

Ownership Structures in MENA Countries: Listed Companies, State-Owned, Family Enterprises and Some Policy Implications

A Summary

It is widely acknowledged that financial development positively affects economic growth. Indeed financial markets and financial intermediaries are supposed to improve information and transaction costs and thereby foster a more efficient allocation of scarce economic resources.

The growth performance and employment record in the Middle East and North Africa (MENA) region have been weak and disappointing. For example, while some countries did show some growth, the overall average shows that during over the last two decades real per capita GDP in the MENA region stagnated. Naturally, this lack of economic growth should be a major worrying factor to policy-makers because it simply exacerbates the problems posed by the already existing high unemployment rates and the relatively strong growth in the labor force of the region.

The fact that the region's economic performance failed to generate the employment opportunities sought by the rapidly expanding labor force, brought about some real pressures for economic reforms and the establishment of new institutions. Indeed most, if not all, Arab countries have established stock markets to complement the developmental role of financial intermediaries (banks).

Given the challenging issues that the MENA economies face and the importance of stock markets (and banks) in providing listed companies with long term finance, promoting the role of the private sector in stimulating growth, enhancing the international risk process and improving the resource allocation, it is useful to examine the financial systems that prevail in the MENA countries in terms of their stock exchanges. Relative to this argument, the financial economics literature provides us with numerous ideas, principles and applied studies that can guide interested parties in evaluating the performance of capital markets from different angles. For example, following the 1999 adoption by the 30 member countries of the OECD of the Principles of Corporate Governance, these principles have become a reference tool for almost all countries around the world. Moreover, this adoption is challenging to most developing countries (including the MENA region) as it involves six main principles.

1. The promotion of transparent and efficient markets.
2. The protection and facilitation of the exercise of shareholders' rights.
3. The equitable treatment of all shareholders.
4. The recognition of the rights of stakeholders established by law or through mutual agreements.
5. The assurance that timely and accurate information regarding the corporation (financial position, performance, ownership and governance) is published.
6. The assurance that management is effectively monitored by the board and the latter's accountability to the company and shareholders.

In addition to the above, it is useful to note that the "International Experts Meeting on Corporate Governance of Non-Listed Companies", organized by the OECD, held a meeting in Istanbul, Turkey, on 19-20 April 2005. This meeting brought together a large number of policy makers, business leaders, and other experts to participate in a discussion on the policy implications of the on-going debate on corporate governance of non-listed companies.

Against this background, the primary objectives of this effort are to provide basic information about stock markets that exist in some of the MENA countries (market-making system, size of primary and secondary markets), ownership structure of listed companies, ownership of the main companies in each country according to their type (state-owned and private) and regardless of their status (listed or not), and the privatization experience of some of the MENA countries. Based on the available information, a number of observations can be made.

First, all MENA stock markets suffer from immediacy. In other words, investors cannot be assured from getting their orders transacted immediately and at the right prices. In other words, changing the market-making mechanism must be examined.

Second, a limited number of listed companies account for a disproportionately high proportion of the total trading volume in the secondary market. This fact (illiquid securities) might have some serious repercussions on the behavior of stock prices (pricing efficiency).

Third, with the exception of Egypt, the number of listed companies in each country is not large. This argument is based on the fact that the total number of private sector companies must be extremely high. In other words, it is worth investigating the issue of what makes companies apply for listing.

Fourth, there is not much difference in the ownership structure of listed companies. However, in some countries, the government's holdings of shares are relatively high. This variation in the ownership structure has a number of research implications. What is the relationship (if any) between ownership structure and corporate performance? What is the impact of the ownership structure on stock liquidity? If these relationships exist, some remedial suggestions can be made.

Fifth, with the exception of the Egyptian economy, the experience of privatization has not been encouraging. In other words, what are the real reasons behind the slow progress that characterized much of the privatization efforts? In addition, what is the impact of privatization on the development of the capital market?

Sixth, while corporate scandals could not be reported, some serious work on the structure, responsibilities and operation of corporate boards must be carried out.

Seventh, in Bahrain, Lebanon, Egypt, Kuwait, Morocco, Oman, Saudi Arabia and the United Arab Emirates, the largest 20 or so companies (in each country) are not listed on the stock exchange. The Jordanian case is unique in that the Jordanian capital market has 17 listed companies which are amongst the largest 20 in the country. The remaining companies are held in the hands of private individual (families) or state-owned enterprises like the Royal Jordanian whose board of directors are appointed by the government. However, it must be pointed out here that the government owns about 24 percent of the shares of the “large” listed companies.

Eighth, in Saudi Arabia, Kuwait and Oman only 2 companies, 3 companies and 1 company are listed respectively. In other words, the total number of “large” and listed companies is very small. The largest companies in these countries are state-owned and include Arabian oil Co. (Aramco), Saudi basic Industries (Sabic), Kuwait petroleum Corporation (KPC) and Oman Oil Company. The Saudi, Kuwaiti and Omani corporate sectors are dominated by few state-owned enterprises and family-held private businesses.

Ninth, a very limited number (2) of companies are large and listed on the Lebanese capital market (Banque Audi and Bank of Beirut). The remaining large companies in the country are mostly banks and privately owned.

Tenth, in the United Arab Emirates, most of the largest corporations are state-owned (not listed) and include Abu Dhabi Fund for Arab economic Development, Abu Dhabi Investment Authority, Dubai Holding.

Eleventh, most of the large companies in Bahrain are listed companies. In other words, the government's involvement in terms of enterprise ownership is relatively limited.

Twelfth, only two of the largest companies are listed on the Casablanca stock exchange (Maroc Telecom and Centrale Laitiere). The remaining corporations are either state-owned or privately-owned.

Thirteenth, as far as the board of directors of some of the largest companies in the MENA region is concerned, they are mostly government officials and or Royal Family members. For example, the Oman Oil Company has government officials only on its board of directors. Similarly, the Kuwait Petroleum Corporation has at least two Royal Family members sitting on its board of directors. The Saudi company (SABIC) has a Royal family member as Chairman of the board, two private sector representatives, and the rest are government officials. Finally, Saudi Aramco reports to its owner, the Saudi Arabian Government, through the Supreme Council for Petroleum and Minerals Affairs, chaired by the Custodian of the Two Holy Mosques. The Supreme Council for Petroleum and Minerals Affairs sets the company's policy and objectives and its members are drawn from the government and private sector.

Finally, the fact that in Bahrain, Lebanon, Egypt, Kuwait, Morocco, Oman, Saudi Arabia and the United Arab Emirates, the largest 20 or so companies (in each country) are not listed on the stock exchange, it is imperative to examine the relevance of the OECD Principles of Corporate Governance to these companies. This examination must include the legal environment, dispute resolution mechanism, and exit procedures. Similarly, internal mechanisms, whose objective is to improve corporate governance in non-listed companies, should address the improving of transparency in the decision-making processes as well as the education and training of managers and shareholders. In addition, given the pivotal economic role of non-listed and often family/founder-owned companies in some of the MENA countries, it is critical to examine these companies' specific governance problems and the impact of any recommended solutions on their performance. Finally, the International Finance Corporation's corporate governance methodology for family-owned or founder-owned non-listed companies should be discussed because it does provide a useful tool.

I. INTRODUCTION

For centuries, economists (and others) have tried to explain the great disparities in the wealth of nations. They have tried to understand why some countries reflect strong economic growth, while others stagnate at extremely low levels of output. This effort led to a myriad of factors as possible determinants of economic growth including democracy, education, openness to trade, government expenditures and debt, labor and product market regulation, corruption, political stability, cultural values, financial development, and others.

Following the classical arguments by Schumpeter (1934) and Robinson (1952), a large number of theoretical and empirical papers examined the role of financial intermediaries (banks) and markets (stock markets) in economic growth and development. The works of Gurley and Shaw (1955), Goldsmith (1969), McKinnon (1973) and Shaw (1973), encouraged financial economists to model the role of financial intermediaries and markets in the allocation of scarce economic resources¹.

The primary function of financial systems (financial intermediaries and markets) is to move funds from those who save to those who have productive investment opportunities. In other words, financial systems can have a positive impact on economic growth through four main channels. First, by improving the efficiency in which savings are used and increasing the amount of funds allocated to firms with economically profitable investment projects, financial systems affect economic growth. Second, with more superior screening and monitoring of borrowers (than private individuals) financial systems should lead to more efficient allocation of scarce economic resources. Third, financial systems are supposed to improve the risk – sharing process among savers. For example, stock markets reduce liquidity risk by enabling investors to readily and cheaply to trade in the shares of listed firms. Finally, effective financial institutions help economies cope better with exogenous shocks such as terms of trade volatility and move them away from natural resource based development (Beck, 2002; Raddatz, 2003).

The argument that the development of well-functioning stock markets and banks (financial development) is expected to positively affect economic growth is well supported by many serious cross-country, industry-level and firm-level research papers. For example, Beck and Levine (2002) used a sample of 40 countries with averaged data (per capita GDP growth rate) over the period 1975-1998. Based on some measures of stock market development and bank development (and other control variables which are known to affect economic growth), Beck and Levine (2002) stated that “the data reject the hypothesis that financial development is unrelated to growth. Stock market

¹ See for example, King and Levine (1993) and Bencivenga et al. (1995).

development and bank development jointly enter all of the system panel growth regressions significantly using alternative conditioning information sets and alternative panel estimators. Thus, after controlling for country-specific effects and potential endogeneity, the data are consistent with theories that emphasize an important role for financial development in the process of economic growth". Other papers, including Levine and Zervos (1998), Levine et al. (2000) and others² have supported this conclusion.

The relationship between financial development and economic growth has not been investigated in the context of the MENA region. However, there has been some recent and growing papers which have examined this specific issue. For example, using time series data under ECM and VAR models, Chuah and Thai (2004) examined the causality issue between financial development and economic growth for the Gulf Cooperating Council (GCC) countries. The results indicate that "the relationship between financial development and economic growth is bidirectional in five out of six GCC countries, and unidirectional from finance to growth in one country. These findings indicate that financial development has a role to play in the economic development of those countries...." (Chuah and Tah, 2004, p.13). Similarly, Moustain (2004) examined the Moroccan experience in terms of financial development and growth. The results indicate that a "spasmodic" short term, rather than long – term causality exists between finance and economic growth. This result is attributed to the newness of the financial sector reforms in Morocco. Finally, Boulila and Trabelsi (2004) explored the causality issue in the finance and growth nexus for a number of MENA countries³. Based on the time period 1960-2002, the results indicate that the causality runs from "the real sector to the financial sector. Moreover, there is little support to the view that finance is a leading sector in the determination of long-run growth in the countries of the region. These findings might be associate with four features: (1) the strict control of the financial sector in these countries for long periods of time; (2) the delay in the implementation of financial reforms in these countries; (3) the persisting issues in reform implementation (non-performing loans in particular); and (4) the high information and transaction costs that prevent resource promotion and financial deepening even in the face of financial reform" (Boulila and Trabelsi, 2004, p.123).

At the micro level, it is widely recognized that the emergence of a dynamic private business sector is a critical ingredient in the process of economic growth and development. Similarly, the behavior of corporations in the generation and allocation of scarce resources is of vital importance. In this respect, it is crucial to understand and examine the issue of "corporate governance". Indeed, the issue of corporate governance

² For a detailed survey of the literature that examines the relationship between the financial system and economic growth, see Levine (2004). In addition, while Beck et al. (2004a) examine whether financial development disproportionately raises the incomes of the poor and alleviates poverty, Beck et al. (2004b) investigates whether financial development promoted the growth of small firms more than large firms.

³ The countries are Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, Turkey and United Arab Emirates.

has gained some unparalleled importance in different regions and countries. For example, the OECD Principles of Corporate Governance⁴, originally adopted by the 30 member countries of the OECD in 1999, have become a reference tool for countries all over the world. Following some extensive reviews, the new and revised OECD Principles of Corporate Governance were adopted in the Spring of 2004 and “they now reflect a global consensus regarding the critical importance of good corporate governance in contributing to the economic vitality and stability of our economies” (Jesover and Kirkpatrick, 2005). These principles include the basis for an effective corporate governance framework, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board. In addition, the research literature has examined many issues including the relationship between equity returns and some measures of corporate governance, corporate governance and firm value, and the impact of corporate governance on firm performance⁵. The fact that the issue of corporate governance is multifaceted, a number of additional papers examined the relationship between ownership structure and a number of financial decisions including capital structure, corporate performance, equity returns and dividend policy.

Relative to the above, it is interesting to note that Kaufmann et al. (2005) presented a recent update of their governance indicators for many countries to show, among others, whether the used indicators have changed during the period 1996-2004. The used governance indicators include the followings (Kaufmann et al. 2005, p.5):

1. Voice and accountability – measuring political, civil and human rights.
2. Political instability and violence – measuring the likelihood of violent threats to, or changes in, government.
3. Government effectiveness – measuring the competence of the bureaucracy and the quality of public service delivery.
4. Regulatory burden – measuring the incidence of market-unfriendly policies.
5. Rule of law – measuring the quality of contract enforcement, the police, and the courts.
6. Control of corruption – measuring the exercise of public power for private gain, including both petty and grand corruption and state capture.

⁴ The full text of the principles are published by the OECD: <http://www.oecd.org/daf/corporate/principles/>.

⁵ For example, see La Porta et al. (2001), Drobetz et al. (2003), Gompers et al. (2003), Klapper and Love (2003), Black et al. (2004), Durnev and Kim (2004) and Earle et al. (2005).

Based on the reported results, it is equally interesting to note that some of the estimates of governance did change for some countries. For example, from 1996 to 2004, countries like Egypt, Kuwait and Lebanon show some declines in, among others, the voice and accountability and control of corruption measures. On the other hand, while countries like Jordan, Oman, Saudi Arabia and the United Arab Emirates did show some deterioration in their voice accountability measure and some improvement in their control of corruption measure, Morocco deteriorated on voice and accountability and improved on control of corruption. Finally, it is only in Bahrain and Qatar that voice and accountability and corruption measures reflect some improvement.

The term corporate governance is given a myriad of definitions. For example, it is the “organizations and rules that affect expectations about the exercise of control of resources in firms” (World Bank Development Report, 2002, p. 68). A more comprehensive definition states that “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected” (John and Senbet, 1998, p. 372). Similarly, it is proposed that “corporate governance issues arise in an organization whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organization – these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract” (Hart, 1995, p. 678).

The above, and other definitions of corporate governance, share some common elements⁶. First, they all assume the existence of conflict of interest between insiders and outsiders and emphasize those that arise from the separation of ownership and control over the partition of wealth generated by the company. Second, corporate governance problems cannot be completely resolved by contracts because of issues like uncertainty, information asymmetries and contracting costs in the relationship between those who provide the capital and company insiders. Third, given that corporate governance problems exist, some mechanisms are needed to control and limit the resulting conflicts. Finally, the various definitions of corporate governance encompass not only the internal structure of the corporation but also its’ external environment.

While corporate governance as a public policy issue stems from the writings of Adam Smith (1776) and Berle and Means (1932), it rekindled a worldwide and growing research interest due to several reasons. These include the questioning of the efficiency of the prevailing governance mechanisms⁷, the debate over the comparative corporate governance structures that exist in the American, German and Japanese models⁸, the Asian financial crisis, and the recent corporate scandals in the United States (U.S.), the United Kingdom (U.K.), the Netherlands, and other countries.

⁶ For a good review of the corporate governance literature, see Farinha (2003).

⁷ See Jensen (1993) and Porter (1997).

⁸ See Shleifer and Vishny (1997).

As implied above, good corporate governance consists of a set of mechanisms that assure finance suppliers an adequate return on their investment. Based on this observation, it is natural to specify the set of mechanisms that should govern companies. In other words, should the governance system be market-based (the US and UK) or control-based (Japan, continental Europe and emerging economies)? The market-based model relies on independent corporate boards, dispersed share ownership, transparent information disclosure, active take-over markets and others. The control-based system, on the other hand, emphasizes the values of insider corporate board, concentrated share ownership structure, limited disclosure, reliance on family finance and the banking system. Moreover, we can state that there exist two types of mechanisms that help resolve the potential problems between owners and managers and between controlling shareholders and minority shareholders. The resolution of conflict between owners and managers relies on internal mechanisms such as ownership structure, executive compensation, board of directors, financial disclosure and others. The resolution of conflict between controlling shareholders and minority shareholders relies on external mechanisms such as the external take-over market, legal infrastructure, protection of minority shareholders, product market competition, and others. In this context, it is probably useful to point out (as mentioned above) that a large number of papers examined the relationship between ownership structure and firm performance and ownership structure and capital structure. While the evidence provide us with some conflicting results, this issue is obviously an important one in the MENA context.

It is common knowledge that the growth performance and employment record in the Middle East and North Africa (MENA) region have been weak and disappointing. For example, over the last two decades, “real per capita GDP in the MENA region stagnated, compared to average annual growth of 4.1 percent in east Asia and 0.3 percent in all other developing countries over the same period. The MENA region’s poor growth performance during the 1980s and 1990s also contrasts sharply with the 1970s, when annual per capita GDP growth averaged 2.3 percent, exceeding that of other developing countries (excluding east Asia) by nearly two-thirds of a percentage point” (Hakura, 2004). Obviously, this lack of economic growth should be a major worrying factor to policy-makers because it simply exacerbates the problems posed by the already existing high unemployment rates and the relatively strong growth in the labour force of the region.

The hitherto existing empirical growth literature attributes the disappointingly poor performance in the MENA region to myriad of structural factors. For example, some argue that the integration level of the MENA region in the world economy is low (Makdissi et al., 2000 and Dasgupta et al. 2002). Similarly, Dasgupta et al. (2002) suggest that the region has been lagging behind the rest of the world in macroeconomic and trade reforms. Sala-i-Martin and Artadi (2002) show that while the level of investment has remained high by historical and international standards, much of this investment has been unproductive public investment. In addition, Sala-i-Martin (2002) argue that private investment has not been forthcoming due to many factors including

political instability, government intervention, inadequate human capital and others. Abed (2003) relates the region's growth performance to weak institutions, large public sectors, underdeveloped financial markets, restrictive trade regimes, and inappropriate exchange rate regimes. Finally, in a more recent paper, it is stated that the empirical analysis "demonstrates that instability associated with investment risk is critical in explaining the level of foreign direct investment for the Middle east and North Africa (MENA) countries, which generally have higher investment risk than developed countries" (Chan and Gemayel (2004). Indeed, one can argue that the apparently low levels of foreign direct investments in the region is probably one of the main factors behind its poor economic performance.

In a more recent paper, Hakura (2004) analyzed the weak growth performance in the MENA region during the time period 1980-200 using an empirical model of long-run growth. Based on the empirical results, it is stated that in the "GCC countries, where oil revenues are significant, large governments which adversely affected the incentives to accumulate capital per worker appear to have stifled private-sector growth and impeded the diversification of production. In other MENA oil countries, where oil revenues are significant but comprise a less dominant share of GDP, institutional quality has been a key factor hampering productivity and growth. In non-oil MENA countries, poor institutions combine with large governments have been the main impediments to growth. Moreover, political instability is also shown to have played a role in holding back growth in the region" (Hakura, 2004, p.5).

In contrast to the 1980s and 1990s, the MENA region has witnessed some exceptional growth rates since the start of the year 2000. For example, during the last two years (2003 and 2004) economic growth in the region was equal to 5.6 percent a year. Moreover, the region's per capita income increased by about 3.7 during the same period and this performance was the strongest since the mid 1970s. As expected, this recent growth performance was driven by the oil exporters of the region. "Underpinning the region's growth advance has been a sharp rise in oil prices and an increase in crude oil production, which has provided substantial revenue gains for the region's oil exporting economies and supported dramatic increases in government consumption and investment spending. In all, heightened government consumption and increased investment outlays, primarily emanating from the public sector, have accounted for two-thirds of the observed increase in growth in the region since the 1990s. Heightened spending has likewise filtered down to strong advances in private consumption" (Global Development Finance, 2005).

The fact that the region's economic performance failed to generate the employment opportunities sought by the rapidly expanding labor force, brought about some real pressures for economic reforms and the establishment of new institutions such as stock markets. Some of the reforms which have been undertaken by most countries in the region (since the mid-to-late 1980s and early 1990s) included the introduction of the value-added tax (VAT), phasing out subsidies and improving management of public

expenditures and the strengthening of monetary policy frameworks by introducing indirect monetary policy instruments. In addition, trade regimes have been liberalized, privatization programs have been keenly carried out, and foreign direct and indirect investments have been actively encouraged.

To promote rapid and lasting economic growth, some MENA countries have also experienced a wave of financial sector liberalization measures. These include the elimination of interest rate subsidies, introduction of new bank laws that provide greater autonomy to control banks, introduction of prudential bank regulations in line with international standards, introduction of various measures to increase banking competition among local and foreign banks, and those countries with existing stock markets, the update of stock market legislation. In a recent paper, and based on new indices of financial development indicators for the MENA countries that includes six themes⁹, it is stated that “within the MENA region there is substantial variation in the degree of financial development; some countries are fairly well advanced, whereas a few others have significant room for improvement. As a group, MENA countries perform relatively well in the regulation and supervision theme as well as in financial openness. But they need to do more to reinforce the institutional environment and promote nonbank financial sector development” (Creane et al., 2004).

Relative to the growth performance of the MENA region in general, it must be stated that the private sector remains underdeveloped. Based on the International Monetary Fund (IMF) estimates, the public sector accounts for more than a third of employment in the region compared with 18 percent worldwide (excluding China). Moreover, in countries like Saudi Arabia and Kuwait, this proportion is equal to 79 percent and 93 percent respectively. Indeed, based on the World Bank’s Doing Business Database, the MENA region’s “recent progress with reform lags the world in terms of improving the environment for business, especially given the low initial conditions of business development”. Similarly, MENA’s progress in improving the quality of public administration was examined with the use of nine indicators (World Bank’s Governance Indicator of Public Administration Quality). Based on the reported figures, it can be stated that while many MENA countries did show some improvement in their public administration quality, this improvement occurred more due to a worldwide deterioration in public administration quality than direct improvements from the MENA countries. Moreover, the average level of progress in MENA has been weak, with economies on average ranked in the 47th percentile with regard to public administration reform, below those of Sub-Saharan Africa (52nd), East Asia and the Pacific (54th), Europe and Central Asia (57th), and South Asia (65th), and below the average for lower middle income economies outside of MENA” (Global Development Finance, 2005, pp. 67-68).

⁹ The data is organized according to six themes: (1) development of the monetary sector and monetary policy; (2) banking sector size, structure and efficiency; (3) development of the nonbank financial sector; (4) quality of banking regulations and supervisions; (5) financial openness; and (6) quality of the institutional environment.

Against this background, the primary objective of this effort is to report some descriptive statistics about some of the MENA countries' stock exchanges, the ownership structure of listed companies and the experience of privatization in these countries. In addition, this paper highlights the ownership structure of the main companies in each country according to their type (state-owned and private) and regardless of their status (listed or not). Finally, this paper concludes by suggesting a number of research issues with policy – implications.

II. Stock Markets in Some MENA Countries: Some Basic Information

Realizing their economic importance, most of the MENA countries have established stock markets. All these markets are continuous auction markets. In other words, any investor who wishes to trade in a security must do so through the agency of a stockbroker. The trading mechanism is continuous and strict price and time priority rules are followed. For example, for any two or more buy (sell) orders, the order with the highest (lowest) price has the execution priority. Similarly, if two or more orders of the same type have similar prices, the order which is noted on the electronic trading board first has the execution priority¹⁰.

As they stand, the trading mechanisms of Arab stock markets are likely to suffer from one major weakness; lack of predictable immediacy. If for example, there is an imbalance between buy and sell orders during a trading period, successive buy (sell) orders would get noted on the trading board without counter sell (buy) orders arriving at the market. Indeed such imbalances would cause prices to move up or down in a volatile manner. This is due to the fact that in these order-driven markets, intermediaries (brokers) have no role in the execution process. They simply channel the investors' orders to the market place and provide related supporting services. The brokers thus do not take any position vis-à-vis the orders and do not need to commit their own capital. In other words, the absence of market-makers who stand ready and willing to buy (sell) at the bid (ask) price is likely to be a key factor in making MENA stock markets suffer from immediacy¹¹.

In Table 1 we report the total number of listed companies in each stock market and their market capitalization. Based on the reported numbers, we can see that while some Arab countries have extremely small markets (in terms of number of listed companies and market capitalization), others such as the Saudi stock markets is relatively large. Indeed, the market capitalization of the Saudi market as a proportion of Gross Domestic Product (GDP) has increased from about 36.7 percent (1990) to more than 73 percent

¹⁰ During the late 1990s, most of the Arab stock markets have electronized their trading systems.

¹¹ It must be noted that market-making requires substantial capital and more sophisticated systems than those hitherto existing in the MENA markets.

(2003). Other markets have also reflected some significant increases. For example, the market capitalization of the Egyptian market as a proportion of GDP increased from 4.1 percent (1990) to about 32.8 percent (2003). Similarly, the Jordanian market's ratio increased from 49.7 percent to about 111.2 percent. Other markets remain small as a proportion of their respective GDP. For example, in 2003, this ratio was equal to 7.9 percent, 30.1 percent, 19.7 percent, 9.8 percent and 11.4 percent in the Lebanon, Morocco, Oman, Tunisia and United Arab Emirates respectively.

Relative to the above, it must be mentioned that a limited number of listed companies in each market constitute a large proportion of the market capitalization. For example, the largest ten companies in the Jordanian capital market constitute more than 60 percent of the capitalization of the whole market. In other words, Arab stock markets seem to be concentrated in terms of the market value of their listed companies.

Table 1
Size of Arab Stock Markets

Market	No. of Listed Companies		Capitalization (\$m.)	
	2003	2004	2003	2004
Abu Dhabi Securities Market	30	35	30,362.51	55,490.40
Amman Stock Exchange	161	192	10,962.98	18,383.40
Bahrain Stock Exchange	44	45	9,701.77	13,513.18
Saudi Stock Market	70	73	157,306.40	306,255.70
Kuwait Stock Exchange	108	125	59,528.01	73,580.54
Casablanca Stock Exchange	52	53	13,050.18	25,174.92
Algeria Stock Exchange	3	3	143.64	140.27
Tunis Stock Exchange	45	44	2,439.55	2,574.48
Dubai Financial Market	13	18	14,284.23	35,090.90
Khartoum Stock Exchange	47	48	746.56	2,058.42
Muscat Securities Market	141	123	7,246.23	9,317.66
Doha Securities Market	28	30	26,702.11	40,434.79
Beirut Stock Exchange	14	16	1,503.00	2,330.74
Cairo & Alexandria Markets	967	792	27,847.48	38,076.84

If the Amman Stock Exchange is the largest when proportioned to GDP, how does this market compare with the size of financial intermediaries that exist in Jordan? Based on the Central Bank of Jordan published data, we can state that total bank credit as a proportion of GDP increased from 67 percent (1990) to more than 74 percent (2003). Similarly, total banking assets as a proportion of GDP increased from 148 percent (1990) to 222 percent (2003). Similarly, total banking assets as a proportion of GDP in Kuwait, Saudi Arabia, Oman were equal to 151 percent, 68 percent and 54 percent respectively. In actual fact, the size of the banking sector in Jordan (222 percent of GDP) is even higher than Israeli counterpart (166 percent).

As far as the primary market (new issues) is concerned, based on the available evidence (Table 2), we can state that with the exception of the Egyptian and Jordanian stock markets, the new issuing activities of all Arab markets was non-existent during the last few years. Indeed, the relative standing of the Egyptian and Jordanian markets is due to more active privatization programs in these countries.

Table 2
Size of Primary Market: New Issues

Market	Number of Stock Issues		Value of Issues (\$m.)	
	2003	2004	2003	2004
Abu Dhabi Securities Market	-	-	-	-
Amman stock Exchange	17	38	87.81	219.15
Bahrain Stock Exchange	-	-	-	-
Saudi Stock Market	-	-	-	-
Kuwait Stock Exchange	-	-	-	-
Casablanca Stock Exchange	-	-	-	-
Algeria Stock Exchange	-	-	-	-
Tunis Stock Exchange	1	-	4.14	-
Dubai Financial Market	-	-	-	-
Khartoum Stock Exchange	16	6	58.86	75.38
Muscat Securities Market	-	-	-	-
Doha Securities Market	-	-	-	-
Beirut Stock Exchange	-	-	-	-
Cairo & Alexandria Markets	1,284	1818	3,057.06	3,395.48

If we consider the trading activity on the secondary market, similar observations emerge (Table 3). For example, the Saudi Stock Market emerges as the market with the highest trading volume and turnover ratio. However, while most markets have extremely low levels of trading volume and turnover ratios, some markets like the Kuwait Stock Exchange, Dubai Financial Market and the Amman Stock Exchange reflect some intermediate levels. Having said that, it must be pointed out that in almost all the MENA markets, a limited number of companies account for a high proportion of the total trading volume in terms of number of contracts or in terms of trading volume. For example, in the Jordanian market, only 10 listed companies (out of a total of 192 companies) account for about 60 percent of the total market's trading activity. Similarly, the top ten shares in the Casablanca Stock Exchange and Bahrain Stock Exchange account for more than 70 percent and 80 percent of the markets' trading volumes respectively. These observations are indeed expected given the fact, as mentioned above, that all MENA stock markets do not have market-making in their trading mechanism. In other words, all Arab stock markets are concentrated markets in terms of trading volume as well.

Table 3
Trading Activity on the Secondary Market

Market	Annual Turnover Ratio		Trading Volume (\$m.)	
	2003	2004	2003	2004
Abu Dhabi Securities Market	3.31	8.02	1,003.87	4,449.14
Amman Stock Exchange	23.78	28.98	2,607.14	5,327.17
Bahrain Stock Exchange	2.69	3.43	261.14	463.05
Saudi Stock Market	101.11	154.44	159,055.60	472,990.80
Kuwait Stock Exchange	91.94	70.42	54,728.88	51,817.80
Casablanca Stock Exchange	18.72	14.92	2,443.46	3,757.02
Algeria Stock Exchange	0.158	0.086	0.23	0.12
Tunis Stock Exchange	7.73	9.97	188.52	256.65
Dubai Financial Market	7.19	39.14	1,026.81	13,735.05
Khartoum Stock Exchange	9.00	6.33	67.20	130.25
Muscat Securities Market	18.41	21.31	1,334.30	1,985.19
Doha Securities Market	12.06	15.69	3,220.16	6,343.59
Beirut Stock Exchange	8.71	8.48	130.99	197.67
Cairo & Alexandria Markets	15.62	17.95	4,349.12	6,835.04

III. On the Ownership Structure of Firms Listed on Some MENA Stock Markets

It is common knowledge that the behavior of corporations in the generation and allocation of scarce resources is of vital importance. This is why the issue of corporate governance has attracted a lot of research interest. Indeed this literature examined many issues including the relationship between equity returns and some measures of corporate governance, corporate governance and firm value, and the impact of corporate governance on firm performance. In addition, a number of additional papers examined the relationship between ownership structure and a number of financial decisions including capital structure, corporate performance, equity returns and dividend policy.

The primary objective of this section is to report the ownership structure of companies listed on some of the MENA stock exchanges. In more specific terms, the objectives are two-fold. First, to report the mean proportion of shares owned by large shareholders (those who own at least 5 percent of the shares). Second, to report on the existence (if any) of pyramidal ownership.

Due to the availability of more detailed data, we first report the ownership structure of the largest 16 companies listed on the Jordanian stock exchange. If we examine Table 4, several observations emerge. First, all of the reported companies have at least one large shareholder. Second, the mean proportion of the shares held by blockholders is equal to 58 percent. This ratio is almost equal to the mean value of the countries whose legal origin is French (54 percent¹²). Third, the mean proportion of the shares owned by the government (as blockholders) is equal to 24 percent. Fourth, it seems that when the listed companies have the government as a major shareholder, individual blockholders are either non-existent or hold a low proportion of the shares. In other words, whenever the government holds a significant proportion of the shares, other shareholders tend to be institutional in character. Indeed this observation is not surprising given the fact that these companies are “strategic” and large and include Jordan Telecom, Jordan Phosphate Mines, Jordan Petroleum Refinery, Arab Potash, Jordan Phosphate Mines, and Jordan Cement Company. Finally, based on the available data, we can safely state the individuals or families do not control a multitude of companies. In other words, there is no evidence that pyramidal structures exist in the Jordanian capital market. On the contrary, it is the government that controls a large number of listed companies and these companies happen to be the largest in the market.

¹² See La Porta et al. (1998).

Table 4
The Ownership Structure of Listed Jordanian Companies

Company Code	Proportion of Shares Held by Large Shareholders	Proportion of Shares Held by Large Private Shareholders	Proportion of Shares Held by Government
1	31.63	12.30	10.46
2	65.33	0.00	21.24
3	61.33	32.98	0.00
4	79.00	11.10	15.20
5	50.26	36.61	13.65
6	14.86	0.00	8.26
7	63.86	0.00	55.33
8	45.82	45.82	0.00
9	94.53	0.00	55.02
10	24.25	0.00	21.75
11	91.28	0.00	81.95
12	78.75	0.00	52.88
13	80.06	0.00	23.38
14	60.47	24.64	10.22
15	59.64	36.93	0.00
16	28.54	0.00	20.56
Mean	58.10	12.52	24.37

The experience of listed Kuwaiti and Omani companies provide us with some contrasting results. If we look at Table 5 we can see that the while the mean proportion of the shares held by large shareholders in Kuwait is equal to 56 percent, the mean proportion for the Omani companies are much lower than that found in the Jordanian capital market. In addition, it seems that the Omani government is not really an active investor in the Muscat Securities Market. This is in sharp contrast to the Kuwaiti and Jordanian governments. Finally, as far as the Kuwaiti companies are concerned, the available figures do not indicate the presence of family dominated firms. What is evident is the government controlling a number of companies. Again, this result is similar to the Jordanian experience.

Table 5
The Ownership Structure of Listed Kuwaiti and Omani Companies

Company Code	Proportion of Shares Held by Large Shareholders	Proportion of Shares Held by Government	Proportion of Shares Held by Large Shareholders	Proportion of Shares Held by Government
1	43.90	0.00	30.90	10.30
2	45.47	0.00	10.10	0.00
3	39.50	0.00	33.80	0.00
4	87.68	87.68	27.20	0.00
5	33.40	9.88	57.60	0.00
6	47.69	21.85	68.10	0.00
7	6.68	6.68	35.20	0.00
8	64.20	34.36	36.80	0.00
9	64.64	58.73	39.60	0.00
10	71.55	25.35	60.50	0.00
11	51.50	0.00	83.00	0.00
12	32.86	0.00	58.80	0.00
13	73.33	68.13	33.80	33.80
14	26.74	13.16	52.40	0.00
15	32.72	18.52	46.50	0.00
Mean	55.97	22.95	44.95	2.94

As far as other Arab stock markets are concerned, it proved difficult to get the relevant data. However, based on the calculations by Omran et al. (2004), the mean proportion of the shares held by blockholders in Egypt and Tunis are equal to 58 percent and 52 percent respectively. In addition, the provided discussion indicates that the Egyptian and Tunisian governments are active in their respective markets. In other words, we can safely state that the ownership structure of the Egyptian and Tunisian capital markets are similar to those that exist in both the Jordanian and Kuwaiti capital markets. Finally, the ownership structure of Lebanese companies proved to be interesting. Indeed it must be noted more than half of the listed companies have a limited proportion of their shares freely floated on the market. For example, only 28.80 percent of the total capital of Bank Audi is listed and available to the general public. Similarly, Byblos Bank and Blom Bank have 33.34 percent and 22.80 percent of their shares available to investors respectively. In other words, there is some evidence that listed Lebanese companies are dominated by families and this observation is probably unique amongst Arab stock markets.

IV. Listed Companies, State-Owned Companies and Family Businesses in Some MENA Countries

Relative to the previous two sections, it is useful at this stage, to report on the largest companies in each country in terms of their ownership according to their type (state-owned and private) and regardless of their status (listed or not). Following some examination of the available information, we can make the following observations.

First, with the exception of Jordan, the other countries' (Bahrain, Lebanon, Egypt, Kuwait, Morocco, Oman, Saudi Arabia and the United Arab Emirates) largest 20 or so companies (in each country) are not listed on the stock exchange. Indeed, the Jordanian case is unique in that the Jordanian capital market has 17 listed companies which are amongst the largest 20 in the country. The remaining companies are held in the hands of private individual (families) or state-owned enterprises like the Royal Jordanian whose board of directors are appointed by the government. However, it must be pointed out here that the government owns about 24 percent of the shares of the "large" listed companies.

Second, Saudi Arabia, Kuwait and Oman provide us with a different case. Amongst the largest companies in the country, only 2 companies are listed on the Saudi market, only 3 are listed on the Kuwaiti market and only 1 listed on the Omani market. In other words, the total number of "large" and listed companies is very small. The largest companies in these countries are state-owned and include Arabian oil Co. (Aramco), Saudi basic Industries (Sabic), Kuwait petroleum Corporation (KPC) and Oman Oil Company. In these countries, most of the remaining large companies are privately owned (family businesses) and these include Abdul Aziz Al Barahim, Abdullah Taha Bakhsh, Al Amoudi (family), Al Ghurair, Al-Waleed (Prince), Amir Sager Sultan Al Sudairy, and Al Kharafi and family. In other words, the Saudi, Kuwaiti and Omani corporate sectors are dominated by few state-owned enterprises and family-held private businesses. Indeed, the net worth of some of the privately held (family) businesses is relatively large. For example, the net worth of Al Kharafi and Family is \$5.1 billion

Third, a very limited number (2) of companies are large and listed on the Lebanese capital market (Banque Audi and Bank of Beirut). The remaining large companies in the country are mostly banks (i.e. Allied Business Bank, Bank Al-Madina, Bank of Beirut and Arab Countries) and privately owned. Indeed, following an examination of the names of the board of directors, one can realize that in many cases, two or more individuals who belong to the same family sit on the same board. Moreover, and for illustrative purposes, the Bank of Beirut and Arab Countries is owned by the Assaf family (52.71%), the Sheiklard family (37.05%) and other shareholders (10.24%). Similarly, Bank Al-Madina is owned by Adnan Abu-Ayyash (58.9%), Sheikh Ibrahim Abu-Ayyash (41%) and others.

Fourth, in the United Arab Emirates, most of the largest corporations are state-owned (not listed) and include Abu Dhabi Fund for Arab economic Development, Abu Dhabi Investment Authority, Dubai Holding. Some of the large corporations are also owned by private individuals such as Al Fardan Exchange and Finance Co. and Al-Taweelah.

Fifth, most of the large companies in Bahrain are listed companies. These include the National Bank of Bahrain, Al-Ahli Bank, Taib Bank, and Investcorp S. A. In other words, the government's involvement in terms of enterprise ownership is relatively limited.

Sixth, only two of the largest companies are listed on the Casablanca stock exchange (Maroc Telecom and Centrale Laitiere). The remaining corporations are either state-owned or privately-owned.

Seventh, as far as the board of directors of some of the largest companies in the MENA region are concerned, they are mostly government officials and or Royal Family members. For example, the Oman Oil Company has government officials only on its board of directors. Similarly, the Kuwait Petroleum Corporation has at least two Royal Family members sitting on its board of directors. The Saudi company (SABIC) has a Royal family member as Chairman of the board, two private sector representatives, and the rest are government officials. Finally, Saudi Aramco reports to its owner, the Saudi Arabian Government, through the Supreme Council for Petroleum and Minerals Affairs, chaired by the Custodian of the Two Holy Mosques. The Supreme Council for Petroleum and Minerals Affairs sets the company's policy and objectives and its members are drawn from the government and private sector.

Based on the above presentation, we can safely state that while some economies are dominated by state-owned enterprises and others dominated by family-owned enterprises, our sample of companies does highlight the importance of corporate governance in terms of its private and public themes. Indeed, if the economic performance of these countries were to improve, the issue of corporate governance in its widest sense must be seriously adopted. Moreover, it is recommended that a detailed examination of the performance of these companies must be carried out. In other words, what if listed companies' performance is superior? Are there obstacles that do not encourage the listing of family businesses? Similarly, which state-owned enterprises must be privatized?

V. The Privatization Experience in Some MENA Countries

Given the economic circumstances of Egypt, Jordan and Morocco, it can be stated that the challenge is to succeed in creating dynamic economies which are able to compete regionally and internationally, increase real GDP growth by more than the increase in population, reduce dependence on external transfers, reduce poverty and unemployment and finally, to reduce the external debt overhang. This is why the privatization programs in these countries have been more keenly followed than in the rest of the MENA countries.

It is common knowledge that the primary objectives of any privatization program are to generate higher productivity, faster and sustainable growth and as a consequence increase returns on assets and equity, while at the same time raise internal efficiency and improve capital structure. Indeed these have been the objectives of the privatization programs in Egypt, Jordan, Morocco and other Arab states.

In 1990, the portfolio of state-owned enterprises in Egypt consisted of a mix of 260 profit and 54 loss making enterprises. As one aspect of its liberalization schemes, in 1991 the Egyptian government embarked on an Economic Reform and Structural Adjustment Program and in June 1991 the privatization program started with the passage of Law No. 203. In 1994, the government started its privatization by selling its two well-known beverage companies (Pepsi-Cola and Coca-Cola). This step was followed by an impressive number of privatized companies. If we look at Table 6 we can see that the privatization program in Egypt followed some consistent pattern. Indeed the reported figures indicate a consistent increase in the number of privatized companies during the period 1994-2000. Since then, the process has slowed down. Naturally, this slow down is due to the restructuring of poorly performing companies before privatization. In addition, this Table shows that the sale or lease of factories and production units generated the largest number of privatized companies. To shed more light on these privatized companies, Table 7 reports the market value of the privatized companies according to each method. Unlike previously, the favored methods in terms of the value of privatized companies are the Initial Public Offerings (IPOs) and the sale to a majority (strategic) investor.

Table 6
Privatization Experience in Egypt: Number of Privatized Companies

Privatization Technique	1994-2000	2001	2002	2003	2004	Total
Stock Offering	37	1	0	0	0	38
Major Investor	27	2	0	0	5	34
Employees	30	0	1	0	0	31
40% Stock Offering	10	0	0	0	0	10
50% Stock Offering	6	0	0	0	0	6
Liquidation	30	2	0	1	0	33
Sale / Lease	32	4	3	7	12	58
Total	172	9	4	8	17	210

Source: Ministry of Investment

Table 7
Privatization Experience in Egypt: Market Value of Privatized Companies
(Billion Egyptian Lira)

Privatization Technique	1994-2000	2001	2002	2003	2004	Total
Stock Offering	5.647	0.041	0.663	0	0	6.351
Major Investor	6.485	0.178	0.058	0	0.544	7.265
Employees	0.934	0	0.061	0	0	0.995
40% Stock Offering	0.719	0	0	0	0	0.719
50% Stock Offering	1.069	0	0	0	0	1.069
Sale / Lease	0.587	0.126	0.109	0.035	0.148	1.005
Total	15.441	0.345	0.891	0.035	0.692	17.404

Source: Ministry of Investment

As a result of the structural adjustment program developed in cooperation with the World Bank and the International Monetary Fund since 1989, Jordan's privatisation process was launched in 1997 as part of the Economic Reform Program. To institutionalise the privatisation process, an organizational structure was established to set policies, provide oversight and implement the program. This structure includes the Higher Committee for the Privatisation (HCP), the Executive Privatisation Commission (EPC), and the Privatisation Steering Committees (PSC). In addition, the Privatisation Law No. (25) was issued in 2000 to lay down the procedural, institutional and legislative basis of the privatisation process. However, unlike the Egyptian case, the number of privatised companies is much smaller. During the period 1997-2004, the total number of privatised companies was equal to five and these raised a total of \$995.2m. Having said that, it must be pointed out that one privatised company only (Jordan Telecommunications) contributed about 62 percent of the total privatisation program. In privatising its enterprises, the government adopted a multi-track approach. For example, while one company was leased, others were partly (49 percent of the shares) sold to a strategic partner through an IPO.

Morocco launched her privatisation program in 1992 and since then has sold more than 70 enterprises raising about 7.5 billion euros. Like the Jordanian case, the sale of large industrial firms or financial firms often combine different privatisation methods. In other words, the most favoured method in Morocco was the sale in tranches designed to link a strategic investor with a broader shareholding public through a listing on the Casablanca Stock exchange and shares reserved for workers. For example, the SAMIR oil refinery was sold in three tranches: 30 percent in an IPO, 30-50 percent through tender to a strategic investor, 1.7 percent to workers.

Following the 1999 and 2000 re-energized privatization programs in Morocco, Egypt and Jordan, countries such as Lebanon joined the ranks of declared privatizers. However, there has very little progress to show for. Similarly, the GCC countries have only recently started their privatization programs. For example the Salalah Port Services (50 percent), Oman Telecommunications Co. (20 percent to local investors), and airport services have been privatized. Moreover, the government of Oman envisages that by

the end of 2006 privatization proceed will exceed \$11.4 billion versus the \$4.9 billion raised during the period 1996-2000. Similarly, the Saudi Electricity Company, Saudi Telecom Co. and the National Company for Cooperative Insurance have been partially privatized. Finally, as far as privatization in Bahrain, Kuwait, and the United Arab Emirates there has not been much privatization activities. However, in July 2004, a General Holding Company was established in the United Arab Emirates to privatize government holding in industrial projects. Having said that, if the privatization plans that exist in the GCC countries materialize, it is expected that their respective private sectors will reflect some healthy growth rates.

Recent accounting scandals at some prominent companies such as Enron, HealthSouth, Worldcom and others had definitely shaken the confidence of investors for sometime. Relative to these scandals and following some thorough examination of the regional press, we cannot really refer to any major scandals at listed companies in the MENA region. However, the worldwide scandals have been taken into consideration by many Arab stock exchanges. The adoption of many corporate governance rules is an example. In addition, while the role of directors in companies is defined in all relevant country laws (commercial law) and these laws specify the requirements for a board of directors, its responsibilities, the composition of the board of directors and voting rights, little is known about occurs in reality.

VI. A Summary and Recommendations

For centuries, economists have tried to understand why some countries reflect strong economic growth, while others stagnate at extremely low levels of output. This effort led to many research papers that examine the possible determinants of economic growth and these include democracy, education, openness to trade, government expenditures and debt, labor and product market regulation, corruption, political stability, cultural values and financial development.

It is common knowledge that financial markets and financial intermediaries are supposed to improve information and transaction costs and thereby foster a more efficient allocation of scarce economic resources. Based on this argument, one should not be surprised from the numerous papers that examine the relationship between financial development and economic growth.

The weak and disappointing growth performance in the Middle East and North Africa (MENA) region has resulted in numerous reforms and the establishment of new economic institutions. The fact that almost all Arab countries have established stock markets, one should not underestimate their economic importance. However, to really realize the benefits of this institution, the MENA countries should examine the performance of their markets in terms of many principles one of which is corporate governance. Indeed this principle involves a number of issues including the promotion of transparent and efficient markets, protection and facilitation of the exercise of shareholders' rights, equitable treatment of all shareholders, recognition of the rights of

stakeholders established by law or through mutual agreements, assurance that timely and accurate information regarding the corporation (financial position, performance, ownership and governance) is published and the assurance that management is effectively monitored by the board and the latter's accountability to the company and shareholders.

Against this background, the primary objectives of this effort are to provide basic information about stock markets that exist in some of the MENA countries (market-making system, size of primary and secondary markets), ownership structure, privatization experience and to recommend some policy oriented recommendations. The main findings and conclusions include the followings.

First, all MENA stock markets suffer from immediacy. In other words, investors cannot be assured from getting their orders transacted immediately and at the right prices. In other words, changing the market-making mechanism must be examined.

Second, a limited number of listed companies account for a disproportionately high proportion of the total trading volume in the secondary market. This fact (illiquid securities) might have some serious repercussions on the behavior of stock prices (pricing efficiency).

Third, with the exception of Egypt, the number of listed companies is not large enough given the fact that the total number of private sector companies must be relatively extremely high. In other words, it is worth investigating the issue of what makes companies apply for listing.

Fourth, there is not much difference in the ownership structure of listed companies. However, in some countries, the government's holdings of shares are relatively high. This variation in the ownership structure has a number of research implications. What is the relationship (if any) between ownership structure and corporate performance? What is the impact of the ownership structure on stock liquidity? If these relationships exist, some remedial suggestions can be made.

Fifth, with the exception of the Egyptian economy, the experience of privatization has not been encouraging. In other words, what are the real reasons behind the slow progress that characterized much of the privatization efforts? In addition, what is the impact of privatization on the development of the capital market?

Sixth, while corporate scandals could not be reported, some serious work on the structure, responsibilities and operation of corporate boards must be carried out.

Seventh, in Bahrain, Lebanon, Egypt, Kuwait, Morocco, Oman, Saudi Arabia and the United Arab Emirates, the largest 20 or so companies (in each country) are not listed on the stock exchange. The Jordanian case is unique in that the Jordanian capital market has 17 listed companies which are amongst the largest 20 in the country. The remaining companies are held in the hands of private individual (families) or state-owned enterprises like the Royal Jordanian whose board of directors are appointed by the government. However, it must be pointed out here that the government owns about 24 percent of the shares of the “large” listed companies.

Eighth, in Saudi Arabia, Kuwait and Oman only 2 companies, 3 companies and 1 company are listed respectively. In other words, the total number of “large” and listed companies is very small. The largest companies in these countries are state-owned and include Arabian oil Co. (Aramco), Saudi basic Industries (Sabic), Kuwait petroleum Corporation (KPC) and Oman Oil Company. The Saudi, Kuwaiti and Omani corporate sectors are dominated by few state-owned enterprises and family-held private businesses.

Ninth, a very limited number (2) of companies are large and listed on the Lebanese capital market (Banque Audi and Bank of Beirut). The remaining large companies in the country are mostly banks and privately owned.

Tenth, in the United Arab Emirates, most of the largest corporations are state-owned (not listed) and include Abu Dhabi Fund for Arab economic Development, Abu Dhabi Investment Authority, Dubai Holding.

Eleventh, most of the large companies in Bahrain are listed companies. In other words, the government’s involvement in terms of enterprise ownership is relatively limited.

Twelfth, only two of the largest companies are listed on the Casablanca stock exchange (Maroc Telecom and Centrale Laitiere). The remaining corporations are either state-owned or privately-owned.

Thirteenth, as far as the board of directors of some of the largest companies in the MENA region is concerned, they are mostly government officials and or Royal Family members. For example, the Oman Oil Company has government officials only on its board of directors. Similarly, the Kuwait Petroleum Corporation has at least two Royal Family members sitting on its board of directors. The Saudi company (SABIC) has a Royal family member as Chairman of the board, two private sector representatives, and the rest are government officials. Finally, Saudi Aramco reports to its owner, the Saudi Arabian Government, through the Supreme Council for Petroleum and Minerals Affairs, chaired by the Custodian of the Two Holy Mosques.

The Supreme Council for Petroleum and Minerals Affairs sets the company's policy and objectives and its members are drawn from the government and private sector.

Finally, the fact that in Bahrain, Lebanon, Egypt, Kuwait, Morocco, Oman, Saudi Arabia and the United Arab Emirates, the largest 20 or so companies (in each country) are not listed on the stock exchange, it is imperative to examine the relevance of the OECD Principles of Corporate Governance to these companies. This examination must include the legal environment, dispute resolution mechanism, and exit procedures. Similarly, internal mechanisms, whose objective is to improve corporate governance in non-listed companies, should address the improving of transparency in the decision-making processes as well as the education and training of managers and shareholders. In addition, given the pivotal economic role of non-listed and often family/founder-owned companies in some of the MENA countries, it is critical to examine these companies' specific governance problems and the impact of any recommended solutions on their performance. Finally, the International Finance Corporation's corporate governance methodology for family-owned or founder-owned non-listed companies should be discussed because it does provide a useful tool.

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