

Positioning Turkey as a Global Leader

Güray Karacar, Coordinator, Corporate Governance Association of Turkey (TKYD)

Driven by a desire to integrate with the global economy and a compelling mandate to comply with European Union regulations, Turkish policymakers and businesspeople are beginning to recognize that implementing good corporate governance practices are a necessary part of the process and will help create a more investment-friendly environment. Working in partnership, the government and private sector in Turkey are taking a multi-faceted approach to achieve this goal. Such steps include improving the legal and regulatory framework, training and certification programs for board directors and executives, and raising awareness about the importance of

accountability and transparency among key stakeholders and the general public.

Turkey's policymakers took the first major step towards greater alignment with international standards by revising the Commercial Code, which will take effect by July 2012, that concretely defines corporate governance principles for all joint stock and limited companies. In addition, revisions to the Capital Market Law seek to enable integration of the domestic capital market with international markets in line with European Union norms, which will also provide an impetus for stronger corporate governance practices.

Building upon these changes, the Corporate Governance Association of Turkey (TKYD) is dedicated to working with the private sector to enhance corporate governance practices in the



Dr. Vedat Akgiray speaks at an International Corporate Governance Summit in Turkey.

business community. TKYD's efforts in corporate governance training were elevated with the launch of a new Capital Markets Academy in Istanbul on August 12, 2010. Established through cooperation of TKYD and Kadir Has University Life Long Education Center, the Academy will provide capital market and education programs for board members and other businesspeople. The Academy will offer official certification based on an intensive 24-hour course,

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Private Sector Advances Corporate Governance in Algeria

Ali Ayadi, Middle East and North Africa Program Assistant, CIPE

Building upon the momentum of the new Algerian Code of Corporate Governance developed by a multi-stakeholder Corporate Governance Task Force and released in 2009, the Algerian Corporate Governance Task Force launched Hawkamah El-Djazair, the Algerian Corporate Governance Center in Algiers, on October 19, 2010. Hawkamah El-Djazair was established as a platform to help

Algerian companies adhere to provisions of the Code, adopt international corporate governance best practices, and raise greater public awareness about corporate governance. The launch of the center provides a new opportunity for the business community to demonstrate its commitment to improving the economic environment in the country and enhancing democratic governance values, including transparency, accountability, and responsibility.

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CG Events

April - June 2011

MENA Events

April 5-6, 2011, Rabat, Morocco

Third Meeting of the OECD Task Force on CG of State-Owned Enterprises (OECD)

www.oecd.org/document/49/0,3746,en_2649_34813_46901873_1_1_1_1,00.html

April 12-14, 2011, Dubai, UAE

Financial Stewardship, Accountability & Leading, Planning Improvement (Mudara Institute of Directors)

www.mudara.org/professional_dev/dev_prog/intro/

June 12-14, 2011, Amman, Jordan

The Third Strategic Corporate Governance & Responsibility Forum 2011 (Schema)

www.cgrforum.com/Public/Main_English.aspx?site_id=1&page_id=308

Global Events

June 7-8, 2011, Wilmington, DE, USA

The Master Class, Training for Professional Directors (National Association of Corporate Directors)

www.nacdonline.org/Education/Events.cfm?navItemNumber=528

June 16-17, 2011, New Haven, CT, USA

Yale Governance Forum 2011 (Millstein Center for Corporate Governance and Performance)

<http://millstein.som.yale.edu/Forum2011/index.html>

June 22, 2011, Newton, MA, USA,

Directors' Intensive Program on Corporate Governance (Boston College)

www.bc.edu/schools/law/newsevents/events/directors_college.html

These events represent corporate governance trends in MENA and around the world. To participate, contact sponsoring organizations.

What the Middle East Can Learn from the Financial Crisis

Andrew Cunningham, Founder, Darien Middle East, and former Managing Director, Middle East Programs at the Financial Services Volunteer Corps

The Basel Committee on Banking Supervision, the foremost authority on banking standards in the world, issued updated guidelines in October 2010 on corporate governance for banks, adding six additional principles to the eight it originally published four years earlier. Although the Basel committee remains dominated by representatives from the large western economies, its standards are designed to be applicable for banks everywhere in the world. Do the revised guidelines have messages relevant to banks in the Middle East and North Africa?

At first, one might think not. Despite the increasing sophistication of Middle East financial markets, banks' trading books and their corporate structures are less complex than those in the United States and Europe. Similarly, executive pay and benefits in the Middle East falls far short of the compensation packages that have caused such outrage in the West.

Yet, regulators and the private sector in the Middle East still have much to learn from the recent crisis. Many of the largest losses suffered by financial institutions in the Middle East were caused by financial instruments purchased from western financial institutions. Some of the most urgent measures taken by national regulators in the MENA region to support their banks focused on the provision of emergency liquidity, as interbank funding markets contracted. Other financial challenges arose from Middle East-specific developments. The vast increase in wealth driven by rising oil

prices fueled excessive speculation in real estate, most notably in the Gulf States but also in countries such as Egypt and Morocco. As the oil price declined from its pre-2008 high and the global economy began to shrink, many banks had to write-down the value of their real estate investments.



Andrew Cunningham

Clearly, the focus in the revised Basel Guidelines on managing complex risks and structures does have something to say for Middle Eastern banks. As legal systems develop and financial markets deepen and become more diverse in the Middle East, the risk profiles of financial institutions

will become increasingly complex. For example, banks are increasingly able to establish new subsidiaries and branches in other Middle Eastern countries; new and difficult-to-price Shari'ah-compliant products are being developed; and banks are extending their services to low-income and rural communities where data on creditworthiness and repayment trends are sparse.

In the face of such structural trends, bank directors in the Middle East need the technical knowledge and breadth of experience to keep a grip on the very nature of the institutions that they are overseeing.

Western financial markets and economies have paid a huge price for the failure of boards of directors to recognize and control the changing nature of the banks that they were overseeing. Directors of Middle Eastern banks should take care not to make the same mistake. ♦

Andrew Cunningham is a consultant specializing in global, Middle Eastern, and Shari'ah-compliant finance. His website is www.darienmiddleeast.com.

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which targets young capital market professionals who would like to increase their knowledge in subjects such as capital markets laws, valuation methods, international accounting standards, and financial reporting.

TKYD has long been focused on increasing business professionals' knowledge. From 2005 to 2009, TKYD trained 200 board members and professionals in Istanbul and 1126 board members in 18 cities of Anatolia on corporate governance, risk management, internal control, reputation management, family institutionalization and the new draft Turkish commercial code. In partnership with CIPE, TKYD created the "Governance Guide for Family Businesses" in 2010, an important tool given that family-owned businesses comprise 95 percent

of Turkey's private sector. With the handbook, they have clear guidelines to implement the principles of corporate governance and thus increase the economic success and sustainability of their companies.

In the past year, TKYD has made tangible progress working with an important business sector on international best practices and EU regulations. It is currently implementing an initiative to assist the Turkish football industry – a 735 million Euro industry – in establishing and maintaining international governance standards. To that end, TKYD developed an important resource, "Governance Guide for Turkish Football Clubs," which was launched in January 2010 with the aim of ensuring that the football society and its stakeholders understand corporate governance concepts. Because football is an integral part of Turkish culture, TKYD's work with this unique sector is helping instill principles of transparency and accountability in an industry

that is widely followed by the general public, creating new opportunities to inculcate a culture of good governance and strengthen democratic institutions throughout the country.

While these efforts have been successful in raising awareness about the importance and benefits of good corporate governance in Turkey's more urban centers, continued engagement and support is necessary, particularly in the more rural areas in Anatolia. With the emergence of a new wave of businesses from Anatolia, TKYD's focus on this segment of the private sector is of paramount importance, especially as this new group—which has had little exposure to corporate governance principles and tools—grows in relevance and influence. Moving forward, TKYD will continue to emphasize the benefits of corporate governance practices, move the country forward as a leader in the global economy, and advance the democratic principles of accountability and transparency. ♦

Corporate Governance in Algeria

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Algeria's institutional development and private sector growth have been weakened by decades of centrally-planned economic policy, debilitating civil war, and a legacy of corporatism and excessive bureaucracy. In recent years, the government has made an effort to improve the business climate and open Algeria's economy, signaling an interest in transitioning to a rules-based market economy. The government's economic reform agenda includes a strong emphasis on privatization, small business development, support for removing barriers to private sector-led growth, and opening up the Algerian market for foreign investors.

To date, however, the Algerian government has been slow in implementing these reforms, especially empowering the private sector to play a



Mr. Slim Othmani, CEO of NCA Rouiba and Chairman of Algeria's Corporate Governance Task Force, is interviewed about Algeria's CG efforts.

greater role in the economy. Because of the government's indecision, the business community has taken greater initiative on many of the issues, including building a culture of good corporate governance within local companies. Improving corporate governance can not only help companies' bottom-line, but also speed up Algeria's economic recovery after decades of stagnation.

Mr. Slim Othmani, CEO of NCA Rouiba and Chairman of Algeria's Corporate Governance Task Force

(GOAL) stated that, "Instituting corporate governance within the Algerian private sector is a crucial step towards boosting companies' competitiveness and provides a strong remedy against possible internal or external crises." Since the launch of the Algerian Corporate Governance Code, a number of private sector companies in Algeria, including NCA Rouiba, voluntarily adopted the provisions of the Code.

The establishment of Hawkamah El-Djazair is a positive step in Algeria, and offers a unique opportunity for the government and the private sector to work in cooperation to improve the economic climate and advance economic growth in the country. The government must reach out to the business community to establish an ongoing public-private dialogue to develop a long-term economic agenda that is based on strong democratic values and takes in consideration the interest of all parties involved. ♦

Creating Positive Incentives for Corporate Governance Reform

Aleksandr Shkolnikov, Director, Policy Reform, CIPE

All financial crises, including the most recent, have a tendency to prompt increased emphasis on oversight and corporate governance, especially among regulators. Though such shocks can spur important changes in corporate practices and establish a more transparent relationship between government and business, they need not be the only driver of corporate governance reforms. Other positive drivers can include benefits such as improved access to and lower cost of capital, enhanced brand recognition, and sustainability, among others. There are several effective strategies to get policymakers and the private sector to be more proactive in changing practices and regulations, so that good behavior comes not solely in response to corporate scandals and economic crises.

Corporate governance rankings have proven to be effective in encouraging positive changes within firms in emerging markets. Such rankings accomplish two important tasks. First, they provide companies with detailed information on their own governance mechanisms, by assessing and indicating concrete areas that deserve attention and need improvement. Second, they provide a benchmark of a company's performance compared to its peers. This helps foster a sense of competitiveness among firms, which encourages reforms as companies seek to attain greater recognition and higher standing than their competitors. Governance rankings also provide key information to investors, which in turn can translate into lower cost of capital for companies. In many ways, corporate governance rankings are a positive driver for reform because they place higher emphasis on rewarding good practices than penalizing bad ones.

Brazil has been successful with this approach by developing the Novo Mercado, a special transparency tier within the Bovespa stock exchange that requires listed companies to demonstrate a high level of corporate governance. Inclusion in the Novo Mercado brings respect, recognition, and reputational benefits, and as such, has incentivized the adoption of corporate governance standards. Established in 2000, the Novo Mercado included 31 companies by 2006. By 2010, the number had jumped to 112 companies – all of which have voluntarily adopted corporate governance practices beyond what is required by law.

On the other hand, a different approach must be taken in countries where stock markets remain relatively small and the majority of companies do not use them to raise capital. Rankings by private sector organizations, such as institutes of directors, are becoming particularly effective in such environments. Corporate governance scorecards utilize an approach similar to transparency tiers and can become an effective tool to incentivize good corporate performance in smaller markets.

One successful experience is the corporate governance scorecard developed and implemented by the Thai Institute of Directors, which has contributed to improved corporate practices within participating firms. The initiative has been so successful that financial advisory firms now use the companies' rankings from the scorecard as part of their decision-making process in issuing recommendations on the investment attractiveness of Thai companies.

In the Middle East and other regions where most companies are family-owned and not listed on stock exchanges, banks and their lending decisions can become a tool used as a positive driver in improving corporate governance practices. Reformers can work with banks to make corporate governance practices an integral part of evaluating companies before extending loans. Such attention by financial institutions will create a movement within the private sector to close bad governance gaps, as the cost of capital becomes directly linked to the quality of governance. In doing so, banks themselves must ensure that they too comply with the high standards of corporate governance that they demand from others. Institutes of directors and centers of corporate governance have an important role to play in creating momentum for these kinds of changes.

Creating positive incentives for corporate governance reform allows the corporate sector to be proactive, rather than reactive to past problems and issues. It helps identify and rectify inconsistencies before they turn into larger problems. More importantly, perhaps, positive incentives that reward good corporate behavior empower the private sector to improve its own practices ahead of the policymakers and regulators. There is no need to wait for another crisis to take concrete steps to improve corporate performance. ♦

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