Policy Transparency
 4. Fiscal Transparency
3. Institution Building:
 1. Oversight Budget Office
 2. Reform & Modernize Government Accounting Office
4. Form Regional MENA Forum focusing on measures to improve the investment climate

Moving Forward: Agenda for Action & Institution Building

- Good Governance integral part of economic development policy & restructuring of role of State
- Put good CG high on policy agenda
- Institution building:
 - Set-up Oversight Budget Offices
 - Hawkamah will focus on CG in private sector, financial markets and in SOEs

Awakening to Remove Barriers to Prosperity

An Arab awakening is a vision of a region that is 'deeply' economically integrated regionally and with the rest of the world, the EU & Asia, potentially forming the largest market zone of the world.

It is a zone where barriers to prosperity and riches, physical and virtual, will have been eliminated. Where our children can interact, trade, invest, and work, without barriers. The vision is realistic and within our grasp.

The resources, technology, knowledge are at our disposal. We need the leadership, the institutions and efficient mechanisms to carry out the vision. It requires courage, determination and long-term commitment.

Our children and future generations will not forgive us if we do not steer in that direction. We owe it to them to try. It is time to act. We must take our future in our hands; we must build it and own it. It is strategically irresponsible and unacceptable that our children's future be forged by initiatives from outside the region and through violence and conflict and force of arms.



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