

Corporate Governance TRENDS

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Tunisian Corporate Governance Guide in High Demand

by Danya Greenfield,
CIPE MENA program officer

Tunis, Tunisia – Just days after the release of Tunisia's new *Guide to Corporate Governance Best Practices*, businesses were already clamoring for more. After a year of consultation and 36 focus group meetings, CIPE partner l'Institut Arabe des Chefs d'Entreprises (IACE) launched the guide on June 25, 2008. The broad-based effort ensured buy-in from both the public and private sectors, involving academic experts, the Financial Market Council, Tunisia's Central Bank, the Ministry of Finance, the Association of Internal Auditors, and prominent businesspeople.

The guide has already reached beyond business stakeholders. IACE organized a seminar in October 2008 with the Association of Bankers in Tunisia to provide an explanation of the guidelines and discuss potential obstacles to implementation. The association had developed a set of guidelines for best practices in banking and, after the workshop, they

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Tunisia's new corporate governance guide was well received at its launch in Tunis (above).

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Protecting Minority Shareholders in Egypt

by Randa Al Zoghbi,
CIPE Egypt program director

Cairo, Egypt – As Egypt strives to develop its economy, the participation of small investors is an important driver of economic growth. Encouraging Egyptians to save and invest will depend on ensuring that small shareholders have a voice in how their money is used. Egypt is working hard to protect these minority shareholders. For example, Egyptian law stipulates that a shareholder with even one share can attend and annul decisions by the general assembly. Yet, there is little understanding in the business community about what rights these shareholders have and how to exercise them effectively.

Over the past year, CIPE Egypt has stimulated discussion on this issue in a series of conferences across the country. The key issue of the role of the board in protecting minority shareholder rights was explored in the second annual conference of the Egyptian Institute of Directors, "The Role of the Board and Business Sustainability," in 2008 in Cairo. The conference was organized under the auspices of Egypt's Minister of Investment and was supported by CIPE, UNCTAD, and the OECD. The conference successfully raised awareness of this key issue, with more than 500 participants in attendance.

The conference emphasized that strong corporate governance depends

on a balance between three primary actors: management, the board of directors, and shareholders. Shareholders ensure that the board of directors is acting in the best interests of the company, so it is crucial that minority shareholders are represented in order to prevent conflicts of interest between majority shareholders, management, and external actors. Minority shareholders should attend

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CG Events January-May 2009

MENA Events

January 18-22, Dubai, UAE
Best Practice in Corporate Governance (Institute for International Research Middle East)
www.iirme.com

May 15-17, Dead Sea, Jordan
World Economic Forum on the Middle East 2009 (World Economic Forum)
www.weforum.org

May 26-27, Manama, Bahrain
5th Annual World Islamic Funds & Capital Markets Conference (Middle East Global Advisors)
www.cbb.gov.bh

Global Events

January 13-14, Seoul, South Korea
Seminar on Islamic Finance (Islamic Financial Services Board)
www.ifsb.org

February 3, Miami, USA
Annual Audit Committee Issues Conference (KPMG Audit Committee Institute)
www.kpmg.com/aci

February 10, Seattle, USA
The Board and CFO Relationships (National Association of Corporate Directors)
www.nacdonline.org

March 4-5, Paris, France
3rd Islamic Financial Services Forum: The European Challenge (Islamic Financial Services Board)
www.ifsb.org

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

Tunisian Guide in Demand

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committed to incorporating IACE's corporate governance guidelines within their code of ethics and best practices.

The guide is framed by a number of central themes, including protecting the rights of minority shareholders, strengthening boards of directors, adhering to ethical behavior, and fiscal transparency. The drafting team created the guide within the unique context of Tunisian business, giving particular attention to small and medium-sized enterprises and family businesses. Olfa Zribi, one of the focus group experts, described the guide as a "collection of policies and recommendations that owners or managers will be able to use to optimize their future successes through professional and ethical

standards." The new guide fits well with the Tunisian preference for a system of self-regulation, rather than a legally binding code.

In his keynote remarks at the guide's launch, CIPE board member John Stout emphasized the importance of corporate governance in developing an effective board of directors. Patrick Saerens, a corporate governance expert, noted at the launch that the guide's focus on tax transparency and environmental and social responsibility were items that differentiated the Tunisian guide from others in the region. ♦

The new guide is available at www.cipe.org/regional/menacg.

Shareholders' Rights in Egypt

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and vote at general assembly meetings, elect members of the board, and challenge board decisions if necessary.

Secretary General of the Egyptian Capital Market Association Samir Hamza made recommendations on how to enhance minority shareholder participation in the corporate decision-making process:

- Designating a seat on the board of directors for minority shareholders by applying the system of cumulative voting.
- Obtaining the approval of minority shareholders on the allocation of dividends.
- Allowing holders of 10 percent of the shares to request the distribution of dividends.
- Introducing the idea of legal action by minority shareholders to protect their rights.

In Egypt, a cultural and institutional shift must take place



Minority shareholders' rights took center stage at a recent international corporate governance conference in Egypt.

for minority shareholders to fully exercise their rights, and there have been encouraging signs of greater awareness such investors. Currently, small businesses in Port Said are forming a grassroots association for the protection of minority shareholder rights. This initiative may prove to be a useful model, and has already attracted the attention of prominent lawyers and stakeholders in Cairo. Investor groups could also play a more active role in representing minority shareholders by advocating on their behalf and encouraging Egyptian corporations to adopt better governance standards. ♦

Rewarding Good Practice: Corporate Reports in Pakistan

by Samar Namazie, Consultant, PICG

Karachi, Pakistan – In Pakistan, good corporate governance is now recognized as one of the most important factors in attracting investment; by demonstrating strong corporate governance, Pakistani businesses have become increasingly competitive. To promote financial disclosure as part of transparent practice, the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP) has been using its annual national awards program to recognize excellence in corporate reporting. The Best Corporate Reports Awards (BCR) initiative encourages and recognizes strong annual reporting, corporate accountability, and transparency through timely and accurate annual reports.

Leading companies from a cross section of Pakistan's industries participated in the 2008 competition. The reports were judged on a set of criteria that focused on providing stakeholder information, with additional criteria including corporate objectives, the directors' report, chairman/CEO review, disclosure, and annual report presentation. The winning companies were recognized during a public ceremony.



The Best Corporate Report initiative rewards transparency with public recognition.

Additionally, the Pakistan Institute of Corporate Governance (PICG), a long-time CIPE partner, uses the annual reports from the BCR awards as case studies in its training programs and workshops. The reports feature prominently in PICG's training module on 'How to Develop a Model Annual Report.' A clear annual report that includes transparent financial disclosure can help a company and its investors make responsible and timely decisions.

A lack of transparency in this area can cripple individual businesses and can have detrimental effects on the economy as a whole.

These awards are part of a larger movement within Pakistan to promote corporate governance best practices. Pakistan's 2002 Corporate Governance Code for Listed Companies has provided a framework of best practices to safeguard the interests of shareholders, promote market confidence, and enhance investor confidence, while implementation of the code by the Islamabad, Karachi, and Lahore stock exchanges has prompted a shift among corporate leadership in Pakistan to play a more active role in practicing good corporate governance. ♦

DFIs Internalize Good Governance in Southern Africa

by Tagbo Agbazue, training faculty for SADC-DFRC and senior governance advisor for the African Institute of Corporate Citizenship

Gaborone, Botswana – Development finance institutions (DFIs) are becoming a powerful force for change in Southern Africa and play an important role in stimulating economic growth, generating employment, and alleviating poverty. To ensure an effective role in achieving these goals and to prevent abuse of power, DFIs must themselves be examples of good corporate governance. The Southern African Development Community's Development Finance Resource Centre (SADC-DFRC) has emerged as a leader in this effort and is working with its network of 24 local DFIs in 11 African countries to improve their corporate governance practices through its current capacity-building programs that will run through March 2009.

DFIs can lead by example to encourage others to adopt good governance practices. They are also uniquely positioned to provide governance expertise and accountability to funding recipients. SADC-DFRC is working to:

- Inform programs to promote transparency, including conflict of interest issues.



At a capacity-building program in Southern Africa, representatives of DFIs discuss good governance best practices.

- Build awareness of good practices in board selection, especially relating to political appointees on DFI boards.
- Inform policymaking on finance and investment.

More than a simple training program, this project is about skills enhancement and advanced techniques in directing financial institutions. The project brings a practical and focused perspective on the operating issues faced by boards of DFIs. Ultimately, the project will be a leverage point for other initiatives to mainstream corporate governance in the sub-region and the continent. ♦

Martin Steindl on Corporate Governance in MENA

Martin Steindl is program manager for the Middle East and North Africa (MENA) Corporate Governance Program at the International Finance Corporation. CIPE recently had the opportunity to speak with Steindl about his perspective on current trends in corporate governance in MENA.

CIPE: *What are the current corporate governance trends in MENA?*

Steindl: The MENA environment changes quickly, as do the focus areas for effecting reform. Three years ago, the focus was on advanced countries with active stock markets, such as Egypt. Now, Lebanon is becoming more prominent because the political environment has grown more stable and it has developed a fairly sophisticated market. Lebanese business has been quick to adapt to modern business standards, so instituting robust governance within companies is not a huge leap.

A more consistent focus is family-owned businesses, which comprise a major segment of many MENA economies. As closed companies, family businesses are often initially skeptical about outside involvement, but they are receptive to introducing structures that can address the tensions between the family and the family business. The most important element for family firms is to have a structure by which family issues are addressed outside the company, positions are assigned based on merit, and there is at least one independent board director or senior manager as a neutral arbiter in the business. One of the key issues is the conflicting interests of family members, such as those of owners, who want dividends to be distributed, versus those of managers, who want to reinvest profits.

Many family firms are motivated to adopt corporate governance by the issue of succession. Often, a founder/owner controls everything and does not give opportunities



to the second generation to contribute to decision-making. When this owner is no longer present, there is no plan how to replace them, and the company may fall apart. Planning for generational transition is one of the primary reasons family firms choose to adopt good governance.

CIPE: *Do you think a compulsory or voluntary code is more effective for corporate governance implementation?*

Steindl: For small and medium-sized enterprises, unlisted companies, and family businesses, the current objective is to spread information about best practices, so a voluntary system works best. For large companies or listed companies, a voluntary system can be challenging. Yet, a compulsory system also presents challenges because if regulatory agencies are not strong enough, they will not be able to enforce standards. The best approach, then, is getting buy-in from the private sector and business leaders to implement the code and set the bar for others. Then, the real motivator is competition between companies and the desire to attract investment through transparency.

CIPE: *What is the effect of good governance in state-owned enterprises (SOEs) and the public sector in general?*

Steindl: There is an important relationship between SOEs and the public sector; if SOEs are committed to transparency and disclosure, they can be a model for the government as well. Yet, while the biggest incentive for the private sector to adopt good governance is to maximize profit, the government has other considerations that might hinder it from taking this course – the government is also concerned with reaching consensus among diverse political groups, political opposition, and elections. Still, the current rise in numbers of businesspeople entering government across the region may have a positive influence in stimulating greater transparency in the public sector. ♦

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