2019 Meeting of the MENA-OECD Working Group on Corporate Governance

17-18 April 2019

Paris, France

Introduction

The MENA-OECD Working Group on Corporate Governance supports decision-makers in their efforts to design policy reforms and improve corporate governance, using as a reference the G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises. This contributes to the development of inclusive, sustainable and competitive economies across the MENA region, which is the overall objective of MENA-OECD Competitiveness Programme. The Working Group launched a three-year work programme at its meeting in Rabat, Morocco in 2017.

The aim of the 2019 meeting was to summarize the main conclusions of the work so far and to identify strategies to implement reforms in the four key policy areas the Working Group has been focussing on, namely: access to capital; transparency and disclosure; gender balance in corporate leadership; and governance of state-owned enterprises (SOEs) in MENA economies.

The meeting attracted over 90 participants from 20 jurisdictions as well as regional organisations such as Hawkamah – The Institute for Corporate Governance, the Arab Federation of Stock Exchanges, and the Union of Arab Securities Authorities. Representatives of securities, bank and insurance regulators; stock exchanges; companies; institutes and associations; academia and other private sector experts were also active in the discussion.

The MENA-OECD Working Group on Corporate Governance is Co-Chaired by the Government of the United Arab Emirates, represented in the meeting by H.E. Obaid Al Zaabi, CEO of the Securities and Commodities Authority (SCA), and by Portugal, represented by Ms. Gabriela Figueiredo Dias, Chair of the Portuguese Securities Commission and Vice-Chair of the OECD Corporate Governance Committee.

A reception on 16 April 2019 included a speech from Ambassador Anna Brandt, Permanent Representative of Sweden to the OECD, who reflected on the progress made throughout the 2017-2019 work programme and highlighted the importance of continuing these efforts to leverage progress achieved. The gathering was also addressed by Mr. Rolf Skog from the Swedish Ministry of Justice and Bureau member of the OECD Corporate Governance Committee who expressed their commitment to the MENA programme.

The Working Group's meeting was opened by Mr. Masamichi Kono, Deputy Secretary-General at the OECD, who highlighted the importance of the OECD's co-operation with the MENA region. Opening remarks were also given by Ms. Gabriela Figueiredo Dias and H.E. Obaid Al Zaabi who stressed the shared opportunities for improving corporate governance, and highlighted the findings of the Working Group's new report 'Corporate Governance in MENA: Building a Framework for Competitiveness and Growth'.

Key messages

Session 1: Implementing sound corporate governance in MENA: A driver for investment and growth

The opening session gave an overview of recent corporate governance developments in MENA economies, such as progress in strengthening the policy framework and challenges in implementation requiring a change in culture, which set the scene for the meeting and provided the context for discussing future actions to improve corporate governance.

Building on progress since 2017, participants agreed that MENA economics now need to strengthen corporate governance frameworks by encouraging an environment of trust, transparency and accountability. Speakers identified that the best way to do this is to create a strong dialogue between corporates, SOEs and regulators. Attention was also drawn to the corporate governance practices of SOEs and sovereign funds, which will play an important role in future corporate governance and capital market development in the MENA region. Improving diversity of directors with regard to background and gender will also help to achieve this.

Going forward, speakers emphasised the need to develop a dynamic culture at the corporate level in order to galvanise reform across the whole ecosystem of corporate governance. This includes knowledge sharing as well as education of all players in the corporate governance ecosystem.

Session 2: Driving the implementation of policies to improve access to capital

Capital markets worldwide are undergoing profound changes, with various forms of institutional ownership growing, new investment strategies and investment vehicles, as well as the transformation of stock exchange business models, which are expected to play an increasingly important role in providing companies with access to long-term capital.

Mr. Jalil Tarif, Secretary General, Union of Arab Securities Authorities gave a presentation outlining opportunities to further improve access to capital and capital market development in the MENA region. Road maps and strategies for implementation with a centralised authority was highlighted as good practice, with the Saudi Vision 2030 and Jordan Capital Market Develop Road Map being noted as examples. Speakers also highlighted the benefits of creating market segments for growth companies such as those in Egypt, UAE and Saudi Arabia. These markets have seen results in bringing growth companies to the capital market and improving corporate governance standards of non-listed companies.

Going forward, speakers highlighted the need to enhance the investor base in the MENA region by improving investor protection and financial reporting to build trust and encourage investment from institutional investors. Managing related party transactions in a more transparent manner was also cited as a way to increase the investor base.

Session 3: Taking action for greater transparency and disclosure

Transparency and disclosure in listed companies is a key component of the policy framework needed to promote private sector development in the MENA region.

Mr. Mohamed Farid Saleh, Chairman of the Egypt Stock Exchange, gave a presentation outlining strategies that will help to close remaining gaps in terms of transparency and disclosure in the MENA region. Egypt uses unified disclosure forms to enhance disclosure quality and reduce the asymmetry of information, with distinct responsibilities for both investors and companies. Mandatory corporate governance reports also include Environmental, Social, Governance (ESG) policies and a range of non-financial disclosure requirements.

Speakers discussed the importance of clear reporting requirements and highlighted how disclosure increases when online disclosure systems were offered.

Going forward, speakers noted that workshops for the investor relation officers within listed companies could help to further improve uptake of transparency and disclosure policies in MENA juristictions.

Session 4: Making it happen: Gender balance in corporate leadership

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.

Ms. Iman Al-Damen, Director at Jordan Commercial Bank, gave a presentation outlining MENA initiatives to increase gender balance in corporate leadership. Findings suggest that quotas and targets are only effective when there is also a conducive corporate environment and transparency in the nomination process, including creating a pool of female talent. Speakers asserted that coalitions and associations have been effective in supporting qualified women to reach senior management and board level positions. Gender auditing and initiatives to celebrate good practices have also been effective in bringing about change in MENA economies.

Going forward, speakers called on all MENA jurisdictions to work together to share practical tools and targeted policy advice to advance gender balance in corporate leadership. Participants also encouraged men to take ownership of reforms and lead in awareness raising campaigns.

Session 5: Implementing change to boost the corporate governance of State Owned Enterprises

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 session featured an exchange of national experiences on SOE reform from Tunisia, Egypt and France, with broader geographical perspectives shared by a representative of the Africa Peer Review Mechanism. Speakers discussed some of the major institutional and corporate governance vulnerabilities that lead to MENA SOEs' frequent underperformance. These included unclear or conflicting objectives, high "social" expectations placed on SOEs (for example related to local employment) and very limited transparency, leading to an accountability vacuum. The presence of overlapping legislation, together with excessive state controls and/or political interference in corporate decision-making, were also emphasised as major challenges hindering SOEs' performance.

Going forward, speakers shared their views on how to make SOE reforms most effective, notably emphasising the importance of (1) holding ample consultations with stakeholders, including ministries, corporate officers and other employees, Parliament and the media; (2) ensuring the right sequencing of reforms, with general agreement that implementing reforms in SOEs that are already relatively well-performing can be a good start; and (3) executing reforms at the level of the entire public administration and not just within individual ministries.

During the open discussion, participants noted the fact that in many SOEs, there is simply no rationale for continued state ownership, making corporate governance reforms less of a priority than privatisation. SOE board ineffectiveness was also stressed as a major corporate governance vulnerability, which is often exacerbated when civil servants hold board positions on an excessive number of SOEs. Strengthening board professionalism and independence was highlighted as a key priority for improving SOEs' performance in the region.

Session 6: Debate - Implementing the Principles: Regulation versus corporate culture

The G20/OECD Principles of Corporate Governance state that board members should act in the best interest of the company and its shareholders. They also say that boards are expected to take due regard of, and deal fairly with, stakeholder interests including those of employees, creditors, customers, suppliers and other stakeholders. In this regard, the debate explored the role of regulation versus corporate culture as a force for the implementation of the G20/OECD Principles of Corporate Governance in MENA.

Dr. Ashraf Gamal El Din, CEO of Hawkamah highlighted that corporate scandals are continuing to occur and therefore compliance is no longer the board of directors' sole function. Given the growing complexity of issues under the responsibility of the board, Dr. Gamel El Din noted the importance of board composition and skills in managing these. In conclusion, he noted that "governance is not compliance, it is about people and culture".

On the other hand, Mr. Mike Lubrano, Managing Director at Cartica Management, highlighted that "when we can see easy regulatory fixes in the corporate governance culture; we need to make them". It is the responsibility of policymakers to create a framework that will empower companies to change the culture.

Participants concluded that there is enough scope for both approaches, and finding a balance is integral to attracting companies and investors to equity markets as well as bolstering the overall functioning of capital markets.

Concluding remarks and next steps

Concluding remarks were given by Ms. Fianna Jurdant (OECD), and the Working Group's co-chairs, Ms. Gabriela Figueiredo Dias, and H.E. Obaid Al Zaabi. All highlighted the value added of the meeting and proposed a number of specific areas for future work.

Participants discussed options for future co-operation between the OECD and MENA economies. In-depth country reviews and case studies in the area of governance of SOEs and mechanisms to combat Related Party Transactions (RPTs) were highlighted and received interest from participants. Topics such as technology for supervision and board diversity were also identified as areas of common interest.

The meeting clearly confirmed that the MENA-OECD Working Group provides a unique platform for senior decision-makers to advance corporate governance policies and boost competitiveness in the MENA region. As with the other work streams in the MENA-OECD Competitiveness Programme, the Working Group will continue to facilitate the exchange of experiences based on evidence and analysis in line with international standards. It provides an important opportunity for countries to work together, share good practices and to take concrete action.

Contacts:

Fianna JURDANT
Manager, MENA-OECD Working Group on Corporate Governance, Corporate Affairs Division
OECD Directorate for Financial and Enterprise Affairs
fianna.jurdant@oecd.org

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