

2020 MEETING OF THE MENA-OECD WORKING GROUP ON CORPORATE GOVERNANCE

21 October 2020

Summary Note

Mature capital markets and an institutional environment for more and better investment

Building on the achievements of the Working Group, the 2020 meeting assessed progress as well as challenges to implementing reforms in four key areas outlined in its 2019 report, *'Corporate Governance in MENA: Building a Framework for Competitiveness and Growth'*, especially in light of the Covid-19 crisis. The meeting also identified priorities for future work, in the context of the renewal of the mandate of the MENA-OECD Initiative on Governance and Competitiveness for Development for 2021-2025.



Ms. Gabriela Figueiredo Dias



H.E. Obaid Al Zaabi



Mr. Carlos Conde

The virtual meeting attracted 90 participants from over 20 countries, as well as regional and international organisations, decision-makers of securities market and bank regulators; stock exchanges; investors, state ownership agencies, academia, civil society and other private sector experts were active in the discussion. The sessions were conducted as debates, with high levels of interaction among panellists. It was opened by its co-chairs, Ms Gabriela Figueiredo Dias, Chair, Portuguese Securities Market Commission (CMVM), Vice Chair of the OECD Corporate Governance Committee, His Excellency Dr. Obaid Al Zaabi, CEO, Securities and Commodities Authority (SCA), United Arab Emirates and Head of Middle East and Africa Division OECD, Mr. Carlos Conde.

Recent corporate governance developments, including COVID 19



Corporate governance priorities are changing, more focus is being put on risk management and social responsibilities

The Covid-19 pandemic has had a significant impact on the economy and society in the MENA region. The discussions highlighted:

- The crisis has accelerated existing trends in corporate governance policies in the region, including a **focus on sustainability**
- There is increased awareness and reporting showing **environmental, social and governance (ESG)** aspects of sustainable investment are becoming **more important**
- Regulators and supervisors have a key role in supporting companies to mitigate the negative effects of the crisis
- Inclusivity issues must be addressed, as the **crisis disproportionately affects economically vulnerable groups**, including women, youth, and SMEs
- **Access to capital and technology** are key factors to improving inclusivity.

Going forward:

- ▶ Businesses will play a key role in leading growth in the region in the post-crisis period.
- ▶ Corporate boardrooms need more diversity to encourage innovative thinking on strategies to diversify the economy in the MENA region away from its dependence on oil and gas.

Progress and challenges implementing strategies to improve access to capital



SMEs need support to access international markets through GVCs and tailored financing options

With the Covid-19 pandemic exacerbating challenges related to access to finance, participants called for a greater role for capital markets in funding the real economy. Recommendations for enhancing access to finance and the promotion of growth companies included:

- Legal frameworks need to be developed to encourage the use of alternative financing, such as crowdfunding and venture capital
- Market operators should work on being more accountable, in line with the needs of issuers and investors
- Financial innovation in particular could enable SMEs to come together to raise funding from the market
- Leveraging technology and digital solutions can facilitate data provision and disclosure, a major constraint to SMEs' access to capital markets.

Peer learning

The UAE has introduced a new legal framework for loan-based crowdfunding platforms. These regulations aim to drive growth for SMEs whilst protecting all parties.

Going forward:

- ▶ Finding the right balance between flexibility for issuers and investor protection will be key for regulators to unlock the potential of capital markets.

Taking action for greater transparency and disclosure: achievements and impediments



Enhancing transparency and disclosure goes beyond regulations

While MENA economies have taken important steps to improve transparency and disclosure policies, the discussions highlighted persisting challenges in implementation, especially in the areas of beneficial ownership and related party disclosure. The discussions concluded:

- Improving transparency and disclosure practices attracts investors, particularly when legal frameworks are weak
- Investors and companies themselves should lead the efforts to move towards more robust transparency and disclosure
- Technology can play a critical role in supporting these efforts
- Accounting and audit: quality of disclosures is as important as timeliness.

Going forward:

- ▶ Participants stressed the importance of adopting an approach tailored to market needs and levelling the playing field between listed and non-listed companies to raise the bar for the whole ecosystem in terms of transparency and disclosure.

Peer learning

Online disclosure systems have been introduced in Egypt, which include active company engagement by the exchange focusing on quality of disclosures. These have considerably improved the number of disclosures and reduced violations.

Progress and obstacles to bringing gender balance in corporate leadership



In order to bridge the gender gap in corporate leadership, it is necessary to look for synergies and collective action

Closing the gender gap in corporate decision-making roles remains a challenge globally, yet there is strong impetus for MENA economies to embrace initiatives that empower and promote women in the corporate sphere. The discussion highlighted:

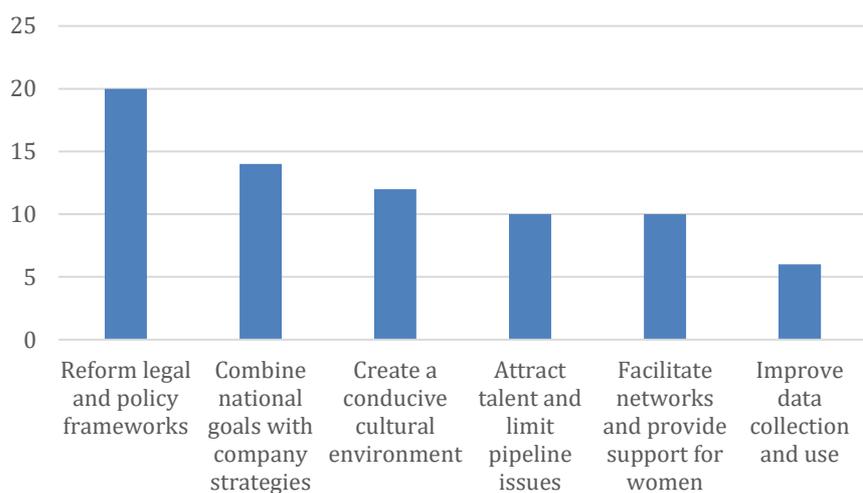
- The importance of political leadership and policy frameworks in setting the tone for companies to follow; engaging women in the policy-making process is also key
- Experience by the UAE shows a benefit in adopting a top down approach, which led to strong momentum in designing gender balance policies
- It is important that all actors come together to achieve gender balance in corporate leadership, namely investors, business leaders, NGOs.

Key areas for investor action

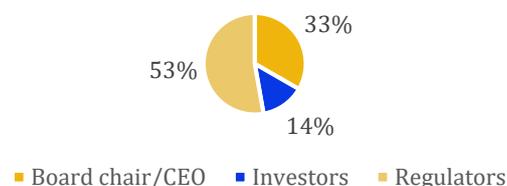
1. Promote participation of women on boards in investee companies
2. Conduct studies and awareness-raising activities
3. Build the pipeline
4. Work with regulators to improve disclosure of companies' diversity practices,

Members of the Working Group participated in two polls during the virtual meeting:

What are the top policy options to improve gender diversity on corporate boards?



Who should lead the efforts to ensure more women participation on corporate boards?



Going forward:

- ▶ Develop a toolkit for regulators with a roadmap on how to achieve gender balance in corporate leadership
- ▶ Develop indicators at the regional level in order to account for the specific attributes of the MENA region.

Implementing change to boost the governance of state-owned enterprises



There is a need to promote a level-playing field between SOEs and the private sector. Now more than ever.

State-owned-enterprises (SOEs) are a key feature of the economic landscape in the MENA region. Ensuring that SOEs operate transparently, efficiently and on a level playing field with private enterprises is crucial for market efficiency, economic development and sound fiscal management. The panel discussed:

- The main challenges affecting the performance of SOEs include: administrative rigidities, lack of transparency and accountability, as well as political interference in corporate decision-making
- There is a need for a clear separation of the roles of the state, as an owner, policy maker and regulator of the SOEs
- The autonomy and competency of boards of directors should be strengthened, *inter alia* by appointing Chairs who are not at the same time the CEO of the respective companies
- Clarity is needed about SOEs' public policy objectives, including with respect to their role in national development strategies
- SOEs should be required to provide mandatory annual reports presenting corporate governance efforts and future plans to comply with corporate governance standards.

Going forward:

- ▶ Develop cross-country, thematic reviews of select sectors in which SOEs are active
- ▶ Support knowledge sharing across countries on both key factors of success and analysis of failure
- ▶ Adopt a long-term, sustainable approach to enable SOEs to contribute to sustainable growth in the future.

Next steps and key issues for future work

As the Covid-19 crisis has highlighted a need for more sustainable business models, enhancing frameworks for sustainable finance and reporting was identified as a key areas of focus for the future mandate, alongside continuing to promote board diversity, disclosure quality and a level playing field between SOEs and the private sector. Participants agreed that topics such as technology, cybersecurity and innovative means of corporate finance, especially for SMEs, should also be highlighted in the future roadmap.

The meeting confirmed the relevance of the MENA-OECD Working Group as a unique platform for top decision-makers to advance corporate governance policies and boost competitiveness in the MENA region. The conclusions of the meeting will be extremely valuable to guide the future direction of the Working Group's actions for the years ahead.

Learn more about our work on corporate governance in the MENA region:

<https://www.oecd.org/mena/competitiveness/mena-corporate-governance.htm>

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