CORPORATE GOVERNANCE REFORMS TO ADDRESS FINANCIAL CRISIS RISKS IN THE MENA REGION

DOHA DECLARATION

Business leaders and policy makers from the Middle East and North Africa, and international and regional experts convened for the Third Hawkamah Regional conference on corporate governance, "Is the Region Becoming a Global Player?: Corporate Governance & the Financial Crisis", held in Doha on 9-10 November 2008. The conference was organized in association with the Qatar Financial Markets Authority (QFMA) and in partnership with the International Finance Corporation (IFC), the Financial Services Volunteer Corps (FVC) and the Organisation for Economic Co-operation and Development (OECD).

His Excellency Minister Yousef Hussain Kamal, Minister of Economy and Finance and Chairman of the QFMA delivered a keynote policy speech stressing the urgency of action in improving corporate governance in the GCC countries and the MENA region overall. Participants acknowledged the important progress achieved in Qatar in streamlining the financial regulatory authorities and developing a Corporate Governance Code in line with international standards and good practices.

There is an increasing perception that contagion and spill-over effects from the global financial turmoil could undermine the economic achievements of the MENA region. As a result, participants focused on the interaction between corporate governance and the stability and soundness of the financial system.

The following corporate governance issues emerging from the financial crisis need to be addressed globally and at the level of the MENA region:

a) The regulatory & supervisory powers of central banks in coordination with the capital market authorities should be extended to investment banking and related non-bank financial intermediation.
b) Risk management frameworks, processes, and implementation practices require reform in order to redress the shortcomings revealed by the turmoil.
c) The role and form of regulation of credit rating agencies needs to be addressed.
d) Executive remuneration and incentive structures need to be linked to long-term performance and risk profile of firms. More disclosure on executive remuneration schemes is required and companies should put their remuneration schemes to shareholder scrutiny and approval.
e) Corporate governance practices need to be strengthened, in particular by increasing board competence and responsibility. Board members need to have up-to-date knowledge on financial issues and risk management to fulfill their functions and training should be required when necessary. Boards should conduct annual evaluations of their performance and report to shareholders.
f) Governance and accountability of regulators are equally essential and the region should adopt and implement existing guidelines on good practices as promoted by the Bank for International Settlements and IOSCO.

g) Islamic finance is a viable and credible complement to conventional financing and has been resilient to date to banking and financial crisis, as a result of equity sharing arrangements and its focus on ethical investment practices. Islamic finance institutions should continue improving their corporate governance by focusing specifically on the disclosure rights of Investment Account Holders, the role of Shari'a boards, their integration within the corporate governance structure of the Islamic Finance Institution. The development and implementation of a harmonized Corporate Governance Framework Regulation and market oversight should fully cover these institutions.

h) Effective creditor rights and insolvency systems and the development of strong rescue and restructuring frameworks are important for the region. Based on the survey of existing frameworks and practices in the MENA, these should be modernized as a matter of priority to allow effective rescue and restructuring of viable enterprises facing temporary and potential distress. Countries in the region should avail themselves of international guidance, such as the World Bank Principles on Insolvency/ROSC Diagnostic programme and the UNCITRAL Legislative Guide on Insolvency for reforming domestic insolvency systems.

i) Good corporate governance is important not only for listed companies, but also for State and Family-Owned enterprises. To successfully address potential issues of succession of family-owned enterprises and preservation and protection of wealth, their progressive integration into capital markets should be encouraged.

j) Investments of Sovereign Wealth Funds (SWFs) taking a long-term perspective can contribute to financial stability. The "Santiago Principles" of the International Working Group (IWG) on SWFs coordinated by the International Monetary Fund provide a welcome contribution to improved transparency and sound management of these funds. They should be followed up by a continuous dialogue and review within the IWG. An open investment climate should be maintained by recipient countries in line with OECD guidance and instruments.

k) Private equity has recently emerged as a popular alternative asset class in the region supporting regional economic development and small and medium-sized enterprises. Private equity managers should play a critical role in diffusing corporate governance principles and best practices across their portfolio companies in terms of board structures, administrative procedures, disclosure requirements and minority interest protection.

Next steps by Hawkamah and the MENA OECD Working Group will include:

- Finalisation of the draft MENA Policy Brief on corporate governance of banks.
- Preparation of a Policy Brief on corporate governance of State-Owned Enterprises.
- Finalisation of the Policy Brief on corporate governance of insurance companies.
- Recommendations on Insolvency frameworks and practices.
- Establishment of a Task Force on Islamic Finance.
- Undertaking pilot studies on corporate governance of family-owned enterprises.

A review of the response of the regulators to the financial crisis and progress with corporate governance measures will be conducted at the next annual meeting.