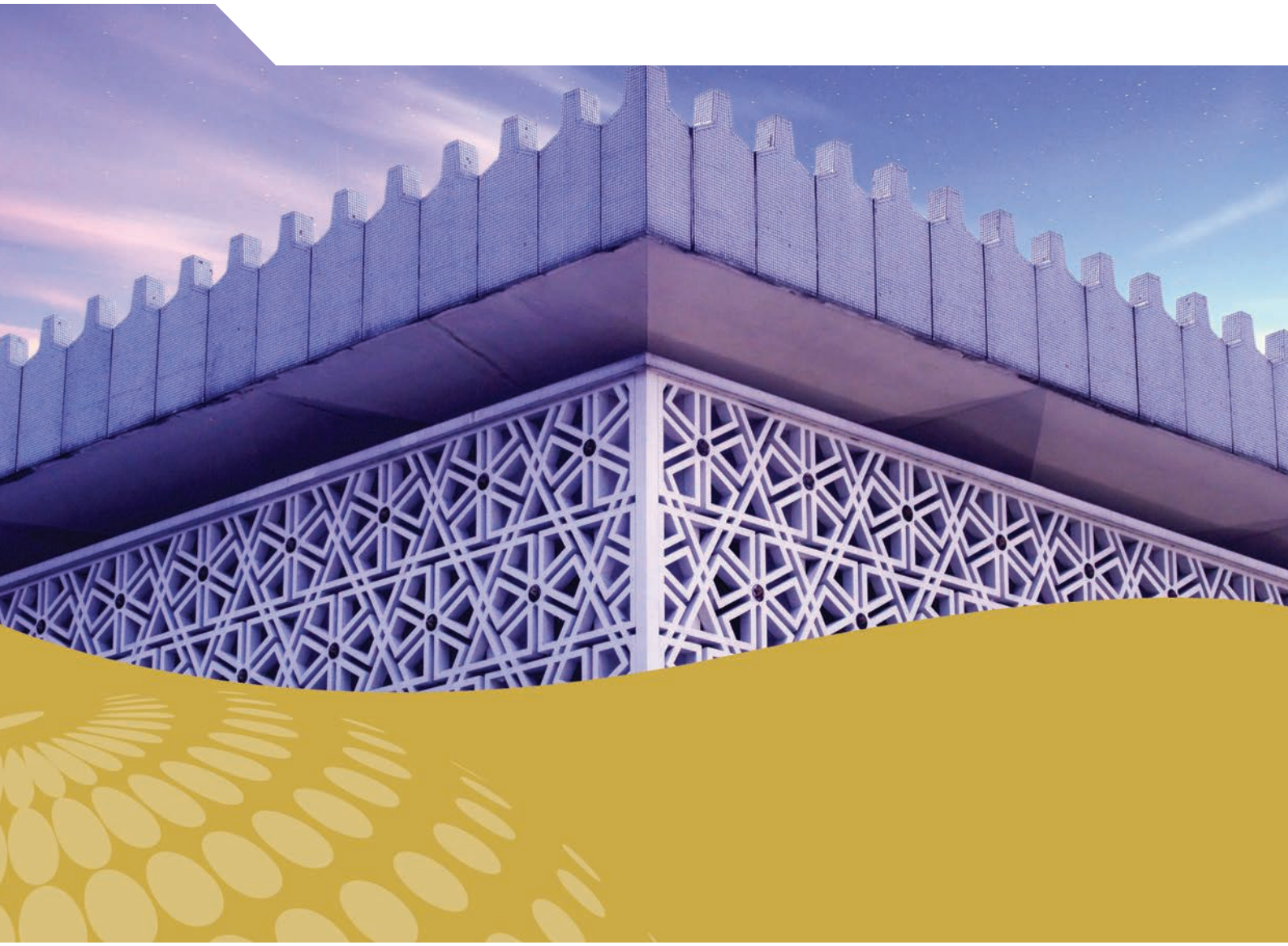
Corporate Governance

Corporate Governance in MENA

BUILDING A FRAMEWORK FOR COMPETITIVENESS AND GROWTH



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BUILDING A FRAMEWORK FOR COMPETITIVENESS AND GROWTH

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Preface

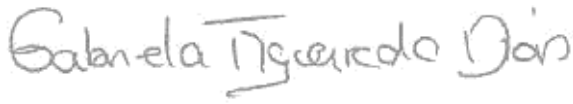
Sound corporate governance is a means of supporting the drivers of economic growth: efficient capital markets, quality investment and a favourable business climate. Achieving the economic ambitions of Middle East-North Africa (MENA) economies can be supported by ongoing improvements in corporate governance policies and practices and an alignment with international standards.

Ensuring a sound corporate governance framework goes beyond enhancing company performance and access to capital. Fostering an environment of trust, transparency and accountability is integral to boosting capital market development and competitiveness. In the context of increasingly integrated global capital markets, where institutional investors are more present,, it is essential to improve overall governance, transparency and disclosure, to facilitate access to capital and to increase gender balance on boards.

MENA economies have undertaken reforms to encourage sound corporate governance practices. However, progress takes time. The number of women on corporate boards remains low. Other challenges include the reporting and disclosure of board information (remuneration, qualifications, etc.); the protection of minority investors; related party transactions; and beneficial ownership structures. Access to corporate finance also remains limited in some economies, and improvements in the governance of state-owned enterprises (SOEs) are needed. Targeted reforms in these areas will contribute both to enhancing company performance and to boosting the region's potential for inclusive growth and competitiveness.

This publication presents the recent evolution of MENA corporate governance frameworks and practices in four thematic areas: access to capital; transparency and disclosure; gender balance in corporate leadership; and governance of SOEs. These topics are addressed in reference to the G20/*OECD Principles of Corporate Governance* and the *OECD Guidelines on Corporate Governance of SOEs*. Each chapter identifies common challenges and proposes policy reforms. The experiences and practices of OECD countries are also presented throughout the report to enrich the analysis, and each chapter identifies key opportunities for increasing the capacities of relevant authorities and institutions overseeing corporate governance policies.

The report draws upon extensive research, policy discussions at the international and regional levels, and insights from national experts through focus groups. It contributes to a growing body of OECD work aimed at fostering sound corporate governance in MENA economies with the aim of furthering the region's development and prosperity.



Dr. Obaid Saif Al Zaabi
Chief Executive Officer
Securities & Commodities Authority
United Arab Emirates

Ms. Gabriela Figueiredo Dias
Chairperson
Comissão do Mercado de Valores Mobiliários (CMVM)
Portugal

Foreword

The MENA-OECD Competitiveness Programme was launched in 2016 at the request of MENA governments. It covers the following jurisdictions: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, United Arab Emirates and Yemen.

The programme's objective is to mobilise investment, private-sector development and entrepreneurship in order to support economic growth and employment in the Middle East-North Africa region. To achieve this objective, the programme adopts a horizontal approach of policy dialogue and consensus building through the exchange of experiences and good practices, as well as capacity building, to identify, implement and monitor business climate reforms. It provides a platform for OECD and MENA economies to discuss strategic responses to common challenges in the region, to explore ways to boost inclusive growth and employment, and to foster regional and international integration.

The MENA-OECD Competitiveness Programme builds on work conducted under the 2005 MENA-OECD Investment Programme, and includes activities by the MENA-OECD Working Group on Corporate Governance. The Working Group supports the development of sound corporate governance frameworks and policies, which are essential building blocks for boosting competitiveness, promoting private-sector development and attracting capital. The Working Group supports reform efforts in MENA, using the *G20/OECD Principles of Corporate Governance* and *OECD Guidelines on Corporate Governance of State-Owned Enterprises* as a benchmark to enhance implementation of the region's policy priorities. The work on corporate governance feeds into and draws on other work streams under the Competitiveness Programme.

Through the MENA-OECD Competitiveness Programme, the OECD provides policy advice underpinned by comparative analytical work with a view to support policy formation and implementation at the national and regional levels in MENA economies. Building on a decade of experience, this approach promotes co-operation and mutual learning among relevant players, including regional and international public institutions and the private sector.

This publication, *Corporate Governance in MENA: Building a Framework for Competitiveness and Growth,* is the fruit of a partnership among MENA policy makers and the OECD. It aims to identify the main policy options for improving corporate governance in the MENA region in four thematic areas: access to capital; transparency and disclosure; gender balance in corporate leadership; and the governance of state-owned enterprises.

A draft of each of this report's four main chapters was discussed at a meeting of the Working Group on Corporate Governance held in Rabat in December 2017. Building on this discussion, thematic focus groups with representatives from MENA economies were established to develop the chapters. Revised versions with policy recommendations were

discussed at a meeting of the Working Group held in Lisbon in July 2018. Each chapter has since been revised based on feedback from regional experts.

The objective of this report is to share the rich reform experience emerging from the MENA region and to serve as a useful tool for policy makers as well as other stakeholders in search of good practice and effective policy instruments for implementing their own national corporate governance reform efforts.

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Corporate governance in MENA: Building a framework for competitiveness and growth is the outcome of work conducted by the MENA-OECD Working Group on Corporate Governance, under the auspices of the MENA-OECD Competitiveness Programme. The OECD is most grateful to the Swedish International Development Co-operation Agency for their continued support of this work.

The report was written under the guidance of Fianna Jurdant, Programme Leader, OECD.

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Table of contents

Preface **3**

Foreword **5**

Acknowledgements **7**

Abbreviations and acronyms **13**

Executive Summary **15**

Chapter 1. Overview of corporate governance in MENA **17**

1.1. Introduction 18
1.2. Overall economic situation in MENA 18
1.3. Facilitating access to finance and capital markets 20
1.4. Improving transparency and disclosure in MENA 21
1.5. Achieving gender balance in corporate leadership 22
1.6. Enhancing governance of state-owned enterprises 23
Notes 24
References 24

Chapter 2. Access to finance and capital markets **27**

2.1. Introduction 28
2.2. Why capital market development is vital in MENA 28
2.3. Corporate use of public equity markets 33
2.4. Stock exchanges in the region 37
2.5. Corporate use of bond markets 41
2.6. Corporate ownership structure 44
2.7. The way forward 46
Notes 59
References 60

Chapter 3. Improving transparency and disclosure in MENA **65**

3.1. Introduction 66
3.2. Corporate governance landscape in the MENA region 66
3.3. Transparency and disclosure: Key issues 70
3.4. Disclosure of ownership 79
3.5. Disclosure of related party transactions 83
3.6. Monitoring and enforcement of standards 86
3.7. The way forward 87
Notes 96
References 96
Annex 3.A. Companies covered in the review of disclosure practices 100
Annex 3.B. Definition of related party transactions in selected MENA economies 101

Chapter 4. Achieving gender balance in corporate leadership 105

4.1. Introduction 106
4.2. The case for gender balance in economic and corporate life 106
4.3. Women in the workforce and in corporate leadership 110
4.4. Challenges faced by women in accessing corporate leadership positions 117
4.5. Good practices for increasing gender balance in corporate leadership 120
4.6. The way forward 126
Notes 131
References 132
Annex 4.A. OECD gender recommendations 137
Annex 4.B. Policies and good practices in OECD countries 138

Chapter 5. State ownership in MENA 141

5.1. Introduction 142
5.2. Corporate governance standards for state-owned enterprises 142
5.3. The state ownership landscape in the MENA region 144
5.4. Sectoral distribution of state-owned enterprises in MENA 157
5.5. Collection and publication of data on state-owned enterprises 162
5.6. The way forward 167
Notes 172
References 172
Annex 5.A. Listing of strategic SOEs in the MENA region 175

Tables

Table 1.1. Key economic indicators for the MENA region, 2000-2017 19
Table 2.1. Main characteristics of MENA stock exchanges, 2017 38
Table 2.2. Market capitalisation by sector in selected MENA exchanges, 2016 (%) 40
Table 2.3. MENA corporate bond markets, 2014 42
Table 2.4. Corporate bond market development in MENA 43
Table 2.5. Policy options for improving access to capital markets 48
Table 3.1. Corporate governance codes in MENA 67
Table 3.2. Strength of auditing and accounting standards, 2018 (1-7) 74
Table 3.3. Extent of corporate transparency index, 2019 74
Table 3.4. Information disclosed by 15 of the largest MENA companies 76
Table 3.5. Information least disclosed by 15 of the largest MENA companies 78
Table 3.6. Disclosure obligations of substantial shareholders 81
Table 3.7. Disclosure obligations of directors 82
Table 3.8. Policy options for improving transparency and disclosure 90
Table 4.1. MENA constitutional provisions on equality and non-discrimination 110
Table 4.2. National vs. non-national women working in selected GCC countries 113
Table 4.3. Market capitalisation and voting women board members by MENA exchange 116
Table 4.4. Women on MENA audit, nomination and remuneration committees (%) 117
Table 4.5. Selected MENA initiatives to increase gender balance in corporate leadership 125
Table 4.6. Policy options for promoting gender balance in corporate leadership 127
Table 5.1. Overview of state ownership arrangements in MENA 145
Table 5.2. Decentralised state ownership arrangements in Iraq 146
Table 5.3. State-owned companies among MENA's 100 largest listed companies, 2017 154
Table 5.4. Saudi Public Investment Fund listed shareholdings 160

Table 5.5. Publicly available data on state-owned enterprises in MENA 163
Table 5.6. Aggregate value and performance of SOEs in Sweden..... 165
Table 5.7. Example of company-specific reporting: Sweden's postal service 166
Table 5.8. Policy options to inform effective state ownership reforms..... 169

Figures

Figure 1.1. The size of MENA economies, 2017 19
Figure 2.1. Firms identifying access to finance as a major constraint, 2011-17 (%) 29
Figure 2.2. Bank concentration ratios, 2015 (%)..... 29
Figure 2.3. Stock market capitalisation to GDP, 2016 (%) 30
Figure 2.4. Value of collateral required for a loan (% of loan amount) 31
Figure 2.5. Initial public offerings in the MENA region, 2008-17..... 34
Figure 2.6. Number of IPOs per country, 2014-17..... 34
Figure 2.7. Total value of MENA IPOs, 2014-17 (USD billion) 35
Figure 2.8. Non-financial IPOs in the MENA region..... 35
Figure 2.9. Sectoral breakdown of small IPOs in MENA, 2014-17..... 36
Figure 2.10. Ownership structure of MENA stock exchanges 37
Figure 2.11. Market capitalisation as a percentage of GDP 39
Figure 2.12. Number of listed companies on MENA exchanges 39
Figure 2.13. Corporate bond issuances as a percentage of GDP (average)..... 42
Figure 2.14. Main policy areas for better access to capital markets..... 48
Figure 3.1. Extent of conflict of interest regulation index (0-10)..... 72
Figure 3.2. Extent of shareholder governance index (0-10) 73
Figure 3.3. Main policy areas for improving transparency and disclosure 89
Figure 4.1. The global gender income gap has widened 107
Figure 4.2. Women in management and the labour force in OECD countries (%)..... 111
Figure 4.3. MENA labour force participation rates by gender (2017) 112
Figure 4.4. MENA listed companies with women on the board of directors (%) 114
Figure 4.5. Voting women board members by MENA exchange (%) 115
Figure 4.6. Voting women board members in MENA listed companies by sector (%) 116
Figure 4.7. Main policy areas to promote gender balance in corporate leadership 127
Figure 5.1. Spectrum of state ownership models..... 155
Figure 5.2. Sectoral distribution of strategic SOEs in 16 MENA economies, 2013 158
Figure 5.3. Sectoral distribution of SOEs in Morocco, 2017 159
Figure 5.4. Sectoral distribution of SOEs in the OECD area, 2015 (by value)..... 161
Figure 5.5. Sectoral distribution of SOEs held by the Saudi investment fund, 2015 (by value)..... 162
Figure 5.6. SOE aggregate reporting practices globally..... 164
Figure 5.7. Main policy areas for informed state ownership practices..... 168

Boxes

Box 2.1. Saudi Arabia's Financial Sector Development Programme 50
Box 2.2. SME markets around the world 54
Box 3.1. Promotion of disclosure by Egypt's stock exchange 68
Box 3.2. Recent improvements in Saudi Arabia's corporate governance framework..... 73
Box 3.3. Initiatives for effective investor relations 93
Box 3.4. The Omani regime for disclosure of related party transactions 95
Box 4.1. Impact of gender diversity on company performance in Jordan..... 109
Box 4.2. Global gender trends in corporate leadership 112

Box 4.3. The economic cost of gender-based discrimination 118
Box 4.4. Dell EMEA's Men Advocating for Real Change campaign 123
Box 5.1. OECD Guidelines on the corporate governance of SOEs 143
Box 5.2. Co-ordinated state ownership in Morocco 147
Box 5.3. The state holding company approach in Abu Dhabi 149
Box 5.4. State ownership reforms in Morocco 151
Box 5.5. State ownership reforms in Tunisia 152
Box 5.6. Lithuania's state ownership co-ordination body 157
Box 5.7. Good practice on the publication of SOE aggregate reports 165
Box 5.8. Avenues for future work on state ownership 170

Abbreviations and acronyms

CEDAW	Convention on the Elimination of Discrimination against Women
EBRD	European Bank for Reconstruction and Development
EEA	European Economic Area
ESG	Environmental, Social and Governance criteria
EU	European Union
FATF	Financial Action Task Force
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GFDD	Global Financial Development Database (World Bank)
IAS	International Accounting Standards
IFC	International Finance Corporation
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
ISA	International Standards on Auditing
MSCI ESG	Morgan Stanley Capital International ESG indexes
NAICS	North American Industry Classification System
OECD	Organisation for Economic Co-operation and Development
RPT	Related Party Transactions
SEC	Securities and Exchange Commission
SME	Small and Medium-Sized Enterprise
SOE	State-owned Enterprise
SPO	Secondary Public Offerings
SSE	Sustainable Stock Exchanges initiative
UAE DIFC	United Arab Emirates Dubai International Financial Centre
UASA	Union of Arab Securities Authorities
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
WFE	World Federation of Exchanges

Executive Summary

Corporate governance as a means of building competitiveness and growth is an increasing priority for policy makers and the private sector across the Middle East and North Africa (MENA) region. During the last decade, MENA economies have responded to a shifting global and regional landscape by embarking on an era of transformation characterised by economic diversification and reform. In particular, citizens have called for governance reforms and an inclusive society with social and economic opportunities for all.

This report looks at the corporate governance landscape in the MENA region in order to identify challenges and propose recommendations going forward. It is based on the analysis of policies and practices in four thematic areas.

The first area explores how strengthened corporate governance policies can facilitate access to corporate finance and capital markets, particularly for the growth companies that contribute to building the economic prosperity of tomorrow. It examines the region's corporate landscape, including ownership structures, limits on foreign ownership, and the role of key institutions such as securities regulators.

The second area considers the role of transparency and disclosure in providing the information necessary for investors to evaluate opportunities and risks. Transparency also helps companies make sound business decisions and improve their performance. It reviews the corporate governance framework in MENA and looks at international efforts to enhance investor protection via a fair, efficient and transparent market.

The third area examines the importance of increasing women's participation in corporate leadership as a means to achieve the inclusive economic growth needed to boost the region's competitiveness. It highlights the positive impact on company performance of women's participation in corporate decision-making, investigates the career barriers faced by women in MENA and stresses the need for better data to inform policy design.

The fourth area examines how improved corporate governance can help state-owned enterprises (SOEs) operate efficiently, transparently and on a level playing field with private companies. It notes that a lack of data hinders evaluation of state ownership in MENA and that professional ownership and governance practices are needed to maximise SOEs' contributions to the economy and society.

Overall, the report finds that MENA economies have made progress in strengthening corporate governance frameworks in recent years, but that the region still faces challenges in adopting and implementing measures that support the economic efficiency, sustainable growth and financial stability needed to foster development.

Based on these findings, the report makes the following key recommendations:

- **Develop strategies for capital market development**, based on strengthened corporate governance policies, increase opportunities for growth companies to access finance and contribute to the region's overall economic development. Analysis of MENA's capital markets indicates that they do not reflect the

potential of the region's economies. Steps that can help build capital market growth include: preparing a national action plan; enhancing the monitoring capacity and accountability of securities regulators; improving market based financing alternatives; and developing the investor base, including by relaxing foreign ownership limits.

- **Benefit from international good practices on transparency and disclosure** to improve the effectiveness of the region's corporate governance frameworks. Analysis of MENA's corporate transparency practices highlights two areas of concern: disclosure of beneficial ownership and of related party transactions. Steps that can boost investor confidence include: strengthened disclosure rules on ultimate beneficial ownership, related party transactions and remuneration of board members; effective supervision and enforcement of corporate disclosure rules; inclusion of corporate governance reporting in annual reports; and promotion of shareholder engagement.
- **Emphasise the importance of including gender diversity** in policy frameworks as a first step towards facilitating gender balance in corporate leadership. Analysis of the participation of women in corporate decision-making roles in MENA shows that constitutional measures on non-discrimination against women have not yet translated into company practices. Steps that can promote women's participation in corporate leadership roles include: introducing targeted measures to encourage gender balance; combining national goals with company strategies; and providing training and mentoring to shift values.
- **Gather and disclose information on state-owned enterprises** to strengthen accountability and help improve their performance. Analysis shows that the exercise of state ownership in most MENA economies remains dispersed across the public administration, with ministries often simultaneously holding ownership and regulatory roles. Steps that can enhance the contribution of SOEs to economic development include: harmonising their corporate governance and disclosure standards; clearly defining their financial and non-financial objectives; collecting data on their performance; and preparing aggregate reports on their operations to strengthen accountability.

Chapter 1. Overview of corporate governance in MENA

A strong corporate governance framework is essential for MENA economies as they strive to promote growth and build prosperous societies. The G20/OECD Principles of Corporate Governance, the OECD Guidelines on Corporate Governance of State-Owned Enterprises and OECD Gender Recommendation are important references for building such a framework. This chapter provides an overview of the main findings and policy options in the successive chapters. It first gives a snapshot of the overall economic situation in MENA, then addresses each of the chapters on access to finance and capital markets, improving transparency and disclosure, achieving gender balance in corporate leadership and state ownership in MENA.

1.1. Introduction

A strong corporate governance framework is essential for MENA economies as they strive to promote growth and build prosperous societies. The *G20/OECD Principles of Corporate Governance* stress that sound corporate governance supports economic efficiency, sustainable growth and financial stability (OECD, 2015a).

At present, MENA corporate governance policies and practices could be further aligned with international standards to attract investors and contribute to economic development.

Corporate governance challenges in the region include: concentrated ownership dominated by families and the state, underdeveloped capital markets, the need for a more transparent business culture and modest participation by women in corporate leadership.

This report reviews the corporate governance landscape across the Middle East and North Africa region and proposes pathways for decision makers to build a stronger corporate governance framework to support competitiveness and growth.

It examines why corporate governance matters for the region and why it is important to build a framework that: promotes capital market development for growth companies, enhances transparency and disclosure, supports women's participation in corporate leadership and improves the corporate governance of state-owned enterprises.

This report was prepared by the MENA-OECD Working Group on Corporate Governance in co-operation with representatives from the MENA jurisdictions under review: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, UAE and Yemen.

International experiences in developing sound corporate governance policies and examples of good practices are presented to highlight possible avenues for reform that could be considered by MENA policy makers and practitioners. Three internationally recognised standards provide a benchmark: the *G20/OECD Principles of Corporate Governance* (OECD, 2015a), the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015b), and *OECD Gender Recommendation* (OECD, 2017a).

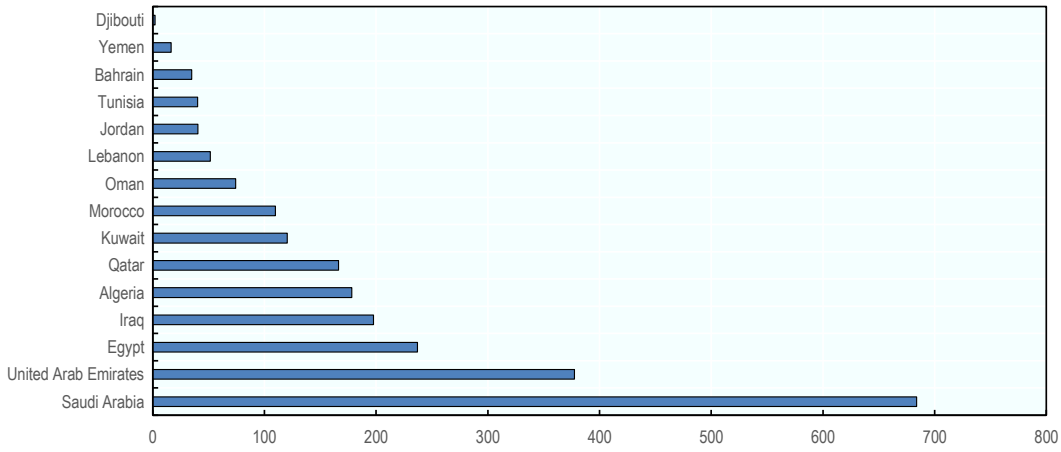
1.2. Overall economic situation in MENA

The MENA region is economically diverse despite its common language and shared history. Gross domestic product (GDP) per capita varies widely, from high levels in the Gulf countries, with their wealth of natural resources and relatively small populations, to lower levels in other areas of the region. In 2017, for example, Qatar's GDP per capita was 110 times that of Yemen.

The region's overall GDP was USD 2.37 trillion in 2017, representing only 3% of global GDP (Figure 1.1) (IMF, 2018). The total population stood at 353 million in 2017, ranging from under 1 million in Djibouti to 97 million in Egypt (World Bank, 2018).

Figure 1.1. The size of MENA economies, 2017

(GDP, current prices, USD billion)



Note: The Palestinian Authority is excluded due to a lack of comparable data.
Source: IMF World Economic Outlook Database (April 2018).

Over the past decade, oil exporters have benefitted from high oil prices and used the proceeds to modernise infrastructure and create employment (Fasano-Filho and Iqbal, 2003). In 2014, oil accounted for more than 60% of total exports in oil-exporting MENA economies, with the exception of UAE (IMF, 2016a). As a result, economic linkages among countries in the region mean that non-oil-exporting MENA economies also benefitted from oil revenues. This benefit came in the form of investments from oil-exporting economies and had knock on effects on a range of activities including tourism, which in turn bolstered the labour market.

However, the sharp fall in oil prices in late 2014 resulted in deteriorated economic conditions, leading to higher fiscal deficits (Table 1.1).

Table 1.1. Key economic indicators for the MENA region, 2000-2017

	Average 2000-2014	2015	2016	2017
Real GDP (annual growth, %)	5.1	3.2	3.1	1.7
Current account balance (%)	10.6	-5.1	-6.1	-1.4
Overall fiscal balance	4.7	-10.1	-11.3	-6.2
Inflation p.a. (annual growth, %)	4.7	4.6	4.0	5.8

Note: The indicators group Algeria, Bahrain, Djibouti, Egypt, Iraq, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia, UAE and Yemen, as well as Somalia and Sudan.
Source: IMF Middle East and Central Asia Regional Economic Outlook.

In addition to difficult economic conditions, ongoing political conflicts have led to weaker investor confidence in the region. Foreign direct investment has also declined since the 2008 global financial crises and the 2011 Arab Spring (UnctadStat, 2017).

1.3. Facilitating access to finance and capital markets

Good corporate governance helps decrease capital costs and supports access to capital for corporations (OECD, 2015a). Although MENA economies are at different stages of capital market development, common features can be identified in the region.

Access to finance is a constraint on the development of the private sector, especially for small and medium-sized enterprises (SMEs) and growth companies[1], due to the region's high concentration of banking intermediation, high collateral requirements, limited sectoral diversification and high share of big companies in capital markets.

MENA banking systems dominate the region's economic landscape, with bank deposits in 2015 accounting for 80% of GDP in the region, compared with a global average of 50% (World Bank GFDD, 2018).

The average private sector credit-to-GDP ratio in the region is comparable with peer economies, with the exception of the Gulf Co-operation Council (GCC) economies. In those economies, average banking intermediation, as measured by private sector credit to GDP, was 54% for 2011-2015, substantially below peer countries (78% for high-income economies).

The size of MENA stock markets, at 1.42% of world market capitalisation in 2017, is very low considering that the region contributes 3% to global GDP. However, stock market capitalisation varies widely among MENA economies, from 78% of GDP in Qatar and 66% in Saudi Arabia to 22% in Tunisia and 19% in Egypt. As of 2017, equity markets in MENA (excluding Djibouti, Libya, Mauritania and Yemen) had 1 456 listed companies, with a market capitalisation of USD 1 128 billion.

Deep and efficient capital markets could help to improve access to corporate finance. Studies suggest that there is a positive link between strong corporate governance and capital market development. A better corporate governance framework promotes deeper, more liquid and more efficient capital markets (IMF, 2016b).

There is also evidence that company-level corporate governance quality can enhance both a company's ability to access finance and its financial performance (Haque et al., 2008; IMF, 2016b), and that companies with better governance have higher market valuation (Cheung et al., 2014).

The Hawkamah/S&P Pan Arab ESG Index, which tracks the top 50 listed companies in 11 MENA markets that have superior performance according to environmental, social and governance (ESG) factors, has outperformed the pan Arab S&P Index since its launch in 2011. This result suggests that investors have taken corporate governance practices into account when deciding where to invest. A large number of MENA companies are also listed abroad, where they are generally subject to higher disclosure standards (GOVERN, 2016).

A sound corporate governance framework facilitates capital market development over time. Investors need assurance that their rights will be protected when they invest in capital markets. Similarly, companies will not be willing to use capital markets without clear responsibilities defined by the rule of law (OECD, 2015c).

This report finds that MENA's capital markets do not reflect the potential of the region's economies. In addition to the factors noted above, the total value of growth company initial public offerings (IPOs) and low sectoral diversification in equity markets suggest that a limited number of companies have access to capital markets.

Bank lending in the region is channelled to large companies, particularly state-owned enterprises (SOEs) and large industrial firms, leaving SMEs and growth companies deprived of bank credit.

The reluctance of family-owned companies to disclose information or dilute their shares by going public affects capital market development in the region. Restrictions on foreign ownership are also a key obstacle to greater foreign investment in the region.

Capital market development would increase opportunities for growth companies to access finance and contribute to the region's overall economic development. Better corporate governance is crucial in this regard.

Sound corporate governance can positively impact company performance, access to finance, cost of capital, company valuation and the performance of capital markets. Consequently, it promotes the development of deep and broad capital markets, which are essential for growth companies, and this in turn fosters economic development.

1.4. Improving transparency and disclosure in MENA

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

Transparency and the disclosure of accurate, timely and relevant information form the basis for efficient capital allocation and a sound capital market. Assuring that investor rights are protected attracts domestic and foreign investors to participate in the capital market by creating an environment of trust, transparency and accountability.

Better disclosure lowers the cost of capital (Barth et al., 2013), reduces monitoring costs, heightens investor confidence and strengthens market competitiveness (Leuz and Wysocki, 2016). To attract equity investment, economies need a sound corporate governance framework that requires credible disclosure.

The *G20/OECD Principles of Corporate Governance* call for a country's corporate governance framework to ensure timely and accurate disclosure on all material matters regarding the corporation, including its financial situation, performance, ownership and governance.

This report finds that although MENA economies have taken steps to improve corporate transparency and disclosure, challenges persist in the region.

The majority of listed MENA companies have concentrated shareholders in the form of sovereign investors or founding owners, such as families (Amico, 2014). Ownership structures can affect transparency and disclosure, with the quality of voluntary disclosure often decreasing when ownership is more concentrated.

Two areas are particularly challenging for MENA economies: disclosure of beneficial ownership and disclosure of related party transactions and their terms.

Regulations on beneficial ownership in the region generally require major shareholders and directors of listed companies to disclose their ownership, in line with global good practice. However, despite improvements in regulation, challenges persist, especially in relation to the identification and disclosure of ultimate beneficial owners.

Definitions of related party transactions have improved, but requirements on the method and timing of disclosure vary across the region, and many MENA economies have not adopted thresholds for disclosure and shareholder approval.

In order to strengthen the effectiveness of their corporate governance frameworks, MENA economies should continue their reform efforts with respect to transparency and disclosure based on international standards and good practices.

Policy makers and companies should strive to ensure full and proper disclosure of ownership and related party transactions, effective supervision and enforcement of disclosure regulations, and greater shareholder engagement through stronger protection of minority investors' rights. The desirable mix of legislation and voluntary codes should be defined according to each economy's distinctive features.

Complementing the efforts of policy makers, companies can take immediate action to improve their disclosure practices. In order to attract investors to the region, company websites need to be updated regularly, with more reports made available online in English, including corporate governance reports.

Such efforts can lead to greater investor confidence, stronger market reputation and fluid access to finance, thus contributing to the overall growth and development of the region's economies and companies.

1.5. Achieving gender balance in corporate leadership

Advancing gender balance at corporate decision-making levels has become a goal for companies around the world. Increasing gender balance in corporate leadership roles is a priority for OECD countries, and most have initiated policies to promote gender balance on company boards and in senior management.

There is strong impetus for MENA economies to embrace initiatives that empower and promote women in the corporate sphere. Women's leadership is increasingly seen as a cornerstone for building competitive, value-creating companies and, by extension, resilient, inclusive economies.

The introduction of measures that aim to promote greater gender balance has helped MENA economies to align constitutional guarantees of equality and equal opportunity with international commitments. However, not all MENA economies have seen results in corporate practice, and closing the gender gap in corporate decision-making roles remains a challenge in the region.

This report finds that corporate governance codes in MENA economies rarely include gender diversity; that the region lacks targeted measures to encourage gender balance in corporate leadership; and that company and securities laws generally do not mandate the disclosure of board composition and senior management by gender.

Moreover, MENA legal frameworks and social norms, including family codes, play a role in driving gender gaps in the labour market, including at the corporate leadership level.

Galvanising change will require increased engagement between MENA governments and the private sector to develop an environment conducive to greater gender balance on boards and in top-level executive positions.

The *G20/OECD Principles of Corporate Governance* encourage countries to pursue a range of policies and initiatives to enhance gender diversity on boards and in senior

management. Policies can include quotas or targets, reporting requirements, voluntary disclosure by companies of gender composition, increasing board size and actively recruiting qualified women to replace outgoing male board members. These policies can be driven by governments, regulators and companies with measures adapted to specific contexts.

Goals and policies can be underpinned by strategies aimed at fostering gender balance throughout the company and the career cycle of women. Good practice examples that have been used in the region include leadership training and mentoring programmes.

A key challenge in MENA is the difficulty of assessing women's participation in corporate leadership due to limited disclosure and a lack of reliable data. In order to design appropriate policies, more and better-quality data are needed at the national and regional levels and from companies.

Sustainable measures are required to shift negative attitudes surrounding the ability of women to lead and to accelerate their path to leadership. A "whole of company" diversity framework and conducive human resource policies in areas such as recruitment are needed to create an ecosystem that facilitates women's corporate leadership in the region.

1.6. Enhancing governance of state-owned enterprises

State-owned enterprises are fundamental elements of the MENA region's economic architecture. They operate across a wide range of sectors, are strategically important and often provide public services to citizens.

SOEs can contribute alongside private enterprises to well-functioning economies and societies if they are well governed and efficient. Transparency on their operations and objectives is crucial for maximising their economic and societal contributions.

State ownership gives rise to unique governance and regulatory risks that can prevent SOEs from creating optimal value for the economy and society. For example, if a state body is simultaneously responsible for exercising ownership rights in an SOE and regulating the competitive market in which it operates, this can lead to decisions being taken in the interest of a single enterprise at the expense of market efficiency and competitiveness.

This report finds that the exercise of state ownership remains dispersed across the public administration in the majority of MENA economies. Ministries in many cases simultaneously exercise ownership and regulatory roles, which can lead to conflicting objectives.

As markets liberalise and are opened to greater competition with private companies, and as the region's SOEs become increasingly active in trade and investment abroad, concerns may arise about how their competitive conditions at home impact the global level playing field.

Moreover, information on SOEs is limited in the region. The scarcity of data on their objectives and performance limits MENA governments' ability to implement informed ownership policy reforms. Without transparency on SOE operations, it is difficult to make the state and corporate boards accountable for their performance.

The lack of available information on SOEs extends to their identity: information on which companies are state-owned is often not available to the general public, who are the ultimate "shareholders" of SOEs. Elucidating MENA's state ownership landscape

through greater transparency could inform improvements in state ownership practices and ultimately help to ensure that SOEs operate efficiently, transparently and on a level playing field with private companies. Furthermore, and although many MENA governments have taken measures in recent years to improve state ownership and governance practices, the report finds that there is scope for further professionalisation of state ownership practices. This could be supported by the development of harmonised corporate governance standards applicable to all SOEs.

The *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, presented in Chapter 5, provide a blueprint for ensuring that SOEs operate efficiently, transparently and on a level playing field with private enterprises. As MENA governments consider undertaking policy and legislative reforms to improve the corporate governance of SOEs, this document can serve as a guidepost.

Notes

[1] In the OECD capital market series work, 'growth companies' are classified as those with an IPO size of less than USD 100 million, combined with the Eurostat-OECD (2007) definition which describes growth companies as those with an average turnover or employee growth greater than 20% per annum over a period of three years.

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Chapter 2. Access to finance and capital markets

Access to finance and capital markets is essential for growth and economic competitiveness. This chapter investigates MENA capital markets in order to identify common priorities for achieving progress, consistent with the G20/OECD Principles of Corporate Governance. It provides an overview of MENA's capital markets and goes on to explore factors limiting access to finance, comparing the situation in the region with global trends when possible. The chapter explores how MENA's companies use public equity financing and corporate bond markets, reviews the structure of its stock exchanges and examines the region's corporate ownership structure, including concentrated ownership and limits on foreign investors. It concludes with a summary of key challenges to growth in the region, followed by policy options for deepening capital markets and enabling growth companies to obtain finance from them.

2.1. Introduction

MENA economies face the challenges of sometimes sluggish economic growth, limited economic diversification and high unemployment, especially among youth and women. A major issue in attempting to address these challenges is limited access to finance. Restricted access to capital markets hampers the development of growth companies, the main drivers of job creation, innovation and productivity.

The region's share of new entrepreneurs and high-performance enterprises is comparable to that of other emerging economies (OECD/IDRC, 2013). But MENA's growth companies seem to face higher barriers in their quest for financial resources than larger companies able to offer physical assets as collateral. In an environment constrained by the funding capacity of banks and higher government budget deficits, capital market development and market-based finance can be a viable alternative for growth companies. Better corporate governance is essential in this regard.

This chapter aims to identify the key challenges faced by MENA companies with respect to access to capital markets. Where possible, developments in MENA's capital markets are compared with global trends. The chapter begins with an overview of financial market developments in the region. It moves on to explore the use of public equity financing and bond markets by MENA companies, initial public offerings (IPOs) by growth companies, and the region's stock exchanges. It examines the region's corporate ownership structure, including concentrated ownership and limits on foreign investors. It also touches on banking sector development, which is critical to improving the financial infrastructure of MENA companies. The chapter concludes by offering policy options for improving access to finance.

While the chapter covers all 18 MENA economies under review in this report, insufficient data has led to the assessment of fewer issues in some of them.

2.2. Why capital market development is vital in MENA

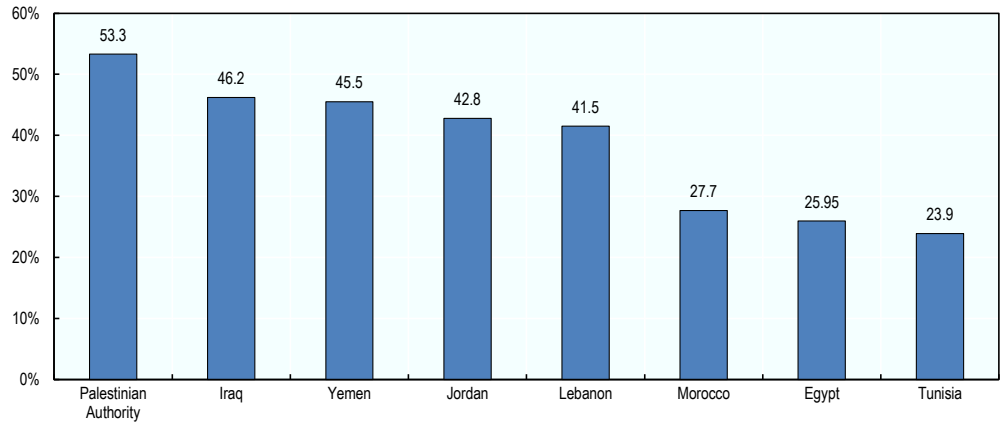
Despite considerable diversity in MENA economies, access to finance is restricted in the region. Private credit and stock market capitalisation are low relative to GDP compared with some Southeast Asian countries, for example. Although the MENA financial system is dominated by banks, the high concentration of financial intermediation in the banking sector and high collateral requirements mean that credit is channelled to a small number of large companies. In addition, ongoing economic and political conflicts pose major challenges, including restrictions on access to finance.

2.2.1. Factors affecting access to finance in MENA

There are several ways for companies to access finance in a market economy. Although banks are at the core of financial systems for most countries, in developed and emerging markets supply and demand for finance is not being matched, which has encouraged companies to search for alternative sources. Equity financing has a number of distinct characteristics that give it an advantage over other external sources of capital. Equity finance is permanent and patient, which allows companies to take risks over the medium term. On the other hand, debt financing in the form of bank loans can hold a high cost for some firms. For example, the price of debt financing for smaller firms, who do not always have access to equity financing, can be high due to the default rate of these firms.

While founders, family and friends are generally the leading funding channel at the start-up stage of a company, the funding alternatives should be broadened along the business lifecycle. In particular for growth companies, which are defined as companies with an average turnover or employee growth greater than 20% per annum over a period of three years (Eurostat-OECD, 2007), financing is crucial to transition from a small/medium to a large company. However, entrepreneurs in MENA identify lack of access to sources of capital funding as a major constraint (Figure 2.1).

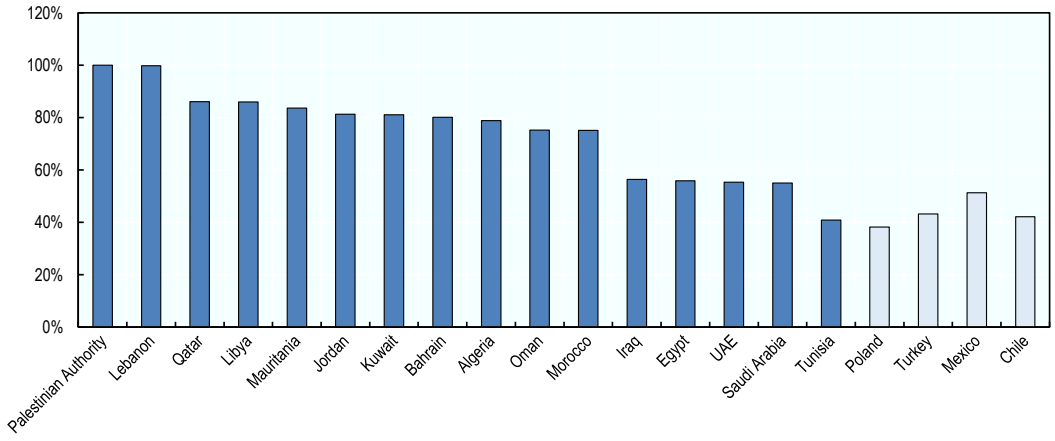
Figure 2.1. Firms identifying access to finance as a major constraint, 2011-17 (%)



Note: Average percent, 2011-17.
Source: World Bank Enterprise Survey Database (2017).

The region's financial intermediation is dominated by banks. In 2015, bank deposits accounted for 80% of GDP in the region, compared with a world average of 49% (World Bank GFDD, 2018).[1] Banking sector competition in the MENA region is also lower than in most regions of the developing world (Anzoategui et al., 2010), and banking concentration ratios are quite high in MENA economies compared to other selected developing countries (Figure 2.2).

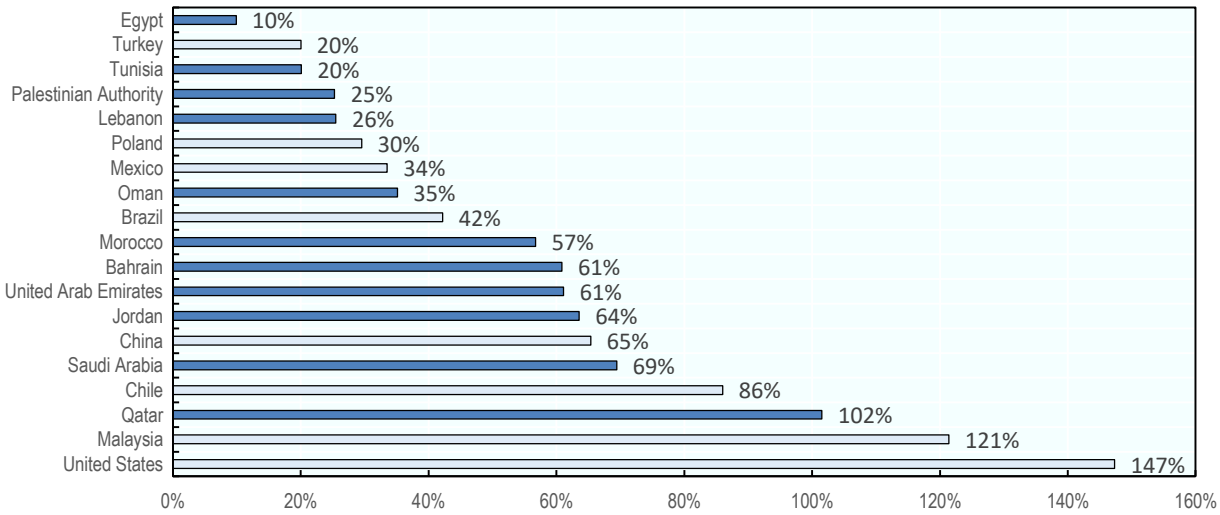
Figure 2.2. Bank concentration ratios, 2015 (%)



Note: Bank concentration ratio measures the assets of the three largest commercial banks as a share of total commercial banking assets.
Source: WB Global Financial Development Database (2017).

Increased competition in the financial sector would help to ensure better access to financing, which can be especially difficult to obtain for SMEs and growth companies. When countries have deep stock markets and other non-bank financial intermediaries, they generally tend to host more competitive banking sectors. A comparison of market capitalisation in MENA economies with that of other countries indicates that there is room for further growth (Figure 2.3).

Figure 2.3. Stock market capitalisation to GDP, 2016 (%)



Source: WB, World Development Indicators Database (2017).

The depth of financial institutions represented by the average ratio of private credit to GDP varies widely across countries in the region. For example, the average private credit to GDP ratio for the 2011-2015 period is 7% in Iraq compared to 88% in Lebanon, a 13-fold difference (World Bank GFDD). Although the region experienced both the negative effects of the 2008 financial crisis and economic and political instability after 2011, credit to GDP ratios have generally rebounded. However, this is not the case in Egypt (43% in 2007, 15% in 2015) or Jordan (85% in 2007, 68% in 2015).

Credit to the private sector has also slowed due to reduced deposit growth as a result of lower oil prices (IMF, 2017a). The decrease in private credit has limited financial alternatives for the private sector, which relies on a bank-dominated financial system. The total credit gap for micro, small and medium-sized enterprises (MSMEs) in MENA is estimated at USD 260-320 billion, which means that a 300% increase in outstanding SME credit is required to close this gap (Stein et al., 2013). In view of the evidence regarding the difficulties faced by companies in securing loans, it can be inferred that the financing gap is also large for growth companies.

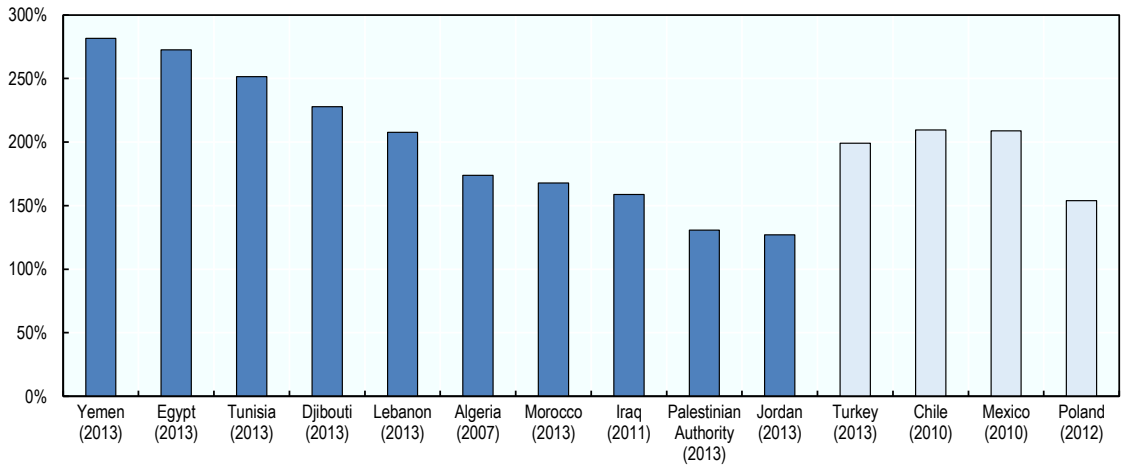
Insights into private-sector lending in the region emerge from a MENA enterprise survey conducted in 2013-2014 by the European Bank for Reconstruction and Development, European Investment Bank, and World Bank Group (EBRD et al., 2016). The survey covered more than 6 000 private firms in the manufacturing and services sectors in eight MENA economies: Djibouti, Egypt, Jordan, Lebanon, Morocco, Palestinian Authority, Tunisia and Yemen. It found that credits are concentrated and that most of the companies, especially SMEs, consider themselves as deprived of bank credit.

Another study supports this conclusion (Rocha, Arvai and Farazi, 2011). In the MENA economies that are not in the Gulf Co-operation Council (GCC), credit concentration ratios – the ratio of the top 20 exposures to total loans – are among the highest in the world. In 2010, the top 20 exposures accounted for more than half of total loans in the economy, implying that credit is channelled to a small number of large companies, leaving the bulk of firms with little or no access to credit.

Furthermore, the requirements set by public banks in many MENA economies favour state enterprises and large industrial firms, meaning that SMEs and growth companies have difficulty accessing capital. A study by Bhattacharya and Wolde (2010) found that MENA jurisdictions were quite successful in mobilising financial resources, but relatively less efficient in allocating them.

There are also high collateral requirements in MENA economies, though not necessarily more so than in other developing countries (Figure 2.4). Those requirements mean that young and small firms may have insufficient assets to qualify for finance.

Figure 2.4. Value of collateral required for a loan (% of loan amount)



Source: World Bank Enterprise Surveys (2017).

These various weaknesses in MENA financial systems – a financial sector dominated by banks, low stock market capitalisation in relation to GDP and the high collateral needed to secure a loan – combine to create restrictions on access to finance in the region.

2.2.2. Equity markets and growth

The role of capital markets in the growth of the economy has been the focus of extensive research. Studies suggest that equity finance can contribute to growth by improving resource allocation. In addition, capital markets make long-term investment possible and improve the efficiency of the whole financial system through the competition among different financial instruments (El-Wassal, 2013).

Characteristics of equity financing

Equity capital has a number of distinct characteristics that give it a unique advantage over other external sources of capital. First, equity finance is permanent. Once equity has been issued, there is no expectation for it to be retired or paid back. This is in contrast to bank

loans, which have a finite life span. Second, equity capital is patient and returns are not guaranteed. The shareholder will be paid only after all other stakeholders, such as employees, suppliers, tax authorities and creditors have been paid. Unlike other capital providers, shareholders will be the first to bear the cost of adverse business performance. In contrast, debt lenders have a priority claim on a company's assets in case of default.

Third, since equity only receives residual profits in the form of dividends, equity capital is typically more suited to finance risk than other forms of capital, which yield a strictly defined return regardless of a company's operating performance.

The permanent, patient, and risk-willing nature of equity capital means that supply and access to equity is not only important for the company. Availability of enough long-term capital is of systemic importance to the very structure and long-term dynamics of an economy's corporate sector. Importantly, the availability of equity allows for a gradual shift in a country's industrial structure towards more future oriented, innovative, knowledge-based and human-capital intensive enterprises.

A study examining the effects of financial development in MENA indicates that a reduction of constraints on access to finance – from the MENA average to the world average – could lead to an increase in real per capita GDP growth in the region (Bhattacharya and Wolde, 2010). Evidence that financial stability and efficiency are linked to growth also emerges from a study by Naceur et al. (2017). The authors conclude that the effect of finance depends on a jurisdiction's income level, policy regime and institutional quality.

Research into how companies that issue in capital markets evolve compared to non-issuers, meanwhile, found that issuers of equity, bonds and syndicated loans in the Arab region were larger and grew faster than non-issuers (Lorente et al., 2017a).

2.2.3. Corporate governance in MENA capital markets

A sound corporate governance framework and sound practices facilitate capital market development over time. Investors need assurance that their rights are protected when they invest in capital markets. Similarly, companies will not be willing to use capital markets without clear responsibilities defined by the rule of law (OECD, 2015a).

Improving the quality of corporate governance frameworks and practices is essential for developing more efficient and deeper capital markets. Corporate governance and capital market development have a symbiotic relationship, each benefitting the other. Progress in corporate governance facilitates capital market development, while requirements (e.g. disclosure) linked to capital markets encourage better corporate governance.

Analysis of data from emerging markets shows that improved corporate governance promotes deeper, more liquid and more efficient capital markets, increasing resilience to global financial shocks (IMF, 2016b). The IMF found that companies in emerging markets with better corporate governance tended to have stronger balance sheets, lower short-term debt ratios, lower default probabilities and the ability to borrow at longer maturities.

The quality of corporate governance affects the cost of capital and company value. Investors who are not confident about a company's corporate governance structure are less willing to provide financing and more likely to charge higher rates (Claessens and Yurtoglu, 2012). Better corporate governance structure also increases a company's competitiveness and efficiency through better business decisions.

MENA governments have endeavoured to develop their corporate governance frameworks in recent years (OECD, 2012; Crescent Enterprises, 2016). Reforms undertaken since the 2000s include the establishment of stock exchanges and capital market regulators, review of company laws, adoption of corporate governance codes, imposition of stricter rules, and requirements for greater disclosure and transparency from listed companies.

Today almost all MENA jurisdictions have a corporate governance code, and regulatory initiatives in the corporate governance area continue in the region. Nevertheless, there is room for improvement in several areas, according to a recent S&P Global Ratings report. Weak disclosure and transparency, coupled with a lack of board independence and insufficient oversight, continue to hold back companies from attracting international investors (Gulf Business, 2017).

2.3. Corporate use of public equity markets

Equity is an essential component of corporate finance. Sources of equity finance include retained earnings, private equity, public offerings and, with recent technological advances, alternative platforms such as crowdfunding. A vibrant equity market is crucial to support growth companies and to secure their access to funding through IPOs and secondary public offerings (SPOs).

This section examines how MENA companies use public equity financing. Due to challenges in obtaining data, IPO analysis for the region for the years 2014-2017 is mainly based on the annual reports of stock exchanges and the IPO reports for MENA of Ernst & Young (EY).[2]

Two global trends on IPO markets affected growth companies after the 2000s. First, there was a shift from advanced economies to emerging markets in terms of the number of IPOs. Second, fewer and larger companies have been going public (OECD, 2018; OECD, 2015a).

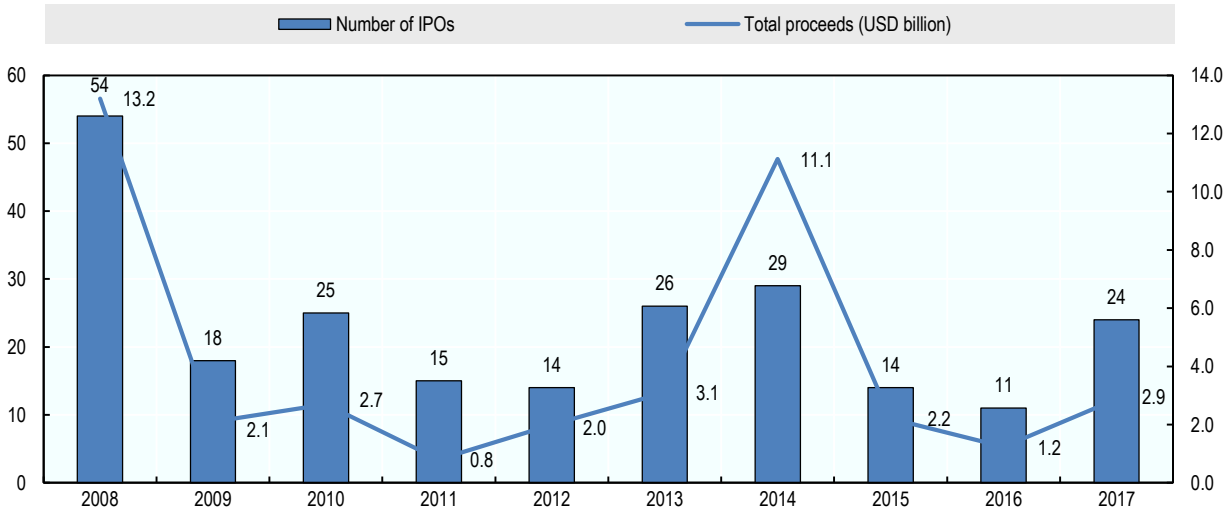
Indeed, since the 2000s, there has been marked decline in the IPOs of growth companies, both in terms of their number and average size. This is especially the case in the United States and Europe, and the trend persisted in 2016 in Europe and Japan (OECD, 2017a). Total proceeds of secondary issuances by listed non-financial companies have been higher than proceeds of IPOs since 2005 (OECD, 2015a).

Over the period 2008-2017, a total of 230 MENA companies issued an IPO. The amount of capital raised totalled USD 41 billion (Figure 2.5). Hence, the average value of equity capital raised per company through an IPO over the period was USD 179 million.

As Figure 2.5 indicates, 2014 was a good year for IPOs: MENA companies raised USD 11 billion, a sum comparable to the USD 13 billion raised in 2008, before the global financial crisis (EY, 2015). Overall IPO activity in 2014 saw a 254 % increase in value compared to 2013. In 2014, Saudi Arabia had the largest share (60%) in terms of capital raising from the region, with the proceeds of USD 6.7 billion from its six IPOs. A comparison of average IPO size indicates that larger IPOs took place in 2014 (USD 383 million) than in 2008 (USD 244 million).

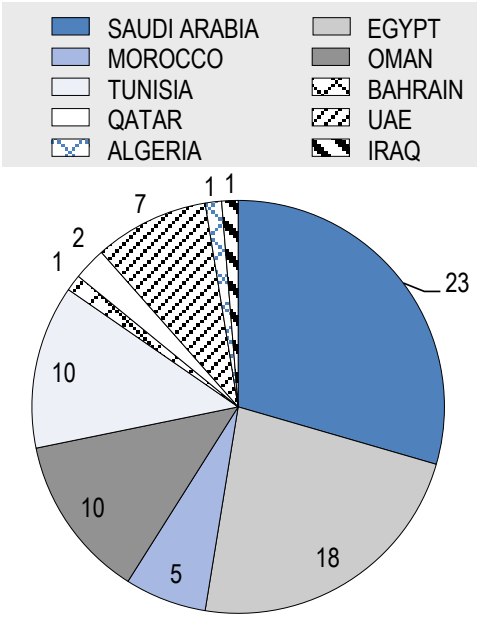
Over the 2014-2017 period, the majority of IPOs in MENA took place in Saudi Arabia and Egypt. Together, their IPOs raised USD 10.2 billion in capital. However, Saudi Arabia's IPOs far exceeded Egypt's in terms of the value of capital raised (Figures 2.6 and 2.7).

Figure 2.5. Initial public offerings in the MENA region, 2008-17



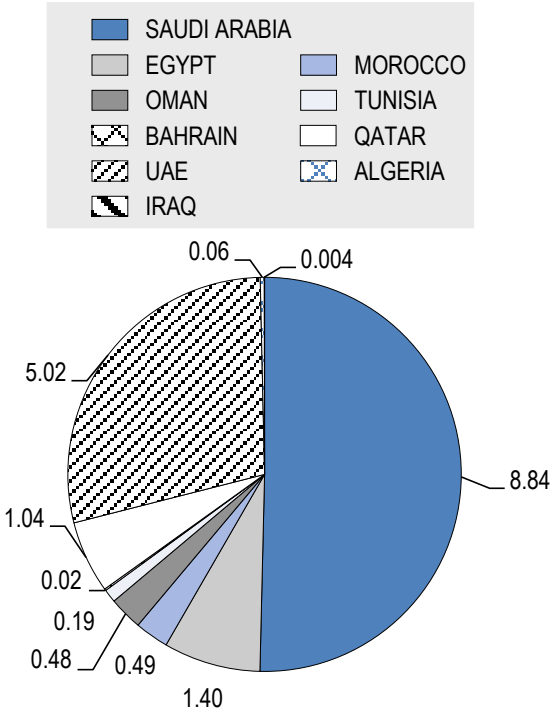
Source: Adapted from EY MENA IPO reports and the websites of stock exchanges.

Figure 2.6. Number of IPOs per country, 2014-17



Source: Adapted from EY MENA IPO reports and the websites of stock exchanges.

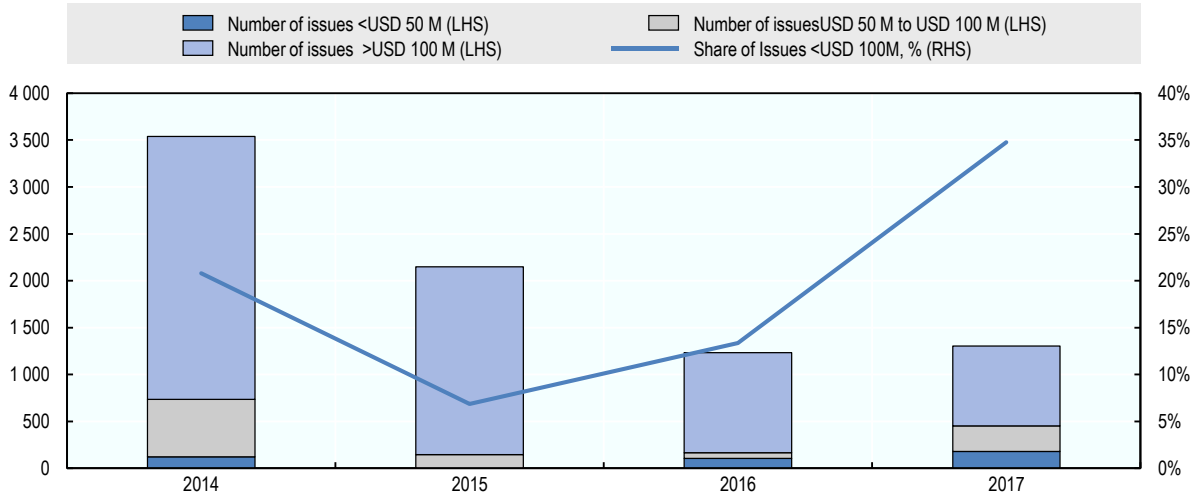
Figure 2.7. Total value of MENA IPOs, 2014-17 (USD billion)



Source: Adapted from EY MENA IPO reports and the websites of stock exchanges.

Figure 2.8 displays the size of IPOs in MENA's non-financial sector. The IPOs of MENA growth companies rebounded in 2017, possibly due to an increase in small IPOs in the Saudi market. After the launch of the Nomu-Parallel Market on the Saudi Stock Exchange, the capital raised in 2017 totalled 169 USD million, representing 37% of total MENA growth company IPO proceeds.

Figure 2.8. Non-financial IPOs in the MENA region

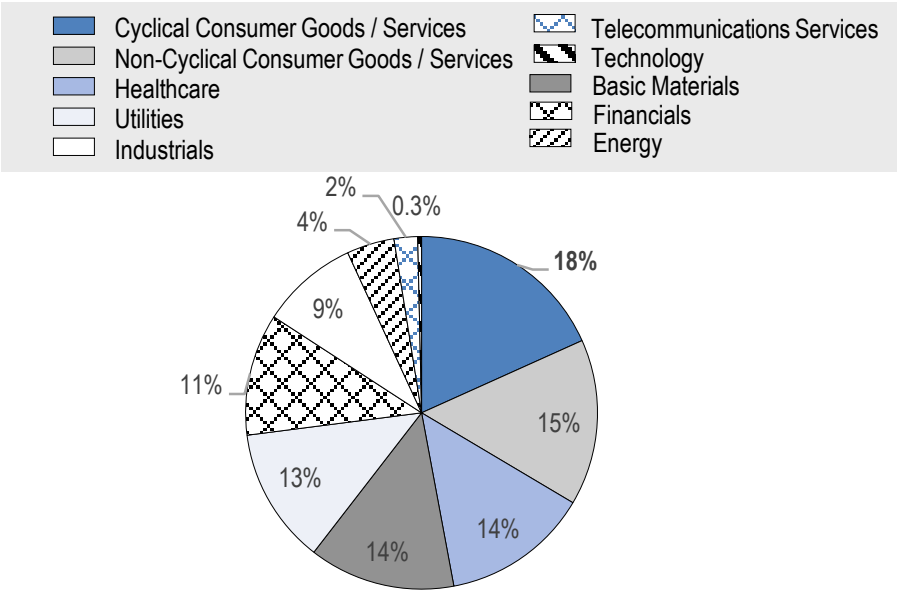


Source: Adapted from EY MENA IPO reports and the websites of stock exchanges.

It is noteworthy that the share of growth company proceeds in non-financial company IPOs in MENA (35% in 2017, 18.94% in 2014-2017) exceeded global averages (15% in 2008-2016) (OECD, 2017a).

Figure 2.9 displays the sectoral breakdown of MENA initial public offerings of less than USD 100 million over 2014-2017. It shows that total proceeds from growth company IPOs were more or less evenly distributed among different sectors, with the combined consumer goods/services sector (cyclical and non-cyclical) emerging as the main user of equity markets.

Figure 2.9. Sectoral breakdown of small IPOs in MENA, 2014-17



Source: Adapted from EY MENA IPO reports and the websites of stock exchanges. Economic sectors are based on the Thomson Reuters Business Classification.

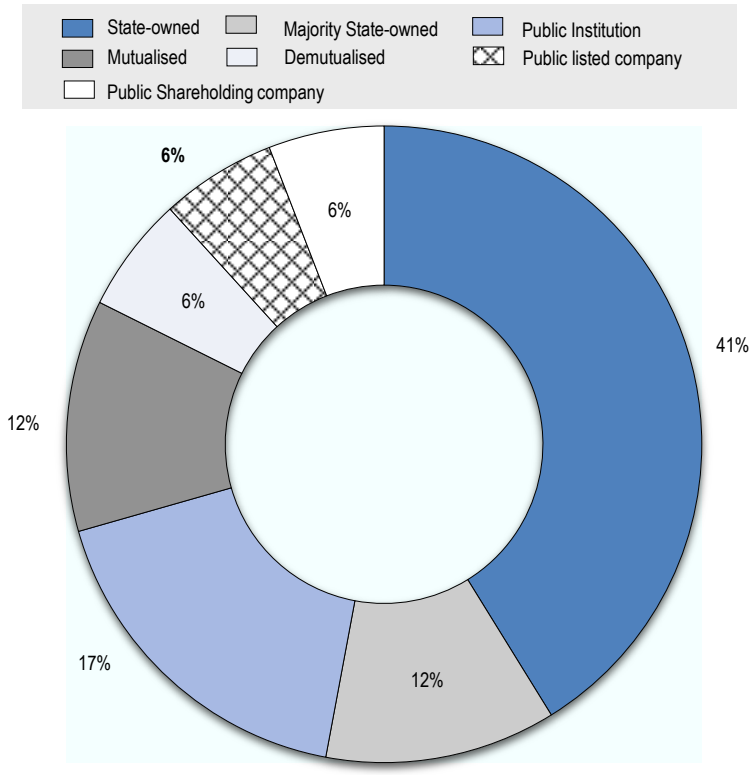
The situation in MENA differs greatly from advanced economies, where high technology and healthcare accounted for 40% of all equity raised through growth company IPOs from 2000 to 2014. This is in line with research showing that equity markets are especially suitable for growth companies in future-oriented industries with relatively high risk (OECD, 2015a). Conversely, the share of IPOs in technology, telecommunications and healthcare industries is quite low in MENA.

A recent working paper found that secondary equity offerings have grown at a faster rate than IPOs in Arab jurisdictions over the 1991-2014 period (Ismail, Cortina Lorente and Schmukler, 2017a).[3] The study was based on a dataset including 138 091 companies and 719 242 security issuances. It showed that the share of IPOs in total equity proceeds decreased from 55% (1991-98) to 26% (2007-14). The jurisdictions with the highest proportions of secondary equity issuances were Kuwait (95%), Egypt (92%) and Qatar (88%). The share of secondary equity offerings was less than 60% in Morocco, Saudi Arabia, Tunisia and UAE.

2.4. Stock exchanges in the region

MENA's stock exchanges date back to the late 19th century, when the Egyptian exchange was established. Since the 1980s, the establishment of stock exchanges has accelerated in the region. However, despite the global process of demutualisation and privatisation in recent decades, most of the region's exchanges are still state owned or organised as public institutions (Figure 2.10).

Figure 2.10. Ownership structure of MENA stock exchanges



Note: The countries included are Algeria, Bahrain, Egypt EGX, Egypt NILEX, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, UAE DIFC, UAE Federal.
Source: OECD (2019), *OECD Survey of Corporate Governance Frameworks in the Middle East and North Africa 2019,* www.oecd.org/corporate/oecd-survey-of-corporate-governance-frameworks-in-mena.htm.

The Palestine Securities Exchange and the Dubai Financial Market are the region's only stock exchanges with the status of a public listed company, but Kuwait and Saudi Arabia are making structural changes. The Boursa Kuwait, a private entity, was set up in 2014 to develop the Kuwait Stock Exchange, and in October 2016 it was granted an official license to own the exchange. An IPO for Tadawul, the Saudi exchange, originally planned for 2018, is now expected in 2019, according to news reports.

Table 2.1 displays key characteristics of MENA's stock exchanges in 2017. Total market capitalisation was USD 1.128 billion, or 1.42% of global market capitalisation. Given that MENA's GDP represents 3% of global GDP, the region's market size does not reflect its potential.

Table 2.1. Main characteristics of MENA stock exchanges, 2017

	Number of listed companies	Market capitalisation of listed domestic companies (USD billion)	Market capitalisation of listed domestic companies (% of GDP)	Stocks traded, total value (USD billion)	Stocks traded, total value (% of GDP)	Stocks traded, turnover ratio of domestic shares (%)
Algeria*	5	0.37	0.2	-	-	-
Bahrain	43	22	62	0.56	1.61	2.6
Egypt	254	47	19.6	14.4	6.0	30.7
Iraq*	101	9	4.5	0.75	0.37	8.4
Kuwait*	175	93	77	19.0	15.8	20.5
Lebanon*	10	11	22.3	0.76	1.4	6.6
Morocco	73	67	61	4.2	3.8	6.3
Jordan	194	24	59	2.3	5.7	9.7
Oman	112	21	28.6	2.3	3.2	11.2
Palestine	48	4	29.0	0.46	3.5	12.1
Qatar	45	131	78	18.3	11.0	14
Saudi Arabia	188	451	66	218	31.9	48.4
Tunisia*	81	9	22.1	0.97	2.4	11
UAE	127	239	63	43.0	11.4	18

Note: Countries marked with an asterisk (*) belong to the Arab Federation of Exchange. Market capitalisation of listed domestic companies (percentage of GDP) has been calculated manually using WB World Development Indicators.
Source: WB World Development Indicators (2018); IMF World Economic Outlook Database (2018).

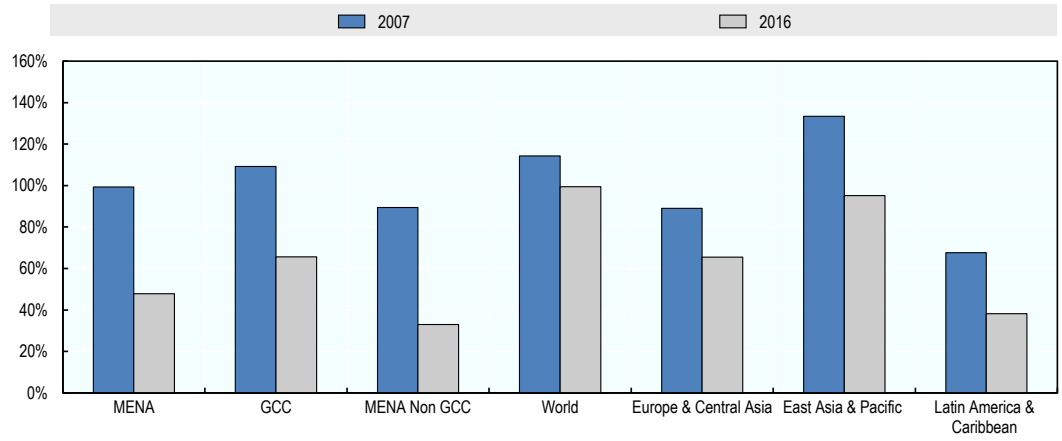
Market capitalisation varies greatly among MENA exchanges. The Saudi Stock Exchange has the largest market capitalisation, at USD 451 billion, which represents approximately 40% of the total MENA market at the end of 2017. While market capitalisation is also high in other GCC countries, it is very low in several jurisdictions in the region.

The market capitalisation to GDP ratio declined severely in almost all economies after the 2008 financial crisis, but the global average has returned almost to its 2007 level (114% in 2007, 99% in 2016). Recovery has been generally slow in MENA jurisdictions, perhaps due to the region's exposure to external and internal shocks, especially after 2011. Stock market capitalisation in most jurisdictions declined significantly following the global financial crisis and, apart from the UAE, has not yet caught up with pre-crisis levels. Declines were most severe in non-GCC jurisdictions (Figure 2.11).

The number of companies listed on MENA stock exchanges increased dramatically after 1998, partly as a consequence of privatisation programmes across the region, and the vast majority of these companies were listed in Egypt. The total number of listed companies for the region stood at 1 844 in 2000, of which 1 057 were in Egypt. However, the number of companies on the Egyptian Exchange decreased drastically in 2017, when untraded companies were delisted.

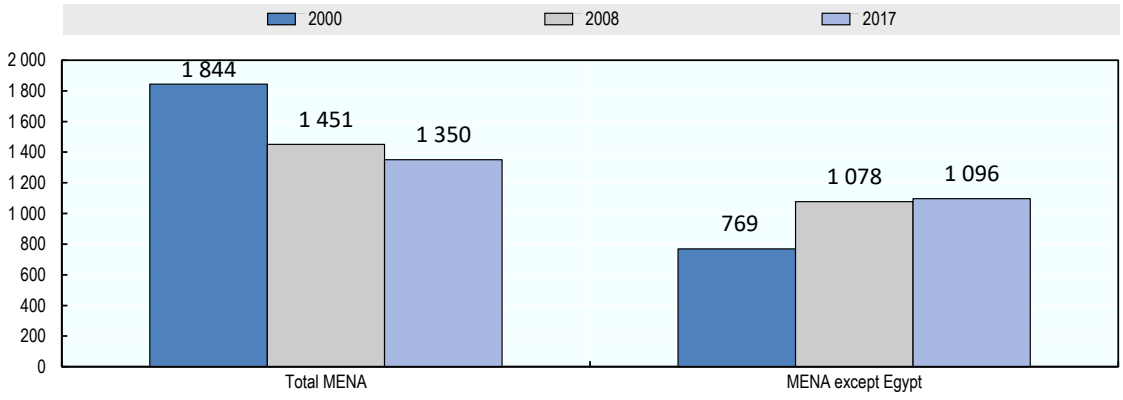
As of 2017, the number of companies listed on MENA stock exchanges totalled 1 350, ranging from five in Algeria to 254 in Egypt (Figure 2.12). Although the Saudi stock exchange is the region's largest in terms of market capitalisation, more companies are listed in both Egypt (254) and Jordan (194) than in Saudi Arabia (188).

Figure 2.11. Market capitalisation as a percentage of GDP



Source: WB World Development Indicators Database (2017); Rocha, Arvai and Farazi (2011).

Figure 2.12. Number of listed companies on MENA exchanges



Note: The countries included are Bahrain, Egypt, Kuwait, Lebanon, Morocco, Jordan, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia and UAE.
Source: WB Global Financial Development Database (2017), IMF and stock exchange websites.

Regional stock exchanges formerly relied on IPOs of state-owned enterprises as a major source of local and foreign investor interest (OECD, 2012). Privatisation has slowed in recent years. However, several MENA economies have started to reconsider privatisation through IPOs due to the deteriorated fiscal situation of their exchanges. In addition to the efforts of Kuwait and Saudi Arabia, described above, the Egyptian government is launching an IPO programme that will offer shares in dozens of state-owned companies over the next three to five years (Reuters, 2018), and Oman is working on privatisation plans.

New privatisation-related listings could contribute to capital market development by increasing the depth and liquidity of MENA markets. The region's markets are less liquid than the world average, as indicated by turnover ratios in 2017 (28.5 in MENA, 100.4 globally). But the MENA average masks important differences among jurisdictions. Turnover ratios in Bahrain (2.6) and Morocco (6.3) are far lower than the MENA average, and even the region's highest turnover ratio, in Saudi Arabia (48), is lower than that of peer countries. These figures indicate that financial market efficiency is insufficient in the region.

Market concentration ratios in terms of market capitalisation and trading volume vary within the region[4] (WB GFDD, 2017). High ratios imply that liquidity is limited, with access more difficult for new companies. Market capitalisation in MENA is dominated by financial and infrastructure firms (Table 2.2). The limited sectoral diversification may affect market development and limit investment opportunities.

Table 2.2. Market capitalisation by sector in selected MENA exchanges, 2016 (%)

	Banks and financial services	Petrochemical industries	Telecom and information technology	Other
Saudi Arabia	29	25	10	36
UAE DFM	44	1	9	46
Qatar	47	4	7	42
Kuwait	57	1	11	31
Morocco	40	4	21	35
Egypt	36	5	12	47

Source: Annual reports of stock exchanges.

Specialised SME markets or tiers have been introduced in the MENA region. Egypt's Nilex (2007) was the region's first dedicated SME market, while the Nomu Parallel Market in Saudi Arabia (2017) is the most recent. Tunisia, Dubai and Qatar also have SME tiers.

Two exchanges in the region have introduced the London Stock Exchange Group's ELITE business development programme for fast growing companies. The Casablanca Stock Exchange launched the programme in April 2016, and 24 Moroccan companies have enrolled, from sectors including technology, construction and household goods. ELITE has since partnered with the Saudi SME Authority to initiate business support and a capital raising programme.

MENA stock exchanges have also started to invest heavily in financial technology. An example is the Dubai Financial Market's ambitious Smart Borse initiative, launched in 2014. It includes eIPO, a smart IPO platform that allows investors to participate in IPOs electronically; an iVESTOR card that allows secure payment for transactions; and a smartphone application that lets investors track their stock portfolios. These services had 80 000 users at the end of 2017 (Dubai - MENA Herald, 2017).

Several MENA markets are still classified as "frontier markets" by the MSCI, an index provider widely accepted as a benchmark,[5] but the situation is evolving. Compared to developed and emerging markets, frontier markets typically have limitations for foreign investors in their regulatory and operational environments.

As of 2018, the MSCI classified Bahrain, Jordan, Kuwait, Lebanon and Oman as frontier markets; only Egypt, Qatar and UAE were included in the MSCI Emerging Market Index. The Saudi Arabian and Palestinian markets had Standalone Indices, enabling foreign investors to follow them more closely.

However, the MSCI has announced that the MSCI Saudi Arabia Index will be included in the Emerging Markets Index as of June 2019, and that Kuwait will be reviewed in 2019 for possible reclassification as an emerging market. The decision on Saudi Arabia followed reforms by the country in areas including the (T+2) execution rule, short selling and delivery versus payment rules. Inclusion on the MSCI Emerging Markets Index is likely to increase institutional investors' interest.

Ongoing capital market development in the region requires better corporate governance and more transparency, which are key to attracting listing and liquidity (OECD, 2012). MENA stock exchanges have been supporting good corporate governance by adopting and enforcing higher listing and disclosure standards, providing transparency about listed companies, facilitating the exercise of shareholder rights and conducting public awareness activities about corporate governance. However, there is room for improvement in this area (Chapter 3).

2.5. Corporate use of bond markets

The small size of the MENA corporate bond market suggests that corporate bonds have the potential to become a more prominent alternative source of financing for growth companies. Corporate bond issuance also encourages companies to improve disclosure and transparency, which is in line with good corporate governance. The development of this market can be used as a policy tool to address the financial needs of growth companies, given their importance and the constraints they face in accessing financing. Issuing corporate bonds thus helps growth companies to access public equity markets.

2.5.1. Overview of MENA corporate bond markets

Global bond issuances have increased significantly since the 2008 financial crisis in both developed and emerging economies. This is the case in MENA region, where companies have increasingly used domestic bond markets as a source of finance, to the sum of almost USD 66 billion as of 2014 (Table 2.3).

Nevertheless, the region's corporate bond market remains small. Factors affecting its development include oil prices, the dominance of banks, cultural and religious preferences, and a small investor base. Another possible factor is weak creditors' rights (Garcia-Kilroy and Silva, 2011).

Conditions have been changing in the region since 2014, mainly due to lower oil prices. In the GCC countries, fiscal deficits have increased and economic conditions have deteriorated, while factors in the non-GCC countries include lower remittances and tourism revenues, and security concerns. Against this backdrop, MENA governments have started to use the bond markets more often, especially international bond markets, which offer better conditions.

Table 2.3 presents the size, growth rate and depth of domestic and international corporate bond markets in the MENA region.

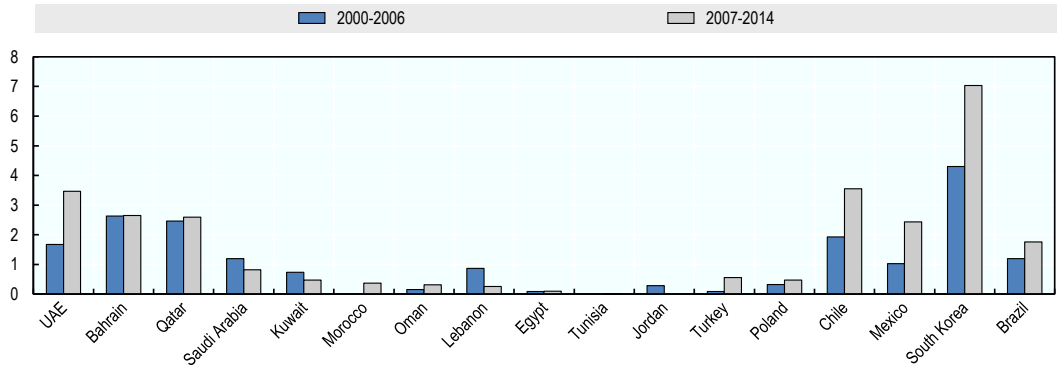
Table 2.3. MENA corporate bond markets, 2014

	Domestic corporate bond market			International corporate bond market		
	Size (USD billion)	Growth % (2005-14)	Depth (% of GDP)	Size (USD billion)	Growth % (2005-14)	Depth (% of GDP)
UAE	43.56	-	15.16	75.08	22.38	26.12
Saudi Arabia	20.81	60.22	3.95	9.81	20.77	1.86
Egypt	1.02	12.25	0.47	-	-	-
Morocco	0.42	15.11	0.46	1.85	19.95	-
Tunisia	0.04	-	0.08	2.91	-	6.55
Qatar	-	-	-	14.96	12.79	11.95
Bahrain	-	-	-	4.99	12.81	19.42
Lebanon	-	-	-	2.51	-	6.61
Kuwait	-	-	-	1.53	-	1.28
Oman	-	-	-	1.45	19.23	-

Note: Size shows total amount outstanding in USD billion and is based on the definition of the BIS, domestic versus international outstanding. A dash (-) indicates that data for the variable is not reported by IOSCO.
Source: Tendulkar (2015), *Corporate Bond Markets: An Emerging Markets Perspective.*

Corporate bond issuance as a percentage of GDP has generally been increasing in the region since the onset of the financial crisis (Figure 2.13). The exceptions are Saudi Arabia, Kuwait and Lebanon. Although Saudi Arabia has been one of the fastest growing domestic corporate bond markets (60% globally for the 2005-14 period), its corporate bond issuance as a percentage of GDP decreased over 2007-14 compared to 2000-06.

Figure 2.13. Corporate bond issuances as a percentage of GDP (average)



Note: 0 values are displayed for Morocco and Tunisia (2000-06) and Jordan and Tunisia (2007-14).
Source: Adapted from Tendulkar (2015), *Corporate Bond Markets: An Emerging Markets Perspective.*

The total size of corporate bond markets as a percentage of GDP remains small, however, relative to the size of the MENA economies. Under a classification system for domestic corporate bond markets presented in a recent working report (Tendulkar, 2015), United Arab Emirates was categorised in 2014 as a medium-sized market (USD 30-100 billion), Saudi Arabia as a developing market (USD 10-30 billion) and Morocco and Tunisia as micro markets (less than USD 1 billion). The region had no established market (greater than USD 100 billion), and Bahrain, Kuwait and Qatar were classified as absent markets. Table 2.4 presents further information from the working report.

Table 2.4. Corporate bond market development in MENA

Market Classification	Growth	Depth	% Domestic	% International
Medium Sized Market				
UAE	Stalled/Negative	Shallow	37	63
Developing Market				
Saudi Arabia	Fast	Very Shallow	68	32
Small Market				
Egypt	Medium	Shallow	100	0
Micro Markets				
Morocco	Medium	Shallow	19	81
Tunisia	Stalled/Negative	Shallow	1	99

Note: Growth is delineated as follows, based on the compounded annual growth rate: Equal or greater than 20% (fast), 10-19% (medium), 1-9% (slow), less than 1% stalled/negative). Depth is classified as a percentage of GDP as follows: equal to or greater than 100% (very deep), 50-99% (deep), 20-49% (moderate), 5-19% (shallow), less than 5% (very shallow). The percentage of domestic corporate bond market size versus international corporate bond size is based on the 2014 amount outstanding.
Source: Tendulkar (2015), *Corporate Bond Markets: An Emerging Markets Perspective.*

The recent study of Arab companies cited above found that bond activity remains low in Arab jurisdictions compared to international levels, even though bond issuances have increased (Ismail, Cortina Lorente and Schmukler, 2017a). It also suggests that Arab non-financial companies[6] issued the world's longest-term corporate bonds (11.5 years) during the period. This may be due to the large share of corporate bond issuances for infrastructure financing by large Arab companies operating in the transportation, electricity and gas sectors.

Perhaps because of the large share of infrastructure bonds, the median issue size in Arab countries (USD 200 million) is much higher than in other regions (USD 44 million in Asia, USD 97 million in G7). This indicates that corporate bonds in the region are being issued by large firms. A separate study confirms this, finding that corporate bond issuers in the region tend to be vastly larger than equity issuers (Cortina Lorente, Ismail and Schmukler, 2017b). Over 2003-11, the median equity issuer had assets of around USD 240 million, while the median bond issuer's assets were USD 10.4 billion.

Other characteristics of MENA corporate bond markets include the following:

- MENA companies generally use international markets rather than domestic markets. Saudi Arabia and Egypt are the region's only countries with large domestic corporate bond markets comparable to international markets.
- Issuer concentration is high, which can make it difficult for growth companies to access the corporate bond market. When the issuances of the top 10 issuers in each market are measured against total issuance in that market, concentration is 100% in Bahrain, Egypt, Kuwait, Lebanon, Morocco and Oman for the 2010-14 period (Tendulkar, 2015). UAE stands out as the region's only market with a relatively low issuer concentration (59%).
- In addition to conventional bonds, MENA companies issue sukuk (Islamic bonds). In 2017, the sukuk issuances of GCC countries raised a total of USD 4.61 billion, representing around 29% of global corporate sukuk volume (IFSB, 2018).

Several MENA jurisdictions are acting to accelerate procedures and reduce the cost of issuing bonds. Saudi Arabia has adopted new corporate bond regulations to shorten procedures; Kuwait, Oman and UAE have updated their sukuk regulations (Zawya, 2016); and Egypt has introduced new regulations under which credit rating is not required in the case of private placements (Gramon, 2016). Some MENA jurisdictions are also moving to modernise bankruptcy regimes (Reuters, 2017).

2.5.2. Growth companies and the corporate bond market

A growth company might choose corporate bonds as a source of finance since their issue does not affect its ownership and control structure. Bonds might also be suitable for some companies due to their fixed term, determined in accordance with expected cash flows by the issuer. Moreover, issuance procedures are generally simpler for corporate bonds than for equity.

Nevertheless, bond issuances by growth companies remain limited in both advanced and emerging markets. Corporate bond markets are more suitable to larger companies due to factors including the fee structures of service providers, such as rating agencies and underwriters; the investment strategies of institutional investors; and the incentives of market makers (OECD, 2015a).

In addition to the small size of the MENA corporate bond market, growth companies face disadvantages such as a limited track record, lower visibility and higher information asymmetries affecting their access to market.

An OECD study based on data from more than 150 000 individual transactions between 1995 and 2014 indicates that nearly 50% of all listed companies that issue corporate bonds for the first time during the period five years prior and after their IPO date do so within three years following their entry in the market (OECD, 2015a). This result shows that joining the stock market, which requires a formal corporate governance structure, may increase opportunities to tap into the corporate bond market. The reverse may also be valid when there is a well-functioning corporate bond market that requires disclosure and transparency.

2.6. Corporate ownership structure

Ownership structure directly affects corporate governance. Concentrated ownership, which is prevalent in the MENA region, raises corporate governance issues including disclosure and transparency, related party transactions and minority shareholder rights.

Ownership categories affect monitoring and shareholder engagement in the corporate decision-making process. Companies with concentrated ownership in the form of sovereign investors or families can face conflicts between the controlling shareholders and minority shareholders.

The region's relatively small base of institutional investors, the dominance of retail investors on its stock exchanges and restrictions that limit foreign investor interest also present challenges. This section presents an overview of MENA's corporate ownership structures and owner categories.

2.6.1. Concentrated ownership

The majority of listed MENA companies have concentrated shareholders in the form of sovereign investors or families (OECD, 2017b). State ownership is high in listed

companies because of previous privatisations and active investment by sovereign investors.

An analysis of the 600 largest firms listed on the region's exchanges, which account for 97% of total market capitalisation (GOVERN, 2016), demonstrates that sovereign investors are the largest investor category in all MENA markets except Lebanon and Tunisia. It shows that:

- 30% of the region's largest listed companies have a government shareholder
- MENA listed companies that have government stakes account for 65% of market capitalisation.

These figures are even higher in large companies and in the GCC markets.

With the exception of the oil business, 80% of MENA companies are family-owned businesses (IFC, 2016). Family companies in MENA are generally reluctant to list their shares on MENA exchanges, SMEs may be the exception. For example, in Saudi Arabia, only 19% of the companies listed on the main market are family-owned companies, compared to more than 90% for those listed on the country's SME market (WFE, 2018).

2.6.2. Small institutional investor base

Publicly available data is limited on the size of institutional investors in MENA markets, but several international organisations report that the institutional investor base (pension funds, insurance companies and investment funds) is rather small in the region.

Across the GCC countries, which have the MENA's largest capital markets, the assets of mutual funds amounted to USD 25 billion and public pension funds to USD 411 billion in 2016 (Ernst & Young, 2018a). The total assets of GCC sovereign wealth funds were dramatically greater, at USD 2.9 trillion.

Indeed, of the world's 15 largest sovereign wealth funds, seven are from the MENA region (SWFI, 2018). The total wealth of high-net-worth individuals in the Middle East stands at USD 2.42 trillion (World Wealth Report, 2017).

These figures contrast with global trends. In the OECD member states, institutional investors are the dominant type of investor, and the assets of institutional investors are increasing rapidly. In 2016, for instance, the assets of pension funds grew faster than GDP in 25 of the 35 OECD countries.

2.6.3. Dominance of retail investors

MENA stock exchanges are dominated by retail investors, with an estimated 39% of shares belonging to retail investors across the region, and retail dominance in trading is even higher (GOVERN, 2016). This is confirmed by a recent analysis by the World Federation of Exchanges on the impact of retail participation on equity markets (WFE, 2017a).

For the four MENA exchanges included in the WFE study, the average value of retail trades in 2016 amounted to 64% of the value of total trades on the Egyptian Exchange, 71% on the Dubai Financial Markets, 83% on the Amman Stock Exchange and 92% on the Muscat Securities Market.

Retail investors contribute a reasonable proportion of total trades in other MENA markets. The exception is the Casablanca Stock Exchange, which has a developed

institutional investor base and where the average value of retail trades in 2016 was just 10% of the value of total trades. The figure for 2016 was 30% on the Bahrain Stock Exchange, 40% on the Kuwait Stock Exchange, 51% on the Qatar Stock Exchange and 83% on Saudi Arabia's Tadawul. As for the Moroccan financial centre, institutional investors accounted for 90% of the total value traded in 2016.

2.6.4. Limited foreign investor interest

Foreign investor interest has remained relatively limited in MENA economies because of restrictions on foreign ownership and other regional factors such as the relatively small size of markets, low liquidity and existing ownership structures. A report prepared under the MENA-OECD Investment Programme (2011) identified foreign ownership limitations as one of the main obstacles to foreign investment in the GCC.

Limits on foreign investment may be motivated by reasons such as the protection of national interests or strategic sectors. In order to attract foreign interest, some MENA jurisdictions have recently started to revise those constraints in line with national diversification and economic liberalisation policies.

Regulatory amendments were adopted in Bahrain in 2016 and in UAE in 2018 to allow for 100% foreign ownership in companies. Qatar raised foreign ownership limits from 25% to 49% in 2014, and Saudi Arabia has adopted new rules to open up direct access to its capital market to foreign investors.

2.7. The way forward

2.7.1. Key findings

The findings of this chapter indicate that MENA economies could benefit from deepening their capital markets. Capital market development would increase opportunities for growth companies to access finance and contribute to the region's overall economic development. Better corporate governance is crucial in this regard.

Despite differences among MENA jurisdictions, there are common challenges across the region. Key findings include the following:

- Stock market size measured by market capitalisation relative to GDP is relatively low in MENA compared to peer countries. Equity markets have the potential to offer more capital for the real sector in the region.
- The total value of growth company IPOs and the low sectoral diversification in equity markets suggest that a limited number of companies have access to capital markets.

Large companies have increasingly used domestic bond markets as a source of finance in MENA. Nevertheless, the region's corporate bond market remains small. Bond issuances by growth companies remain limited in both advanced and emerging markets.

- Bank lending in the region is channelled to large companies, particularly state-owned enterprises and large industrial firms, leaving SMEs and growth companies deprived of bank credit.
- Concentrated ownership in the form of sovereign shareholders or families is common. The reluctance of family-owned companies to disclose information or dilute their stakes by going public affects capital market development in the region.

- A large and diversified investor base is crucial for capital market development since it ensures liquidity and stable demand. Institutional investors can have a positive impact on corporate governance by monitoring company practices and engaging with company management. Yet the region's institutional investor base is small and its markets are dominated by retail investors, which may not be conducive to the long-term growth of companies.
- Restrictions on foreign ownership are a key obstacle to greater foreign interest in investing in the region. Other obstacles include MENA's small market size and ownership structures.

Efforts by policy makers to address these challenges would need to address three main target areas in which there are indications of market imperfections, or where MENA capital markets may be underperforming their potential.

First, distortions in the allocation of bank credits must be avoided. This relates particularly to an apparent preference given to SOE borrowers as well as certain large well-connected incumbent companies.

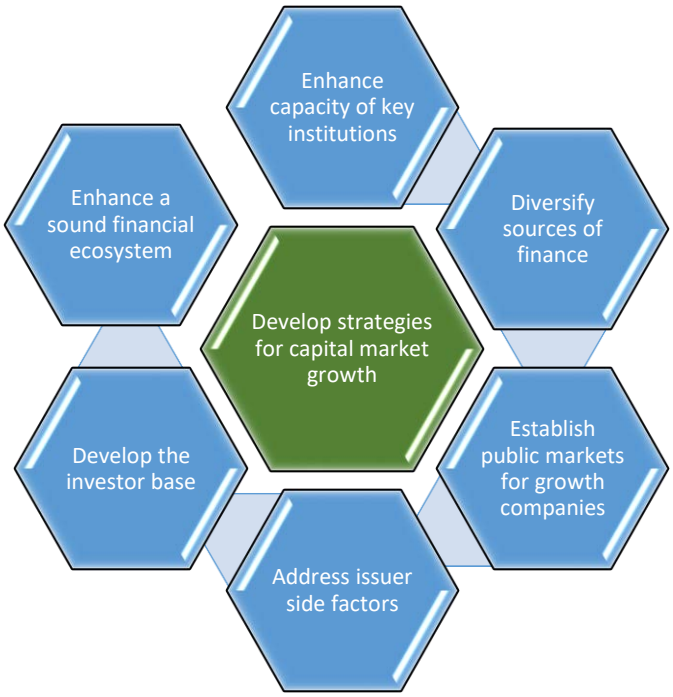
Second, family owned companies and other SMEs should be better incentivised to raise equity finance. This includes taking measures to establish or improve the attractiveness of SME equity market segments. Some countries may also want to review elements of their national legislation, including concerning the tax treatment of debt and equity. The apparent reluctance of family firms to disclose information could be addressed both via less onerous reporting requirements on small listed companies, and by requiring larger unlisted family companies to raise their disclosure requirements.

Third, an overriding priority is measures to increase the overall attractiveness of being listed in equity markets in the MENA region. Some options for further action to raise market liquidity, transparency, investor protection and market infrastructure are reviewed in the following section.

2.7.2. Policy options

A group of interrelated policy options is proposed to address the challenges facing MENA economies in terms of capital market development and access to finance (Figure 2.14).

Figure 2.14. Main policy areas for better access to capital markets



These key policy options are summarised in Table 2.5 and developed below. Not all recommendations apply to every country; the policy options must be tailored to each MENA economy's specific circumstances and needs.

However, the recommendations as a whole are intended to ensure the deepening of capital markets and to enable growth companies to obtain finance from them. If possible, therefore, they should be implemented in a holistic manner under a comprehensive reform programme suited to each economy's needs.

Table 2.5. Policy options for improving access to capital markets

Objective	Policy Options
Develop strategies for capital market growth	Investigate whether the preconditions of sound capital market development are in place
	Monitor policy measures adopted by other countries to develop capital markets and improve corporate governance
	Prepare a national action plan, monitor the results and revise regularly
	Ensure an effective corporate governance framework
Enhance the capacity of key institutions	Improve the monitoring and enforcement capacity of securities regulators
	Deepen international co-operation to benefit from knowledge sharing opportunities
	Enhance the operational independence and accountability of the regulators
Improve capital market financing alternatives	Provide new facilities for issuing securities and expand the types of capital market financing methods that are available to companies in MENA
	Review the efficiency of the public offering regime
	Design and implement measures guaranteeing investor protection without creating undue burdens
	Consider introducing a hybrid issuance procedure and private placement regime

Objective	Policy Options
Establish specialised markets for growth companies	Conduct a feasibility study to find a suitable model
	Promote good corporate governance by incorporating governance requirements into listing rules, monitoring compliance with standards and enforcing high disclosure standards
Address issuer side factors	Investigate factors affecting the issuance and listing decisions of companies
	Explore and allow for proportionality in the corporate governance framework
	Launch capital market awareness programmes for both investors and potential issuers
	Launch IPO readiness programmes targeting growth companies to support their cultural and organisational development
	Explore ways to decrease the cost of public offering and listing
Develop the investor base	Promote a capital markets culture by raising overall financial literacy and build trust by ensuring strong minority rights, good corporate governance and greater transparency and disclosure
	Consider increasing free float requirements
	Conduct planned privatisation through public offering
	Create a regulatory environment conducive to the growth of institutional investors
	Adopt measures to encourage institutional investors to take a more active role in demanding good corporate governance
	Evaluate the effects of portfolio limitations on capital market investment and consider adopting rules to allow institutional investors to invest in certain types of companies
	Increase the presence of sovereign wealth funds in capital market development and good corporate governance
	Relax foreign ownership limits to attract international institutional investors
Develop a sound financial ecosystem	Establish the right regulatory infrastructure, including incentives and requirements, to enable effective functioning of all service providers
	Require or encourage the disclosure of potential conflicts of interest faced by service providers
	Evaluate alternative measures to increase analyst coverage

2.7.3. Developing strategies for capital market growth

Stable macro-economic conditions, strong institutional settings and legal structure, and a well-functioning financial infrastructure are preconditions for local capital market development. Similarly, sound corporate governance and the availability of long-term savings are crucial for active market-based finance. Bond market development is more challenging than equity market development since the necessary infrastructure is more complex and extends to areas such as creditor rights and insolvency regimes.[7] The government should have a strong role in tackling these challenges.

MENA governments are aware of these challenges and have implemented reform programmes to deepen their capital markets. However, even after determining the measures needed to deepen the markets, putting them practice can prove difficult.

Because the policy options are generally interrelated, co-operation is needed among several institutions: regulatory and supervisory authorities of financial sectors; stock exchanges; tax authorities; and other government institutions supporting entrepreneurship. A coherent national action plan should be prepared through consultation with all related parties.

Policy makers should consult targeted market participants at an early stage while programmes are being designed. Public awareness programmes could then be organised to reach a larger target audience. Regular monitoring and review could result in a best-practice model that would benefit the entire MENA region.

Box 2.1. Saudi Arabia's Financial Sector Development Programme

Saudi Arabia has recently accelerated efforts to facilitate investment and strengthen the role of capital markets as a funding channel. In April 2017, the country's Council of Economic and Development Affairs (CEDA) launched a Financial Sector Development Programme in line with Saudi Vision 2030, a comprehensive plan to diversify the economy.

The programme seeks to create a thriving financial sector in order to support economic development by stimulating savings, finance and investment. It is underpinned by three main pillars:

- enabling financial institutions to support private sector growth
- developing an advanced capital market
- promoting and enabling financial planning.

The programme, which was designed to comply with international standards of financial stability, aims to increase the country's financial assets to GDP ratio, the share of capital market assets and the share of SME financing at banks. It also envisions a digital transformation as the country moves towards a cashless society.

The programme defines the responsibilities of all related institutions, including the Capital Markets Authority; the Ministry of Finance, Ministry of Commerce and Investment, and Ministry of Economy and Planning; the Public Investment Fund; and the Monetary Agency. Efforts are co-ordinated among relevant stakeholders and progress is monitored.

Source: www.vision2030.gov.sa/en/FSDP

Saudi Arabia, Jordan and Qatar have already introduced national programmes aimed at developing capital markets. Saudi Arabia's Financial Sector Development Programme offers a good-practice example that may be of interest to other jurisdictions in the region (Box 2.1).

Initiatives taken by countries outside the region could also prove interesting to MENA policy makers as they seek to deepen capital markets. For example, the European Union's capital market union aims to increase the access of smaller growth companies to capital markets. Measures range from introducing simpler disclosure rules for small companies to creating pan-European institutional investors specialising in long-term investment, particularly in SMEs.

The EU has also introduced corporate governance initiatives that aim to strengthening shareholders' rights and that encourage long-term shareholder engagement in listed companies. The EU Shareholder Rights Directive was amended in 2017 for this purpose.

Monitoring these developments and understanding alternative policy options can help MENA policy makers to build their own models. Existing international organisations, such as the Union of Arab Securities Authorities (UASA) and Union of Arab Stock Exchanges, can play an active role in information and experience sharing.

However, MENA policy makers also need to consider their domestic and regional circumstances in order to develop suitable policy options. For example, state-owned stock exchanges in MENA jurisdictions generally face different challenges than demutualised

stock exchanges in setting standards; monitoring; and enforcing listing and corporate governance rules. Assigning such stock exchanges central roles for the regulation and monitoring of members could support overall market development efforts and ease the burden on securities regulators.

Similarly, sovereign investors, as the biggest investor category in the MENA region, could assume a strong role in supporting capital market investment in growth companies or influencing a company's corporate governance practices. Finally, Islamic capital markets can play a vital role in growth company financing. The importance of Islamic finance has been recognised by MENA authorities, and several countries have accelerated their efforts to develop this market. For example, United Arab Emirates has taken initiatives aimed at promoting Dubai as the capital of the global Islamic economy.

Policy makers must also lay the groundwork for an effective corporate governance framework. This framework determines which corporations are allowed to access public markets and the terms upon which savers are able to invest in a corporation (Çelik and Isaksson, 2017).

Investors need assurance that their rights are protected when they convert their savings into investments. Capital market investors also need detailed, up-to-date information in order to evaluate investment opportunities in the market and to monitor the use of their investments. Companies may also be unwilling to use capital markets without clear responsibilities defined by the rule of law (OECD, 2015a).

Policy makers must be committed to establishing a regulatory environment that is flexible and attractive enough to enable any company, including growth companies, to tap into capital markets, while at the same time enhancing investor confidence.

Their programmes should also address identified weaknesses in corporate governance practices and regulation in MENA jurisdictions. These weaknesses, which are discussed in detail in Chapter 3, involve disclosure and transparency, board independence and oversight.

2.7.4. Enhancing the capacity of key institutions

Securities regulation is relatively recent in the region, but regulators have been able to achieve considerable improvements in a short period (Amico, 2014). Recent amendments to capital market legislation and corporate governance rules indicate that regulation and practice are being reformed to meet changing needs. However, the monitoring and enforcement capacity of securities regulators will need to be strengthened as capital markets expand. Markets are becoming more complex due to technological and market innovations as well as increasing cross-border trade, and detecting possible market misconduct is becoming more challenging for every supervisory authority in the world.

MENA regulators have intensified efforts to strengthen supervision, investor protection and effective enforcement. In complex cases, including insider trading, supervisory authorities have published their regulatory enforcement actions (UAE, Saudi Arabia, Oman, Iraq).

In 2016, the United Arab Emirates established a new regulator, the Dubai Centre for Economic Security, to combat financial crimes such as market abuse. The centre has wide powers to supervise, investigate, take precautionary measures and exchange information. The UAE also enacted protection for whistle blowers in 2016. These developments can serve as a model for other markets in the region.

Capacity building programmes are also being conducted in the region for the staff of regulatory authorities. One such programme was launched by the UASA in the second half of 2017.

In order to increase investor confidence, the competent authorities must have adequate powers, resources and institutional capacity to supervise the market and enforce capital market rules effectively. It is essential that the authorities be operationally and financially independent, and also accountable.

International co-operation can help strengthen the institutional capacity of securities regulators. Twelve MENA jurisdictions (Algeria, Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Tunisia and UAE) are currently members of the International Organisation of Securities Commissions (IOSCO), while only two (Egypt and UAE) are members of the International Forum of International Audit Regulators (IFIAR). Active involvement and participation in these organisations, which work on setting standards in capital markets, would improve regulation quality and facilitate experience sharing and co-operation among countries.

2.7.5. Improving capital market financing alternatives

Meeting the funding needs of issuers is fundamental for efficient capital market development in the MENA region. Equity financing is particularly suitable for growth companies. Alternative investment products and methods, such as securitisation, cover bonds, sukuk and fund collection via private placement and crowd funding, are also being used for financing younger growth companies in most markets.

Policy makers could promote market-based finance by acknowledging the value of these alternatives. Regulation and clear schemes for implementation must first be in place, and programmes, rules and regulations should be in line with the realities of the business landscape and be understood by target companies.

MENA companies may prefer to issue Islamic capital market instruments rather than conventional instruments in order to attract a wider investor base. To realise the full potential of Islamic capital markets, however, several challenges must be addressed. These include the complexity of Islamic instruments, the high cost of Islamic contracts, lack of standardisation, lack of diversification, low liquidity and low availability of qualified human resources (Mohieldin, 2012). Issuing sukuk, for instance, is reported to be more complex and costly than issuing conventional bonds (IFSB, 2018).

A limited time frame for the approval process would make issuance procedures more transparent. The use of this good practice has begun in the region. For example, Egypt's financial regulatory authority adopted a regulation in 2017 introducing a 15-day time frame for the review of an IPO application.

MENA authorities could also consider evaluating the efficiency of their public offering regime for facilitating companies' access to capital markets. In particular, the efficiency of prospectus rules should be reviewed, since time-consuming and costly procedures can influence potential issuers. Prospectuses should provide adequate disclosure about the issuer and the offer to allow an informed investment decision. Good practices adopted at the international level, such as the IOSCO disclosure standards for cross-border offers or the EU Prospectus Directive, can serve as a guide.

Common methods for lowering costs and administrative burdens in public offerings include: prospectus exemptions based on offer size or targeted investors (such as

qualified investors); a proportionate disclosure regime for companies with reduced market capitalisation; use of incorporation by reference; shelf registration systems; and simplified rules for secondary issuance regimes or frequent issuers. MENA policy makers who have not yet implemented such measures should seek to strike the right balance between investor protection and alleviating administrative burdens on issuers and offers.

A hybrid issuance procedure and private placement regime for equities and bonds is another option for easing access to capital markets for smaller growth companies. In a hybrid offer regime, some issuance and disclosure requirements are reduced for private placements to institutional investors. This regime is widely used globally, especially in corporate bond markets.

A recent report noted that procedures for public offers and public placement of corporate bonds are similar in Egypt, Jordan, Morocco and Tunisia, where the evaluation of a bond issuance application takes three to four months (EBRD and AMF, 2015). Under changing market conditions, long evaluation periods and complex issuance procedures could discourage potential issuers.

A private placement regime is especially important for growth companies. Private placement helps unlisted growth companies to tap into capital markets for the first time. It generates a closer relationship between security holders and the company, and this relationship creates opportunities for growth companies to reach capital market investors (OECD, 2015a).

In other words, a privately placed issue can enable an unlisted company to gain experience in capital markets while operating with lighter regulatory requirements. The company can in turn assess its options for attaining further funding from the capital markets, and complete any capacity improvements needed for that purpose.

Access to any form of capital market finance requires reliable, consistent and timely disclosure of company information, as well as formalisation of rights and obligations with respect to how a company is managed. In this sense, an offer through private placement also encourages companies to adopt a better corporate governance structure.

2.7.6. Establishing specialised markets for growth companies

Public equity and bond markets designed in accordance with the needs of growth companies should be developed in the MENA region. Special equity markets for young and growing companies have been established in many of the world's economies, yet only three such dedicated parallel markets currently exist in MENA, in Egypt, Morocco and Saudi Arabia (Box 2.2).

Dedicated alternative markets provide access to capital markets for smaller growth companies with lighter regulatory requirements. After the establishment of the Nomu-Parallel Market in Saudi Arabia, which was promoted by Tadawul as a market open to companies of all sizes, the total amount of capital raised in the market was 169 USD million, representing 37% of total MENA growth company IPO proceeds in 2017.

Box 2.2. SME markets around the world

Many of the world's stock exchanges have established SME markets to encourage smaller companies to access capital markets. As of the end of 2017, 33 stock exchanges had dedicated SME markets. The number of listed companies on those markets has expanded from fewer than 5 000 in 2002 to 6 807 at the end of 2017, with the size of the SME markets varying from two to nearly 2 000 listed companies.

Three MENA stock exchanges have established SME markets. As of the end of 2017, listed SMEs numbered 32 in Egypt and 27 in Morocco. Saudi Arabia established its Nomu-Parallel Market in February 2017, and by April 2018 counted 9 listed companies.

Research by the World Federation of Exchanges on SME exchanges (WFE, 2017b) delivered the following findings:

- While obtaining access to finance is important element in listing decisions, other factors, such as positioning the firm for growth and diversifying the investor base, also play a role.
- Companies perceive the process of initial and ongoing listing requirements to be burdensome, costly and time consuming.
- SMEs may not have adequate information on various aspects of listing, such as initial and ongoing listing requirements, ongoing listing costs and the benefits of listing.
- Investors would value the opportunity to have access to more information on SMEs.
- All surveyed parties attach importance to the market liquidity of company shares.

These results indicate factors that need to be addressed for the development of a successful SME market.

Source: WFE (2018b), SME Markets: Key data points; WFE (2017b), SME Financing and Equity Markets.

In addition to equity markets, special bond markets for unlisted SMEs can be designed. Different markets across Europe target corporate bonds issued by smaller companies (mini bonds). They include the London Stock Exchange's Order Book for Retail Bonds, the Stuttgart Bond Market, B and C segments at Euronext, Alternext in France, Mercato Alternativo de Rent Fija in Spain and ExtraMOT PRO in Italy.

These examples can provide useful insights for MENA policy makers. It should be noted, however, that developing a parallel market is complex and that not all special markets are successful. Information asymmetry, high listing and maintenance costs, compliance costs, lack of awareness, low levels of liquidity and high monitoring costs are commonly mentioned as brakes on the success of these markets.

Focusing on growth companies could be useful in establishing a specialised market. Several studies note that public equity financing is appropriate for high growth, innovative companies (OECD, 2015b; Harwood and Konidaris, 2015).

Methods used by policy makers around the world to address these challenges include: applying more flexible listing conditions, relaxing disclosure requirements, lowering admission costs and requiring a key adviser and/or liquidity provider. However, there are

no magic bullets for ensuring a positive outcome. Each jurisdiction should consider how to design measures guaranteeing investor protection without creating barriers restraining market conditions.

Certain methods, even if not in widespread global use, could correspond to the market characteristics of a particular economy. For example, instead of implementing lower disclosure standards for younger growth companies, policy makers could consider creating a special segment in stock exchanges for companies that implement higher corporate governance standards.

Several stock exchanges, such as the London Premium Market or Brazil's Nova Mercado, have taken this approach. Adopting higher corporate governance standards may strengthen investor demand for growth company shares, which are normally perceived as high risk. It may also encourage other companies to improve their corporate governance practices.

2.7.7. Addressing issuer side factors

Understanding the factors that can influence potential issuers is crucial for addressing the reluctance of MENA companies to access public capital markets, and the consequent small size of these markets in the region.

For this purpose, rules and regulations that may constrain companies' issuance and listing decisions should be analysed in detail. Such studies, especially in relation to the family-owned company structure that is common in MENA, would provide considerable input.

MENA policy makers can already benefit from studies conducted by other regulators or international organisations. For example, WFE research that included family-owned companies from two economies in the region found that the main reason family companies are not being listed is concern about loss of control. It would probably be safe to assume that this concern is valid for the entire region.

The one-share-one-vote system adopted in a number of MENA economies may also exacerbate company concerns about loss of control. It is argued that investors may accept alternatives to the one-share-one-vote option if the investment is deemed otherwise attractive.

Where appropriate, MENA economies that apply the one-share-one-vote principle might want to assess the pros and cons of introducing dual share mechanisms, in which one class of shares is offered to the general public and another to company founders, executives and family. In this case, the protection of minority shareholders requires adequate safeguards such as disclosure, board member loyalty to the company and shareholders, and qualified majorities for certain shareholder decisions.

This approach is reflected in the *G20/OECD Principles of Corporate Governance*, which recommend flexibility and proportionality to make the framework flexible enough to meet the needs of companies operating in different circumstances. Factors that may call for flexibility include the size of listed companies as well as their ownership and control structure, geographical presence, sectors of activity and stage of development.

Lack of awareness among companies and investors about the role and potential benefits of capital market finance may also be a factor in the small size of MENA's capital markets. Greater involvement in relevant studies by non-governmental organisations, such as professional unions, associations and universities, could be beneficial.

However, awareness-raising programmes do not suffice to address issuers' concerns. Companies also need to be prepared for the longer-term commitments arising from capital market financing, and notably the reporting obligations. Consulting services to support the cultural and organisational development of all related institutions could help increase growth companies' access to capital markets. The ELITE business development programme in Morocco and Saudi Arabia, mentioned above, is a good example.

Another example is the Irish Stock Exchange's IPO-ready programme, which was launched in 2014 to provide high-growth IPO candidate companies with extensive support. It prepares them to raise strategic finance, become listed on the stock exchange and attract investment from domestic and international shareholders. The programme, supported by Enterprise Ireland and the Ireland Sovereign Development Fund, could be of interest in a region with the largest sovereign funds in the world.

The high advisory and legal costs associated with accessing capital markets may also discourage listings by growth companies. Although there is no comprehensive study to identify the cost structure of IPOs in the region, the overall IPO cost as a percentage of the offered amount is estimated at 5-10% in Dubai and 10% in Morocco (IOSCO, 2015).

Given those relatively high expenses, MENA policy makers could consider measures that have been taken elsewhere, such as lower listing fees, subsidies to help cover the cost of IPOs, government credits and tax breaks. Reinforcing competitive conditions in the IPO services markets could also lead to better outcomes.

2.7.8. Developing the investor base

The development of a robust investor base is essential in the region. To spur investor interest, policy makers should aim to promote a capital market culture. This requires raising overall financial literacy, building trust by ensuring strong minority rights and good corporate governance practices, and requiring more transparency and disclosure. Efficient insolvency regimes and effective enforcement of creditor rights are important for investor interest in corporate bonds.

A vibrant secondary market also makes equity investment more attractive. However, the limited number of listed companies and low liquidity in MENA may discourage investor participation.

Around the world, it is common to require a minimum free float of 25% to support liquidity in equity markets. The main MENA markets have different free float requirements: 30% in Saudi Arabia, 25-30% in UAE, 10% in Bahrain, 5% in Egypt. In order to address liquidity problems, MENA policy makers should evaluate the efficiency of free float requirements in their market. Depending on the results, they could consider increasing free float requirements. Other widely used measures, such as establishing a market maker system or a call market, could be considered to address liquidity concerns. Issuances in sufficient size and frequency are essential for secondary bond market liquidity.

Planned privatisations around the region could also provide liquidity and improve market attractiveness. However, policy makers need to clarify prior to privatisation the main goals that are to be achieved in financial and non-financial terms. Of key importance is whether an IPO should target a small class of professional investors or the general public. The World Bank has argued that deep discount distributions in the past have resulted in massive oversubscriptions, retarding the development of the markets' price discovery function (Rocha, Arvai and Farazi, 2011). Conversely, some European countries have

successfully developed domestic "mass shareholder cultures" by offering SOE shares to the public at somewhat discounted prices. In any case, in order to attract investors, state-owned enterprises need to adopt an adequate corporate governance structure prior to privatisation.

As liquidity largely depends on the existence of a robust investor base with different investment preferences, the development of institutional investors should be an essential part of MENA policies for capital market development. Governments should take action to create a regulatory environment conducive to the growth of private pension funds, insurance companies and investment funds, which can provide long-term finance.

The presence of institutional investors as a strong shareholder group could also promote better corporate governance practices (OECD, 2017b). In the presence of a strong shareholder group, institutional investors would have the capacity to represent shareholder interests and influence corporate management, either directly or through monitoring and possible exit.

MENA markets have great potential for further development of institutional investors. The Islamic funds industry in particular deserves more attention in the region. Although Saudi Arabia accounts for 38% of total assets under management in the global Islamic funds industry, the Islamic funds market is relatively small in other MENA economies (IFSB, 2018). As prospects for the global Islamic funds industry are positive, with global Islamic funds under management expected to reach USD 77 billion by 2019 (Thomson Reuters, 2015), MENA economies must try to develop their Islamic fund markets. Because global Islamic funds invest largely in equity – 42% in 2017 (IFSB, 2018) – development of this market may also create a stable investor base for growth companies.

Longstanding regional conflicts and economic slowdown have limited the development of institutional investors in the MENA region. Economies also face challenges in demanding good corporate governance practices due to the region's small market size and concentrated ownership structure. The presence of a dominant shareholder weakens the capacity of institutional investors to influence corporate governance. In some cases, institutional investors do not have proportional voting rights and as a result may not vote at shareholder meetings and will not disclose their voting policies (GOVERN, 2016).

MENA economies could follow the example of other countries with a prevalence of controlling shareholder structures, such as Chile and Indonesia, to encourage institutional investors to take a more active role in corporate governance. This may include requirements on the disclosure of voting rights and management of conflicts of interest. The *G20/OECD Principles of Corporate Governance* note that requirements to engage, for example through voting, may be ineffective and lead to a box-ticking approach when shareholder engagement is not part of the institutional investor's business model. Therefore, a first step could be to encourage institutional investors to establish and disclose their voting policy.

Different models are required or recommended for the exercise of voting rights by institutional investors. This is especially the case when an institutional investor holds more than a specified share of a company's equity or for voting on certain important issues, such as the election of board members and the compensation committee, and compensation for the board of directors and executive management (OECD, 2017b). It may be worth exploring the benefits of voluntary stewardship codes that institutional investors can follow, especially where they are dominant investors in the equity market, as in Morocco.

MENA policy makers could also consider reviewing portfolio limitations of institutional investors to assess whether relaxing limits on capital market investments could encourage more active institutional investor representation in corporate management. New regulations could possibly be adopted to allow institutional investors to invest in certain types of companies, such as younger high-growth companies.

Finally, sovereign wealth funds, the largest institutional investor category in the MENA region, have the potential to contribute to the improvement of capital markets and corporate governance practices. Capital market investments by sovereign wealth funds could therefore be encouraged. Investments by sovereign wealth funds in growth companies could be increased through programmes that are devised with the stock exchange and other relevant authorities, such as Ireland's IPO-ready.

Sovereign wealth funds around the world use different methods to influence the corporate governance practices of investee companies. Norges Bank Investment Management, for example, formulates expectations in terms of good governance and board accountability, and publishes guidelines on voting policy. Companies are monitored, and those found to be unfit – on issues including environmental damage, sustainability and violations of human rights – are excluded from its investment portfolio. MENA sovereign wealth funds that adopt such methods could favour the development of good governance.

Sovereign investors could also make a significant contribution on their own initiative by implementing good governance practices. They have the potential to reduce possible political pressure and improve accountability by increasing board effectiveness, publishing governance and voting policies, monitoring investee companies and adopting strong internal control and risk management processes. This is important for sustainable value creation and sound capital market development.

While local institutional investors are evolving in the region, foreign investors could contribute to competition, shareholder engagement and the transfer of know-how as well as liquidity and price discovery in the market. As noted above, several MENA economies have already started to relax foreign ownership limits, and with greater liberalisation the level of foreign investors will probably increase. Efforts to liberalise foreign investment in capital markets should be continued.

2.7.9. Enhancing a sound financial ecosystem

A sound financial ecosystem is vital for the functioning and deepening of capital markets. A strong ecosystem includes independent professionals such as analysts, brokers, rating agencies and market makers that support companies during and after a public offer.

A weak ecosystem may impede market development, reduce the willingness of companies to tap into the market and deter investors from investing. It is therefore important for policy makers to establish the right regulatory infrastructure, including incentives and requirements, to enable all service providers to work effectively. Requiring or encouraging the disclosure of potential conflicts of interest faced by service providers falls within the framework of sound corporate governance practices and underpins capital market integrity. Disclosure of how conflicts of interests are managed is also beneficial.

Nonetheless, the capital market ecosystem is under pressure in many countries around the world, with particularly onerous effects for smaller growth companies. For example, there are less "support services", such as analyst coverage and proxy advice, for smaller companies. As a result capital markets are used mostly by large companies.

This seems to be relevant for MENA markets. According to a study conducted in 2015 for the largest GCC markets (Kuwait, Qatar, Saudi Arabia, UAE), analyst coverage as a percentage of all stocks traded in securities exchanges ranges from 8.1% in Kuwait to 49.7% in Saudi Arabia (Marmore, 2015). This suggests low levels within the region. A closer look reveals that analyst coverage for large-cap companies is considerably higher, ranging from 64% to 100%, and that the ratio drops significantly for small-cap companies, ranging from 3% to 28%. Furthermore, in Egypt, 73% of all listed companies have no analyst coverage and only 20 companies are followed by five or more analysts (GOVERN, 2016). The greater availability of research and public information for large-cap companies may play into differences in analyst coverage.

Initiatives taken by other countries to increase analyst coverage could be instructive for MENA. For example, Euronext has adopted a fee scheme that introduces lower trading costs for brokers who meet certain criteria with respect to trading volumes and equity research coverage. EnterNext, a Euronext subsidiary that supports SMEs, set up a partnership with the Morningstar investment research company to provide analysis on the 330 small and midcap tech companies listed on Euronext markets.

In further examples, an independent research company produces one or two reports per year for companies listed on the SME platform of India's BSE market, with the cost of the research covered by the country's Investor Protection Fund. And an initiative by Spain's Alternative Stock Market and the Spanish Institute of Financial Analysts aims to increase the market visibility of listed companies (Arce, López and Sanjuán, 2011).

Notes

[1] The bank deposits to GDP ratio is especially high in Lebanon (247%). Excluding Lebanon, the ratio is 66.41 %.

[2] General IPO activity in MENA is provided for the 2008-17 period. Detailed IPO analysis for the region covering the years 2014-2017 is based on the annual reports of stock exchanges and Ernst & Young's MENA IPO reports. IPO data excludes real estate investment trusts, investment funds and unit/trust offerings.

[3] The paper focuses on 12 Arab countries, namely Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and UAE.

[4] Value traded excluding top 10 traded companies to total value traded is between 25-59 %, market capitalisation excluding top 10 companies to total market capitalisation is between 21-71%.

[5] Rating agencies and index providers classifying markets include MSCI, S&P, Dow Jones, FTSE and Russell. Rating agencies and index providers classify markets as developed, emerging and frontier markets based on different parameters (such as size, liquidity, market accessibility). Less advanced capital markets from emerging markets are classified as frontier markets.

[6] The study includes dataset of companies from Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates.

[7] This difference may be in part due to the importance placed on infrastructure and the institutional and legal structure in bond market development owing to the limited return on bonds compared to equity, which presents the possibility of unlimited return (Laeven, 2014).

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Chapter 3. Improving transparency and disclosure in MENA

Corporate transparency and disclosure is a key component of the corporate governance framework needed to promote private sector development in MENA economies. This chapter presents the current legal framework for transparency and disclosure in MENA economies. It begins by describing the corporate governance landscape in the MENA region. It then reviews international standards on transparency and disclosure, including the G20/OECD Principles of Corporate Governance, and examines transparency and disclosure practices in MENA economies. The chapter looks in particular at two areas of significance in the region: disclosure of beneficial ownership and of related party transactions. It reviews the disclosure practices of some of the region's largest companies, investigates monitoring and enforcement of disclosure rules and presents key challenges for policy makers as they seek to strengthen disclosure policies and practices. The chapter concludes with policy options, based on international good practices.

3.1. Introduction

Transparency and disclosure are a key part of the corporate governance framework necessary for promoting private-sector development in the MENA region.

Without relevant and timely dissemination of information to the market, investors cannot properly evaluate opportunities and risks. Companies need sound financial information in order to make business decisions, and shareholders need accurate and timely disclosure to monitor the company's management. Disclosure is also fundamental to facilitating access to finance, and this is particularly important for growth companies. Given that investors look at corporate governance frameworks and practices in making their investment decisions, countries with better transparency are in a better position to attract finance.

MENA economies have endeavoured to improve their corporate governance structures, yet gaps remain in terms of transparency and disclosure regulations and practice. Foreign investors have cited the quality of disclosure practices in the region as one of their main concerns (Crescent Enterprises, 2016).

This chapter aims to identify the key challenges faced by MENA economies with respect to disclosure and transparency. It examines the region's corporate governance landscape, including legal framework, role of regulators and stock exchanges, ownership structure and business culture. It reviews international disclosure standards, as well as initiatives to enhance transparency after the 2008 global financial crisis. It then addresses the challenges facing the MENA region, with a focus on two areas: beneficial ownership and related party transactions. The chapter concludes with a discussion of policy options for improving transparency and disclosure in MENA in order to foster economic growth.

3.2. Corporate governance landscape in the MENA region

A country's corporate governance landscape impacts the effectiveness of its policies and regulations. This landscape includes the legal framework for corporate governance, the role of regulators and stock exchanges, company ownership structure and the predominant business culture. A review of this landscape in MENA economies can help to determine the extent to which challenges in these areas affect transparency and disclosure.

3.2.1. The policy framework for corporate governance

The legal framework covering transparency and disclosure in the MENA region, in line with global practice, includes national corporate law, securities law, listing rules and corporate governance codes. MENA authorities acknowledge the role of strong disclosure and transparency for developing capital markets and attracting investors, and initiatives to strengthen this area are taking place across the region (World Bank, 2018; World Bank, 2017b). Between 2015 and 2018, eight jurisdictions under review (Bahrain, Egypt, Jordan, Kuwait, Morocco, Qatar, Saudi Arabia and UAE) updated their company law (OECD, 2019).

Although corporate governance is a relatively new issue in the region, codes have been developed across MENA since 2002. Oman and Egypt were the region's first countries to adopt corporate governance codes, and 11 countries had followed by 2009 (Koldertsova, 2011). The revision of codes has gathered pace recently: since 2015, Bahrain, Egypt, Jordan, Kuwait, Oman, Qatar, Saudi Arabia and UAE have revised their corporate governance codes (OECD, 2019).

Implementation of corporate governance codes varies across MENA. Bahrain and Egypt use the comply-or-explain approach, which provides flexibility for companies to decide not to implement certain of the recommendations. Egypt has also incorporated mandatory governance requirements into the Egyptian Exchange listing rules. Jordan, Oman, Qatar and UAE Federal impose binding requirements, while Kuwait, Palestinian Authority, Saudi Arabia and UAE Dubai International Financial Centre (DIFC) take a mixed approach. Algeria, Lebanon, Morocco, Tunisia and Yemen have opted for voluntary implementation (Table 3.1).

Table 3.1. Corporate governance codes in MENA

	Custodians/Regulators	Public, private, stock exchange, or mixed initiative	First code	*Approach C/E: Comply or explain B: Binding V: Voluntary*
Algeria	Algerian Institute for Corporate Governance (Hawkama El Djazair)	Private	2009	V
Bahrain	Central Bank of Bahrain (CBB)	Public	2010	C/E
Egypt	Financial Regulatory Authority (FRA)	Public	2005	C/E
Jordan	Jordan Securities Commission (JSC)	Public	2008	B
Kuwait	Capital Market Authority	Public	2013	B & C/E
Lebanon	Capital Market Authority / Banque du Liban/LCGTF	Mixed	2011	V
Morocco	National Corporate Governance Commission	Mixed	2008	V
Oman	Capital Markets Authority (CMA)	Public	2002	B
Palestinian Authority	Palestine Capital Market Authority	Public	2009	B & C/E
Qatar	Qatar Financial Markets Authority	Public	2009	B
Saudi Arabia	Capital Market Authority /Saudi Stock Exchange	Public	2006	B & C/E
Tunisia	Conseil du marché financier (CMF)/Tunisian Corporate Governance Centre	Mixed	2008	V
UAE DIFC	Dubai Financial Services Authority	Public	2004	B & C/E
UAE Federal	Emirates Securities and Commodities Authority (ESCA)	Public	2007	B
Yemen	Yemeni Business Club	Private	2010	V

Note: This table includes information provided by MENA jurisdictions in May 2018. Information was provided for 15 of 18 jurisdictions covered in this chapter.
Source: OECD (2019), *OECD Survey of Corporate Governance Frameworks in the Middle East and North Africa 2019,* www.oecd.org/corporate/oecd-survey-of-corporate-governance-frameworks-in-mena.htm.

Disclosure of corporate governance reports is not mandatory in some MENA jurisdictions, such as Algeria, Lebanon, Tunisia and Yemen (OECD, 2019).

3.2.2. Regulators and other institutions

The development of modern securities legislation began in the region during the 1990s. Algeria and Morocco were the first to establish regulatory institutions, in 1993, while the most recent countries to create a capital market regulator were Kuwait (2010) and Lebanon (2011). Most countries in the region accept the sectoral model of financial supervision.[1] However, Egypt has a sectorial-integrated model (a single supervisor for capital markets and insurance), and Bahrain has a single authority for financial markets (Central Bank of Bahrain).

In addition to securities authorities, other institutions with responsibilities related to corporate governance enforcement include the Ministries of Commerce and Industry in Bahrain; the Ministry of Commerce and Investment and the Monetary Authority in Saudi Arabia; and the Central Banks of Egypt, Jordan and the GCC countries. The regulators promote good corporate governance through training and public awareness activities.

Stock exchanges promote good corporate governance by issuing listing rules and disclosure standards and by monitoring compliance (OECD, 2012), but their role varies from country to country. Exchanges in Oman, Jordan and Egypt have incorporated governance requirements into listing rules. Stock exchanges monitor the corporate governance code in seven economies: Egypt, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia and Tunisia (OECD, 2019). The websites of MENA stock exchanges also provide information on the corporate governance practices of listed companies.

In recent years, MENA stock exchanges have stepped up efforts on sustainability issues. The Egyptian Stock Exchange in 2012 became one of the world's first five stock exchanges to make a public commitment to advancing sustainability via the United Nations Sustainable Stock Exchanges initiative (Box 3.1). The initiative aims to enhance corporate transparency and performance on environmental, social and corporate governance (ESG) issues and to encourage sustainable investment. Of the initiative's current 78 partnering exchanges, seven are from the MENA region (Egypt, Jordan, Kuwait, Morocco, Qatar, Tunisia and UAE).

Box 3.1. Promotion of disclosure by Egypt's stock exchange

Egypt's stock exchange (EGX) has made considerable efforts to boost the transparency of listed companies. Listing rules include disclosure requirements (financial reporting, corporate actions, material events, shareholding structure, board of directors and general assembly meetings), the obligation to have an independent audit committee and rules on related party transactions. The Electronic Disclosure System, which enables listed companies to send their disclosures to EGX electronically, was introduced in 2015.

These rules have affected the number of companies listed on EGX. The Egyptian Exchange, the first in the MENA region, was established in the late 19th century. The number of listed companies increased sharply after the 1990s, partly due to significant privatisation, but has since decreased dramatically, from 1 075 in 2000 to 254 in 2017 (WB, WFE). This is because companies that were untraded and/or not complying with listing rules were delisted. Despite the large number of delistings, EGX remained the largest MENA stock exchange in terms of number of listed companies as of 2017.

The EGX has also worked to promote greater transparency of ESG information. After joining the UN's SSE initiative in 2009, it launched its S&P EGX ESG index in 2010 and the EGX Model Guidance for Reporting on ESG Performance and SDGs in 2016.

Source: EGX, UN Sustainable Stock Exchange Initiative.

Private institutions focusing on corporate governance have also been established in the region. The first was the Egyptian Institute of Directors, established in 2003 to promote corporate governance. Hawkamah, The Institute for Corporate Governance was established in Dubai in 2006 to help companies to develop globally recognised corporate governance frameworks. Institutes of directors or corporate governance centres have

since been established in seven countries,[2] while regional institutions, such as the Union of Arab Securities Authorities (UASA) and the Arab Federation of Exchanges, also have activities aimed at enhancing corporate governance in the MENA region.

These institutions have been actively involved in promoting corporate governance activities through research, conferences, training and advisory services. In 2011, Hawkamah launched the first MENA-wide ESG Index in co-operation with Standard & Poor's in order to encourage MENA listed companies to pursue sustainable business practices. The Index covers the 50 companies scoring highest on ESG commitment from the 150 biggest companies in Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and UAE. In July 2017, the UASA issued a guideline for listed companies in Arab financial markets aimed at reducing the obstacles faced by Arab countries in applying the rules of governance. Also in 2017, the Governance Centre at Alfaisal University's College of Business launched a Corporate Governance Index to monitor and promote good governance practices among corporations doing business in Saudi Arabia. These activities are important since the results of corporate governance reforms depend on public-private co-operation and high-level awareness of best practices.

Morocco offers a good example of strong public-private co-operation to build commitment for corporate governance reforms. A National Corporate Governance Commission was established in 2007, led jointly by the Ministry of Economic and General Affairs (public sector) and the General Confederation of Moroccan Enterprises (private sector). The commission issued a National Code of Corporate Governance in 2008, and the Moroccan Institute of Directors was established in 2009 (OECD, 2012).

International co-operation can strengthen countries' efforts to adopt and implement best practices. Currently, securities regulators of 12 MENA economies[3] are ordinary members of the International Organisation of Securities Commissions (IOSCO). However, only two (UAE and Egypt) are members of the International Forum of Independent Audit Regulators (IFIAR). Participation in international dialogue is especially useful for the exchange of experiences, improving institutional capacity and implementing effective enforcement for securities markets.

3.2.3. Other factors affecting corporate governance practices in the MENA region

Corporate governance practices in the MENA region are often perceived as not sufficiently developed to attract investors and contribute to capital market development. Improving corporate governance principles is challenging, however, due to the region's distinctive features: concentrated ownership, a relatively non-transparent business culture and the level of capital market development (as described in the Overview).

Ownership structures can affect disclosure and transparency, with the quality of voluntary disclosure increasing when ownership is less concentrated.

The majority of listed MENA companies have concentrated shareholders in the form of sovereign investors or founding shareholders, such as families (Amico, 2014). The 600 largest firms listed on the region's exchanges constitute 97% of total market capitalisation[4]. A recent analysis of these firms demonstrates that sovereign investors are the largest investor category in all MENA markets except Iraq, Lebanon and Tunisia, while family offices are the second biggest investor group (GOVERN, 2016).

A country's legal system (common law or civil law) affects disclosure levels. Most MENA jurisdictions follow a civil code, while research indicates that disclosure levels are substantially higher in common-law markets.

A country's historical/economic relations with other countries can also play a role. A study of the annual reports of 216 companies from 13 MENA economies (Othman and Zeghal, 2010) found that disclosure levels were higher in countries with privileged economic ties to Anglo-America (Egypt, Jordan, the Gulf Co-operation Council countries) than in those with ties to Continental Europe (Tunisia, Morocco, Lebanon).

3.3. Transparency and disclosure: Key issues

3.3.1. International standards on transparency and disclosure

The *G20/OECD Principles of Corporate Governance* (hereinafter referred to as the Principles) identify building blocks for sound corporate governance and offer practical guidance for policy makers. Chapter V states that timely and accurate disclosure should include material information on the following:

- the financial and operating results of the company
- company objectives and non-financial information
- major share ownership and voting rights
- remuneration of members of the board and key executives
- information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board
- related party transactions
- foreseeable risk factors
- issues regarding employees and other stakeholders
- governance structure and policies.

The *Principles* state that disclosure should be carried out through periodic reports and all material developments that arise in between.

A 2105 update of the *Principles* places greater emphasis on disclosure of beneficial ownership, clarifies recommendations on related party transactions and encourages disclosure of non-financial information, directors' and non-executives' shareholdings, and the roles and responsibilities of the chief executive officer (CEO) and Chair.

Since the global financial crisis, international organisations have accelerated efforts to foster investor protection via a fair, efficient and transparent market. The IOSCO revised its Objectives and Principles of Securities Regulation in 2010 to stress the importance of regulations on auditor independence, oversight and the disclosure of conflicts of interest.

An increasing number of countries are using international accounting and auditing standards to ensure the truth and fairness of financial reports. As of April 2018, 144 jurisdictions required International Financial Reporting Standards (IFRS) for listed companies and financial institutions in their capital markets. These standards are now permitted or required for approximately 35 000 listed companies on the world's 93 major

stock exchanges (IFRS Foundation, 2018). Similarly, 128 countries are using or in the process of adopting the International Standards on Auditing (ISA) (IAASB, 2018). Improvements in the standards have a direct impact on global capital markets by increasing transparency and cross-border comparability.

A major European Union initiative was the 2012 European Company Law and Corporate Governance Action Plan, which stresses the transparency of listed companies. Recent EU legislation also covers disclosure of directors' remuneration; audit quality; non-financial (ESG) reporting; shareholders' rights; and disclosure requirements for companies' issuers.

In the United States, an initiative to update and modernise the disclosure requirements of listed companies was introduced in 2013. In 2017, the Securities and Exchange Commission (SEC) proposed amendments to eliminate redundant, overlapping, outdated or superseded provisions in light of changes in the information environment, and the Public Company Accounting Oversight Board adopted a new auditing standard to provide additional information to investors.

To enable sustainable finance and promote responsible investment, greater attention is being paid to disclosure on environmental and social matters. The 2015 edition of the *Principles* encourages companies to disclose non-financial information relating to business ethics, the environment and, where material to the company, social issues and human rights. Disclosure of non-financial information on environmental and social issues has started to become obligatory for large companies in many countries.

3.3.2. Transparency and disclosure in the MENA region

Corporate governance frameworks and disclosure practices in the MENA economies have evolved in the last two decades, according to evaluations by international organisations. These evaluations include: corporate governance assessments conducted by the World Bank and the EBRD; an OECD-UASA survey on related party transactions; and World Bank *Doing Business* reports that measure the protection of minority investors.

This section seeks to highlight issues that still need to be addressed. It reviews the disclosure obligations of MENA listed companies, based on the international evaluations, and presents the disclosure practices of the region's top 15 listed companies.

Disclosure obligations of MENA listed companies

Transparency and disclosure practices of MENA listed companies include both periodic and ongoing disclosure, in line with international standards and best practice. Periodic information generally includes financial information (yearly, interim financial reports, annual reports, etc.). Ongoing disclosure includes material changes in direct and indirect beneficial ownership and ad hoc price-sensitive information.

International Financial Reporting Standards are required in most MENA economies (IFRS Foundation, 2017), and eight jurisdictions (Bahrain, Jordan, Kuwait, Lebanon, Palestinian Authority, Tunisia, Saudi Arabia and UAE) are using or in the process of adopting International Standards on Auditing (IAASB, 2018).

A 2017 report by the Hawkamah Institute found that MENA listed companies had significantly improved transparency and disclosure levels since 2007. The study compared several categories of disclosure, including disclosure of non-financial information, among the 50 largest and most liquid companies listed on 11 MENA markets: Bahrain, Egypt, Jordan, Lebanon, Kuwait, Morocco, Oman, Qatar, Saudi

Arabia, Tunisia and UAE. Its findings highlight the impact of efforts by MENA authorities and listed companies in the area.

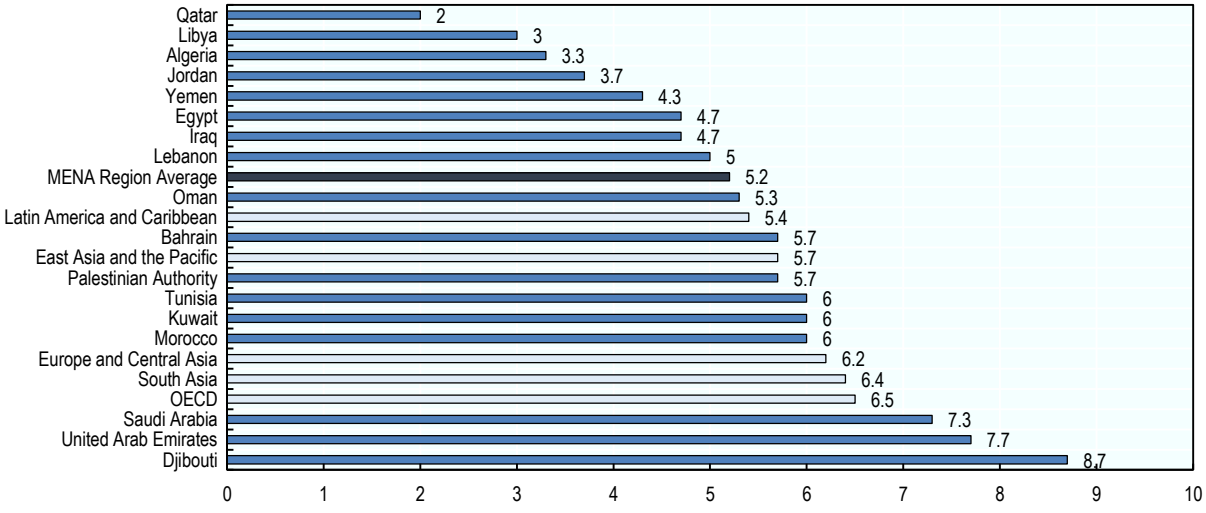
In order to limit administrative burdens on smaller companies, and in line with the *Principles*, proportional disclosure requirements have been adopted in specialised SME markets in the MENA region. For example, for companies listing on Saudi Arabia's Tadawul Parallel market (the region's newest SME market), disclosure standards of annual reports are indicative rather than mandatory, and the deadline for publishing financial statements is more lenient than the deadline of the main market.

Evaluations of corporate governance disclosure in MENA economies

International evaluations of disclosure and transparency in the MENA region have identified areas that need regulatory improvements.

The World Bank *Doing Business* report, which covers 11 areas of business regulation across 190 economies, measures issues relating to corporate governance through its "protecting minority investors" topic. One set of indicators (extent of conflict of interest regulation) measures the protection of minority shareholders against misuse of corporate assets by directors for personal gain, while another (extent of shareholder governance) measures shareholder rights and corporate transparency requirements (World Bank, 2017a). Countries and regions are ranked on a scale of 0-10, with 10 showing the strongest performance[5].

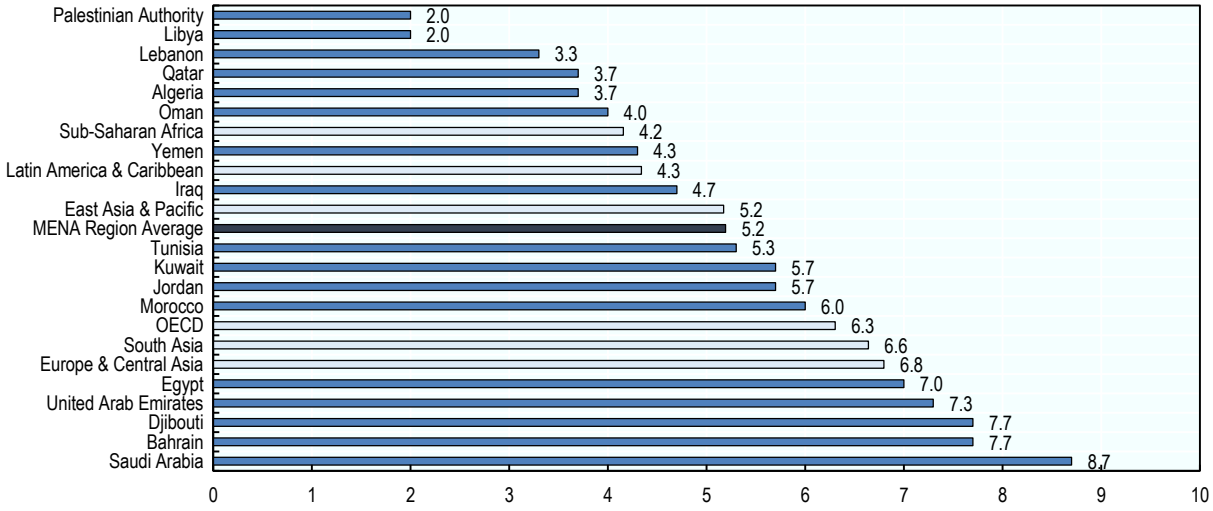
Figure 3.1. Extent of conflict of interest regulation index (0-10)



Source: World Bank, *Doing Business 2019*.

The 2019 rankings, displayed in Figures 3.1 and 3.2, show that the MENA region performs less well than other regions in both aspects of "protecting minority investors". However, scores vary widely across the region. The GCC countries (except Qatar) perform generally better than other regional averages in this area. Djibouti is the MENA economy with the most notable improvement in the 2019 rankings, while Saudi Arabia receives a high score of 8.7 out of 10 points for the shareholder governance index. In both indexes, certain MENA economies outperform some OECD countries.

Figure 3.2. Extent of shareholder governance index (0-10)



Source: World Bank, Doing Business 2019.

Saudi Arabia now ranks 7th globally in terms of protecting minority investors. The World Bank reports that Saudi Arabia strengthened protections by "providing clear rules for the liability of directors and increasing the role of shareholders in major decisions" (Box 3.2).

Box 3.2. Recent improvements in Saudi Arabia's corporate governance framework

The Saudi authorities have pushed for better corporate governance since the establishment of the Capital Markets Authority (CMA) in 2003. New measures to regulate disclosure and strengthen transparency have been adopted recently in line with Saudi Vision 2030, a comprehensive plan to diversify the economy. They include requirements for:

- annual disclosure of remuneration policies, and mechanisms for determining such remuneration
- annual disclosure of cash and in-kind benefits to each board member in exchange for any executive, technical, managerial or advisory work or positions
- disclosure of related party transactions or arrangements equal to or greater than 1% of the gross revenues of the issuer
- disclosure of changes in the composition of the directors or CEO of the issuer
- disclosure of the entering into or unexpected termination of any material contract.

In addition, corporate governance regulations were updated in 2017, becoming more comprehensive, with 85% of the code's provisions now binding.

Source: CMA representative, "Transparency and Disclosure in the Saudi Capital Market", 2017 meeting of the MENA-OECD Working Group on Corporate Governance.

The World Economic Forum's Global Competitiveness Report assesses the quality of accounting and auditing standards (Table 3.2). In its Strength of Auditing and Accounting Standards Index for 2017-2018, Qatar and Bahrain are ranked globally as 25th and 29th respectively and lead the MENA region with scores of 5.6 and 5.4 on a scale of 1-7.

Table 3.2. Strength of auditing and accounting standards, 2018 (1-7)

Country	Score
Qatar	5.6
Bahrain	5.4
Saudi Arabia	5.3
UAE	5.2
Oman	5.2
Morocco	5.1
Jordan	5.0
Egypt	4.7
Kuwait	4.4
Lebanon	4.3
Tunisia	4.3
Algeria	3.4
Yemen	2.6
Mauritania	2.2

Source: World Economic Forum, *Global Competitiveness Report 2018*.

Transparency on beneficial ownership, board members and audits

The *World Bank Doing Business* report's "protecting minority investors" topic also assesses corporate transparency on matters like beneficial ownership, the activities and compensation of board members, and disclosure of audits. The findings for the MENA economies under review are presented in Table 3.3.

Table 3.3. Extent of corporate transparency index, 2019

	Implemented	Not implemented
Buyer must disclose direct and indirect beneficial ownership stakes representing 5%	Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Saudi Arabia, Tunisia, UAE	Algeria, Djibouti, Iraq, Libya, Mauritania, Oman, Palestinian Authority, Qatar, Yemen
Information on board members' primary activities and directorships in other companies must be disclosed	Egypt, Jordan, Kuwait, Saudi Arabia, Tunisia, UAE	Algeria, Bahrain, Djibouti, Iraq, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Yemen
The compensation of individual directors and high-ranking officers must be disclosed	Jordan, Kuwait, Oman, Qatar, Saudi Arabia, UAE	Algeria, Bahrain, Djibouti, Egypt[1], Iraq, Lebanon, Libya, Mauritania, Morocco, Palestinian Authority, Tunisia, Yemen
Annual financial statements of listed companies must be audited by an external auditor	Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, UAE, Yemen	
Audit reports of listed companies must be disclosed to the public	Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, UAE	Algeria, Iraq, Libya, Mauritania, Yemen

[1]Egypt has recently strengthened disclosure regulations on remunerations of directors. Currently, all amounts received by the chairman and each member of the board of directors, including salaries, compensation and bonuses, should be disclosed by listed companies.
Source: Adapted from World Bank, *Doing Busi*ness 2019.

Various issues emerge from analysis of this table.

- *Disclosure of beneficial ownership stakes (representing 5% or more of capital) is required in only half of the MENA economies under review.*

As noted by the *Principles*, investors have a basic right to have transparent information on the ownership structure of companies. This information is especially important for investment decisions in economies characterised by concentrated ownership, such as those in the MENA region. Although most MENA jurisdictions have passed legislation obliging companies to disclose substantial ownership of shares, the true ownership of a company can remain opaque (OECD, 2016).

- *Disclosure of information on board members' other activities and directorships is mandatory in only six of the 18 MENA economies under review*.

The *Principles* note that investors require such information, which can shed light on potential conflicts of interests and on whether board members devote adequate time to their activities. This is relevant for MENA economies, where family members and government representatives often hold seats on company boards (Othman and Zenghal, 2010), and where one member may hold seats on the boards of multiple companies.

- *Disclosure of the individual compensation of company directors and high-ranking officers is required in only six MENA economies*.

The *Principles* state that shareholders need such information to evaluate links between remuneration and long-term company performance. The 2017 OECD Corporate Governance Factbook, which covers 47 economies, reports that 89% have introduced general criteria on remuneration, mainly through the comply-or-explain system.

Disclosure on an individual basis, including termination and retirement provisions, is increasingly regarded as good practice, but remains a sensitive issue in some countries (OECD, 2017a). Although individual remuneration disclosure is now required or recommended in most OECD member states (OECD, 2017a), emerging markets prefer aggregate reporting on remuneration (IOSCO, 2016). Alternative approaches are taken by several emerging markets. For example, companies in Argentina must submit individual remuneration information to the capital market authority only, while companies in Brazil must disclose the minimum, maximum and average individual remuneration for the last three years (IOSCO, 2016).

As shown in Table 3.3, and similar to other emerging markets, disclosure of individual remuneration is not required in most MENA economies. A specific format for disclosure of the remuneration of board members and executives is now required under Saudi Arabia's corporate governance regulations, adopted in February 2017.[6]

- *Public disclosure of auditing reports is not mandatory in all MENA economies*.

Investors need high-quality comparable and consistent financial information to make informed investment decisions. Capital markets could not function properly without the accurate and timely disclosure of financial statements. The auditing of financial statements by independent auditors, in line with international standards, and the disclosure of auditing reports are thus of vital importance for capital market development. The financial statements of listed companies are audited in all MENA economies, with Algeria, Iraq, Libya, Mauritania and Yemen not having compulsory requirements to disclose auditing.

The audit report is the main tool for auditors to communicate with shareholders, and its disclosure is crucial to achieve the intended benefits of auditing. In line with the IOSCO Principles for Periodic Disclosure by Listed Entities, global good practices indicates that company annual reports should contain an audit report for the period.

Table 3.4. Information disclosed by 15 of the largest MENA companies

Disclosure items by category	Number of companies disclosing the item
1. Financial and operating results	
1.a. The balance sheet	14
1.b. Profit and loss statement	14
1.c. Cash flow statements	14
1.d. Notes to financial statements	13
1.d. A statement of changes in ownership equity	14
1.e. Consolidated accounts where the company controls other enterprises	14
1.f. Management discussion and analysis	14
2. Company objectives (commercial and non-commercial objectives)	12
3. Major share ownership and beneficial owners	
3.a. Major share ownership	8
3.b. Beneficial owners	4
4. Remuneration of members of the board and key executives	
4.a. Actual remuneration	13
4.b. Details of remuneration	9
5. Information about board members	
5.a. Qualifications of board members	6
5.b. Selection process of board members	8
5.c. Other board membership and executive positions	10
5.d. Independence of board members	11
5.e. The beneficial holdings of each board member and key executive	8
6. Related party transactions	
6.a. Material related party transactions	12
6.b. The terms of such transactions	7
7. Foreseeable risk factors	
7.a. Foreseeable material risk factors	14
7.b. The procedures that has been established to manage such risks	13
8. Issues regarding employees and other stakeholders	
8.a. Issues regarding employees	13
8.b. Environmental, social, and governance (ESG) disclosure	13
9. Governance structures and policies	
9.a. Corporate governance statement	12
9.b. Committee structures and functions	13
9.c. Audit committee	13
9.d. Remuneration committee	13

Source: Company annual reports and company websites. See full list of companies reviewed in Annex 3.A

Transparency on related party transactions

Related party transactions (RPTs) are another important aspect of disclosure regulations, especially where concentrated ownership and business groups exist. As stated in the *Principles*, "it is essential to fully disclose all material related party transactions and the terms of such transactions to the market individually". Regulation of RPTs varies around the world, but their disclosure is a legal requirement in almost all economies (OECD, 2017a).

A detailed survey of RPTs among MENA economies, conducted in 2014 by the UASA and the OECD, found that ex-post disclosure of RPTs is required in MENA economies in line with global practice, but that immediate reporting was less common in MENA markets (OECD-UASA, 2014). However, the OECD's 2017 survey on corporate governance frameworks in MENA indicates that disclosure requirements on RPTs have been strengthened in the region since 2014.

Disclosure practices of the largest listed companies in the MENA region

This section analyses the current disclosure practices of 15 the 20 largest MENA listed companies. Seven of the 15 companies are traded on the Saudi Stock Exchange (Tadawul), the biggest market in the region, while the others are traded on the Kuwait, Morocco, Qatar and UAE markets (A list of these companies is provided in Annex 3.A).

The *Principles* were used as the main benchmark for the analysis, which aims to evaluate the disclosure level of the top listed companies from the perspective of international investors. Annual reports for 2016 in English were evaluated, and company websites were checked if a disclosure was missing from the annual report.

It should be noted that this research presents the existence or not of the disclosure item, and not the quality of the disclosure, nor does it address disclosure regulation. Company practices based on both voluntary and mandatory disclosures have been examined.

Among the region's 20 largest companies, five did not publish their 2016 annual reports in English on their websites. This suggests that websites of major listed companies may not be regularly updated. The information disclosed by the 15 companies that did publish their 2016 annual reports in English is presented in Table 3.4.

Findings from this review, in addition to those presented in the table, include the following points.

- While 12 of the 15 companies published their objectives, these objectives were not explained clearly in most instances, with the information mainly provided in statements by the chairman and CEO.
- Eight of the companies disclosed major ownership, but beneficial ownership is not expressed clearly. In cases where the company's major shareholder is a public sector entity, the beneficial ownership of the state can be inferred.
- Thirteen of the companies disclosed the aggregate amount of remuneration to board members and a limited number of key executives, and nine disclosed details of remuneration, such as salaries, other compensation and allowances. Only one company in the sample disclosed individual remuneration.
- Six of the companies provided information about board member qualifications in their annual reports, and five on their websites. Eight disclosed procedures for the election of board members in their annual reports, without saying whether a broad field of candidates was allowed. Eleven disclosed independent board members, although the criteria for evaluating independence was not provided.
- Material related party transactions were disclosed by 12 companies, mainly as part of accounting standards; seven provided information on the terms of these transactions, but used generic formulas such as "governed by limits set by the regulations" or "at mutually agreed terms".

- Financial institutions tend to provide greater detail on material risk factors. In Kuwait, the internal audit procedures of financial institutions are subject to annual independent auditing, and the auditor's opinion is disclosed in annual reports.
- Six companies published ESG reports in addition to their annual reports, while eight created separate website sections on corporate social responsibility.
- Although two companies did not disclose their governance structure in their annual reports, all companies provided this information on their websites. All 15 companies had established an audit committee and 14 had a nomination and remuneration committee.
- The separation of CEO and chairman is prevalent in reviewed companies with one-tier boards. A single person combines the roles of CEO and chairman in only two companies, but the rationale for this arrangement was not disclosed clearly. One company has a two-tier board system.

The results show that the level of disclosure is highest for financial statements. Companies in Saudi Arabia and UAE disclosed the most detailed information. Most of the companies in the sample provided substantial non-financial information in their annual reports; only one, from Morocco, disclosed only financial information. In some instances, information not published in the annual report appeared in the corporate governance report or the investor relations section of the company website.

This research sheds light on aspects of the region's disclosure and transparency practices that could be improved. For example, as shown in Table 3.5, only four of the 15 companies disclosed beneficial ownership.

Table 3.5. Information least disclosed by 15 of the largest MENA companies

Least disclosed items	Number of companies disclosing the item
Beneficial owners	4
Qualifications of board members	6
Terms of related party transactions	7
Major share ownership	8
Selection process of board members	8
Beneficial holdings of each board member and key executive	8
Details of remuneration	9
Other board membership and executive positions	10

This analysis may not reflect the full picture across the region, as it is based on companies in just five MENA economies and on disclosures from one year only. There is also extensive literature indicating that disclosure is stronger among larger than smaller companies, since the former are more visible and subject to more intensive monitoring by different stakeholders, such as governments, investors and analysts. But although further research is needed, the results provide an indication of general trends.

The review suggests two key areas where disclosure could be strengthened: ownership and related party transactions. These areas are deeply interconnected, since disclosure of ownership provides market participants with updated information on who may exert influence on the company, and thus helps them to monitor related party transactions.

3.4. Disclosure of ownership

Knowing the ownership structure of a company is key to making an informed investment. Disclosure of ownership is especially important when concentrated ownership is prevalent, as in the MENA region.

The *Principles* list major share ownership as one of nine material issues that should be disclosed. Disclosure of ownership contributes to market efficiency, since inadequate, unclear or inaccessible information may affect the functioning of markets. Disclosure of ownership is also important for corporate governance as it enables shareholders and potential investors to evaluate agency costs[7].

In concentrated ownership – or "blockholder" systems – majority shareholders can play an active or passive role as owners of a company. Non-disclosure may lead to self-dealing, such as abusive related party transactions, insider trading or share dilutions. It may also lead to tax evasion, or even money laundering, financing of terrorism or other financial crimes. Conversely, disclosure may discipline blockholders and prevent them from engaging in abusive behaviour (Siems and Schouten, 2009).

Disclosure of ownership is also crucial for stakeholders such as employees and creditors, who cannot properly exercise their rights if the ownership structure of a company cannot be identified. Regulators and supervisory agencies also need to know the owners of a company in order to enforce rules and prevent financial crime (Vermeulen, 2013).

3.4.1. Legislative and regulatory approaches

In most economies, the ownership disclosure obligations of listed companies are regulated by securities laws and listing rules. Economies often require disclosure of beneficial ownership data starting from the IPO stage, mainly through prospectuses. After the IPO, disclosure of beneficial owner information is required at least annually, and as soon as the ownership threshold requiring disclosure has been exceeded.

Disclosure requirements on beneficial ownership generally apply to three different groups (OECD, 2016):

- Major shareholders are required to disclose their shareholdings when the size of holdings reaches, exceeds or moves below certain thresholds. The thresholds requiring disclosure are generally well below controlling ownership.
- Listed companies are generally required to disclose their shareholder structure through their prospectus, annual report, company website, shareholder meeting circular or other materials such as listing applications.
- Management and board members are also required to disclose share ownership in many countries, regardless of their actual shareholding percentage.

The effect of these disclosure requirements largely depends on the definition of beneficial ownership.

Definition of beneficial ownership

A beneficial owner is usually defined as a natural person who is entitled to the benefits accruing from securities and/or has power to exercise controlling influence over the voting rights attached to shares.

International efforts to improve the transparency of beneficial ownership have accelerated in recent years. These efforts, carried out by G8 and G20 leaders, the Financial Action Task Force (FATF), governments and international organisations, generally aim to prevent the misuse of corporate vehicles for illicit purposes, such as tax avoidance, money laundering or financing of terrorism.

Nonetheless, the "true", "ultimate" or "de facto" beneficial owner of a company can remain opaque. Ultimate beneficial ownership information can be concealed through structures such as shell companies; complex ownership and control structures involving many layers of shares registered in the name of other legal persons; bearer shares; nominee shareholders and directors; trusts; and other legal arrangements that enable a separation of legal ownership and beneficial ownership of assets (FATF, 2014).

Applying the concept of ultimate beneficial ownership can mean that disclosure obligations extend to any party who has access to voting/control rights, including those who hold shares indirectly through controlled parties. For example, securities held by a person's spouse and/or children would be considered as securities held by the beneficial owner. This would also be the case for owners who employ control-enhancing mechanisms, such as pyramid structures, cross-shareholdings, dual class and non-voting shares, derivative products of shares and shareholder coalitions, agreements and other "acting in concert" arrangements. When another company holds the shares of a listed company, the disclosure of beneficial ownership should also be required up to the ultimate level (OECD, 2017a).

Deadlines for disclosure

As noted in the *Principles*, it is good practice to call for "immediate" disclosure of material developments. This is usually defined as a prescribed maximum number of days, although some countries use vaguer formulas like "as soon as possible", "promptly" or "without delay".

The EU's Transparency Directive requires major shareholders to inform the issuer of the acquisition or disposal of major holdings in listed companies, and the issuer then to disclose this information to the market. The deadline for notifying the issuer can range from within the same day to four trading days after the shareholder is informed of the triggering event. Most European Economic Area (EEA) countries (20) apply a deadline of four trading days for notification. The publication deadline varies among EEA countries from the same date to three trading days after notification is received.

Practices in MENA

Disclosure of beneficial ownership stakes representing 5% or more of capital, the common international threshold, is mandatory in only half of the MENA economies under review: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Saudi Arabia, Tunisia and UAE (WB Doing Business, 2018). Other MENA markets, such as Iraq and the Palestinian Authority, require disclosure of ownership above 10%,

In all MENA economies where a disclosure obligation exists, the issue is regulated by securities law and regulations including listing rules. Substantial shareholders, directors and listed companies in many MENA economies are required to disclose beneficial ownership, in line with global practice, although the rules vary (Table 3.6).

Table 3.6. Disclosure obligations of substantial shareholders

Country	Minimum shareholding percentage for reporting	Reporting requirements on change in shareholding	Timing of the disclosure	Provision
Bahrain[1]	5% of the issuer's issued and paid-up capital	Any changes received by the issuer relating to: Acquisition of 5% or more of the issuer's issued and paid-up capital by a beneficial owner, reaching 5% or more. Ownership of a beneficial owner reaches 10% or more	Immediate disclosure	Bahrain CBB Disclosure Standards (Articles 32, 40, 41, 42)
Egypt[2]	5% of capital	Transactions that lead to changes in ownership exceeding 5% (or multiples of 5%) of capital	-	Capital Market Law and listing rules of the Egyptian Stock Exchange
Jordan	5 % or more of any securities of the same issuing Company.	Any 1 % increase in ownership by shareholders whose holdings exceed 5 %. Intention for any purchase above the 10% rate.	Within one week	Instructions of Issuing Companies Disclosure, Accounting and Auditing Standards
Kuwait	5% of the capital of the listed company	Any changes in ownership exceeding 0.5% of the issuer's capital by shareholders whose holdings exceed 5% Such reporting remains mandatory when the change results in a decline of the interest to below 5% of the capital.	Within a period not exceeding five business days from acquisition of 5% of the capital For changes to ownership, disclosure is within a period not exceeding ten business days as of the date of the change.	Kuwait Capital Market Law (Articles 100, 101, 102) The executive bylaws (Disclosure and Transparency)
Lebanon	5% of shares	All purchase operations that result in reaching or exceeding 5% limit	Within 24 hours from the execution of the transaction	Capital Market Law (Article 45)
Morocco	5% of capital or voting rights	Exceeding or falling below 5%, 10%, 20%, 33.33%, 50% or 66.66% of capital or 5%, 10%, 33.33%, 50% or 66.66% of voting rights	Within five days from the date of change	Dahir (Royal Decree) establishing Law No. 1-93-211 (Article 68 b and c) CDVM Capital Market Code (Article III.2.18, Appendix III.2.L)
Saudi Arabia	5% of shares or convertible debt instruments	Any change to the list of substantial shareholders	Third trading day following the occurrence of the relevant event	Capital Market Authority Rules on the Offer of Securities and Continuing Obligations (Article 68) Tadawul Listing Rules (Article 33)
Tunisia[3]	5% of capital of a listed company	When participation in the capital of a listed company reaches or exceeds the thresholds of 5%, 10%, 20%, 33.33% or 66.66%	-	-
UAE	5% of the shares of a listed company 10% of the shares of a parent company, subsidiary company, sister company or affiliate company of a listed company	1% change above the disclosure requirements	Immediate disclosure	Securities and Commodities Authority Board of Directors Decision No. 3 of 2000 Concerning The Regulations as to Disclosure and Transparency (Articles 3, 33, 36)

[1]In Bahrain, listed companies are required to disclose information on majority shareholders. In these disclosures they should highlight any significant change in the list shareholders. The other circumstances that should be disclosed are as follows: when a beneficial owner's ownership reaches 10% or more of the issued shares and total paid capital; when an entity intends to purchase or own 20% of the issuer's shares. In addition, acquisition or disposal of 10% or more of the paid-up capital of any listed issue on the Bahrain Stock Exchange should be approved by the Bahrain Central Bank, prior to the execution of such order on the Exchange.
[2] Cigna, Djuric and Sigheartau (2017), Corporate Governance in Transition Economies: Egypt Country Report.
[3] Tunisia stock exchange, www.bvmt.com.tn/en-gb/content/investors-protection.
Source: The web pages of the capital markets authority except where otherwise indicated.

Table 3.7. Disclosure obligations of directors

Country	Minimum shareholding percentage for reporting	Reporting requirements on change in shareholding	Timing of disclosure	Provision
Bahrain	The issuer must adopt rules governing dealings by directors, senior management and associated persons in listed securities of the issuer, in terms no less exacting than those issued for shareholders who have 5% or more of the capital issued by the Bahrain Central Bank.	-	-	Bahrain CBB Disclosure Standards Article 40
Egypt[1]	3% of the capital of issuer	Exceeding 3% or its multiples		Capital Market Law and listing rules of the Egyptian Stock Exchange
Kuwait	No minimum; in addition to any changes in securities owned by directors, the intention to buy securities should be disclosed	Any purchase or sale transactions in securities of the company; intention to buy securities	Immediate disclosure	Kuwait Capital Market Law Article 100,101,102; executive bylaws (Disclosure and Transparency)
Lebanon	No minimum (notification to capital markets authority)	All transactions that have been made, directly or indirectly in a traded security of the issuer or in other securities related to the traded security	Within 10 days from the date of transaction	Market Conduct Regulation Article 4106
Saudi Arabia	5 % of shares or convertible debt instruments	Any change to the list of substantial shareholders	Third trading day following the occurrence of the relevant event	CMA Rules on the offer of Securities and Continuing Obligations Article 53
UAE	No minimum	All trades carried out by members of the company's board of directors and its executive management	Immediate disclosure	Securities and Commodities Authority Board of Directors Decision No. 3 of 2000 concerning the Regulations as to Disclosure and Transparency Articles 33, 36

[1]Cigna, Djuric and Sigheartau (2017), *Corporate Governance in Transition Economies: Egypt Country Report*.
Source: The web pages of the capital markets authority except where otherwise indicated.

Disclosure thresholds can apply to all shares of a listed company, to the voting shares or to both. The former approach is used by most MENA economies, while in Morocco the disclosing threshold refers to capital or voting rights. Regulations in some economies, including Kuwait, take voting rights into account indirectly.

Disclosure requirements often apply to de facto as well as de jure beneficial owners. Among MENA economies, regulations regarding de facto ownership are most detailed in Saudi Arabia and Kuwait. Under Saudi regulations, for instance, the total number of shares or convertible debt instruments held by a single person include: securities held directly by the person; those held by a relative of or a company controlled by the person; and those held by any other persons who have agreed to act in concert with the person.

Requirements on the timing of disclosure by shareholders also vary among MENA economies. In the case of significant acquisitions in a listed company, the United Arab Emirates and Bahrain require immediate disclosure. In other economies, the mandated period for disclosure varies between 24 hours and 10 days.

Company directors and senior officers must disclose beneficial ownership information in many MENA economies, although the requirements differ across the region (Table 3.7). In Kuwait and UAE, directors are required to disclose their interests regardless of their shareholding percentage. In some countries, directors must disclose their trading to the securities regulator but do not have to make a public disclosure.

Listed companies in the region are often required to disclose the names of their major shareholders in prospectuses, listing documents and annual and other periodic reports. In some economies, such as Kuwait, listed companies are also required at the beginning of each year to disclose the names of shareholders whose shares represent 5% or more in their capital, as well as any changes occurring to this percentage.

According to Hawkamah's ESG reports (2012, 2017), the largest listed MENA companies are improving their transparency on ownership. Of the region's 50 largest and most liquid companies, 88% disclosed their largest shareholder in 2017, compared to fewer than 40% in 2007. However, other analyses point to persistent challenges in the region concerning the identification of ultimate beneficial owners (Cigna, Djuric and Sigheartau, 2017; Cigna and Meziou, 2017b; GOVERN, 2016; Santos, 2015).

As a member of the G20, Saudi Arabia was included in a 2015 study by Transparency International of strengths and weaknesses in the beneficial ownership transparency frameworks of the G20 member countries. The analysis found Saudi Arabia's framework to be of average strength, with the country's beneficial ownership definition fully compliant with the Principles on Beneficial Ownership Transparency. But it also found Saudi Arabia to be non-compliant on identifying and mitigating risks like money laundering, and only partially compliant on other principles, such as acquiring and accessing beneficial ownership information.

3.5. Disclosure of related party transactions

This section focuses on transactions involving the movement of resources between a company and its major shareholders or other related parties, either directly or indirectly. Such related party transactions can take a variety of forms, including: transactions involving the sale or purchase of goods, property or assets; provision or receipt of services or leases; transfer of intangible items; provision, receipt or guarantee of financial services; assumption of financial or operating obligations; purchase of equity or debt; or establishment of joint ventures (OECD and UASA, 2014). Although executive compensation can also be considered a related party transaction, it is excluded in this discussion.

3.5.1. Legislative and regulatory approaches

Related party transactions (RPTs) are regulated around the world in order to protect minority investors. A related party transaction is a transaction that takes place between two parties who hold a pre-existing connection prior to the transaction. Regulatory measures to combat RPTs can take the form of: procedural rules (board approval, shareholder approval or opinion from independent experts); disclosure (periodic or immediate disclosure, or disclosure of policy on related party transactions); or prohibition of certain related party transactions.

In some economies, specific roles are assigned to the board of directors or independent directors for RPTs. In addition, an independent advisor's view and shareholder approval are required for certain types of transactions. Only a minority of economies forbid specific types of RPTs. However, disclosure of related party transactions is an essential part of regulation in almost all economies (OECD, 2017a).

The *Principles* state that "disclosure should include, but not be limited to, material information on related party transactions". The OECD methodology for implementing the *Principles* specifies essential criteria for the disclosure of RPTs:

- Disclosure should be required at least annually in respect of routine and/or less significant transactions.
- In transactions that are subject to shareholder approval, sufficient time should be provided after disclosure to minority shareholders to enable them to make an informed decision.
- In other related party transactions that have a material impact on the price or value of the company but do not require shareholder approval, disclosure, in sufficient detail to enable minority shareholders to express concerns before the transaction is implemented, should be required.

These issues are addressed by regulations around the world. Periodic disclosure of RPTs is required under international accounting and auditing standards; immediate disclosure of certain RPTs is also a common global practice. An IOSCO review in 2015 found that timely disclosure of material RPTs was required in 26 of the 37 jurisdictions surveyed.

Another legal tool commonly used by policy makers is disclosure of policy on RPTs. UNCTAD (2011) reports that disclosure of the decision-making process for approving transactions with related parties is required in 92% of 25 emerging markets from the MSCI Emerging Markets Index.

Practices in MENA

The concentrated ownership structure of MENA economies gives grounds for concern about the protection of minority rights and the possibility of abusive RPTs. A review of disclosure practices of the 50 largest listed companies in the MENA region found that the RPTs of only 20% of companies covered by the S&P/Hawkamah ESG Pan Arab Index were conducted on market terms (Hawkamah, 2012; Hawkamah, 2017).

An OECD-UASA study found that while ex-post disclosure of RPTs is generally required in MENA economies, immediate reporting is less common. The 2014 study found that 12 of the 15 jurisdictions reviewed did not have materiality requirements for the disclosure of RPTs (the exceptions were Jordan, Iraq and the Palestinian Authority), and that no materiality conditions for approval and disclosure had been introduced by UASA member authorities (OECD and UASA, 2014).

Based on the survey findings, the OECD and the UASA made the following recommendations on the disclosure of RPTs:

- To capture transactions that present a risk of abuse, the legal definition of "related parties" should be made clearly and consistently in law and regulations, and should be substantially similar to international good practices summarised in International Accounting Standards (IAS) and OECD recommendations.
- Material RPTs should be disclosed in interim, quarterly or annual company reports, including their terms and the approval process. Ongoing reporting of RPTs to the regulator, shareholders and other relevant parties should be improved.
- Regulators should urge companies to develop and make public a policy to monitor RPTs that makes clear which RPTs are prohibited and which are accepted, as well as the circumstances in which they can be considered as acceptable.

- Electronic disclosure platforms developed by stock exchanges and securities authorities could be a useful mechanism for facilitating continuous disclosure.

As noted by the 2017 OECD survey on MENA corporate governance frameworks, several jurisdictions have changed their company laws, securities laws and corporate governance codes since 2014, resulting in a strengthening of disclosure requirements on RPTs.

The World Bank *Doing Business* reports have signalled improvements in RPT disclosure regulations since 2014 in Djibouti, Egypt, Saudi Arabia and UAE. However, the World Bank's 2017 report found that Qatar had weakened minority investor protection by reducing requirements for the approval of RPTs and their disclosure to the board of directors, and by limiting the liability of directors in the event of prejudicial RPTs.

In Saudi Arabia, regulations now distinguish RPTs according to their materiality and conditions. Through an amendment in 2016, quantitative disclosure threshold criteria were introduced for the immediate disclosure of RPTs. Before the amendment, a listed company was required to disclose any RPTs regardless of size, while the new listing rules limit the requirement for immediate disclosure to transactions with a value equal to or greater than 1% of the company's gross revenue according to the latest audited financial statements. Listed companies in Saudi Arabia must also disclose a board of director's report that includes the nature, terms and amount of each RPT annually regardless of the size. The boards of listed companies are required to develop an explicit and written policy to deal with actual and potential conflict of interest situations, including RPTs.

In Egypt, listed companies are required to disclose to the market any arrangement concluded with related parties (Al Tamimi et al., 2016). A 2016 amendment to listing rules requires the board of director's report to disclose all agreements concluded between the listed company and any of its founders or main shareholders, and the date of prior approval by the ordinary general meeting for each contract (Law Today, 2016).

The UAE adopted detailed transparency rules and specific procedural obligations through a new company law (2015) and new corporate governance rules (2016). The new rules establish disclosure requirements for RPTs regardless of the value of the transaction, while former rules required disclosure only when the transaction value was equal to or greater than 10% of the company's total assets. All RPTs must be disclosed to the board of directors and securities regulator, with a written confirmation that the terms are fair, reasonable and in favour of shareholders. Under the new rules, listed companies are to maintain a register of the names of related parties together with transaction details and actions taken. Listed companies must also inform their shareholders of such transactions in the general assembly. When the value of the transaction is more than 5% of the company's share capital, a review by independent advisors and shareholder approval are required. Shareholders representing 5% or more of the shares of a company involved in a related party transaction may access documents relating to the transaction.

The research described above yields the following on RPTs in the region:

- A major step forward has been the adoption of International Financial Reporting Standards in ten MENA economies (Bahrain, Iraq, Jordan, Kuwait, Oman, Palestinian Authority, Qatar, Saudi Arabia, UAE and Yemen).
- To define "related parties", MENA economies use company law (Egypt, Iraq, Lebanon, Morocco, Oman, Tunisia, UAE), capital market regulations including listing rules (Egypt, Iraq, Kuwait, Palestinian Authority, Saudi Arabia, UAE) and

corporate governance regulations (Bahrain, Egypt, Jordan, Morocco, Oman, Qatar, Saudi Arabia, UAE, Yemen) in addition to accounting rules (OECD, 2019).

The definition of a related party transaction varies across the region (Annex 3.B). In the countries under review, it clearly covers key management personnel of the reporting entity. Related parties generally comprise the parent company and/or any of its subsidiaries or associate companies. The definition of related parties commonly includes relatives of the controlling shareholder. However, in some economies (Lebanon), relatives are not stated explicitly in the definition, while in others the definition covers relatives up to a certain degree of kinship.

3.6. Monitoring and enforcement of standards

Effective monitoring and enforcement are crucial to ensure that sound corporate governance rules are applied by companies. Monitoring and enforcement can be public (provided by securities regulators) and/or private (provided by activist shareholders, institutional investors and minority investor groups). Public enforcement can involve the imposition of sanctions for breach of laws and dishonest behaviour (OECD, 2013).

3.6.1. Global trends in corporate governance monitoring and enforcement

Enforcement of corporate governance principles is challenging for public authorities due to the time, resources and expertise required. To verify the accuracy of disclosed information, some regulatory authorities co-operate with public institutions such as tax authorities, central securities depositories, custodians and other financial intermediaries. International co-operation is also used for verification. The sharing of both public and non-public information among regulators takes place through different arrangements such as the IOSCO Multilateral Memorandum of Understanding. Enforcement approaches and regimes vary among countries. Public enforcement may be both formal (judicial/criminal penalties and fines, administrative penalties and fines, remedial orders) and informal (information requests, notice letters or norm-enhancing reprimands) (OECD, 2013).

Other market participants and institutions can play a significant role in the enforcement of disclosure rules. Stock exchanges can be effective enforcers, as they often adopt disclosure requirements as part of their listing rules, and delisting is a real threat for any listed company in cases of noncompliance. Accountants, auditors and rating agencies may discover weaknesses in corporate governance activities and may provide unofficial advice to companies. The media can play an important role in raising public awareness on the importance of good corporate governance.

3.6.2. Monitoring practices in MENA economies

In most MENA economies, the body responsible for developing the corporate governance code also performs a monitoring role. Securities regulators and stock exchanges are thus the main supervisors of corporate governance codes in 12 MENA economies. In Oman, the Muscat Stock Exchange is responsible for monitoring company compliance with the code (OECD, 2012). A monitoring report is published in seven MENA economies (OECD, 2019).[8]

MENA regulatory authorities use different approaches for monitoring disclosure. These include: standardisation of disclosure through regulations (e.g. shareholder statements in Oman and Egypt); co-operation with other parties (e.g. with the stock exchange in UAE); and giving independent experts (UAE) or the board of directors

(Saudi Arabia) a central role in ex-ante assessment of material transactions. Forced disclosure and cancellation of illegal RPTs are common enforcement mechanisms in MENA economies (Amico, 2014).

International evaluations indicate that there is room for improvement in the monitoring and enforcement of corporate governance in the region. Disclosure practices of MENA companies are often judged inadequate by investors (Amico, 2014; Crescent Enterprises, 2016). An OECD paper indicates that only 15% of companies in the UAE and 12% in Qatar disclose corporate governance reports (Amico, 2014), while a GCC survey found that just 42.5% of 200 publicly listed companies in GCC countries provided an annual report on their website or a copy upon request (GCC Board Directors Institute, 2011).

Efficient monitoring is all the more important in MENA economies due to concentrated ownership, which increases the probability of weak disclosure practices due to low incentives. An OECD review found that the enforcement capacity of MENA securities regulators has been growing but could be further developed (Amico, 2014). The review notes that private enforcement in the region is virtually non-existent, mainly due to weak shareholder activism and the lack of a litigation culture.

Monitoring efforts by capital market authorities have improved since this review. In Jordan, 222 of 248 companies, or 90%, disclosed their semi-annual financial reports in 2016, the Jordanian Securities Commission announced. The Egyptian Exchange reports that almost 90% of listed companies file their financial statements within the period specified in the listing rules. The high percentages may be due to effective monitoring by the securities authority. The Iraq Securities Commission decided to suspend trading on the Iraq Stock Exchange of shares of companies that did not comply with disclosure obligations (UASA, 2016). Stock exchanges also monitor companies' disclosures, but institutional capacity building is needed, especially in newly established authorities.

Persistent challenges in monitoring and enforcement in MENA economies include: difficulties in ensuring the accuracy of information regarding ownership and related party transactions, unless directly disclosed by the company and board members.

3.7. The way forward

3.7.1. Key findings

Certain characteristics of the MENA region constitute challenges for effective corporate governance. These include small capital markets, a small institutional investor base and low shareholder involvement. As this chapter has shown, another challenge for the region is transparency and disclosure, particularly in two areas: disclosure of beneficial ownership and disclosure of the terms of related party transactions.

Findings, based on international evaluations and a review of the practices of the largest MENA companies, include the following:

- Disclosure of ultimate beneficial ownership stakes and RPTs is not mandatory in some MENA economies, nor is the disclosure of board members' other activities and directorships or the compensation of directors and executives (World Bank, 2019).

- Most MENA economies have adopted or approved International Financial Reporting Standards, and eight have adopted or are in the process of approving International Standards on Auditing.
- While financial statements of listed companies must be audited by an external auditor in all MENA economies, disclosure of the auditing reports is not required in five countries (Algeria, Iraq, Libya, Mauritania and Yemen) (World Bank, 2019).
- Remuneration of board members and key executives is disclosed as an aggregate only and the link between remuneration and long-term company performance is usually explained in generic terms by 15 top companies in the region.
- Criteria for the independence of board members and procedures for their election are generally not disclosed by the sample companies.
- In some MENA economies, such as Egypt and Morocco, it is not mandatory to publish corporate governance reports as part of annual reports.

Regarding beneficial ownership, country regulations in the region generally require major shareholders and directors of listed companies to disclose their ownership, in line with global practice. However, despite improvements in regulation, challenges persist, especially in relation to the identification and disclosure of ultimate beneficial owners.

Regarding related party transactions, definitions of such transactions have generally improved, and greater requirements for their disclosure have been introduced in MENA economies. However, requirements on the method and timing of disclosure vary across the region. Many MENA economies have not adopted thresholds for disclosure and shareholder approval. Regulation also varies on the definition of related parties.

Nonetheless, many economies have recently amended regulations on related party transactions. A future review could shed more light on the situation.

3.7.2. Policy options

MENA economies should continue their reform efforts with respect to transparency and disclosure practices in order to improve the effectiveness of their corporate governance frameworks. Attention should be devoted to the adoption of international best practices and to enhancing supervisory authority capacity and shareholder involvement.

Based on the findings presented in this chapter, two types of policy options can be proposed. The first involves improvements to the general corporate governance environment; the second concerns policies specifically targeting the chapter's focus issues, namely disclosure of beneficial ownership and of RPTs (Figure 3.3).

Figure 3.3. Main policy areas for improving transparency and disclosure

While such efforts may be costly and time consuming, they can lead to greater investor confidence, stronger market reputations and fluid access to finance, thus contributing to the overall growth and development of the MENA economies and companies.

Complementing the efforts of policy makers, companies can take immediate action to improve their disclosure practices. In order to attract investors to the region, it is important for company websites to be updated regularly and for more reports, including corporate governance reports, to be made easily available online in English.

Key policy options for corporate governance disclosure are summarised in Table 3.8 and developed below. Not all recommendations apply to every country; policy options must be tailored to each MENA economy's specific circumstances and needs.

Table 3.8. Policy options for improving transparency and disclosure

Objective	Policy options
Continue convergence with international standards and best practices	Monitor the evolution of international developments on disclosure standards and adopt the most appropriate models
Ensure an adequate mix of legislation and voluntary codes	Consider mandatory regulation in cases of low compliance with voluntary rules
	Consider strengthening disclosure rules on beneficial ownership, related party transactions, other activities and directorships held by board members, compensation of directors, auditing reports
	Adapt flexible regulation to the needs of different types of companies according to their size, sector and complexity
	Incorporate corporate governance reports as part of annual reports
	Encourage best practices through guidance and regular publication of monitoring findings
Ensure timely, consistent and effective supervision and enforcement	Ensure that supervisory authorities have operational and financial independence as well as adequate powers
	Consider adopting a risk-based supervision approach
	Share the results of monitoring and action taken against non-compliance with market participants
	Establish clear channels for conveying information to authorities and adopt measures for the protection of whistle-blowers
	Organise awareness-raising activities
Strengthen shareholder engagement	Promote active shareholder involvement by strengthening investor protection and improving public awareness
	Consider policy alternatives to encourage more active engagement from institutional investors, such as requiring or recommending disclosure of voting policies and exercise of voting rights
	Strengthen the functions of company investor relations departments
Ensure full and proper disclosure of ownership structures in line with good practice	Adopt an accurate, clear and comprehensive definition of beneficial ownership
	Evaluate the minimum threshold at which disclosure is required
	Reconsider the time periods allowed for mandatory disclosure to ensure that investors receive information on timely basis
	Consider requiring charts and figures in disclosure of beneficial ownership and control structures
	Review other countries' mechanisms for assessing beneficial ownership and adopt the option most appropriate
Ensure full and proper disclosure of related party transactions	Require immediate disclosure of material transactions in addition to periodic disclosure
	Improve the definition of related parties to cover all parties who may exercise direct and indirect control in a transaction
	Consider setting a threshold for immediate disclosure based on the materiality of the transaction
	Encourage or require listed companies to adopt and disclose a related party transaction policy
	Ensure sufficient disclosure well in advance of the relevant shareholder meeting in cases of ex ante shareholder approval of certain material related party transactions
	Ensure the qualifications and independence of the accounting and auditing sector

Models for disclosure regulation

MENA economies have upgraded their legal and regulatory frameworks in recent years. Thanks to better protection of minority investors' rights, Saudi Arabia and United Arab Emirates are now ranked 7th and 15th in that area (WB, 2019). However, the low rankings of other MENA economies suggest that there is room for further improvement.

MENA authorities should continue to work towards full convergence with international standards and best practices. The key international benchmarks are the *Principles*, International Financial Reporting Standards, International Standards on Auditing and the IOSCOs Objectives and Principles of Securities Regulation.

Adoption of international standards plays an important role in helping investors decide how and where to invest. As institutional investors have started to request not only financial information but also non-financial information, policy makers should monitor the evolution of international developments on environmental, social and governance disclosure as well. International best practice recommendations can be found in the OECD Guidelines for Multinational Enterprises and the Global Reporting Initiative.

Choosing between mandatory and voluntary disclosure

Corporate governance frameworks in the region range from binding regulation to self-regulation or optional standards. Five MENA economies currently opt for voluntary implementation of corporate governance codes.

However, guidance and a voluntary code may be insufficient to achieve good corporate governance practices when there are no mandatory regulations and when, as in MENA, corporate governance is not market driven.

This chapter has pointed to important areas that are not being disclosed by listed companies in the region. When specifying the items subject to mandatory disclosure, MENA policy makers should place a priority on disclosure of ultimate beneficial ownership stakes, related party transactions, other activities and directorships held by board members, compensation of company directors and executives, and auditing reports.

Regulations should be flexible enough to take account of the needs of different types of companies according to size, sector and complexity. As emphasised by the *Principles*, disclosure regulations should not place unreasonable administrative or cost burdens on companies.

Regardless of the corporate governance framework used, a comply-or-explain approach and formal regulation are crucial for an effective system. The quality of disclosure becomes even more important when a comply-or-explain approach is adopted. For this reason, companies must first publish a corporate governance statement. At present, disclosure of corporate governance reports remains non-mandatory in some MENA economies, such as Morocco.

In global practice, a corporate governance statement has become a part of the annual report of listed companies (OECD, 2019). Generally such statements require that any company departing from the corporate governance code must state which sections of the code it fails to comply with and the reasons for this non-compliance.

Corporate governance reports must be of adequate quality and content to enable investors to make informed decisions. Invalid, overly general and limited explanations limit the benefits of comply-or-explain. According to the European Commission (2009), the main means used by regulators around the world to ensure the quality of corporate governance reporting include:

- issuance of guidance on the fulfilment of disclosure requirements (EU)
- required independent auditing of some parts of corporate governance codes, primarily those relating to financial reporting and the audit committee (UK)

- adopting a specific template for governance reporting (Spain, Portugal)
- publishing the monitoring findings, including best practices (France).

Supervision and enforcement

Timely, consistent and effective supervision and enforcement are needed to derive the best results from regulation. In the MENA region, this is even more essential since corporate governance is not market driven and private enforcement tends to be rare.

To achieve this objective, competent authorities should be operationally and financially independent, and have adequate powers to adopt supervisory measures and to implement sanctions. When there is more than one authority for supervision and enforcement (e.g. securities regulator and stock exchange), co-ordination of investigations and information sharing are crucial to efficiency. A memorandum of understanding, frequent meetings and dialogue among related authorities are common methods used to improve co-ordination.

Policy makers should analyse market conditions to define the most effective supervision and enforcement approach for their jurisdiction, taking into account market needs, priority areas and objectives, and resource allocation. It is essential to prioritise monitoring the implementation of mandatory rules and the timeliness of disclosure by listed companies.

MENA authorities could consider adopting a risk-based supervision approach, which is common among regulators (e.g. Germany, Brazil, Poland, Portugal and Turkey). A combination of a risk-based approach and random sampling, rotation between the two, or both can be considered. In developing a risk-based approach, factors that may be considered for selection criteria include risks related to a specific sector, common findings from previous examinations, complaints received, referrals by other regulatory bodies, issues raised in the media and academic research (UNCTAD, 2017).

The results of monitoring and action taken against non-compliance should be shared with market participants to encourage best practices and signal that non-compliance could be penalised. In addition to the "name and shame approach" (punishing by highlighting the name of companies with poor practices), a "name and shine approach" (rewarding by highlighting of name of companies with good practices) can incentivise companies to adopt better practices. MENA supervisory authorities could also consider using external resources, such as universities and associations, to collect and publish information for corporate governance reporting.

As securities authorities may initiate investigations based on information provided by investors and whistle-blowers, clear procedures and channels for conveying this information and measures for protecting whistle-blowers should be established.

Organising activities to raise awareness contributes to effective implementation of best practices. More activities should be conducted through public-private co-operation to develop awareness on the benefits of good corporate governance practices.

Shareholder engagement

Investors need to play an active role in supporting better corporate governance practices. In the MENA region, however, concentrated ownership, the dominance of retail investors and the small base of institutional investors have led to low shareholder engagement.

Policy makers can promote active shareholder involvement by strengthening investor protection, providing guidance on expected best practices and improving public awareness on the rules and benefits of corporate governance disclosure.

MENA policy makers could consider requiring or recommending disclosure of voting policies and exercise of voting rights in cases where institutional investors hold more than a certain threshold of a corporation's equity, or regarding voting on material issues. Where institutional investors are dominant in the equity market, stewardship codes can be introduced. Portfolio limitations of institutional investors can be reviewed to improve their shareholder engagement. Sovereign wealth funds, the region's largest institutional investor category, can contribute significantly to corporate governance disclosure through active exercise of shareholder rights, by requiring good corporate governance practices from investee companies, and via direct monitoring.

Strengthening company investor relations (IR) departments can also help to improve corporate disclosure and facilitate shareholder dialogue. UAE and Qatar offer good examples from the region (Box 3.3).

Box 3.3. Initiatives for effective investor relations

UAE*:* A new regulation requires all companies listed on UAE exchanges to establish and develop an investment relations function starting from 2016. Under this regulation:

- All listed companies must appoint an acting Investor Relations Officer with both Arabic and English language capability.
- Websites of listed companies must incorporate IR-related disclosures including contact details, financial reports, minutes of general meetings and any other information relevant to shareholders.
- The Investor Relations section of the website should include all information or statements already disclosed to markets, regulators and investors, along with any statements on changes in the company or shareholders' rights.
- Listed companies must publish investor presentations showing their financial position, strategy and outlook at least once a year.

Qatar: The Qatar Stock Exchange launched an Investor Relations Excellence Programme in 2015. The programme surveyed experts in the domestic and international investment community to recognise best practices in investor relations. The programme also featured a detailed ranking of corporate investor relations websites.

Source: www.meira.me Qatar Stock Exchange website.

3.7.3. Recommendations on the disclosure of ownership

Disclosure rules in the region must ensure full and proper disclosure of ownership structure, in line with good practice. Disclosure must be required at least annually, and on a timely basis when the ownership threshold requiring disclosure has been exceeded.

MENA policy makers must carefully determine the ownership threshold at which disclosure is required. A threshold of 5% is generally accepted as a global norm, but some countries have introduced lower thresholds (Ireland, Italy, Portugal, Spain, UK).

Some MENA economies implement a threshold of 10% or more. In economies where a threshold is not yet in place, MENA policy makers could consider setting the initial disclosure threshold at 5%, which may be sufficient to capture major shareholders' interests given the concentrated ownership structure in the region. Other considerations can help to determine the optimal threshold level. For example, when there is a tendency by investors to keep their shareholding slightly below the disclosure threshold in order to conceal ownership, policy makers could consider lowering the threshold.

Regarding disclosure of beneficial ownership, clarification is needed. Although MENA economies have adopted regulations to cover disclosure of de facto beneficial ownership, in some countries these regulations do not list securities held by a person's relatives as being under the control of the ultimate beneficial owner. Likewise, disclosure obligations for those acting in concert with the beneficial owner are not defined clearly.

As a possible model for policy makers, OECD (2016) guidelines specify that:

- Securities held by a person's spouse and/or minor children should be counted as securities held by that person
- Ultimate beneficial ownership (through deemed and indirect ownership) should be disclosed
- Beneficial owners who have crossed the 5% threshold through "acting in concert", "trust" or "control enhancing" arrangements should disclose their beneficial ownership position.

It is also good practice to disclose the shareholdings of directors regardless of the percentage they own. This is not always the case in the region.

Regarding the time allowed for disclosure, changes in major ownership interests should be disclosed as soon as the defined thresholds have been exceeded. And as for timely access to material information by all stakeholders, and not just the securities regulator, companies should be required to make all disclosures available on their websites.

Regulatory authorities should also strive to increase the quality of disclosure. Companies in the region sometimes engage in "grudging" or "boilerplate" compliance, creating the appearance of disclosure while concealing the true nature of ownership. The OECD suggests that a good way to prevent this is to require visually accessible charts and figures in disclosure of beneficial ownership and control structures (OECD, 2017b).

Competent authorities also need access to up-to-date beneficial ownership information in order to fulfil their supervisory, monitoring and enforcement tasks. Recommendations by international organisations include creating a central beneficial ownership register and establishing information-sharing mechanisms.

3.7.4. Recommendations on the disclosure of related party transactions

Fighting abusive related party transactions is high on the policy agenda around the world. One approach that could be useful for MENA policy makers is the OECD's *Guide on Fighting Abusive Related Party Transactions in Asia*[9], another region where concentrated ownership is present. The guide provides recommendations focusing on disclosure and the board/shareholder approval system, a common practice in the MENA region.

A detailed definition of related parties exists in many MENA economies (Annex 3.B), but thresholds of shareholding that constitute "control" in a company vary from 5% to 30%. Improvements are needed to cover all parties who may exercise direct and indirect control

in a given transactional context. For example, transactions by controlling shareholders other than board members or by relatives are not always explicitly covered. While Saudi Arabia and UAE have improved the consistency of their definitions since 2014, work should continue in the region to harmonise definitions among different bodies of law.

Requiring disclosure of all RPTs is common practice among MENA economies, but Saudi Arabia has adopted a regime distinguishing RPTs according to their materiality. Instead of requiring immediate disclosure of all RPTs, thresholds can be set for material RPTs that require immediate disclosure. These thresholds, based on the transaction's impact on certain elements of a company's financial position (gross assets, profits, market capitalisation or gross capital), may increase the effectiveness of the disclosure system.

The disclosure of material transactions can be accompanied by a report – by an independent expert, the board of directors or the company's audit committee – assessing whether the transaction is fair and reasonable from the perspective of the company and the shareholders. This good practice has been adopted in the region by UAE.

If shareholder approval is required for RPTs, as is common in the region, disclosure should be sufficient to enable shareholders to make an informed decision. Oman's regulations constitute a good example (Box 3.4). Ex-ante shareholder approval of certain material RPTs and disclosure well in advance of the relevant shareholder meeting are also essential.

Box 3.4. The Omani regime for disclosure of related party transactions

Under Oman's Corporate Governance Code, all related party transactions must be approved by the general meeting prior to execution. The notice to the meeting must include:

- name of the beneficiary related party
- nature of the transaction, terms and conditions, and rationale
- value of the transaction
- period of completion of the transaction
- any other data related to the transaction
- an independent valuation in case of purchase or disposal of assets.

The notice must include a note explaining the opinions of the audit committee and the board regarding the proposed transaction, and an undertaking to bear responsibility for the related party executing the transaction as per the agreement.

Source: Oman Corporate Governance Code.

Finally, qualification and independence in the accounting and auditing sector must be ensured. For the disclosure system to be effective, it is crucial that financial statements be prepared in accordance with IFRS. Periodic disclosure of related party transactions, along with opinions of auditors and accountants, should be encouraged.

Notes

[1] Algeria, Iraq, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestinian Authority, Qatar, Tunisia, Saudi Arabia, and the UAE.

[2] Algerian Corporate Governance Center, Jordan Institute of Directors (2012), Lebanese Institute of Directors (2011), Moroccan Institute of Directors (2009), Oman Center for Corporate Governance and Sustainability (2015), Saudi Governance Center (2017) and Tunisian Institute for Corporate Governance (2009).

[3] Algeria, Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, United Arab Emirates.

[4] Close to 40% of the shares of the region's 600 largest listed firms are held by the state. These 600 firms, in Bahrain, Egypt, Iraq, Jordan, Lebanon, Kuwait, Oman, Saudi Arabia, Morocco, Qatar, Turkey, Tunisia and UAE, account for 97% MENA's market capitalisation.

[5] To view the World Bank's methodology on this topic, see www.doingbusiness.org/en/methodology/protecting-minority-investors.

[6] The Saudi Arabia Capital Market Authority, on 26/3/2018, announced that the remuneration of senior executives mentioned in sub-paragraph (b) of paragraph (4) of Article 93 of the Corporate Governance Regulations is to be disclosed collectively. Companies Law also set maximum limits on remuneration in Saudi Arabia.

[7] Agency costs are a type of internal business cost that must be paid to an agent acting on behalf of a principal. These costs arise because of core problems, such as conflicts of interest, and an agency costs can include any expense that is associated with managing the relationship and resolving differing priorities between key parties in the business.

[8] Lebanon, Morocco, Palestinian Authority, Qatar, Saudi Arabia, Tunisia, and the UAE DIFC.

[9] To access the guide, go to: www.oecd.org/daf/ca/corporategovernanceprinciples/43626507.pdf.

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Annex 3.A. Companies covered in the review of disclosure practices

Company name	Country of exchange	Exchange name	NAICS international industry name	Company market capitalisation (USD as of 31/12/2016)
Saudi Basic Industries Corporation SJSC	Saudi Arabia	Saudi Stock Exchange	Petrochemical Manufacturing	73 182 436 215
Emirates Telecommunications Group Co PJSC	United Arab Emirates	Abu Dhabi Securities Exchange	Wired Telecommunications Carriers	44 527 312 835
Qatar National Bank SAQ	Qatar	Qatar Exchange	Commercial Banking	37 569 520 556
Al Rajhi Banking & Investment Corporation SJSC	Saudi Arabia	Saudi Stock Exchange	Commercial Banking	27 302 912 310
Saudi Electricity Company SJSC	Saudi Arabia	Saudi Stock Exchange	Electric Power Generation	24 891 108 773
National Commercial Bank SJSC	Saudi Arabia	Saudi Stock Exchange	Commercial Banking	22 722 423 725
Industries Qatar QSC	Qatar	Qatar Exchange	Petrochemical Manufacturing	19 523 096 781
Almarai Co SJSC	Saudi Arabia	Saudi Stock Exchange	Dairy Product (except Frozen) Manufacturing	14 609 826 974
DP World Ltd	United Arab Emirates	Nasdaq Dubai	Marine Cargo Handling	14 533 300 000
First Abu Dhabi Bank PJSC	United Arab Emirates	Abu Dhabi Sec. Exch.	Commercial Banking	14 295 843 494
Emirates NBD Bank PJSC	United Arab Emirates	Dubai Financial Market	Commercial Banking	12 850 433 673
Maroc Telecom	Morocco	Casablanca Stock Exchange	Wired Telecommunications Carriers	12 318 091 403
Saudi Arabian Mining Co SJSC	Saudi Arabia	Saudi Stock Exchange	Other Non-metallic Mineral Mining and Quarrying	12 149 258 092
National Bank of Kuwait SAKP	Kuwait	Kuwait Stock Exchange	Commercial Banking	11 993 915 909
Kingdom Holding Co	Saudi Arabia	Saudi Stock Exchange	Hotels (except Casino Hotels) and Motels	11 810 671 400

Source: Thomson Reuters

Annex 3.B. Definition of related party transactions in selected MENA economies

Country	Definition of related party transactions	Source of definition
Egypt	Related parties and groups: Any group that is under actual control of the natural or juridical shareholders, or that has an agreement on co-ordination upon voting in the meetings of the general assembly or board of directors of the company. Related parties: Any party that has a direct or indirect relation with the company giving it influence over the company's decisions, whether this relation is created by the party's position in the company, or in the subsidiaries thereof, or by having a significant ownership interest in the company/subsidiaries. Related party transactions: Transactions entered into between the company and members of its board of directors or main shareholders. Approval of the general assembly is to be obtained before implementation of said transactions.	Corporate Governance Code
Kuwait	A party is considered related to a company if: *1)* the person has direct or indirect control over the company; *2)* the party is a subsidiary company; *3)* the party is a member of the same group in which the company is a party to; *4)* the party is a board member of the company or member of its executive management; *5)* the person is a relative of a related party referred to in *1)* or *4)*; *6)* the party is a company under the control or combined control of or material influence of the related parties referred to *4)* and *5)* through their direct or indirect voting power. When determining related parties, the provisions of the law, bylaws, IAS No. 24 and amendments thereto shall be taken into account.	CMA Module I, Glossary of definitions
Lebanon	In Lebanese regulation, "related party" is not explicitly defined. However, the scope of the term can be inferred from the following provision: "Any agreement between the company and one of its board of directors members, whether entered into a direct manner, or under the cover of a third party, requires the general assembly's prior authorisation. Ordinary contracts, the objects of which are transactions between the company and its clients, are excepted from the provisions hereof. Shall also require the general assembly's prior authorisation every agreement between the company and another institution (establishment) if one of the board members is the proprietor of this institution (establishment), a general partner in it, its manager or a member of its board of directors. The member who fits in any of these categories should inform the board of directors. Each of the board of directors and the auditors shall submit to the general assembly a special report on the agreements that are intended to be entered into, and the general assembly shall pass its resolution in the light of these two reports. Agreements that have been authorised shall not be challenged except in the case of fraud. The authorisation should be renewed every year if it pertains to contracts with successive long-term duties. Members of the board of directors of the company, unless they are corporate entities, are prohibited from receiving from the company, in whatever way, a loan, an overdraft facility in their favour, a guarantee or a guarantee of financial instruments in favour of third parties. However, the said prohibition shall not apply with respect to banks, if the referred to operations constitute ordinary operations within the scope of these banks' activities.	Lebanese Code of Commerce, Article 158

Country	Definition of related party transactions	Source of definition
Oman	*1)* A person is deemed a related party if such person: *a)* was a director of the company, its parent company or of its subsidiary or associate companies in the past 12 months; *b)* has significant influence on the company and its performance; *c)* is among the top senior executives of the company or its parent company, such as the chief executive officer, general manager or an employee who reports directly to the board; *d)* holds or controls 10% or more of the voting rights in the company, its parent company or any of its subsidiary or associate companies; *e)* is a first-degree relative of any of the persons fulfilling the points *a, b, c* and *d* above; *f)* is an associate of any of the business entities stated in *2)* below, wherein he/she holds individually at minimum 25% of the voting rights. *2)* An enterprise is deemed a related party if: *a)* it is a member of the same group, i.e. a parent enterprise, subsidiary or an associate; *b)* it is a joint venture of the company or related enterprises; *c)* persons identified in *1)* above hold jointly or severally at minimum 25% of voting rights or the right to direct their resolutions or have significant control thereof; *d)* it is a commercial enterprise the directors of which act according to the company will; *e)* it is a pension fund or end of service project providing an end of service scheme for the employees of the company or any of its related enterprises. *3)* The following entities are not deemed related parties: *a)* financiers of the company; *b)* labour syndicates, trade unions and federations; *c)* public utilities (managed by the government or companies under concession contracts).	Code of Corporate Governance for Public Listed Companies
Qatar	A person is considered a related party to the company if that person is a board member of the company or a company of its group; is a member of the senior executive management of the company or any company of its group; owns at least (5%) of the company shares or any of its group; or is a relative of any of the former mentioned to the second degree. The definition also includes the legal persons controlled by a member of the board of the company or any company of its group or of senior executive management and their relatives to the second degree, or that participated in a project or a partnership of any kind with the company or any company of its group.	Governance Code for Companies & Legal Entities Listed on the Main Market
Saudi Arabia	Related party: *1)* affiliates of the issuer; *2)* substantial shareholders of the issuer; *3)* directors and senior executives of the issuer; *4)* directors and senior executives of affiliates of the issuer; *5)* directors and senior executives of substantial shareholders of the issuer; *6)* any relatives of persons described at *1), 2), 3), 4)* or *5)* above; *7)* any company controlled by any person described at *1), 2), 3), 4), 5)* or *6)* above.	Rules on the Offer of Securities and Continuing Obligations; Glossary of defined terms used in the regulations and rules of the Capital Market Authority
	Related parties: *a)* substantial shareholders of the company; *b)* board members of the company or any of its affiliates and their relatives; *c)* senior executives of the company or any of its affiliates and their relatives; *d)* board members and senior executives of substantial shareholders of the company; e*)* entities, other than companies, owned by a board member or any senior executive or their relatives; *f)* companies in which a board member or a senior executive or any of their relatives is a partner; *g)* companies in which a board member or a senior executive or any of their relatives is a member of its board of directors or is one of its senior executives; *h)* joint stock companies in which a member of the board or a senior executive or any of their relatives owns (5%) or more, subject to the provisions of paragraph *d)* of this definition; *i)* companies in which a board member or a senior executive or any of their relatives has influence on their decisions even if only by giving advice or guidance; *j)* any person whose advice or guidance influences the decisions of the company, the board and the senior executives; *k)* holding companies or affiliates. Advice or guidance that is provided on a professional basis by a person licensed to provide such advice shall be excluded from the provisions of paragraphs *i)* and *j)* of this definition.	Corporate Governance Regulations
UAE DIFC	A person is a related party of a listed company if that person: *i)* is, or was within the 12 months before the date of the related party transaction: *a)* a director or a person involved in the senior management of the reporting entity or a member of its group; *b)* an associate of a person referred to [above]; or *ii)* owns, or has owned within 12 months before the date of the related party transaction, voting securities carrying more than 5% of the voting rights attaching to all the voting securities of either the reporting entity or a member of its group; or *iii)* is, or was within the 12 months before the date of the related party transaction, a person exercising or having the ability to exercise significant influence over the reporting entity or an associate of such a person.	DFSA Market Rules

Country	Definition of related party transactions	Source of definition
UAE Federal	Related parties: The chairman and other members of the board of directors and the senior executive management of the company and working therein, and the companies in which any of such persons holds at least 30% of their share capital and subsidiary, associated or sister companies.	Federal Law No. 2 of 2015 on Commercial Companies The Chairman of Authority's Board of Directors' Resolution No. 7 R.M) of 2016 Concerning the Standards of Institutional Discipline and Governance of Public Shareholding Companies

Notes: The definitions provided in the table are taken directly from the English translations of the relevant country regulations.
Zreik (2009), "Related party transactions under Lebanese law (with comparative references to the UAE Law)".
Source: The web pages of MENA securities regulators, except where otherwise indicated.

Chapter 4. Achieving gender balance in corporate leadership

Women's economic empowerment supported by sound corporate governance is a critical policy area that enhances economic growth and competitiveness. This chapter assesses progress, identifies challenges and proposes policy options for MENA economies to increase gender balance in corporate life, in line with the 2013 OECD Gender Recommendation and 2015 G20/OECD Principles of Corporate Governance. It highlights why greater participation by women in corporate leadership is important for the region, including its positive impact on company performance, and shows why better data is needed in order to make informed policy decisions. The chapter then explores the challenges women in MENA face in accessing corporate leadership positions and presents examples of good practices in OECD and MENA economies. It concludes with policy options. Analysis is based on publicly available information, survey responses and input from practitioners in the region.

4.1. Introduction

Closing the gender gap in corporate decision-making roles remains a challenge, yet there is strong impetus for MENA economies to embrace initiatives that empower and promote women in the corporate sphere. Women's leadership and talent are increasingly seen as cornerstones for building competitive, value-creating companies and, by extension, resilient, inclusive economies.

During the last decade, MENA economies have responded to a shifting global and regional landscape by embarking on an era of transformation characterised by economic diversification and reform. In particular, citizens have called for governance reforms and an inclusive society with social and economic opportunities for all. As such, increased access for women to corporate leadership is an extension of a much larger debate within the region on women's participation in economic life and society in general.

OECD research shows that progress in the MENA region on gender balance in the workplace and women's increased participation in corporate leadership roles has been slower than in other regions, but is still on par with global trends. However, data on women's participation in corporate life in MENA is limited, due in part to lack of publicly available information and the scarcity of research on this topic in the region. This complicates efforts to design and implement policies for increasing women's access to corporate leadership roles.

This chapter aims to identify the challenges facing MENA economies with respect to achieving gender balance in corporate leadership. It highlights why increased female participation in corporate leadership is important for the region, including its positive impact on company performance, stressing the need for better data to inform policy design. The chapter then explores the challenges women in MENA face in accessing corporate leadership positions and presents examples of good practices in OECD and MENA economies. It concludes with policy options that were developed in discussion with experts involved in driving change in MENA.

4.2. The case for gender balance in economic and corporate life

Increasing gender balance in corporate decision-making roles has been a priority for OECD countries. Most have initiated policies to promote gender balance on company boards and in senior management (OECD, 2017b). Advancing the gender balance at decision-making levels has also become a goal for many companies globally that wish to capitalise on female talent and bring about gains for both the company and the overall economy.

The *G20/OECD Principles of Corporate Governance*[1] acknowledge that diversity in the boardroom is integral to sound corporate governance, and a key component of this is gender diversity. Likewise, the 2013 *OECD Recommendation on Gender Equality in Education, Employment and Entrepreneurship* recommends increasing the representation of women in decision-making positions across the public and private sector, as well as eliminating gender wage gaps and other discriminatory factors (Annex 4.A).

Nevertheless, and despite the efforts of many economies worldwide to promote women's empowerment, gender gaps persist in all areas of social and economic life, and in economies at all levels of development.

Women's labour force participation rates have moved closer to men's over the past few decades, but in every country women are still less likely than men to engage in paid work. When women do work, they are more likely to work part-time, are less likely to become managers or to be entrepreneurs, and they earn less than men. Globally, the median full-time female worker earns 15% less than her male counterpart on average (Figure 4.1).

Figure 4.1. The global gender income gap has widened

Source: Global Gender Gap Index 2017, World Economic Forum.

Women in the MENA region remain an untapped resource for the economy. While women represent around 49% of the region's total population, their participation in the labour force is significantly lower (World Bank, Gender Statistics, 2017).

The average female labour force participation rate for OECD countries is 51%. In contrast, only 16% of women participate in the labour force in Jordan and Algeria, and just 25-32% participate in Egypt, Libya, Morocco and Tunisia. At the same time, men's labour force participation in these six MENA economies reached 70% or more in 2014, only slightly below other emerging economies (WDI, 2017).

Women are also underrepresented in public sector management and in politics, holding on average only 17% of seats in national parliaments in MENA economies. Gender gaps are largest in private sector employment and entrepreneurship.

Gender equality is a fundamental driver for more inclusive and equitable societies, in particular women's economic empowerment through economic participation as employees or entrepreneurs. Closing the gender gap in labour force participation by 2025 could add USD 12 trillion (26%) to global GDP (OECD, 2017c). However, recent progress has been slow; research on current trends in 106 economies signals that it will take 100 years to close the global gender gap. In the MENA region, estimates suggest this could take as long as 157 years, given current trends (WEF, 2017).

Gender balance and company performance

Diversity is a critical pillar of effective board performance. A lesson learnt from the global financial crisis is that overly entrenched boards may fail to identify risk factors,

protect the interest of all stakeholders and act in consequence. "Groupthink" is more likely to occur among homogeneous groups lacking diversity in areas related to gender, nationality, age and educational backgrounds.

Bringing the experience and perspective of women to the table enhances the decision-making process, helping to avoid groupthink and contributing to better conflict resolution (Bernardi, 2009). Research conducted in 2015 by Morgan Stanley Capital International's Environmental, Social and Governance arm (MSCI ESG) found that "companies lacking board diversity tend to suffer more governance-related controversies than average" and have "higher environmental, social and governance risk management ratings and strategies across virtually all risk issues" (Lee et al., 2015).

Studies show a positive impact of increased female participation in corporate leadership in several ways. Gender diversity on boards and within senior management improves employee retention and company reputation by utilising available talent pools more effectively (MSCI, 2016; Catalyst, 2017a; Hunt et al., 2015). Moreover, boards with three or more women correlate with improved decision-making; can help steer the hiring and promotion of women in a company; and show that women's leadership is valued (Thwing-Eastman et al., 2016; Lee et al., 2015). The trickle-down effect of fostering a stronger gender diversity framework at all levels is crucial to the retention of female talent and employee engagement.

Gender-balanced leadership provides the diversity in thinking, ideas and knowledge that are needed to mitigate risks and strategise in an age of rapid digital advancements, big data analytics, artificial intelligence and the internet. A diverse board is less likely to come to swift consensus and can examine a problem from more angles to reach well-thought out decisions (GMI, 2013). Women with board-level experience who were interviewed in the United Arab Emirates said that boards needed women because they brought a transformational leadership style, better teamwork and a reduction in aggressive culture, and that women were less prone than men to take risky and unethical ventures, going instead for steady growth and improvements (Hawkamah Institute, 2013).

Although causation is not fully established, a growing body of research suggests that firms with strong female leadership enjoy better financial results. MSCI ESG research found that companies with more women on their boards have higher results on same-year return on equity (ROE) and earnings per share (Thwing-Eastman et al., 2016). ROE for global companies with strong female leadership was 2.7% higher than for those without (Thwing-Eastman et al., 2016; Lee et al., 2015). The 2016 Credit Suisse Gender 3000 report, which covers 3 400 companies, found that companies with at least one female director had generated a compound excess return per annum of 3.5% for investors over the previous decade. Companies where more than 15% of senior managers were women had profitability more than 50% higher than companies with fewer than 10% female senior managers (Credit Suisse, 2016).

Recent studies in the MENA region also provide financial arguments for supporting gender diversity on boards and in senior management. Research in Jordan by the International Finance Corporation (IFC) showed a positive correlation between, on the one hand, gender diversity in the boardroom and senior decision-making positions, and on the other, higher returns on assets and equity (IFC, 2015) (Box 4.1). A 2013 study conducted by the Moroccan Institute of Directors across 500 large enterprises, including 75 listed companies, found that average turnover at state-owned companies with women on boards was higher by 5 billion MAD (Moroccan dirham; USD 533.6 million) than at those without.

Box 4.1. Impact of gender diversity on company performance in Jordan

In 2015, the International Finance Corporation conducted a study of the impact of gender diversity on the economic performance of 237 listed companies in Jordan, of which 52 had a woman on the board of directors.

The study recorded a correlation between the financial performance of companies and gender diversity in the boardroom and in senior decision-making positions, although there was no evidence of causation.

The average return on assets in 2012 was three times higher in companies with women on their boards (3.03) than in those without female participation (0.99), and companies with women on boards had an average return on equity (17.51) almost double the ROE of companies without (9.83). In 2011, 2010 and 2009 the data showed similar results.

From a corporate governance perspective, the results also showed that companies with increased gender diversity in the boardroom experienced a greater improvement in the implementation of good corporate governance practices than those without.

Source: IFC (2015), Gender Diversity in Jordan: Research on the Impact of Gender Diversity on the Economic Performance of Companies in Jordan, www.ifc.org/wps/wcm/connect/e93318004a0d7ff195cfb7e54d141794/IFC_Jordan_Gender_Report_Sep_2015.pdf?MOD=AJPERES.

Putting gender balance measures into practice

Introducing measures to ensure greater gender balance in corporate leadership has helped MENA economies to align constitutional guarantees of equality and equal opportunity with international commitments. However, not all economies have seen results in corporate practice.

All MENA economies considered in this report have ratified or are in accession in line with the United Nations Convention on the Elimination of Discrimination against Women (CEDAW) (Table 4.1). Article 2(e) of CEDAW requires jurisdictions to take all appropriate measures to eliminate discrimination against women by any person, organisation or enterprise. Article 3 of CEDAW encourages economies to take "all appropriate measures, including legislation, to ensure the full development and advancement of women, for the purpose of guaranteeing them the exercise and enjoyment of human rights and fundamental freedoms on a basis of equality with men", especially in "political, social, economic and cultural fields".

Table 4.1. MENA constitutional provisions on equality and non-discrimination

Country	Constitution (year instated, revised or promulgated)	Constitutional provision on equality and/or non-discrimination	Ratification or accession (a) of CEDAW
Algeria	1996	Preamble, Articles 29, 31 &140	1996a
Bahrain	2012	Articles 4, 5 & 8	2002a
Djibouti	2010	Article 3	1998a
Egypt	2014	Preamble, Articles 4, 9, 11 & 53	1981
Iraq	2005	Preamble, Articles 14 & 16	1986a
Jordan	2016	Article 6	1992
Kuwait	1992	Preamble, Articles 7, 8, 29 & 175	1994a
Lebanon	2004	Preamble, Article 7	1997a
Libya	2011 (interim)	Preamble, Articles 6 & 8	1989
Mauritania	2012	Preamble, Article 1	2001a
Morocco	2011	Preamble, Articles 6, 19 & 35	1993a
Oman	1996	Articles 9, 12 & 17	2006a
Palestinian Authority	2003 (basic law)	Preamble, Articles 9 & 26	2014
Qatar	2003	Articles 18, 19, 34 & 35	2009a
Saudi Arabia	2013	Article 8	2000
Tunisia	2014	Preamble, Articles 21 & 46	1985
United Arab Emirates	2001	Articles 14 & 25	2004a
Yemen	2001	Articles 25, 41	1984a

Source: UN Women (2016), *Global Gender Equality Constitutional Database*, http://constitutions.unwomen.org/en; country constitutions.

Yet when it comes to corporate board composition and senior management, constitutional measures and ratification of CEDAW have not yet translated into company practices in MENA economies.

In making the case for improved company practices, the Office of the UN High Commissioner for Human Rights states that "the private sector creates and defines jobs, produces growth, sets parameters of income distribution and affects the social and environmental conditions of the communities in which they function. Women's equal access to business leadership is essential both for women's empowerment and for their ability to affect economic policy making which determines the quality of life for women and men, their children and communities."

4.3. Women in the workforce and in corporate leadership

Closing the gender gap in economic participation is a work in progress throughout the world, but it is especially challenging in the MENA region. This section considers women's labour force participation and representation in senior management, first across the OECD and then in MENA economies.

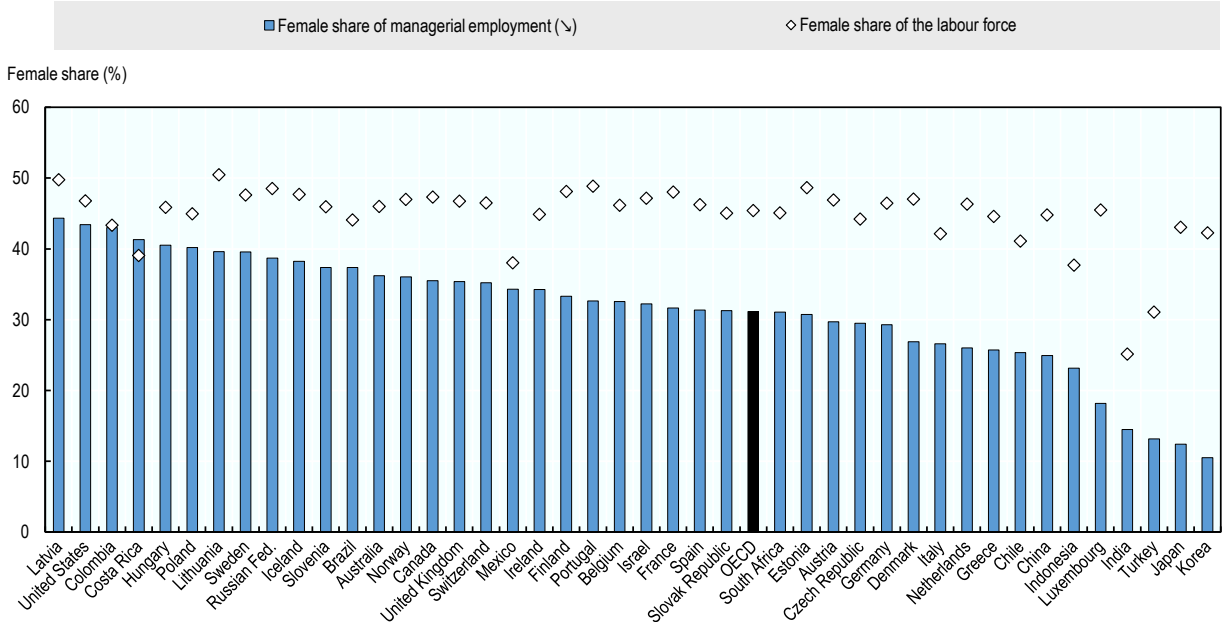
A slow narrowing of the gender gap in OECD countries

In every OECD country, men remain more likely to be in paid work than women. Women's labour force participation rates have improved, but the average gender gap in OECD employment rates has been narrowing slowly, decreasing by just 0.6 percentage points from 2012 to 2016.

Most OECD countries have initiated policies to promote gender balance on boards and in senior management. As of 2016, nine OECD countries had introduced gender quotas for the board of publicly listed and/or state-owned enterprises. Other countries have taken an approach involving voluntary targets, corporate governance codes and/or disclosure rules.

Yet a recent OECD study highlights a continued gender imbalance in corporate leadership and concludes that the glass ceiling remains intact. Women make up only about one-third of managers in OECD countries (Figure 4.2). They are also far less likely than men to become chief executive officers (CEOs), sit on boards of private companies or hold public leadership positions, although government quotas – and, to a lesser degree, targets – have led to relatively quick changes in the share of private and public leadership positions held by women in some countries (OECD, 2017b).

Figure 4.2. Women in management and the labour force in OECD countries (%)



Note: All ages, 2015 or latest year. The female share of managerial employment is the female share of the employed who hold jobs classified in International Standard Classification of Occupations 1968 (ISCO 68) major group 2 (administrative and managerial workers) for Colombia; in ISCO 88 category 1 (legislators, senior officials and managers) for Canada, Chile, India, Indonesia and the United States; in ISCO 08 category 1 (managers) for all other countries except China, which uses the National Occupation Classification. Data for Colombia and India refer to 15-64 year-olds only.
Data for China refer to 2010, for India to 2011-12, for Indonesia and the United States to 2013, and for Australia, Brazil, Canada and South Africa to 2014.
Source: OECD Employment Database, www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm; ILO (2016), ILOSTAT database, www.ilo.org/ilostat; census data for China; and OECD Secretariat calculations based on the Gran Encuesta Integrada de Hogares for Colombia and on the National Sample Survey for India.

In the OECD countries,[2] the average percentage of women on company boards is modestly higher than the global average (Box 4.2), reaching 20% in 2016, up from 16.4% in 2013. On average, 4.8% of CEOs in the OECD countries were women in 2016, double the 2.4% in 2013 (OECD, 2017b).

Box 4.2. Global gender trends in corporate leadership

Beyond the OECD, global progress in increasing the number of women on boards and in senior management has also been slow. Findings from three reports are presented below.

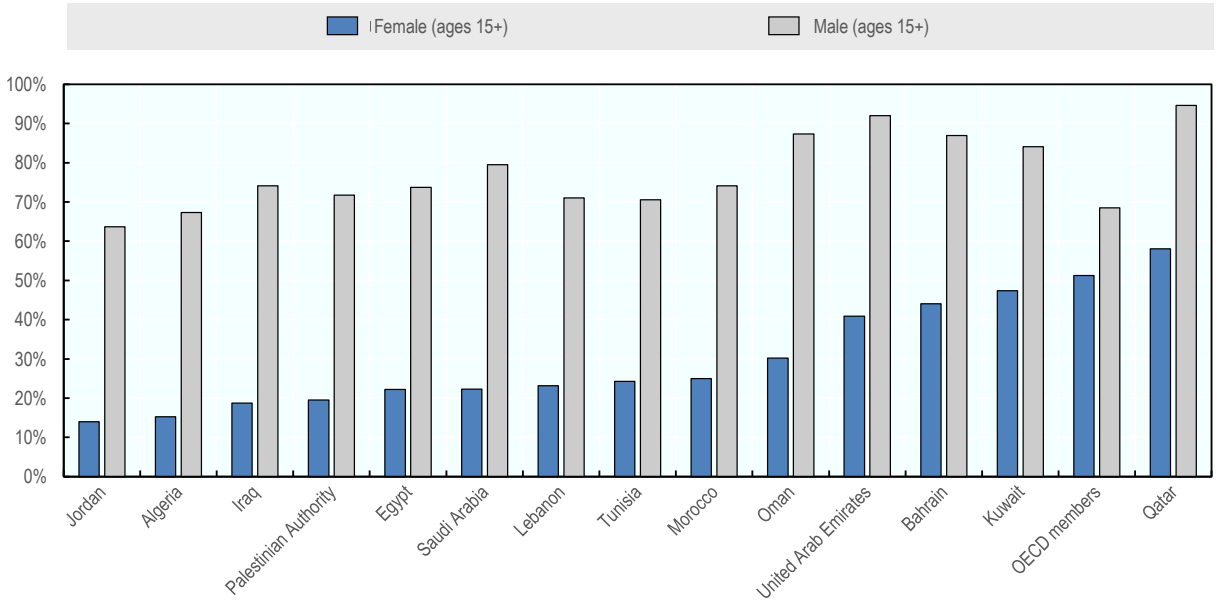
- MSCI World Index Research covering 4 218 companies found that 16% of corporate board members were women in 2016, up from 12% in 2014, and that 19% of company directorships were held by women in 2016, up from 18% in 2015.
- An analysis by Deloitte covering 64 countries and nearly 7 000 companies found that women held 15% of board seats in 2017, up from 12% two years earlier.
- The 2017 Credit Suisse Gender 3000 Survey reviewed gender balance in senior management across 3 400 companies and found that the global average for women's participation had barely improved, growing to 14% in 2016 from 13% in 2014.

Source: Eastman (2017), Deloitte (2017a), Credit Suisse (2016).

A large and persistent labour force participation gap in MENA

Women's labour force participation rates in the MENA region are among the world's lowest: around 24% on average, compared to around 50% in OECD countries (Figure 4.3). Wage gaps between men and women persist in both the private and public sectors, and vulnerable or informal employment is particularly high among women (OECD, 2017c).

Figure 4.3. MENA labour force participation rates by gender (2017)



Note: Modelled ILO estimates, percentage of population ages 15+.
Source: World Bank (2017), World Development Indicators.

Although the causes of low female labour force participation vary across MENA economies, the relationship between legal frameworks and social norms plays a role in driving gender gaps in the labour market (OECD, 2017c). Restrictive family law provisions impact job choices for women and influence employers' behaviour in hiring and promoting. Social norms and attitudes – informed by gender-based labour regulations including parental benefits, retirement provisions and income taxes – also play an important role in labour market decisions.

These factors have led to a large share of women working in low-wage positions, often with a high level of informality, without access to social protection and pension provisions. Women in MENA economies tend to work in traditionally female roles such as teaching, social services and nursing, with career choices often based on "societal pressures of what are deemed to be respectable occupations" (Momani, 2016). Women's employability, as shaped by educational attainments, also plays a role.

The labour force participation rate of women in Gulf Co-operation Council (GCC) economies[3] tends to be much higher than in other MENA economies, due in large part to the considerable number of foreign workers (OECD, 2017b; Young, 2016). Disaggregated data show that the overall percentage of non-national women working far exceeds that of national women in GCC countries (Table 4.2).

Table 4.2. National vs. non-national women working in selected GCC countries

	Time period	National women	Non-national women
Bahrain	2003-11	15%	40%
Kuwait	2012-13	29%	56%
Qatar	2010	20%	44%
Saudi Arabia	2011-13	7%	24%
UAE	2016	18%	42%

Note: Data availability differs for each country, therefore time periods vary.
Source: Young (2016) "Women's Labour Force Participation Across the GCC", www.agsiw.org/wp-content/uploads/2016/12/Young_Womens-Labor_ONLINE-4.pdf.

Female labour force participation in MENA is often lower in the private sector than in the public sector. Women in MENA economies state that they prefer to work in the public sector, citing better working conditions and benefits (OECD, 2017b, 2017d, 2014). This preference may also be driven by societal pressure to undertake work deemed respectable for women. Public sector work, which ends early in the day and provides substantial time off and "oversight by fellow nationals", is more acceptable to husbands and family than a private sector job with an uncertain environment, potential work travel and longer work hours (Momani, 2016).

Reaching positions of senior responsibility is also challenging for women in the region both because of their high drop-out rate from the labour force at a young age and because of early retirement. The share of total public and private sector executive leadership positions held by women was 15% in Tunisia and 10% in Egypt in 2012, 13% in Morocco in 2008, and 5% in Jordan and 5% in Algeria in 2004 (ILO database quoted by OECD, 2017c).

To boost female labour force participation, countries can take measures, including laws that mandate equal pay for equal work and labour codes that ensure non-discrimination in hiring. However, the majority of MENA economies do not yet have laws on these two key issues. As of 2018, only Algeria, Morocco and UAE had legislation on equal pay for

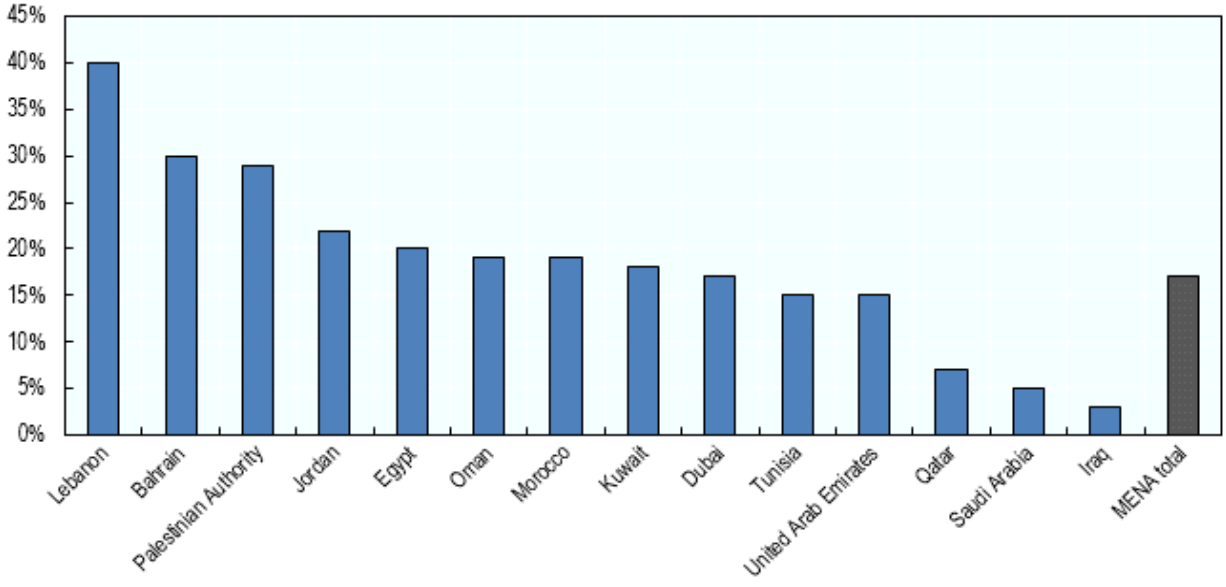
equal work, while Bahrain, Lebanon, Morocco, Tunisia and UAE had laws to prevent gender-based discrimination in hiring. And even when laws are on the books, challenges remain in their implementation.

Low female representation in corporate leadership in MENA

Assessing women's actual participation in corporate leadership is a challenge in the region. As there is no central mechanism to disclose the gender composition of boards and senior management, statistics tend to be based on public disclosures of information to stock exchanges and company websites. Data from unlisted enterprises are often not available.

A 2016 policy paper by Shareholder Rights provides a snapshot of women's participation on boards in the MENA region. The paper, covering 1 483 publicly listed companies in 13 MENA economies, found that 305 companies failed to disclose any information on the composition of their boards. Of the 1 178 companies with full disclosure, 248, or 21%, had women on their boards of directors (Figure 4.4).

Figure 4.4. MENA listed companies with women on the board of directors (%)



Source: Shareholder Rights (2016), "Women Representation on Boards of Directors on MENA Exchanges". https://euromenafunds.com/Women-On-Board-Report-2016.pdf.

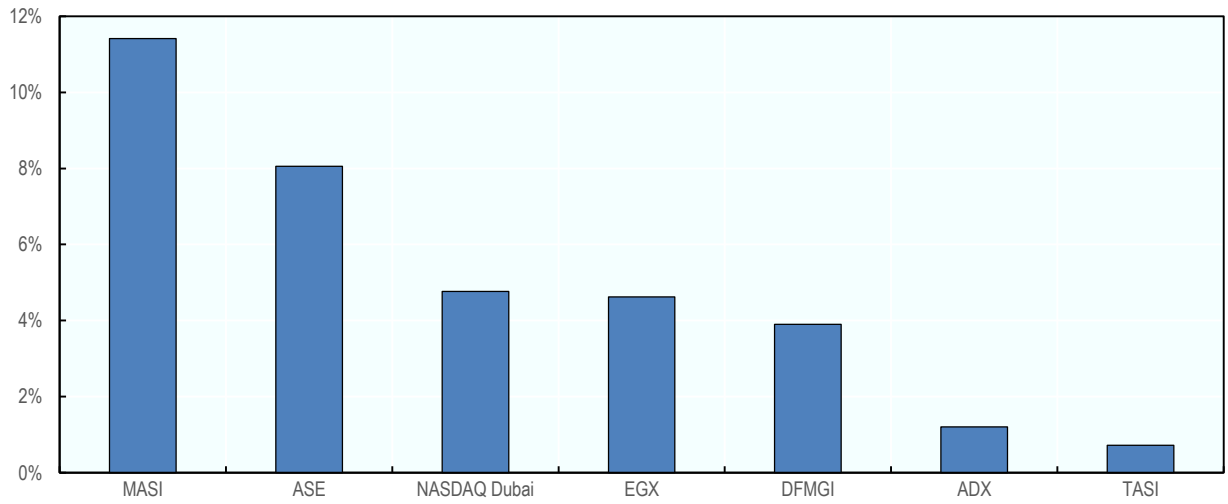
The Shareholder Rights research found that women's participation on boards can fluctuate by sector. The number of companies with female board members was highest in pharmaceuticals (29%) and education (27%), and lowest in the media (0%), chemicals (4%) and food and agriculture (10%).

The 2016 study only pertains to publicly listed companies, and therefore the number of firms varies across countries. Disaggregated data across sectors and company types – listed, unlisted, family owned, etc. – are needed to better evaluate women's standing in corporate leadership and hone in on problem areas. For example, data on the participation of women on boards and in senior management within unlisted enterprises would be useful for purposes of comparison.

Information on women in top management positions (CEO or equivalent) in large firms is scarce for MENA economies. According to disparate international sources that provide a slightly different picture than the Shareholder Rights paper, women make up 23% of senior management positions in Morocco, 17% in UAE, 16% in Egypt and 7% in Qatar (Deloitte, 2017a; ILO, 2016b). According to IFC research, women hold 21% of senior management positions in Jordan, but the influence of these positions may vary and many are not on a path that can lead to the boardroom (IFC, 2015). In Bahrain's banking and finance sector, women hold 2% of CEO posts, 5% of executive manager positions and 8% of directorships (Intellect Resources Management, 2015).

A 2018 survey commissioned by the OECD[4] found that, despite progress, the representation of women on the boards of the largest 142 public companies in MENA remains modest, at 4.8% of total voting board seats (60 of 1 258 seats). The survey found that 31% of companies had at least one women board member, 24% had at least two and only 7% had three or more women board members. Morocco's MASI exchange leads, disclosing just over 11% women board members, while Saudi Arabia's TASI falls behind, with only 0.7% women board members (Figure 4.5).

Figure 4.5. Voting women board members by MENA exchange (%)

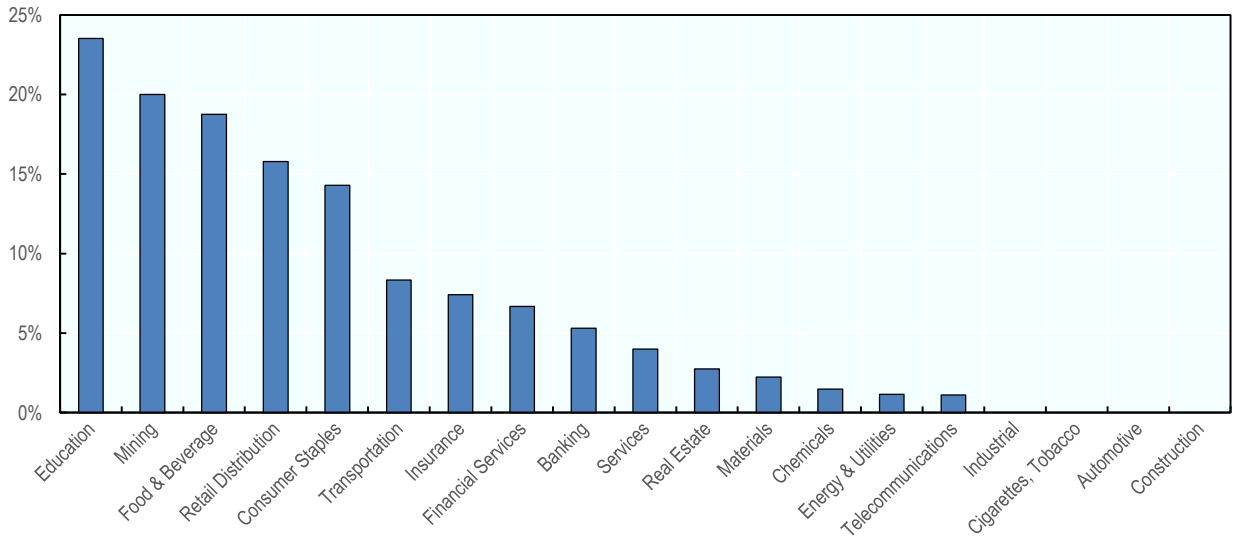


Note: The following exchanges are covered: ADX 20 (UAE); ASE 20 (Jordan); DFMGI/NASDAQ Dubai 23 (UAE); EGX 30 (Egypt); MASI 20 (Morocco); and TASI 30 (Saudi Arabia).
Source: OECD secretariat analysis (2018), based on data collected by Ethics & Boards Governance Analytics.

Women are underrepresented in board chair positions across the six stock exchanges. Only two companies in Morocco and one each in Jordan and Egypt disclose that they have a women chair.

The survey also looked at women's representation on boards by sector. The education sector was found to be strongest, with 24%. Mining, retail distribution and food and beverages followed, with 19-20%. However, no women were present on boards in the industrial, cigarettes, automotive and construction sectors (Figure 4.6).

Figure 4.6. Voting women board members in MENA listed companies by sector (%)



Source: OECD secretariat analysis (2018), based on data collected by Ethics & Boards Governance Analytics.

Given the unique challenges facing women across economies, market capitalisation of companies appears to have little impact on the number of women board members across the 142 companies (Table 4.3). Companies surveyed in Saudi Arabia have an average market capitalisation of USD 14 billion, yet only 7% have women board members. In contrast, companies surveyed in Morocco have an average market capitalisation of just under USD 4 billion, yet 70% have at least one woman on the board.

Table 4.3. Market capitalisation and voting women board members by MENA exchange

Country	Stock exchange index (no. of companies)	Index market capitalisation (USD billion)	Women voting board members	Total voting board members	Women board members (%)	Companies with 0% women board members	Companies with 0-10% women board members	Companies with 10-20% women board members	Companies with > 20% women board members
Saudi Arabia	TASI (30)	427	2	277	**0.7%**	93%	0%	7%	0%
UAE	ADX (20)	123	2	167	**1.2%**	90%	5%	5%	0%
UAE	DFMGI /Nasdaq Dubai (23)	100	7	175	**3.9%**	67%	0%	26%	4%
Morocco	MASI (20)	79	21	184	**11.4%**	30%	10%	35%	25%
Egypt	EGX (30)	29	11	244	**4.5%**	73%	3%	13%	10%
Jordan	ASE (30)	21	17	211	**8.1%**	45%	25%	25%	5%
Total	**142 companies**	**776**	**60**	**1 258**	**4.8%**	**69%**	**6%**	**18%**	**7%**

Note: UAE's DFMGI and Nasdaq Dubai have been grouped to account for the jurisdiction (this differs from separate values in Figure 4.5).
Source: OECD secretariat analysis (2018), based on data collected by Ethics & Boards Governance Analytics.

Board committees are important to oversee some of the core management functions of the company. Of the 44 companies disclosing women board members, women are better represented on audit committees (7%) than on remuneration (4%) or nomination (4%) committees (Table 4.4).

Table 4.4. Women on MENA audit, nomination and remuneration committees (%)

				Representation of Women by Board Committee (% of total committee members)		
Country	Index	Companies With Available Information	All Committees	Audit Committee[1]	Nomination Committee[1]	Remuneration Committee[1]
Morocco	MACI 20	8	11%	18% (8)	0% (7)	0% (7)
Jordan	ASE 30	11	8%	12% (11)	15% (4)	15% (4)
Egypt	EGX 30	11	7%	3% (11)	10% (5)	8% (7)
UAE	DFMGI / NASDAQ Dubai 23	18	6%	7% (18)	6% (15)	8% (18)
UAE	ADX 20	16	3%	4% (16)	0% (11)	0% (13)
Saudi Arabia	TASI 30	16	0%	0% (16)	0% (14)	0% (13)
Total	**142 Companies**	**79**	**5%**	**7% (79)**	**4% (55)**	**4% (61)**

[1]The number in brackets refers to the number of companies declaring a specific board committee in each index. Percentages have been rounded.
Source: OECD secretariat analysis (2018), based on data collected by Ethics & Boards Governance Analytics.

4.4. Challenges faced by women in accessing corporate leadership positions

Family cohesion is of prime importance in the MENA region, and any strategy to increase women's presence in economic life would be remiss without taking this into account.

Nevertheless, a stronger role for women in economic life, particularly via corporate leadership, does not need to come at the expense of family cohesion. Rather, it can be an opportunity for both men and women to exercise a stronger sense of agency over work and family life and enjoy the benefits that this freedom of choice and women's inclusion can bring to society at large. The dual income generated by both spouses working can help families to afford greater opportunities for their children, and in life too.

This section explores the challenges faced by women in the MENA region that hinder gender balance in corporate leadership.

Underlying causes and costs of gender inequality in MENA

The legal framework underpinning women's rights in MENA economies has a tremendous effect on women's ability to participate actively in the labour force.

The OECD's Social Institutions and Gender Index (SIGI) is a cross-country measure of discrimination against women in social institutions – both legal and customary practices that can affect the opportunities of women and girls over a life cycle and limit their ability to participate equally with men in economic life. According to SIGI, common areas where discriminatory practices occur in the region include: household responsibilities, inheritance, secure access to formal financial resources, workplace rights, access to justice and political voice.

In recent years, legal transitions, especially affecting a woman's role in economic life, have begun to take shape. As noted above, MENA economies have ratified international conventions on gender equality and include constitutional provisions that guarantee women's access to equal opportunity and equality with men in economic life. Still, hindrances exist in national legal provisions (OECD, 2017c).

The Family Codes of MENA economies tend to assign specific duties to men and women that entrench gender roles and constrain the choices men and women have over how best

to organise work and family life. Often men are not only socially perceived as responsible for providing for their families financially, but they are legally bound to do so. In turn, women are expected to maintain the household, rear children, and care for sick, disabled or ageing relatives (OECD, 2017c).

In addition, customary laws, which are often not favourable to gender equality and women's empowerment, continue to exist in parallel with statutory laws. Even when the right legal frameworks are in place, their enforcement and implementation remains a challenge (OECD, 2017c).

OECD research based on SIGI indicates that the economic cost of gender-based discrimination in social institutions is immense worldwide, including in MENA (Box 4.3).

Box 4.3. The economic cost of gender-based discrimination

Gender-based discrimination in social institutions lowers female access to education and jobs. The current level of such discrimination induces an estimated annual loss of 16% of global income, or up to USD 12 trillion, according to research using the OECD Social Institutions and Gender Index (SIGI).

The research suggests that gender-based discrimination in social institutions has a significant negative impact on economic growth in MENA. It estimates annual income losses for the region due to such discrimination at USD 575 billion.

Regional income losses are also significant elsewhere: about USD 6.116 trillion in OECD countries, USD 2.4 trillion in East Asia and the Pacific, USD 888 billion in South Asia, USD 733 billion in Eastern Europe and Central Asia, USD 658 billion in Latin America and the Caribbean, and USD 340 billion in sub-Saharan Africa.

About the SIGI

The Social Institutions and Gender Index measures gender-based discrimination in social norms, practices and laws across 160 countries. The SIGI comprises country profiles, a classification of countries and a database; it serves as a research, policy and advocacy tool for the development community and policy makers. The SIGI covers five dimensions spanning major socio-economic areas that affect the life course of girls and women: discriminatory family code; restricted physical integrity; son bias; restricted resources and assets; and restricted civil liberties. These dimensions look at the gaps that legislation and attitudes create that impact rights and opportunities for women.

Note: Figures refer to the results of the 2014 SIGI.
Source: Ferrant and Kolev (2016), "The economic cost of gender-based discrimination in social institutions", www.oecd.org/dev/development-gender/SIGI_cost_final.pdf.

Barriers to corporate leadership positions for women in MENA

Social norms and inclusive workplace culture are important to providing opportunities for women's advancement. Metaphors such as "glass-ceiling", "sticky floor" and "labyrinth of leadership" [5] have been used to describe barriers to women's upward mobility in the workplace. Even women who make it to top-tier positions face continuous hurdles.

Studies show that women in the MENA region are held back by a variety of social, legal and institutional barriers (Deloitte, 2017b). They face significant constraints: the double burden of work and domestic responsibilities; expectations that women will not work; lack of female role models; and lack of opportunities to network. Moreover, recruiting and promotion systems can be based on lateral career paths that do not consider potential career breaks, notably for women who take maternity leave. In board selection in particular, woman suffer from the slow turnover of board seats, non-transparent board selection criteria, lack of female role models and informal board appointments based on networks.

Networking can be especially challenging for women in the MENA region. In some economies, women cannot participate in men-only social gatherings such as majlis or diwaniya, where men "informally exchange information and expand their professional networks" (McKinsey, 2014).

Restrictive laws can have an impact on women's advancement in their careers. Labour codes in some MENA economies restrict women's activities at night and in hazardous work (OECD, 2017c). There are also limitations on the freedom of movement, such as women's ability to travel for business without a male companion. In Saudi Arabia, companies are required to invest in creating separate spaces for women and men, which can be a disincentive for hiring women (McKinsey, 2014).

Women account for a disproportionate share of unpaid care work. Women globally spend more than three times more time on unpaid care work than men do; in the MENA region, this rises to more than five times as many hours on unpaid care work for women than men (McKinsey, 2017).Women also often lack family-friendly and work/life balance policies such as part-time or flex-time arrangements.

Labour codes in Jordan[6], Morocco[7], Egypt[8] and Libya[9] require private-sector employers to provide childcare facilities on site when they employ more than a specific number of women. In Jordan, a private-sector employer with 20 or more married women employees must provide childcare facilities if the women collectively have at least ten children under the age of four. The minimum number of women employees for mandatory provision of childcare facilities is 50 in Morocco and Libya, and 100 in Egypt (OECD, 2017c). In practice, the obligation of private-sector employers to provide parental leave and childcare for female employees exerts a negative influence on women's recruitment and on the payment of salaries equal to men's.

A further barrier to women is that gaining the credentials needed to rise to the top of a company's board or serve in a management position requires expertise and the development of certain skills over time. Entrepreneurship can be a springboard for attaining leadership roles in corporations or a seat on the board. However, levels are low in MENA. On average, 3% of firms in MENA have majority female ownership, compared to 13% in Europe and Central Asia, 20% in Latin America and the Caribbean, and 29% in East Asia and Pacific (World Bank Enterprise Survey, 2018).

There have been valuable studies in the region analysing women's perceptions of barriers to corporate leadership roles. A survey of 160 companies in the United Arab Emirates, conducted by the Hawkamah Institute in 2016, asked respondents about cultural elements perceived to have the greatest impact on gender parity. The respondents cited maternity, work/life balance, stereotypes about housewives and working mothers, and lack of self-confidence. The study also indicated that women often sacrifice their careers to support their families (Hawkamah Institute, 2016).

The IFC study of gender diversity in Jordan (cited above) found that a mix of underrepresentation, cultural influences and legal issues act as barriers for women to reach leadership roles. It is also interesting to note that Jordan's current corporate governance regulations require directors to have a certain level of shareholding to be nominated, which means that only women with shares can be directors. Alternatively, women can be nominated as directors on behalf of corporate shareholders; however, in this case, they need to be in senior positions (IFC, 2015).

In a 2015 survey conducted by the Pearl Initiative in GCC countries, just 27% of female respondents agreed that the leadership in their organisation was committed to having women in senior roles, and only 25% believed that they were treated equally in the workplace. A further 80% believed that gender bias had negatively impacted their career progression. And though 62% aspired to move into management roles, only 45% believed that this would be feasible given current policies.

Research by McKinsey in 2014, using a survey of female managers in GCC countries, suggested that the main constraints contributing to low female representation in corporate leadership included:

- family and social expectations of women causing a double burden
- conscious and unconscious biases against women in leadership (by both men and women)
- infrastructure gaps such as HR capacities and transport services for daily commuting
- limited networking opportunities and lack of targeted leadership programmes for women.

4.5. Good practices for increasing gender balance in corporate leadership

Policies to increase women's access and participation on corporate boards and in senior management positions can be driven by governments, regulators and companies themselves, with measures adapted to specific contexts (by sector, country, etc.). Policies can include quotas; reporting requirements; targets; voluntary disclosure by companies of gender composition or gender equality policies; increasing the size of a board; and actively recruiting qualified women to replace outgoing male board members.

4.5.1. Good practice examples from the OECD

On the whole, OECD countries follow four main policy approaches:

- laws that set a minimum quota for women on boards
- rules on disclosure of the gender make-up of company boards and/or diversity policies
- comply-or-explain provisions on gender in corporate governance codes
- voluntary targets for gender diversity on boards and/or in senior management.

Quotas and numerical targets can encourage an increase in the number of women on boards in the short term. The mere expectation that mandatory measures will be implemented can spur companies into action. In both France and Italy, for example, anticipation of a quota incited companies to take measures to increase the proportion of women on boards through hiring practices, numerical targets and/or recommendations on board composition in their corporate governance codes (Deloitte, 2016).

A corrigendum has been issued http://www.oecd.org/about/publishing/Corrigendum_Corporate_Governance_In_MENA.pdf

European countries have seen women's representation on boards double, triple or more since the adoption of quota laws. In Germany, for example, a 2014 law introduced a quota of 30% with a deadline of 2016; women's representation on boards increased from 16% in 2011 to 33% in 2018 (DIW Economic Bulletin, 2013). The results of Italy's 2011 quota law were even more striking: women's representation on boards jumped from 3% in 2009 to more than 35% in 2018 (CONSOB, 2011).

Policies that combine targets with strong monitoring and accountability mechanisms have proven effective (OECD, 2017b). European countries lead the charge in terms of the overall participation of women on boards. The five top performers globally are OECD members: Norway, France, Sweden, Italy and Finland, all of which have implemented mandatory quotas. In North America, where board diversity is advancing slowly, advocates have preferred investor pressure and voluntary initiatives over regulation.

Disclosure driven policies, like those of North America, can be ineffective without the market dynamics needed to drive desired changes, such as investor and shareholder activism (Kamalnaath and Peddada, 2012). Investors have been the most active proponents of greater gender diversity on boards in the United States where quotas remain unpopular and regulators and legislators have been slow to demand change (Deloitte, 2017).

The assets of institutional investors have more than doubled since 2000, reaching USD 84 trillion in OECD countries in 2017 (OECD, 2018). Shareholder activism can therefore help galvanise change. Companies such as State Street and Blackrock have taken steps to promote greater board diversity. Blackrock notably voted against the re-election of directors at more than 400 companies that failed to encourage diversity.[10] The results can be good for business. In a 2014 study, Credit Suisse found that companies where at least 15% of senior managers were women had profitability more than 50% higher those where fewer than 10% of senior managers were women (Credit Suisse, 2016).

In the United Kingdom, a combination of policy initiatives has helped to increase the share of women in corporate leadership. For example, a requirement for mandatory reporting on gender pay gaps has named and shamed companies that do not promote pay transparency and has forced disclosure. Measures for flexible working arrangements and reduced childcare costs, including a new tax-free childcare scheme, have fared well in combination (OECD, 2017b).

Corporate governance codes have become a popular method of improving corporate governance in OECD countries. Australia and the UK use comply-or-explain mechanisms in their codes to encourage greater gender balance on boards. In Australia, the presence of women on corporate boards has increased from 8% on the ASX 200 index in 2010, when code recommendations were introduced, to 23% in February 2016 (Clarke et al., 2016). In the UK, the corporate governance code was updated in 2018; it now requires companies to report on the gender balance of senior management in their annual reports and to provide details of company practices to encourage greater diversity on boards.

A selection of policies, programmes and good practices in OECD countries is presented in Annex 4.B.

Resistance to quotas in MENA's corporate sector

The constitutions of all MENA jurisdictions call for equality and non-discrimination between the sexes, and MENA economies show a commitment to improving gender balance across the public and private sector. Yet the use of quotas and targets in the corporate sector remains controversial in MENA economies.

The region's only country formally to mandate a quota is United Arab Emirates, where state-owned enterprises are required to have at least one woman on their boards (Deloitte, 2017a). In the Pearl Initiative's 2015 survey in GCC countries, only 24% of respondents supported the use of quotas.

Business leaders in GCC countries interviewed in a Deloitte study in 2017 had similar views. Though some were in favour of quotas, others said that quotas or targets should not be used because: they involve reverse discrimination; men are hostile to them; they lead to tokenism; market forces will correct gender balance; and alternate routes should be explored first (Deloitte, 2017b). Respondents felt that issues such as oil prices and geopolitics should take priority over fostering gender diversity in corporate leadership.

While similar arguments have been made elsewhere, countries that have introduced quotas "have seen more immediate increases in the number of women on boards, while those that have taken a softer approach, using disclosure or targets, have seen a more gradual increase over time" (OECD, 2017b).

Cultural norms in MENA may be hindering the acceptance of quotas and targets in the corporate world, where, as in the political realm, a patronage-like system is not uncommon. Given this similarity, it is worth considering the use of measures taken to increase women's representation in political decision-making bodies that might render similar results in corporate leadership. Such lessons from the public sector could help guide policies for the private sector.

In order to strengthen women's participation in political bodies, some MENA jurisdictions have adopted quotas or special electoral measures. These steps have increased the number of women in parliaments and on local councils in countries including Algeria, Egypt, Jordan, Libya, Morocco, Saudi Arabia and Tunisia. Moreover, the overall number of women who are elected outside the quota system grows with each election, giving credence to the notion that quotas are a first step to greater women's participation.

Similarly, MENA economies could use quotas or targets to increase the number of women on corporate boards and in senior management. The quotas can be a temporary measure implemented until goals have been met and social norms have evolved to allow for more equal representation in decision making.

Prior to the harder-line step of implementing quotas, MENA companies and economies may take other measures, such as disclosure-driven policies, to increase women's representation in corporate leadership. However, as companies in the region commonly have a controlling shareholder (either family or government), disclosure-driven policies could be less potent in advancing change without a willingness on the part of controlling shareholders to promote women in leadership.

It is important to note that an increase of women on boards may not directly translate into an increase in women's participation in executive positions. While quotas have boosted the number of women on boards in many economies, the gains have not been reflected below board level (OECD, 2017b).

A 2016 survey by the Hawkamah, The Institute for Corporate Governance of companies in UAE asked respondents what methods they thought would be most useful for achieving gender diversity on boards and in top management. Respondents suggested:

- targeted training and development programmes

- leadership and mentoring programmes
- company quotas and targets
- top management involvement in setting targets
- following up on gender diversity and transparency in hiring and promotions.

An innovative approach that has been used in the MENA region is an in-company training programme that targets male executives and employees. It takes as its starting point the premise that men are often an untapped yet critical resource in diversity and inclusion efforts to eliminate gender bias (Box 4.4).

Box 4.4. Dell EMEA's Men Advocating for Real Change campaign

An initiative called Men Advocating for Real Change (MARC) has developed in-company training at all levels to tackle gender inequality in the workplace. The aim is to sharpen awareness of the societal and cultural influences behind unconscious gender biases. Participants, including both men and women, attend intensive workshops on subjects like "exploring gender role conditioning and its link to leadership".

The MARC programme has been used by Dell EMEA to train more than 2 000 staff across 21 economies, including Egypt, Morocco, Qatar, Saudi Arabia and UAE. After receiving training, 82% of participants said that MARC had changed the way they think and behave, and 68% reported that they had seen a change in their leaders' behaviour. Dell EMEA has committed to training 100% of their executive-level staff by 2020 and would like all staff to take e-learning on unconscious bias.

MARC is an initiative of Catalyst, a global non-profit organisation working with companies to build workplaces that work for women.

Source: Presentation at the OECD on 9 March 2018 by Stéphane Reboud, VP at Dell EMEA; Catalyst, www.catalyst.org/events/marc-men-advocating-real-change-engaging-men-change-agents.

Use of corporate governance codes to encourage gender diversity

Corporate governance codes set the rules, standards and priorities on how companies should operate for optimal performance.

All economies in the region except Iraq have corporate governance codes (OECD, 2019). However, the importance of encouraging gender diversity on boards is mentioned in only two of the 27 codes, guidelines and ministerial resolutions reviewed for this chapter across 12 economies (Algeria, Bahrain, Egypt, Jordan, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, UAE and Yemen).

The only MENA economies with corporate governance codes that mention gender diversity on boards are Jordan and Morocco. Jordan's 2012 Corporate Governance Code[11] includes gender balance among factors to be considered in the composition of boards of directors (ECGI, 2017a). Morocco's 2008 Code of Good Corporate Governance Practices states that the governing body must be composed of members who, among other qualities, ensure diversity, including gender balance, "to provoke real debate and avoid the systematic search for consensus"[12] (CGEM, 2008). A 2011 annex to the Moroccan code

on the governance of state-enterprises uses similar language, while annexes covering small businesses and credit institutions do not (ECGI, 2017f, 2017g).

Broad diversity provisions are included in Lebanon's 2010 Guidelines for Listed Companies (Article 10), Tunisia's 2008 Code of Best Practice for Corporate Governance and Egypt's Code of Corporate Governance. A non-discrimination clause to ensure that company employees are treated fairly regardless of "race, gender or religion" is included in Qatar's 2009 Corporate Governance Code[13] and Lebanon's 2006 Corporate Governance Code (Deloitte, 2017a; ECGI, 2017b, 2017c).

Using the relevant vocabulary in corporate governance codes signals that gender diversity is important. If this is not acknowledged, there is less impetus for reform. Important key words such as "diversity", "inclusivity", "non-discrimination" and "gender" are absent from most MENA corporate governance codes. Guidelines can even differ within economies that have adopted specialised codes for financial institutions, state-owned enterprises, small and medium-sized enterprises, family businesses, etc.

The 2010 Muscat Declaration on Effective Implementation of Governance Frameworks in the Middle East and North Africa Region[14] encourages policy makers and regulators "to focus on improving the transparency and disclosure of enterprises" including on executive compensation and board structures. This could be taken to mean that the gender composition of boards is also a factor to be disclosed.

Gender diversity as a means of increasing organisational effectiveness has started to gain a place on the corporate agenda in MENA, especially in GCC countries, (McKinsey, 2014). There tends to be greater awareness at the company level of the importance of gender balance in decision making and improving women's access to corporate leadership. However, multinational companies tend to be more open to the concept, while companies owned by family groups are more traditional in their view of male and female roles and are conservative when it comes to change (Deloitte, 2017b).

One multinational that has implemented policies to improve gender balance is the global building company LafargeHolcim. The company aims to achieve a minimum of 30% of gender diversity by 2030 at all management levels across all sites, including more than 200 locations in MENA economies with more than 10 000 employees. The company's share of women among senior managers has already increased, from 15% in 2016 to 18% in 2017.

Accelerating progress and sustaining a stable pipeline of female talent to fill leadership roles in the future requires a comprehensive approach. The "leaky pipeline" phenomenon, in which women discontinue career paths at a higher rate than men, is well-documented in both OECD and MENA economies and tends to occur at crucial times in women's careers, for example in middle management before advancement to more senior roles (ILO, 2015). This leads to a shortage of women in senior management posts who could serve as role models (ILO, 2016a).

Table 4.5 provides an overview of initiatives already in place in MENA economies and companies to address the challenges outlined above and to increase the number of women in corporate leadership.

Table 4.5. Selected MENA initiatives to increase gender balance in corporate leadership

	Country Level
Egypt	Egypt's National Global Compact & Corporate Social Responsibility Centre, in collaboration with the American University in Cairo and the IFC, developed a "Women on Boards" initiative to improve the gender balance on corporate boards through awareness raising, networking, coaching, facilitation, direct training for certification and lobbying for legislative and policy reform. The programme has a Corporate Governance Module for "providing a general understanding of corporate governance concepts, board structure and responsibilities as well as basic understanding of financial statements, internal planning, family business governance, etc." and a Leadership Module for "developing leadership identity, practicing leadership skills and managing vision and voice". The initiative also works on sensitising male board members to gender issues and to qualifying women within and outside of the corporate mainstream to be appointed to boards.
United Arab Emirates	The UAE Gender Balance Council, established in 2015, is a federal entity responsible for developing and implementing the UAE's gender balance agenda. Its overall objectives are to enhance women's participation and achieve gender balance across all sectors, and to promote the UAE's status as a benchmark for gender balance legislation. Notable measures include: *i)* the launch of a Gender Balance Index for the government sector that can be emulated by the private sector; *ii)* the creation, with the OECD, of a UAE Gender Balance Guide to provide organisations and companies with guidance on creating a gender sensitive work environment and increasing women's participation in upper echelons of power; and *iii)* an awards system for organisations and companies that reach milestones in fostering greater gender balance. Additionally, the UAE launched the National Strategy for Empowerment of Emirati Women for 2015-2021. The Securities and Commodities Authority UAE recently signed an MOU with the Gender Balance Council to reach the UAE's target of 20% female participation in the corporate boardrooms of listed companies by 2020. The Dubai Women Establishment's Woman in Boards Initiative, in collaboration with Hawkamah and the Mudara Institute of Directors, aims to: identify barriers restricting women's participation at senior executive levels; advocate changes to remove barriers; increase awareness on gender diversity in local and regional boardrooms; train women leaders for taking on board roles; and mentor the next generation of women leaders.
	Regional Level
Hawkamah, The Institute for Corporate Governance	The Hawkamah Institute supports "institution building, corporate sector reform, good governance, financial market development, investment and growth in the region". Created to advance corporate governance reform, the institute has conducted studies on gender diversity on boards and in senior management.
The Pearl Initiative	The Pearl Initiative, developed in co-operation with the UN's Office for Partnerships, groups nearly 50 partner companies in a regionally focused network of business leaders "committed to driving joint action, exhibiting positive leadership and sharing knowledge and experience" in order to work towards higher standards in areas such as corporate governance, anti-corruption, codes of conduct, integrity and reporting. Core activities include regional research-based insight reports, business dialogue forums and university programmes, with gender-diverse leadership considered a core tenant of corporate governance.
The 30% Club	A chapter of the 30% Club was established in the GCC in 2015 to support a business-led approach to increasing women's participation in corporate life at all levels.
	Company Level
Glowork	The Saudi e-portal Glowork matches women with jobs by creating opportunities in sectors previously inaccessible to women. It aims to bring more than half a million women into the MENA workforce in the next five years and to leverage the talent of highly educated women to strengthen the region's workforce.
Saudi Aramco	The Saudi national oil company Saudi Aramco has set up two programmes to address a problem with the retention of female talent. Women in Business, which targets younger people starting their careers, teaches basic soft skills to build young women's confidence, ensure their contributions are noticed and allow them to navigate the waters of a male-dominated business world. Women in Leadership, for senior employees, combines self-awareness diagnostics, guided discussions, lectures, and interactive exercises (McKinsey & Co., 2014). Since the programme began, the number of women leaders has risen from three to 84. In April 2018, Saudi Aramco appointed the first woman, Lynn Laverty Elsenhans, to the board.

Sources: The following websites were consulted: www.eg.undp.org/content/egypt/en/home/presscenter/articles/WOB-Programme-2014.html, www.oecd.org/gov/gender-balance-guide-actions-for-uae-organisations.htm, https://government.ae/en/about-the-uae/strategies-initiatives-and-awards/federal-governments-strategies-and-plans/national-strategy-for-empowerment-of-emirati-women, www.dwe.gov.ae, www.hawkamah.org/, www.pearlinitiative.org, https://30percentclub.org/about/chapters/gcc, www.glowork.net/.

4.6. The way forward

Key findings

Increasing the representation of women in corporate leadership roles is a cornerstone of the inclusive economic growth needed to boost the competitiveness of the MENA region. Evidence demonstrates that increasing the gender balance in corporate leadership brings benefits to both companies and economies. Not undertaking measures to ensure this would be a missed opportunity.

MENA has made progress in improving gender balance at the workplace. However, despite differences among jurisdictions, the region faces common challenges in terms of increasing women's representation in corporate leadership. Key findings include the following:

- Corporate governance codes in MENA economies rarely endorse gender diversity
- Constitutional measures in MENA on non-discrimination against women have not yet translated into company practices, and representation of women on company boards remains modest
- Company and securities laws generally neither acknowledge the importance of gender diversity nor mandate the disclosure of board composition and senior management by gender
- The region lacks targeted measures, such as quotas, to encourage gender balance in corporate leadership
- Assessing women's actual participation in corporate leadership is a challenge due to limited disclosure and a lack of reliable data
- MENA legal frameworks and social norms, including family codes, play a role in driving gender gaps in the labour market
- Networking can be especially challenging for women in the MENA region.

Policy options

Removing the barriers to entry and retaining female talent in corporate leadership requires efforts at multiple levels, including broader societal and cultural change.

A group of interrelated policy reform areas can be proposed to address the challenges facing MENA economies in terms improving gender balance in corporate leadership (Figure 4.7).

These possible strategies and actions for governments and companies in the MENA region are summarised in Table 4.6 and developed below. As not all policy options apply to every country, they should be tailored to each MENA economy's specific circumstances and needs.

Figure 4.7. Main policy areas to promote gender balance in corporate leadership

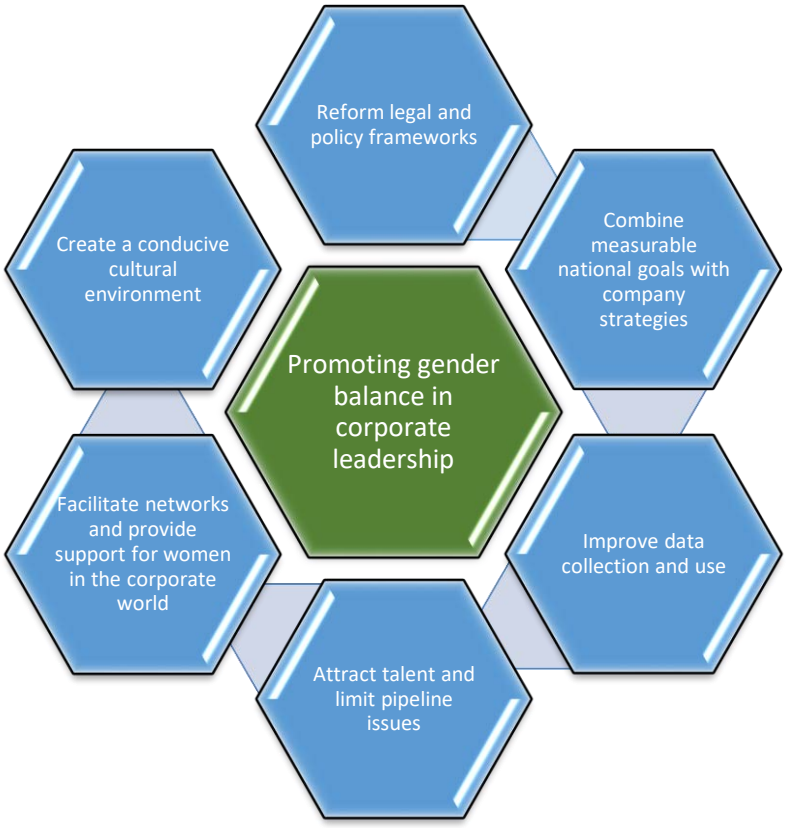


Table 4.6. Policy options for promoting gender balance in corporate leadership

Objectives	Policy options
Reform legal and policy frameworks	Revise corporate governance codes and related laws and regulations to endorse gender diversity.
Combine national goals with company strategies	Underpin goals, targets and policies by strategies aimed at fostering gender balance throughout the company and the career cycle of women. Involve company leaders to make government policies more likely to succeed.
Improve data collection and use	Gather more and better-quality data at the regional and national levels and from companies. Share good practices and compare approaches. Use scorecards and Gender Impact Assessments to assess governance practices, show progress and compare companies within or across economies.
Attract talent and limit pipeline issues	Develop a "whole of company" diversity framework and conducive human resource policies to create an ecosystem that facilitates women's corporate leadership. Ensure that the business community and government co-ordinate goals underpinned by sustainable policies.
Facilitate networks and provide support for women	Provide training programmes and facilitate leadership networks to drive change. Create coalitions and compacts to boost implementation of core government policies, and provide mentoring to shift values.
Create a conducive cultural environment	Make use of advice, feedback and education to help in adapting to new and more diverse corporate paradigms. Use best-practice models and reference points to ensure that governments encourage companies to grow and evolve into vehicles for change.

Reforming legal and policy frameworks

There is a strong momentum for change in the MENA region, and the OECD is committed to supporting policy dialogue among governments, authorities, companies and business associations to accelerate the pace of change for gender balance in corporate leadership. Good practices, as outlined in this chapter, can help to guide policy options, but galvanising change will require increased engagement between government and the private sector to facilitate an environment capable of increasing the number of women on boards and in top-level executive positions.

Revising corporate governance codes and company and securities laws to endorse gender diversity is a first step towards increasing women's participation on corporate boards and within senior management.

At a national level, disclosure mechanisms within corporate governance codes, such as comply-or-explain approaches, are especially effective in highlighting problem areas and providing data to guide policy implementation. For instance, analyses might show that women are better represented in some sectors than others or reveal barriers for women's upward mobility.

Combining national goals with company strategies

Goals, measurable targets and policies can be underpinned by strategies aimed at fostering gender balance throughout the company and the career cycle of women. Results from government policies are more likely to succeed when company leaders are active and involved.

Company boards should regularly carry out evaluations to appraise their own performance and assess whether they possess the right gender mix. These evaluations can be implemented at company level on a voluntary basis or at a national level, whereby the national authority encourages companies to engage in board training and evaluation according to the needs of the individual company. Economies may wish to combine these with company measures such as voluntary targets, disclosure requirements, boardroom quotas and private initiatives that enhance gender diversity on boards and in senior management.

Improving collection and use of data

The lack of gender-disaggregated data on education and economic participation makes it difficult for governments to enact informed policies that support female employment and entrepreneurship and to monitor these policies. There is a need for data on women's presence and absence in the labour force to support effective management in the private sector. There is also a lack of data on women in senior leadership in different business classifications or according to company size.

Accurate information guides implementation and allows companies to tailor practices to ensure that they are most effective. What is disclosed matters, too: the more, the better. Going beyond board composition, disclosure can and should cover remuneration packages, family-friendly and work/life balance policies, mentorship and sponsorship programmes, recruitment procedures, sexual harassment policies, etc. Cross-referencing of this information can help to reveal why qualified women may not be advancing to decision-making positions at the same rate as their male colleagues. As for increasing the presence of women on boards, disclosure allows for the creation of national databases with information on qualified female board candidates to allow the lack of female corporate visibility to be addressed immediately.

Scorecards and regular Gender Impact Assessments, such as EDGE certification[15], can be used to assess a company's governance practices, show progress over time and compare different companies and groups of companies within or across economies. These measures are especially effective in ensuring the implementation of family-friendly and work/life balance policies such as flex-time, teleworking, paternity and/or parental leave. They also provide support for models that allow for paid or unpaid leave for life-cycle needs (emergency family needs, childcare, etc.) and that do not penalise employees in their career progression. In this regard, rewarding and acknowledging performance and workable methods used by companies to reach gender targets is complementary.

Data fortify an evidence-based approach for informing policy by identifying bottlenecks that hinder progress and by monitoring the effectiveness of initiatives over time. Despite commonalities among MENA economies on corporate makeup and private sector operation, each country has its particularities. Sharing good practices and comparing approaches is therefore essential to success and a timesaver for those companies and economies that adopt already tested practices.

It is important to highlight two elements when analysing data on women in the workforce in MENA economies. First, the population and employment figures can be skewed due to the high number of expatriate male workers that impact the equal weighting between men and women. Second, lack of disaggregated data makes it difficult to decipher the cause of increased female participation in the workforce in the case that government policies are aimed at increasing the total numbers employed in both the public and private sectors (Kemp et al 2015). Therefore, better quality sectoral data is needed on the composition of company boards and senior management as well as measures to increase gender balance in corporate leadership in the MENA region.

Creating an ecosystem for gender balance in corporate leadership

A pipeline of talent and identification of the next generation's female leaders is key to a "whole of company" diversity framework. New human resources policies in recruitment, development of talent, etc., are needed to create an ecosystem that is conducive to women's corporate leadership in the region.

Shifting negative attitudes surrounding women's ability to lead, and accelerating a women's path to leadership, require measures that are sustainable. Policy dialogue between business and government is needed to underpin objectives, and works as an important vehicle for sharing knowledge and experience.

Several key tools and strategies can be used to help galvanise change. These involve ensuring new standards within traditional company practices, mentoring, collaborative career mapping through coalitions and compacts, and scorecards and impact assessments to ensure that targets are being met at the company and national level.

Revised human resource management guidelines create a clear standard for gender-sensitive techniques and criteria used for recruitment, hiring and promotion across companies. Mentorship and sponsorship programmes cultivate talent and create a successive pipeline for female talent at all levels of business.

Facilitating networks and providing support for women

Engaging top-tier management and support for a diversity agenda within the largest companies in each country is a critical starting point, especially at the board and senior executive levels. The creation of regular training programmes and leadership networks

within and across companies, sectors and regions are effective in driving real change, especially in economies with stricter societal norms and biases.

Coalitions and compacts can boost the implementation of core government policies and provide upwards and downwards mentoring to shift values. They help to create "gender champions" throughout companies and sectors that advocate for the gender-balance agenda and to ensure that targets are met. They also create networks for women in business.

Global examples are the 30% Club, launched in the UK in 2010 with a goal of achieving a minimum of 30% women on FTSE-100 boards. The compact has helped to accelerate progress: female representation on FTSE-100 boards increased to 27.9% after the initiative, from 12.5% previously. Signatories include the CEOs and chairs of some of England's most prominent companies.

A similar initiative in the United States is Paradigm for Parity, a coalition of businesses dedicated to addressing the leadership gender gap in corporate America. The coalition has set a target for companies to achieve 30% female board seats by 2030. Its more than 60 signatories range from product and services industries to advertising, food processing, finance and mining. In 2017, the Women's Forum of New York recognised 19 Paradigm for Parity member companies as Corporate Champions for having at least 25% of board seats held by women.

Creating a conducive cultural environment

Cultural changes take time. Advice, feedback and education can help MENA economies to adapt to new and more diverse corporate paradigms. However, creating a cultural environment conducive to increased women's participation in corporate leadership also requires conscious effort on the part of business and government.

In order to enhance the gender balance in corporate leadership, policy makers need to address the factors that lead women to drop out of the workforce while they are on the road to management roles. This implies changing the cultural environment so that women no longer feel undervalued.

Factors that discourage women from pursuing careers up the corporate ladder include lack of work/life balance, unequal pay in comparison to male colleagues and grim prospects for promotion in an environment where executives promote successors who are like themselves (i.e. other men).

Reference points and models of good practice are important in helping companies to grow and evolve into vehicles for change. Good practices in MENA economies, such as the Men Advocating for Real Change initiative described above, focus on encouraging a culture that sees the value of female leaders.

Notes

[1] The revised G20/OECD Principles of Corporate Governance provide a non-binding reference for policy makers to build effective corporate governance processes: http://dx.doi.org/10.1787/9789264236882-en.

[2] OECD-wide includes South Africa, India, Colombia, People's Republic of China, Hong Kong China, Brazil and Indonesia in addition to the 35 OECD member countries.

[3] The Gulf Co-operation Council groups Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE.

[4] Data collection and research provided by Ethics & Boards Governance Analytics, information as of 23 May 2018.

[5] The expression "the glass ceiling" first appeared in the Wall Street Journal in 1986 in article entitled "Breaking the Glass Ceiling: Can Women Reach the Top of America's Largest Corporations?" (Economist, 2009) and is defined by Merriam-Webster as "an intangible barrier within a hierarchy that prevents women or minorities from obtaining upper-level positions." The term "sticky floor" is used to describe a discriminatory employment pattern that keeps a certain group of people at the bottom of the job scale. See "Women and the Labyrinth of Leadership", by Alice Eagly and Linda L. Carlin in the Harvard Business Review, published in the September 2007 Issue, https://hbr.org/2007/09/women-and-the-labyrinth-of-leadership.

[6] Article 72 of the 1996 Labour Law

[7] Article 162 of the 2003 Labour Law.

[8] Article 96 of the 2003 Labour Law.

[9] Article 26 of 2010 Labour Relations Law.

[10] Wall Street Journal, February 2018: www.wsj.com/articles/blackrock-companies-should-have-at-least-two-female-directors-1517598407.

[11] The 2012 Jordanian Corporate Governance Code covers private shareholding, limited liability, and non-listed public shareholding companies.

[12] Original French text: 2008 Code Marocain de Bonnes Practiques de Gouvernance d'Entreprise, section 3.4.1. Composition de l'organe de gouvernance: "La composition de l'organe de gouvernance est essentielle pour lui permettre de remplir au mieux son rôle. Il doit être composé de membres intègres, compétents, informés, impliqués, apportant une diversité (formation, parcours professionnel, équilibre hommes-femmes, âge, nationalités, …) de nature à susciter de vrais débats et à éviter la recherche systématique du consensus."

[13] Applies only to companies listed in markets regulated by the Qatar Financial Markets Authority.

[14] Policy makers, representatives of stock exchanges, not-for-profit organisations, insolvency profession and business leaders from the countries of the Middle East and North Africa, including Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the Palestinian National Authority, Tunisia, Syria, Saudi Arabia, Qatar, Yemen and the United Arab Emirates, gathered with international and regional experts on the occasion of the 5th Regional Annual Corporate Governance Conference organised by the Hawkamah Institute for Corporate Governance, the OECD and the Oman Capital Markets Authority and endorsed the Muscat Declaration.

[15] The Economic Dividends for Gender Equality (EDGE) Certification is a global assessment methodology and business certification standard for gender equality. EDGE Certification has been designed to help organizations not only create an optimal workplace for women and men, but also benefit from it. EDGE Certification is currently working with nearly 200 organizations, in 50 countries and 23 industries.

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Annex 4.A. OECD gender recommendations

- **The 2013 OECD Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship** recommends adopting practices that promote gender equality in education, promoting family-friendly policies and working conditions that enable fathers and mothers to balance their working hours and their family responsibilities and facilitate greater women's participation in private and public sector employment. It also recommends increasing the representation of women in decision-making positions, eliminating the discriminatory gender wage gap, promoting all appropriate measures to end sexual harassment in the workplace, reducing the gender gap in entrepreneurship activity, and paying attention to the special needs of women from disadvantaged minority groups and migrant women. See: https://www1.oecd.org/els/2013-oecd-recommendation-of-the-council-on-gender-equality-in-education-employment-and-entrepreneurship-9789264279391-en.htm.
- **The 2015 Recommendation on Gender Equality in Public Life** promotes a government-wide strategy for gender equality reform, sound mechanisms to ensure accountability and sustainability of gender initiatives, and tools and evidence to inform inclusive policy decisions. It also promotes a "whole-of-society" approach to reducing gender stereotypes, encouraging women to participate in politics and removing implicit and explicit barriers to gender equality. See: www.oecd.org/gov/2015-oecd-recommendation-of-the-council-on-gender-equality-in-public-life-9789264252820-en.htm.
- **Reports**
  - OECD (2017), Women's Economic Empowerment in Selected MENA Countries: The Impact of Legal Frameworks in Algeria, Egypt, Jordan, Libya, Morocco and Tunisia, OECD Publishing, Paris.
  - OECD (2017), The Pursuit of Gender Equality: An Uphill Battle, OECD Publishing, Paris.
  - OECD (2017), Gender Balance Guide: Actions for UAE Organisations, OECD Publishing, Paris, www.oecd.org/gov/gender-balance-guide-uae-2017.pdf.
  - OECD/CAWTAR (2014), Women in Public Life: Gender, Law and Policy in the Middle East and North Africa, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264224636-en

Annex 4.B. Policies and good practices in OECD countries

Country	Selected policies and good practices for increasing gender balance in corporate leadership
Australia	The Australian Stock Exchange (ASX) recommends that listed companies establish and disclose board diversity policies. In 2015, the Australian Institute of Company Directors (AICD) announced a voluntary target of 30% for all boards (Deloitte 2017a). The AICD began a mentoring programme for women in 2010 where female aspirants sign up to a "Mastering the Boardroom" course or an "International Company Director's Course" to make them board ready (Kamalnaath and Peddada, 2012). Successful candidates are paired with a mentor who works with them for one year and places them on public company boards after the programme. The participation of women on boards for ASX 200 companies has more than doubled since these changes, from 11% in 2010 to 25.1% in 2016 (Catalyst, 2017c). In the largest listed companies, women's participation is even higher – at 29.1% on ASX20 company boards, 27.4% on ASX50 company boards, and 25.7% on ASX100 company boards (Deloitte, 2017a).
France	France enforces a mandatory quota of 40% for both genders on boards of companies whose shares are traded on a regulated market and for companies (listed or not) whose revenues or total assets exceed EUR 50 million and employ at least 500 people for three consecutive years. This increased the previous quota of 20% set by France's National Assembly in 2010. The changes were ushered in under the 2014 Gender Equality Law, effective 1 January 2017, which amended France's Code of Commerce (Article L225-18-1). As of 1 January 2020, the same conditions will apply for companies that employ at least 250 people. If a company's board of directors is composed of eight members or fewer, the difference between the number of directors of each gender may not exceed two. Any appointment made in contravention is considered null and void. Fines are applicable for non-compliance, and director appointments not in line with the law can result in the withholding of all director fees until there is a resolution (Deloitte, 2016). As of March 2017, women filled 40% of seats on CAC40 boards, 42% on SBF120 boards, 34% at all companies covered by the regulation and 37% at France's largest listed companies (Deloitte, 2017a).
Germany	A 2015 law affecting around 110 companies required the introduction of a fixed women's quota of 30% on non-executive supervisory boards in Germany as of 1 January 2016. The law also introduced a "flexi-quota" for smaller firms, affecting around 3 000 companies, requiring them to set their own targets for women on executive and supervisory boards and for senior management (Hans Böckler Stiftung, 2015). Women's participation in supervisory board posts hovered at around 10% between 2005-2010; an expectation that mandatory targets would be set led companies to appoint more women, and the share of women supervisory board members in a sample of 160 public traded companies rose to 22% by 2016, although this was still short of the target (Rayasam, 2016). No fines exist for non-compliance. Instead, larger companies must keep a relevant board seat empty until it is filled by a woman, and smaller companies cannot set a quota less than their current status quo (Hans Böckler Stiftung, 2015). Women represent 19.5% of board members in Germany (Deloitte, 2017a).
Italy	Italy has significantly increased women's participation on boards of directors in recent years. Quotas require that women make up at least 33% of board members at listed companies; the percentage of women on boards doubled from 15% in 2013 to 30% in 2016 (OECD, 2017b). The government has also made efforts to support families with childcare through a voucher system. Improving access to childcare should help more women enter the workforce given that Italian women do more than three-quarters of all unpaid work in the home, such as care for dependents (OECD, 2017b).

Country	Selected policies and good practices for increasing gender balance in corporate leadership
Japan	In 2015 the Japanese Diet passed the Act of Promotion of Women's Participation and Advancement in the Workplace. The law requires companies with more than 300 employees to collect and analyse data on women's participation in the workforce, including the ratio of women in management. The law further requires these companies to formulate and make public an action plan to close gender gaps, including numerical targets, and to disclose gender-related statistics to the public (Abe, Javorcik and Kodama, 2016). Companies with fewer than 300 employees are not formally required to comply but are encouraged to do so (Sanford, 2015). The presence of a single female director has corresponded to a higher percentage of women in middle and senior management and new females hires in Japan (Thwing-Eastman et al., 2016). Japan's Gender Equality Bureau statistics show that women make up 6.2% of managerial positions and 3.4% of executive level positions in private corporations (2017).
Norway	Norway was the first country to introduce a quota for women on company boards. The quota of 40% was introduced in 2005 via the Norwegian Public Limited Liability Companies Act, which covers public limited companies, state and municipality owned companies, and co-operative companies. Companies that do not comply are delisted (Shareholder Rights, 2016). Norwegian boards are close to gender parity, with 46.7% of board seats held by women, an increase of seven percentage points since 2013; women represent 41% of board members at the largest listed companies (Deloitte, 2017a).
United Kingdom	In 2010, the 30% Club was launched in the UK with a target of increasing the proportion of women on FTSE-100 boards to 30% by 2015 without using mandatory quotas. In 2016, it expanded its 30% target to FTSE-350 boards (currently at 24.1%) and to senior management of FTSE-100 companies by 2020. This initiative has led to a doubling of female directors on FTSE-100 boards, from 12.5% in 2010 to 26.6% in 2016. Its success has led to the launch of 30% clubs in Australia, Canada, GCC countries, Hong Kong, Ireland, Italy, Malaysia, Southern Africa, Turkey and the United States. Women currently hold 22.8% of all board seats in the UK (Deloitte, 2017a).

Chapter 5. State ownership in MENA

Transparency regarding the operations and objectives of state-owned enterprises is crucial for monitoring their performance and maximising their economic and societal contributions. This chapter examines what is known about state-owned enterprises in the MENA region and points to areas where more systematic investigation could inform policy efforts. It first discusses the policy and institutional arrangements for state ownership in the region, highlights reforms underway in some MENA economies and compares the situation in the region with international trends. It then discusses the collection and public availability of quantitative information on state-owned enterprises in individual countries and compares this with international practices. The chapter concludes by proposing policy options for improving state ownership policies and practices in the region, drawing on the standards of the OECD Guidelines on Corporate Governance of State-Owned Enterprises.

5.1. Introduction

State-owned enterprises play a fundamental role in MENA economies, as in many other regions of the world. They often operate in systemically important sectors on which the broader economy depends, in addition to providing public services to citizens.

While it is possible to draw general conclusions about the economic and societal importance of state-owned enterprises (SOEs), the region's state ownership landscape is nonetheless characterised by a scarcity of data and limited structured information on SOEs' ownership and regulatory arrangements. Identifying which companies are state-owned, what objectives they are expected to achieve and how they are regulated could inform improvements in state ownership practices and help to ensure that companies owned by the state operate efficiently, transparently and on a level playing field with private companies.

This is of pivotal importance for economic development outcomes. The impact of SOEs on the broader economy is particularly decisive when they operate in important sectors on which businesses and citizens depend, such as electricity and gas, telecoms, transportation and finance.

State ownership also gives rise to unique governance and regulatory risks that can prevent SOEs from creating optimal value for the economy and society. When SOEs operate inefficiently and are subject to weak governance arrangements, they can create a strain on public resources, crowd out more productive private sector activity and, in the worst case, be used as tools for political patronage or for self-enrichment at the expense of society at large.

This in turn can erode the trust of citizens, companies and investors in public institutions and markets. The reputational damage that can result from poorly governed or regulated SOEs can ultimately turn away private investors, both domestic and foreign, whose capital is crucial for financing development.

For these reasons and more, the importance of well-governed state-owned enterprises, in the MENA region and beyond, cannot be overstated.

This chapter aims to contribute to ongoing policy reflections on state ownership in MENA. It examines state ownership issues primarily from a transparency angle, taking stock of what is known about state ownership in the region, where there are gaps in information and what areas of investigation could inform ownership reforms. It begins by reviewing international standards on the corporate governance of SOEs. It then identifies trends in state ownership arrangements and landscapes in the region and compares them with global practices. Following this, it explores the public availability of quantitative information on SOEs in the region and compares with international practices. The chapter concludes by proposing policy options to support MENA governments in implementing reforms.

5.2. Corporate governance standards for state-owned enterprises

State-owned enterprises are prone to governance risks that can hamper their performance and distort the competitive landscape. For example, if state ownership responsibilities are not clearly assigned within the public administration, SOEs can be subject to vague or frequently changing corporate objectives, leading to underperformance. Or, if a state body is simultaneously responsible for exercising ownership rights in a state company

and regulating the competitive market in which it operates, this can create conflicting objectives and ultimately lead to decision making in the interest of a single enterprise at the expense of market efficiency and competitiveness.

Many SOE governance issues are furthermore exacerbated by insufficient transparency on their operations, making it difficult to measure – and make the state and corporate boards accountable for – their performance.

These factors create challenges for policy makers as they seek to ensure that the state-owned enterprises in their jurisdiction generate the maximum benefit both for the economy and for society at large.

The OECD Guidelines on corporate governance of SOEs

Addressing the many policy challenges that emerge when the state is an owner of companies is the objective of the internationally agreed *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (*SOE Guidelines*).

The *SOE Guidelines* aim to ensure that SOEs create value for the economy and society via good-practice ownership, corporate governance and regulatory arrangements. Their main tenets are presented in Box 5.1.

Box 5.1. OECD Guidelines on the corporate governance of SOEs

The *OECD Guidelines on Corporate Governance of State-Owned Enterprises* are recommendations to governments on how to ensure that SOEs operate efficiently, transparently and in an accountable manner. These are their main tenets:

- The state should disclose the **rationales for state ownership** to the general public, who are the ultimate owners of SOEs. The purpose of state ownership should be to maximise value for society.
- The **state as an owner** should be professional, transparent and accountable.
- SOEs should compete on a **level playing field** with private companies. State ownership and regulatory functions should be separate to avoid conflicting objectives.
- Non-state **shareholders should have equitable treatment** and equal access to corporate information.
- SOEs should respect stakeholders' rights and implement high standards of **responsible business conduct**.
- SOEs should be subject to the same high standards of **accounting, auditing and disclosure** as listed companies.
- SOE **boards of directors** should have the mandate, autonomy and independence to set enterprise strategy and oversee management, absent of political interference.

Source: Adapted from OECD (2015), *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, http://dx.doi.org/10.1787/9789264244160-en.

Since the *SOE Guidelines* were first developed in 2005, state ownership reforms around the world – including in many MENA economies – have generally brought national practices closer to their aspirational standards. Examples of global trends in state ownership reforms include:

- the elaboration of ownership policies clarifying the state's financial and non-financial performance expectations for SOEs
- steps to subject all SOEs to high standards of corporate governance and disclosure
- legislative and institutional reforms to ensure that SOEs are subject to the same laws and regulations, including those bearing on competition, as private enterprises.

These and other global trends in state ownership reforms over the past decade have often occurred in tandem with increased transparency on the characteristics, objectives and performance of SOEs.

In countries with the most advanced transparency practices, the state reports to the general public – considered the ultimate shareholders of SOEs – on the operations and performance of the SOE portfolio through annual aggregate reports. Such strengthened disclosure practices have increased accountability by state shareholders, corporate directors and senior management for the performance and efficiency of SOEs.

These and other international experiences can be instructive for governments around the world, including in the MENA region, as they continue their efforts to optimise the contribution of SOEs to economies and societies.

5.3. The state ownership landscape in the MENA region

State-owned enterprises in the MENA region operate across a wide range of sectors, including the primary sector, electricity and gas, telecoms, postal services, other utilities, finance and transportation. Several MENA governments also own companies outside these more traditional sectors for state ownership, for example in manufacturing and property development. Many SOEs operate with a mix of commercial and public policy goals, which are not always well-defined or disclosed.

SOEs also often operate natural monopolies, where a single-firm market is considered the most economically efficient arrangement. In many cases this is because it is considered more cost effective for the state to operate a monopoly than to regulate a privately owned firm. It follows that privatisation is not always the most economically optimal option and that SOEs, if well-governed and efficient, can usefully contribute alongside private enterprises to well-functioning economies and societies. If, however, the state does decide to privatise an SOE, then strengthening its corporate governance and performance can increase fiscal revenues from the sale.

The region's SOEs are not a particularly dominant feature of the global marketplace, yet two of them are among the world's 500 largest companies: Emirates Group in the United Arab Emirates and SABIC in Saudi Arabia.[1] By all accounts, Saudi Aramco should also be included in this list, but presumably is not because its revenues, on which the classification is based, are not made public.

State ownership arrangements are decentralised in most MENA economies, with responsibilities dispersed among numerous institutions. Only one MENA economy, Morocco, has a central co-ordination body. Other countries have taken steps towards centralisation by transferring a portfolio of large or strategically important SOEs to a

state holding company or sovereign wealth fund. A number of the region's governments are in the process of undertaking state ownership reforms, ranging from institutional changes to the establishment of dedicated corporate governance guidelines for SOEs. This section provides an overview of current state ownership arrangements in MENA and compares with global trends.

Decentralised ownership

State ownership responsibilities appear to be undertaken primarily by line ministries in the majority of MENA economies (Table 5.1).[2] Ownership responsibilities are understood to comprise voting on corporate policy on behalf of the state shareholder, appointing board members and setting SOEs' objectives.

The line ministries are in many cases also responsible for market regulation and/or sectoral development policy. Previous OECD research indicates that independent sectoral regulators are not common in the region, with notable exceptions in the telecoms, transportation and electricity sectors, where steps have been taken to introduce competition in previously monopolised markets (OECD, 2013). The banking sector also stands apart, with a longer history of sector-specific regulation.

Table 5.1. Overview of state ownership arrangements in MENA

State ownership arrangements	Economies
Predominantly decentralised (state ownership undertaken by line ministries)	Algeria, Djibouti, Iraq, Jordan, Lebanon, Mauritania, Oman, Palestinian Authority, Qatar, Syria, Tunisia, Yemen
Predominantly decentralised with co-ordinating agency	Morocco
Predominantly decentralised, with a non-trivial portfolio of SOEs held by central state holding company(ies)	Bahrain, Egypt (hybrid model), Kuwait, Saudi Arabia, UAE

Source: Online review by OECD Secretariat of publicly available information on the state ownership arrangements of known SOEs in the region, as of April 2018.

Decentralised state ownership arrangements can be non-optimal for a number of reasons, including the inherent conflict involved when ministries simultaneously benefit from SOEs' commercial success and are responsible for regulating them. Decentralised ownership arrangements also often coincide with limited transparency about corporate operations and weak oversight of ownership ministries and SOE management. These issues, as well as potential measures to mitigate them in the context of decentralised arrangements, are discussed in greater detail below.

State ownership arrangements in Iraq provide an example of a predominantly decentralised state ownership model. State ownership responsibilities for the country's 157 SOEs are divided among ten ministries (Table 5.2). More up-to-date reporting by the Iraqi government places the number of SOEs at 176, which could indicate some recent corporate restructuring or simply more comprehensive reporting (Government of the Republic of Iraq, 2016). In many countries around the world, discrepancies in the number of SOEs reported by different national institutions are not unusual and often reflect differences in the criteria used to define "SOEs", for example whether subsidiaries or enterprises in liquidation are considered SOEs.

Table 5.2. Decentralised state ownership arrangements in Iraq

Ownership entity	Number of enterprises in ownership entity's portfolio	Number of employees in enterprises	Main sectors of operation
Ministry of Industry and Minerals	71[1]	145 400	Manufacturing
Ministry of Electricity	24	83 000	Electricity generation, transmission and distribution
Ministry of Oil	18	143 600	Oil and gas exploration and production
Ministry of Transportation	10	37 000	Airports, sea and land transportation
Ministry of Housing and Construction	8	13 700	Design and construction
Ministry of Trade	7	10 500	Food trade and marketing
Ministry of Agriculture	7	4 300	Agricultural research and production
Ministry of Defence	6	20 500	Military manufacturing
Ministry of Water Resources	3	2 800	Dam maintenance, water research
Ministry of Telecommunications	3	18 300	Postal and internet services
Total	157	479 100	

Note: Value of enterprises not available.
[1]Since 2015, the Ministry of Industry and Minerals has reduced the number of SOEs in its portfolio from 71 to 32, primarily through mergers of SOEs undertaking similar operations.
Source: Questionnaire response provided by contributing institution in Iraq, based on reporting by the Prime Minister's Advisory Commission.

Within Iraq's decentralised arrangements, some degree of co-ordinated oversight has taken place and it may be strengthened in the future. In 2007, the Prime Minister's Advisory Commission established a working group on restructuring state-owned enterprises to co-ordinate SOE reform efforts among concerned ministries.[3] More recently, in 2016-17, the government established a committee on SOE restructuring, led by the Minister of Industry and Minerals, to lead reform efforts. The ministry, which oversees some of the country's largest SOEs, is to work together with other concerned ministries and experts. Iraq's state ownership model could therefore be characterised as decentralised with co-ordination.

A central co-ordination body in Morocco

State ownership responsibilities in Morocco are at least partly co-ordinated by one central state body, the Ministry of Economy and Finance, in many cases through its Department of Public Enterprises and Privatisation (Box 5.2). This is a departure from the more common MENA practice of decentralising responsibilities for state companies. In practice, line ministries in Morocco also undertake many state ownership functions, including the nomination of board members in individual SOEs.

Box 5.2. Co-ordinated state ownership in Morocco

The Ministry of Economy and Finance represents the state as shareholder in Morocco. One of its key functions is the appointment of state representatives to the boards of SOEs. These representatives are generally appointed from the ministry's Department of Public Enterprises and Privatisation, but they can also be appointed from: the ministry's Budget Department, notably if the SOE receives state subsidies; the Department of Treasury and External Financing if the SOE is a public financial institution; or a combination of these departments.

The main state ownership functions mandated to individual departments within the Ministry of Economy and Finance can be summarised as follows:

Department of Public Enterprises and Privatisation

- examining projects related to the establishment of SOEs or to proposed changes in the level of state participation in existing SOEs
- participating in the management of the state portfolio, including decision making on measures that would affect the structure, profitability and investments of SOEs
- examining SOE investment projects, including their financing modalities, with a view to ensuring profitability
- evaluating SOE performance and, for this purpose, developing an economic, financial and social data bank on the public sector
- monitoring the work of SOE boards of directors and the implementation of their decisions within SOEs
- preparing a general plan for transferring SOEs to the private sector and undertaking tasks related to their effective transfer.

General Treasury of the Kingdom

- ensuring the preservation of the securities of the state.

Budget Department

- releasing the funds necessary for creating SOEs, increasing the state's equity capital in existing SOEs or investing state or SOE equity in private companies.

Source: Adapted from questionnaire response provided by the authorities of Morocco

Morocco can thus be considered to employ a state ownership model falling somewhere between the decentralised model, but with some degree of central co-ordination, and the dual model, in which one central ministry, usually the Ministry of Finance (in the case of Morocco, the Ministry of Economy and Finance), shares the exercise of state ownership rights with sectoral line ministries. At the time of writing, Morocco was in the early stages of a significant state ownership reform process, which is discussed in the section below on general ownership and governance reforms.

State holding companies

Some MENA economies, mainly members of the Gulf Co-operation Council (GCC), have taken steps towards centralisation by transferring a portfolio of large or strategically important SOEs to a state holding company or sovereign wealth fund, which then subjects its portfolio enterprises to more rigorous, and often purely commercial, performance expectations.

This is the case, for example, in Saudi Arabia, where the Public Investment Fund under the Ministry of Finance holds majority shareholdings in seven companies, either solely or together with other state institutions, in addition to minority shareholdings in 19 enterprises (which are not considered SOEs). These companies operate across a range of sectors including mining, petrochemicals and other manufacturing, transportation and telecoms (OECD, 2017). The Saudi Public Investment Fund was established in 1971 to invest state funds into strategic sectors or enterprises, in support of broader national economic development goals.

A similar approach has been adopted in Kuwait, through the Kuwait Investment Authority, and in Bahrain, through the Mumtalakat Holding Company, a sovereign wealth fund mandated to manage state investments outside of the oil and gas industry, with reported equity stakes (including many minority stakes) in more than 38 companies.

The state holding company approach is used at the sub-national level in Abu Dhabi through the Mubadala Investment Company, which merged with the Abu Dhabi Investment Council in March 2018. Dubai uses this approach through the Investment Corporation of Dubai, while Dubai Holding manages and invests sovereign wealth. One of its subsidiary companies, Tecom Group, manages the development of sector-specific economic zones. At the federal level in the United Arab Emirates, state investments are carried out through the Emirates Investment Authority sovereign wealth fund.

Abu Dhabi's Mubadala has notably contributed to heightened transparency in the state-owned sector (Box 5.3).

The Abu Dhabi government has taken steps to centralise state oversight of a broader portfolio of SOEs beyond those in Mubadala's portfolio. Most SOEs in Abu Dhabi, including Mubadala, are required to report to the Office of State-Owned Enterprises within the Abu Dhabi General Secretariat of the Executive Council, which monitors the performance of public-sector entities and governmental projects (Abu Dhabi Digital Government, 2018).

Abu Dhabi's SOEs are also subject to central oversight and auditing by the Abu Dhabi Accountability Authority. These institutions appear to perform mostly monitoring and/or co-ordination functions, however, rather than purely state shareholder responsibilities.

Egypt has adopted a somewhat hybrid state holding company model, through the establishment of several state-owned holding companies that hold shares in subsidiary affiliate companies. The holding companies operate in different sectors of the economy and are overseen by the Ministry of Investment.

This model is enshrined in Egypt's Public Sector Companies Law (Law 203), adopted in 1991, which authorised the transfer of ownership of certain SOEs from the state to holding companies pending their foreseen privatisation. Since then, the state has undertaken full or partial divestment in several sectors of the state-owned economy, but more than 150 SOEs still operate within this state holding company structure. Law 203 includes provisions related to the corporate governance of the holding companies and their affiliate companies, for

example requiring the separation of management and ownership functions, the issuance of articles of foundation, the establishment of boards of directors and the prevention of abusive related party transactions and conflicts of interest (Hassouna, 2018).

Box 5.3. The state holding company approach in Abu Dhabi

Mubadala, an investment company wholly owned by the government of Abu Dhabi, is mandated to achieve sustainable financial returns and to contribute to a globally integrated and diversified economy. Before its 2018 merger with the Abu Dhabi Investment Council, Mubadala was reported to have USD 127.8 billion in assets and USD 45.2 billion in revenues.

Mubadala's geographical footprint makes it somewhat atypical among MENA SOEs. It employs around 68 000 people worldwide, with active operations in more than 30 countries. At the end of 2017, Mubadala's portfolio comprised both MENA-based and global assets, with a wide sectoral distribution: petroleum and petrochemicals (32.7%); financial investments and infrastructure (28.1%); technology, manufacturing and mining (21.1%); aerospace, renewables and information and communications technology (9.2%); and corporate projects (8.9%). Within these sectors, Mubadala also invests in activities of socio-economic importance, such as health care and education infrastructure.

Mubadala has a stated commitment to transparency, ethics and world-class governance standards. It has notably published audited financial statements and annual reports since 2009. Through these disclosures, together with the publicly available Base Prospectus for Mubadala's Global Medium Term Note bond programme, listed on the London Stock Exchange, Mubadala reports on its strategic objectives, risk management, ownership details, governance bodies such as the board and associated committees, and financial and operational insights.

Mubadala also details specific governance and compliance matters in its public reporting, resulting in the highest possible rankings for transparency and disclosure by the Sovereign Wealth Fund Institute's Linaburg-Maduell Transparency Index. Mubadala was the first SOE in MENA to score a perfect 10 in the index in 2009, a position it has retained for almost a decade.

Concerning Mubadala's portfolio companies, a notable future development is the planned IPO of Emirates Global Aluminium, which Mubadala co-owns with the Investment Corporation of Dubai. The IPO, originally expected in 2018, was postponed due to market conditions, as was the IPO of Mubadala's wholly owned Compañía Española de Petróleos S.A.U., one of Europe's largest multinational oil and gas companies.

Source: Information contributed by a focus group member from Mubadala.

The use of state holding companies as a means of improving the corporate governance and performance of SOEs is not necessarily the most suitable option for all economies in the MENA region – or indeed, in some cases, even an economically feasible option. Whether the state holding company approach would be transferable to lower income and less resource-rich economies in the region is perhaps a topic for debate and further investigation.

Elements of good practice for testing SOE reforms within a small portfolio of SOEs – including through the state holding company approach, but also through transfers of strategically important SOEs to more centralised oversight structures – could perhaps be useful for MENA policy makers seeking to introduce improved governance practices within SOEs.

State audit institutions

Although they do not exercise state ownership functions, state audit institutions often play a role in monitoring SOEs. State audit institutions can strengthen the accountability landscape for SOEs, particularly if their functions go beyond conducting financial audits to include reviews of SOE governance practices or performance and recommendations for reform. In many MENA economies, state audit institutions undertake financial audits of individual SOEs on behalf of the state, usually when the SOEs receive budget appropriations from the state. It is less common for audit institutions in the region to undertake in-depth reviews of SOEs' performance and governance to inform improvements in state ownership practices.

The state audit institution in Morocco recently undertook such a review, which resulted in recommendations for improving the governance and supervision of the country's SOEs (Cour des Comptes, 2016). The publicly available document not only synthesises the state auditor's recommendations addressed to the Ministry of Economy, but also reproduces the Ministry of Economy's response on the recommendations, highlighting relevant reform efforts underway. This is an example of how state audit institutions in the region can play a role in informing state ownership reforms.

The role of state audit institutions in monitoring SOEs' governance and performance has not been the subject of systematic research in the MENA region, and this could be an area for future investigation.

Reform of state ownership and governance in MENA

State ownership and governance reforms are underway to varying degrees in a number of MENA economies, including Algeria, Egypt, Morocco, Saudi Arabia, Tunisia and UAE. These reforms include general ownership and governance reform programmes that target all SOEs; the development or update of SOE corporate governance codes; and plans to list SOE shares on national stock exchanges to strengthen their commercial orientation and develop local capital markets.

Moving forward, it could be fruitful to monitor the implementation of these reforms, with a view to focusing on good practices that might be useful for other governments in the region.

General ownership and governance reforms

Morocco and Tunisia recently launched state ownership reforms that are broad in scope and target the entire SOE sector. Current ambitions include professionalising the state shareholding function, making SOE boards of directors more efficient and improving the financial arrangements and returns of state-owned companies.

Morocco's wide-ranging SOE reform programme aims to introduce more active public portfolio management practices, to improve the SOE governance framework,

including through reform of financial control and an update of the SOE governance code, and to strengthen SOE accounting practices (Box 5.4).[4]

Box 5.4. State ownership reforms in Morocco

Morocco aims to increase the socio-economic value of public enterprises and establishments by introducing more active public portfolio management practices. This is a priority project of the Strategic Action Plan 2017-21 of the Ministry of Economy and Finance/Directorate of Public Enterprises and Privatisation. The project is supported by a unit set up within the directorate. With the collaboration of public enterprises and concerned ministries, this unit conducted a study to identify actions needed to implement active public portfolio management, beginning with a pilot group of state-owned entities. The unit's main missions include:

- contributing to strategic dialogue between the concerned state-owned entities and ministerial departments
- proposing and conducting a programme of strategic studies
- evaluating and monitoring the performance of the entities within the scope of the pilot project.

Plans are also underway to rework the system of financial control over SOEs and to update the Moroccan Code of Good Governance Practices for Public Enterprises and Establishments. The objective is to introduce greater transparency and efficiency in the management of public resources and to improve the quality of governance and management of state-owned entities. These efforts aim to:

- clarify the roles of the state (as strategist, shareholder and "controller") and strengthen the contractual relationship between the state and state-owned entities
- empower boards of directors and professionalise and clarify their responsibilities
- reinforce internal control and governance, with a view to improving performance and risk management.

A third project, for consolidating SOE's financial accounts, aims to shed light on the value of the state's assets in order to:

- develop an overview of the state-owned entity sector and monitor the progress of its consolidated financial statements
- identify relevant aggregate indicators on the evolution of the state portfolio
- support the consolidation of the state's accounts with their four main components: central administrations, territorial communities, public enterprises and establishments, and social welfare organisations
- facilitate exchanges with national accounts data
- improve the readability, transparency and comparability of national accounting and financial data for investors, especially foreign investors, and lenders.

Source: Adapted from text submitted by the Moroccan authorities.

In Tunisia, a strategy for reforming state-owned enterprises, adopted in 2015, was included in the country's National Programme for Major Reforms 2016-2020 (Box 5.5).

Box 5.5. State ownership reforms in Tunisia

In November 2015, Tunisia's government adopted general principles and a strategy for restructuring state-owned enterprises. The strategy calls for global governance reforms, including the consolidation of supervisory institutions, improved internal governance, increased social dialogue and financial restructuring.

The strategy aims to increase the competitiveness of SOEs, improve their financial situation and ensure their medium-term viability through restructuring. This restructuring would involve new governance arrangements to allow state-owned companies to operate without undue government interference.

The strategy includes the creation of a new body, the Agency for the Supervision and Coordination of Management of Public Enterprises, to oversee the reforms under the authority of the Finance Ministry, and the establishment of a public-private fund to restructure public enterprises operating in competitive sectors.

Source: Tunisian Government, Programme National des Réformes Majeures 2016-2020.

Development of corporate governance codes for SOEs

The development and implementation of SOE-specific corporate governance codes presents some design particularities which should be taken into account by policy makers. In particular, they need to be consistent with the country's corporate governance code for listed companies. This is especially relevant in jurisdictions where SOE shares are listed on the national stock exchange. Consistency avoids differences in standards and helps to ensure a level playing field.

Various governments around the world have addressed this issue by explicitly subjecting all SOEs to relevant parts of the corporate governance code for listed companies. This is the case, for example, in Sweden, where the state ownership policy states that all SOEs must apply the standards of the corporate governance code for listed companies, with exceptions concerning the rules on board nomination committees, nominating directors and selecting auditors (Government Offices of Sweden, 2017).

In the MENA region, corporate governance codes or guidelines specifically for SOEs have been developed in Bahrain, Egypt and Morocco and, as of 2014, were under development in Algeria and Tunisia (OECD, 2014). Egypt and Morocco are currently updating their codes in order to strengthen their standards and bring their provisions into line with the updated *SOE Guidelines*. In 2017, Iraq received support from the World Bank for developing a charter on SOE governance.

Examining how these codes are implemented within SOEs and how compliance is monitored and enforced could be a fruitful area for future study and sharing of good practices in the region.

The listing of SOE shares on stock exchanges

The state ownership landscape among listed companies in the MENA region can be expected to change in the coming years due to planned partial listings of SOEs, which have been announced in a handful of economies. The process of listing shares of SOEs on national stock exchanges often coincides with, or results in, improvements in their corporate governance and disclosure practices.

At present, publicly available information shows that MENA governments are important shareholders in the region's largest listed companies. Among the region's 100 largest companies listed on stock exchanges, the state exercises majority ownership, or an equivalent degree of control, in 36 companies, which are therefore considered to be SOEs (Table 5.3).

The state is a minority shareholder in an additional 34 of the region's largest listed companies, with holdings of 10% to 50%. Because many of these minority-owned companies are only partially listed, and because the ownership of non-listed shares is often not publicly disclosed, it is difficult to determine whether the state in fact owns more than a minority share or otherwise exercises effective control. The state might, for example, exercise control despite holding a minority equity stake if it is the largest individual shareholder.

Table 5.3 includes six companies in which the state holds a minority share but exercises effective control. These companies were identified through research for this chapter. Other companies might also fall into this category, but limitations in publicly available information make them difficult to identify.

This is clearly an area for further study. Moving forward, it could be useful to undertake a complete inventory of MENA governments' majority shareholdings in all listed companies, and not just the largest 100, as a point of departure for monitoring future developments.

The stated objectives of recent or planned SOE listings in MENA economies have often included goals that are external to the companies, such as developing local capital markets or shifting funds from the share sale to other state projects. For example, the planned partial listing of Saudi Aramco is a central element of Vision 2030, Saudi Arabia's plan for diversifying the economy and reducing dependence on oil. The listing, which was postponed in 2018 due to market conditions, would involve the flotation of about 5% of the state oil company on stock exchanges in Riyadh and possibly also abroad.

The portfolio of the Saudi Public Investment Fund already includes 26 companies that are listed on the Tadawul, the national stock exchange. These companies, nine majority owned and 17 minority owned, are together valued at USD 213.7 billion.

Elsewhere in the region, the Egyptian government has announced plans to float minority shares of 23 state-owned companies operating in several economic sectors, including petroleum, banking, transportation and real estate. The objective is primarily to raise funds and increase liquidity in the country's capital markets. The process was supposed to kick off with the sale in 2017 of about 24% of the state-owned Engineering for Petroleum and Process Industries (ENPPI), but its listing has been delayed.[5] Another SOE in the region with an expected future stock-exchange listing is Emirates Global Aluminium in the UAE, which is jointly owned by the state holding company Mubadala and the Investment Corporation of Dubai. Its listing was initially planned for 2018 but was delayed due to market conditions.

Table 5.3. State-owned companies among MENA's 100 largest listed companies, 2017

Rank in 100 largest listed companies	Company	Country	Sector	Market capitalisation (USD billion)
1	Saudi Basic Industries Corporation (SABIC)	Saudi Arabia	Industrial	93.9
2	Qatar National Bank	Qatar	Banks and Financial Services	39.3
4	National Commercial Bank	Saudi Arabia	Banks and Financial Services	37.8
5	Saudi Electricity	Saudi Arabia	Utilities and Energy	23.3
7	Etisalat	UAE	Telecommunication	37.7
8	Emirates NBD	UAE	Banks and Financial Services	15
9	Saudi Telecom	Saudi Arabia	Telecommunication	44.1
12	Abu Dhabi Commercial Bank	UAE	Banks and Financial Services	9.4
14	DP World	UAE	Logistics	18.3
15	Riyad Bank*	Saudi Arabia	Banks and Financial Services	11.8
16	Kuwait Finance House	Kuwait	Banks and Financial Services	10.9
18	Dubai Islamic Bank*	UAE	Banks and Financial Services	8.3
27	Ooredoo	Qatar	Telecommunication	5.8
29	Saudi Arabian Mining (Ma'aden)	Saudi Arabia	Industrials	17.3
32	Zain	Kuwait	Telecommunication	5.4
34	Industries Qatar	Qatar	Industrials	18
35	Alinma Bank*	Saudi Arabia	Banks and Financial Services	8.2
41	Du	UAE	Telecommunication	6.4
43	TAQA	UAE	Industrials	2
45	Aldar Properties*	UAE	Real Estate and Construction	4.5
47	Union National Bank	UAE	Banks and Financial Services	2.8
61	Barwa*	Qatar	Real Estate and Construction	3.7
63	Omantel	Oman	Telecommunication	1.5
64	Arab Banking Corporation	Bahrain	Banks and Financial Services	0.982
65	Qatar Electricity and Water	Qatar	Utilities and Energy	5.9
66	Aluminum Bahrain	Bahrain	Industrials	2.3
68	RAKBANK	UAE	Banks and Financial Services	2
70	Housing Bank	Jordan	Banks and Financial Services	3.7
74	Mobily (Etihad Etisalat Company)*	Saudi Arabia	Telecommunication	3.8
75	Nakilat (Qatar Gas Transport Company)	Qatar	Transportation	2.1
84	Mesaieed	Qatar	Industrials	5.1
85	Ahli Bank	Qatar	Banks and Financial Services	1.8
88	National Bank of Bahrain	Bahrain	Banks and Financial Services	2.3
91	Emaar The Economic City	Saudi Arabia	Real estate and Construction	3
92	Bank of Bahrain and Kuwait (BBK)	Bahrain	Banks and Financial Services	1.3
97	National Bank of Fujairah	UAE	Banks and Financial Services	1.1

Note: Compiled by identifying those companies on the Forbes list of 100 largest companies in the Arab world in which the state is: *i)* the ultimate beneficiary owner of a majority (over 50%) of the shares, as reported by the FactSet database; or *ii)* the largest individual shareholder despite holding a minority stake, thus exercising effective control. Companies listed by FactSet as minority state-owned but identified by other sources as majority state-owned or controlled are identified by an asterisk (*).
Source: FactSet and Forbes (2018), *Top 100 Listed Companies in the Arab World 2018*, www.forbesmiddleeast.com/en/list/top-100-listed-companies-in-the-arab-world-2018/.

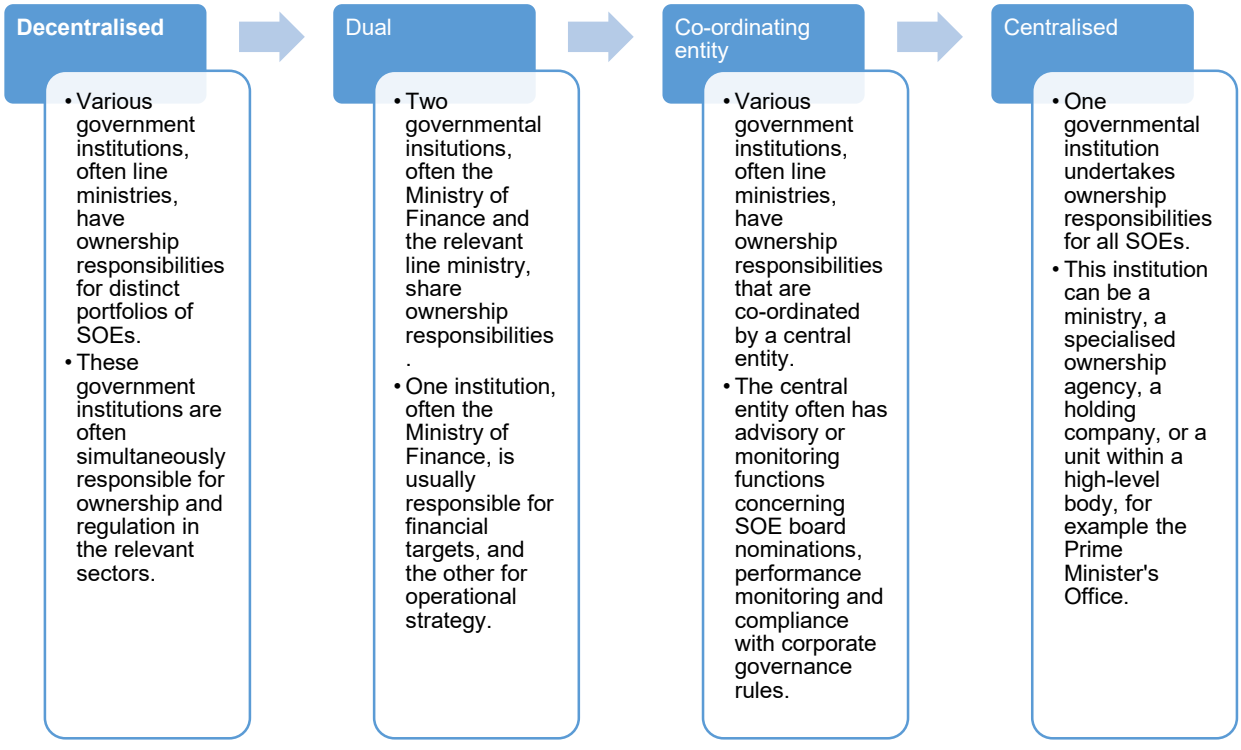
Centralising state ownership

Beyond MENA, there is a general trend towards greater centralisation of state ownership arrangements. An OECD study of state ownership arrangements in 31 countries found that about half of the countries surveyed use a centralised state ownership model or have centralised ownership for most large SOEs.[8]

The fully decentralised model employed in most MENA economies is the least common model internationally, used in only three of the surveyed countries (Argentina, Colombia and Mexico). Five other countries have decentralised arrangements with a co-ordinating entity, similar to the approach employed in Morocco (India, Israel, Kazakhstan, Latvia and Lithuania) (OECD, 2018).

The OECD study classified state ownership models along a spectrum ranging from highly decentralised, where state ownership responsibilities are dispersed across the state administration with no co-ordination on policy or decision making, to fully centralised, where all state ownership responsibilities are undertaken by a single government body Figure 5.1).[6] In the latter case, the tasks of the central body generally include setting financial targets, making decisions on technical and operational issues (those not within the purview of the board of directors) and monitoring performance.

Figure 5.1. Spectrum of state ownership models



Source: Adapted from OECD (2018), *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices*, www.oecd.org/corporate/ownership-and-governance-of-state-owned-enterprises-a-compendium-of-national-practices.htm.

A key tenet of the OECD's *SOE Guidelines* is that "the exercise of state ownership rights should be centralised in a single ownership entity, or, if this is not possible, carried out by a co-ordinating body". Centralising state ownership, rather than dispersing ownership across the state administration, is considered good practice for a number of reasons:

- It can help to separate state ownership and regulatory functions.
- It can facilitate the development and consistent implementation of a state ownership policy.
- It can help to promote greater efficiency within the public administration.

Separating state ownership and regulatory functions is of particular importance when SOEs operate in competitive markets, to avoid situations where line ministries are tasked with the conflicting objectives of maintaining fair competition in a given sector and ensuring the commercial success of the SOEs under their purview.

A state ownership policy generally outlines the rationales for state ownership, the performance objectives of individual SOEs and the role of state actors in implementing the ownership policy. When the state is transparent about its objectives as an owner, this can strengthen its accountability for achieving those objectives. The development of a state ownership policy does not require full centralisation of the state ownership function, but it does need a degree of consensus across ministries to ensure its consistent implementation. This can be facilitated by centralisation.

A central entity can also support efficiency in the exercise of state ownership functions such as setting objectives for SOEs, monitoring their performance and nominating board members. Gains in efficiency are achieved by housing pools of experts within the central entity, with competencies in areas such as accounting and financial reporting. Such efficiency gains are particularly present in a context of shrinking SOE portfolios, when it no longer makes sense for several ministries to exercise ownership responsibilities separately over a very small number of enterprises.

While centralisation of state ownership is generally considered good practice, it often occurs after other priority state ownership reforms have been implemented, such as corporatising large SOEs operating in competitive sectors or relinquishing state ownership in certain sectors or enterprises.

Countries seeking to centralise state ownership might consider first establishing a high-level co-ordination body. When state ownership is dispersed (and full centralisation is not yet feasible), this can be an effective means of harmonising ownership functions such as board nominations and of monitoring SOEs' compliance with corporate governance standards. It can also be an intermediate step when full centralisation is either not feasible or not warranted, for example if the state's portfolio of enterprises is so large that centralising their oversight in one ministry would be burdensome and inefficient.

Box 5.6 provides an example from Lithuania of the establishment of a state ownership co-ordination and monitoring body in the context of decentralised state ownership arrangements. For further reference, the 2018 report *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices* provides additional details on the basic tasks undertaken by state ownership co-ordinating bodies in India, Israel, Lithuania and Latvia (OECD, 2018).

Box 5.6. Lithuania's state ownership co-ordination body

Lithuania has primarily decentralised state ownership arrangements. In most of the country's 66 SOEs, primarily line ministries that are also responsible for sectoral policy and/or regulation in the relevant markets exercise state ownership rights.

In the context of this decentralised system, Lithuania has taken significant steps to harmonise state ownership practices across the public administration through the development of SOE governance and disclosure standards and the establishment of a Governance Coordination Centre tasked with monitoring and reporting to the public on their implementation. It notably produces a detailed annual report on SOEs. Its main tasks include the following.

- preparing aggregate reports on SOEs, with information on their financial performance and efficiency
- supporting SOE goal setting, including by calculating return-on-equity targets and evaluating the content and implementation of strategic goals
- participating in SOE board nomination processes
- contributing to SOE policy formulation, including by making methodological recommendations and initiating legislative reforms
- advising and consulting with the government, responsible line ministries and SOEs on matters like SOE governance practices, ownership decisions and dividend pay-outs.

Source: Adapted from Lithuanian Governance Co-ordination Centre (2018), *Governance Co-ordination Centre* (website, in Lithuanian), accessed 22 November 2018, https://vkc.sipa.lt/apie-mus/. See also OECD (2018), *Corporate Governance in Lithuania*, https://doi.org/10.1787/9789264302617-en.

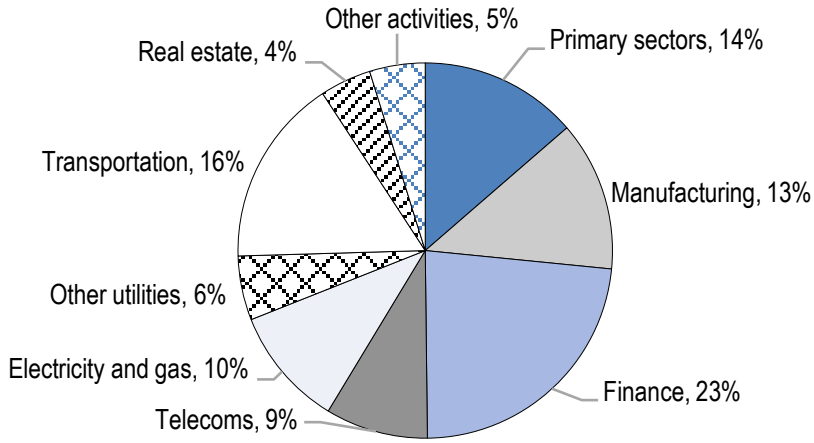
5.4. Sectoral distribution of state-owned enterprises in MENA

Strategic state-owned enterprises in MENA are present in nearly all economic sectors. They can be found in the network industries (electricity and gas, telecoms and transportation), and in the primary sectors, finance, manufacturing and real estate. No internationally comparable dataset on national state-owned enterprises in the MENA region exists, making it difficult to undertake cross-country or cross-regional comparisons. The sections that follow highlight what we know about the SOE landscape in the MENA region, both as a whole and in select MENA economies for which SOE data is available. However, owing to limitations in the scope of data and differences in the criteria used to define what constitutes an SOE, the information presented in this section cannot be used to undertake comparisons. The data is presented mainly to illustrate the degree of quantitative information available on SOEs and to highlight general trends in their sectoral distribution in the MENA region.

An overview of national SOE sectors

An OECD inventory of 271 strategic SOEs in 16 MENA economies sheds light on their sectoral distribution (OECD, 2013). The inventory did not identify the value or number of employees of these enterprises; such information is for the most part not publicly available in the region. However, examining the number of strategic SOEs by sector offers a qualitative illustration of their distribution (Figure 5.2).[7]

Figure 5.2. Sectoral distribution of strategic SOEs in 16 MENA economies, 2013

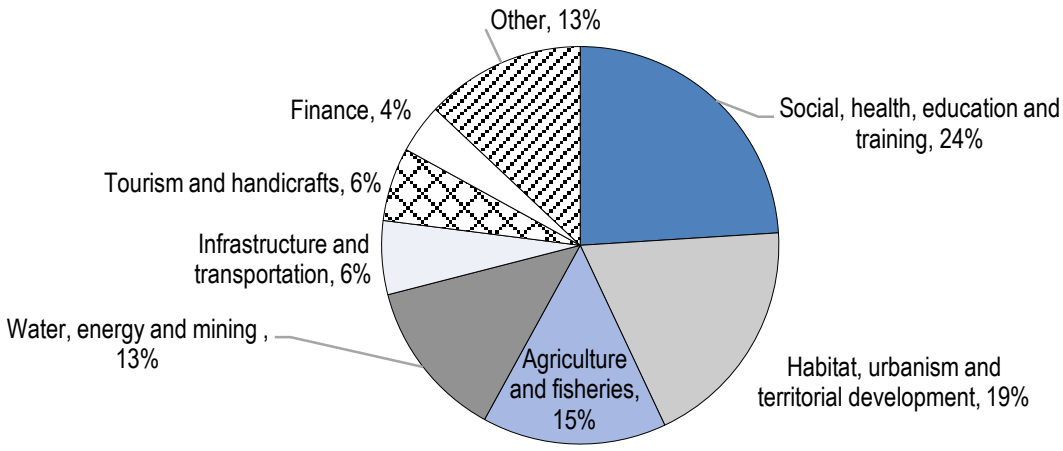


Note: The graphic portrays the sectoral distribution of strategic SOEs, by number of enterprises, in the following MENA economies: Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, UAE and Yemen. The sectoral classification of enterprises has been updated to align with the methodology used in the OECD's recurrent SOE dataset.
Source: OECD Secretariat calculations based on "Strategic state-owned enterprises in the MENA region" in OECD (2013), *State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness?* http://dx.doi.org/10.1787/9789264202979-en.

The illustration in Figure 5.2 is subjective, since the identification of strategic SOEs was based on authors' judgement and did not rely on any size or revenue thresholds. Although the OECD inventory focuses only on large, known SOEs and includes no information other than their sector of operation, it provides the most comprehensive overview available of national SOE sectors in the MENA region. As such, it could serve as a point of departure for future in-depth research on the characteristics of these strategic SOEs, for example on their corporate forms, number of employees and valuation. (An adapted version of the OECD's inventory of strategic SOEs in MENA can be viewed in Annex 5.A.)

Separately, the Moroccan state's annual report on SOEs provides an overview of their sectoral distribution, offering a useful illustration of the characteristics of Morocco's state ownership portfolio (Figure 5.3). The figures include both "public enterprises" (SOEs) and "public establishments", such as the National Employment Bureau and the country's pension fund. According to the report, 24% of the country's SOEs operate in the health, education and training sectors; 19% in habitat, urbanism and territorial development; 15% in agriculture and fisheries; and 13% in natural resources (water, energy and mining).

Figure 5.3. Sectoral distribution of SOEs in Morocco, 2017



Note: By number of enterprises. The data on Moroccan SOEs uses a different sectoral classification than that used for the MENA regional overview in Figure 5.2.
Source: Ministry of Economy and Finance of Morocco (2018), *Projet de Loi de Finances pour l'année budgétaire 2018: Rapport sur les établissements et entreprises publics*, www.chambredesrepresentants.ma/fr/system/files/documents/depp_fr.pdf.

It bears mentioning that many entities included in Morocco's figures serve primarily as vehicles for implementing public service or public policy objectives and do not undertake predominantly commercial or competitive activities in the marketplace.

Sectoral data for listed companies

Corporate valuation and employment figures for individual enterprises are more readily available for SOEs that are listed on national stock exchanges. This chapter has not undertaken to produce an overview of government stakes in MENA's listed companies. However, information on the Saudi Public Investment Fund's shareholdings in listed companies, collected in the context of a recent review of national SOE sectors in 40 countries, illustrates the degree to which listing on stock exchanges improves the availability of basic corporate information, for example on corporate valuation, employment and degree of state ownership (OECD, 2017). In the case of Saudi Arabia specifically, such information is publicly available for the listed companies in the Public Investment Fund's portfolio, while it is less readily available for other SOEs, for example in the oil sector.

Table 5.4 provides an inventory of all listed companies in which the Saudi Public Investment Fund, alone or together with other parts of the state administration, holds at least 10%. The majority of these companies by value are found in the manufacturing sector (33%), followed by finance (30%) and telecoms (17%).

Table 5.4. Saudi Public Investment Fund listed shareholdings

	Company name	Percentage state ownership	Market value (USD million)
Electricity and gas	Saudi Electricity Company	81.2%	17 455
	National Gas and Industrialisation Company	10.9%	509
Finance	National Commercial Bank	54.3%	27 243
	Samba Financial Group	38.0%	12 443
	Company for Co-operative Insurance	23.8%	2 113
	Riyadh Bank	21.8%	9 936
	National Agricultural Development Company	20.0%	659
	Saudi Investment Bank	17.3%	2 987
	Alinma Bank	10.7%	5 908
	Saudi Industrial Development Group	10.7%	1 657
Manufacturing	Saudi Basic Industries Corporation (SABIC)	70.0%	61 200
	National Petrochemical Company	16.3%	2 138
	Saudi Pharma INDS & Medical Appl	13.1%	1 062
	Southern Province Cement Company	37.4%	2 614
	Qassam Cement Company	23.4%	1 681
	Eastern Province Cement	20.6%	727
	Yanbu Cement Company	10.0%	1 832
Other activities	Saudi Airlines Catering Company	35.7%	2 691
	Dur Hospitality (Saudi Hotels)	16.6%	714
Primary sectors	Saudi Arabian Mining Company (Maaden)	50.0%	10 335
	Rabigh Refining and Petrochemical	37.5%	2 869
Real estate	Saudi Real Estate Company	64.6%	735
Telecoms	Saudi Telecoms Company	70.0%	36 496
Transportation	Saudi Ground Services Company	52.5%	2 270
	National Shipping Company of Saudi Arabia	34.0%	4 885
	Saudi Public Transport Company	15.7%	559
Total	**26 companies**	**7 SOEs, 19 minority-owned companies**	**213 718**

Source: OECD Secretariat calculations based on data collected for OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, http://dx.doi.org/10.1787/9789264280663-en.

The predominance of manufacturing, financial and telecom companies in the Saudi Public Investment Fund's portfolio of listed companies could perhaps signal an effort to improve the performance of SOEs operating in competitive sectors by subjecting them to the market (and shareholder) pressures associated with listing. It could also reflect

measures to rescue failing companies considered to be of systemic importance, for example in the financial sector, or to develop local capital markets.

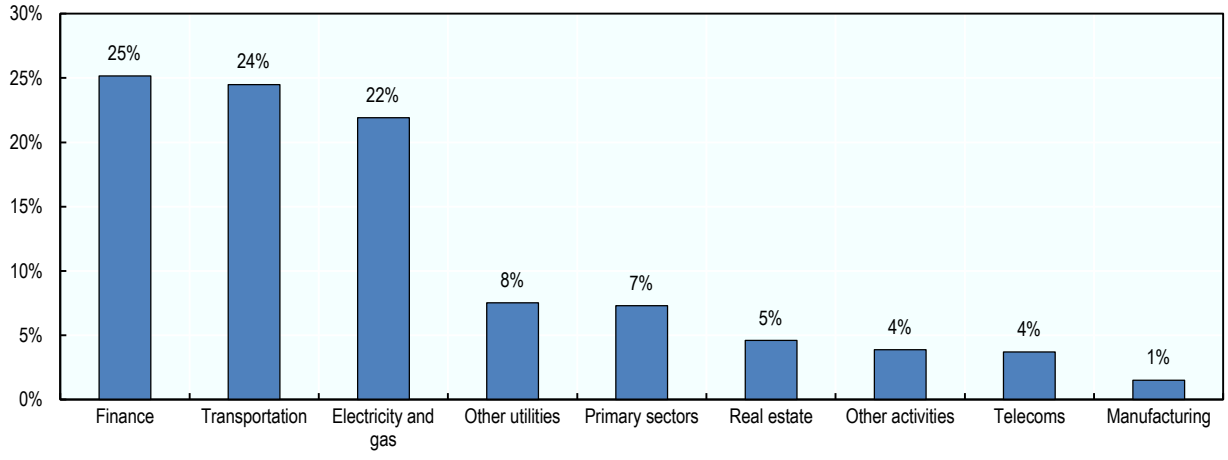
Although listed SOEs represent only a small part of the SOE landscape in the region, gathering more information on MENA governments' listed shareholdings could provide useful insights into the state's role in the corporate economy.

Comparison with OECD countries

Owing to the aforementioned data limitations, it is not possible to undertake a cross-regional comparison of the characteristics of MENA and OECD-area SOEs. However, some points of commonality can be identified based on the data available. For example, SOEs in the OECD area are also quite concentrated in the network industries (electricity and gas, telecoms and transportation) and the financial sector.[8] In addition, SOEs in OECD countries are at least present, although not necessarily predominant, in most of the same sectors as MENA SOEs.

According to the latest review of SOEs in OECD countries (OECD, 2017), 58% of SOEs by value are found in the network industries (electricity and gas, transportation, telecoms and other utilities, including postal services). The financial sector represents 25% of all SOEs in OECD countries by value, followed by the primary sectors at 7% ().

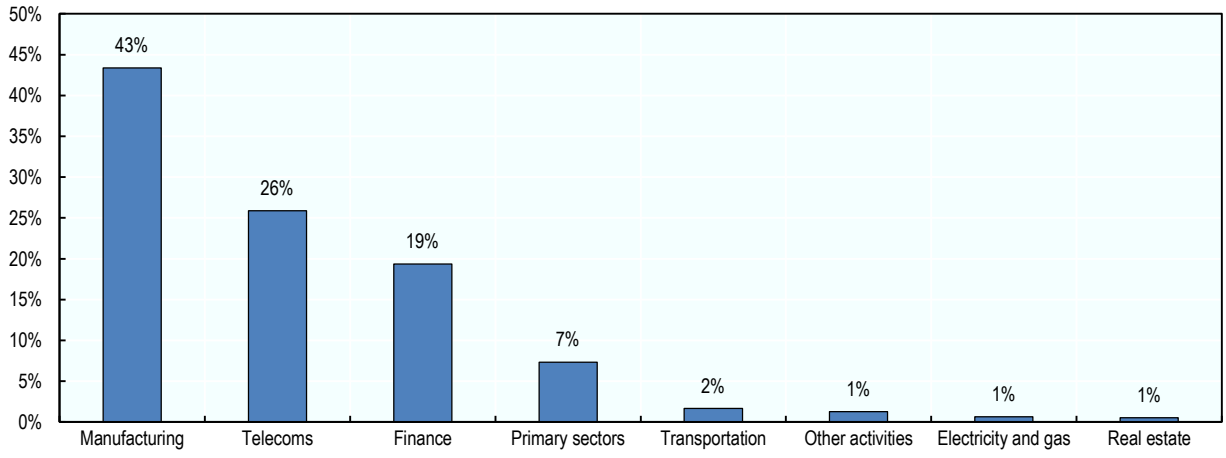
Figure 5.4. Sectoral distribution of SOEs in the OECD area, 2015 (by value)



Source: OECD (2017), *The Size and Sectoral Distribution of State-Owned Enterprises*, OECD, Paris, http://dx.doi.org/10.1787/9789264280663-en.

Comparing the sectoral distribution of OECD-area SOEs with that of the Saudi Public Investment Fund yields additional insights (). The Saudi fund was chosen for the comparison primarily because its offers a relatively large universe of companies for which corporate valuation figures are publicly available, while there is a scarcity of corporate valuation data for SOEs in most MENA economies.

Figure 5.5. Sectoral distribution of SOEs held by the Saudi investment fund, 2015 (by value)



Source: OECD Secretariat calculations based on data on the Saudi Public Investment Fund's portfolio, collected for OECD (2017), The Size and Sectoral Distribution of State-Owned Enterprises, http://dx.doi.org/10.1787/9789264280663-en.

The most marked difference between OECD-area SOEs and the portfolio of the Saudi Public Investment Fund is the predominance of manufacturing SOEs in the Public Investment Fund's portfolio. Since the fund's portfolio only includes the state's non-oil assets (and is therefore not representative of the entire SOE sector in Saudi Arabia), this difference merely suggests a preference for subjecting manufacturing SOEs to the market pressures and disclosure requirements of stock-exchange listing.

5.5. Collection and publication of data on state-owned enterprises

Most MENA economies do not collect or publish centralised information on the characteristics or performance of the state's portfolio of enterprises. The absence of centralised data on the number, size and sectoral distribution of SOEs is partly a natural consequence of most MENA economies' dispersed state ownership arrangements, but can also reflect a disinclination to subject SOEs to heightened scrutiny by the state and/or the public.

A dearth of aggregate data on SOEs in MENA

Morocco appears to be the region's only country to collect and publish performance data on the entire SOE sector on a regular basis. The country's Ministry of Economy and Finance publishes an annual report on all public institutions and enterprises as part of the budgetary approval process within the Parliament (Ministry of Economy and Finance of Morocco, 2018). The report, which is transmitted to Parliament and made available on the ministry's website, reviews the financial situation and performance of SOEs, state budget transfers to SOEs and developments in individual sectors.

Two MENA economies, Iraq and Tunisia, have taken steps to make basic information on SOEs available online.

In Tunisia, the Presidency of the Government (prime minister's office) has published an online, searchable inventory of SOEs that includes links to enterprise websites as well as details on their legal form, their domain of operations among 62 sectors and their

geographical location. Many SOEs cited in the inventory perform primarily non-commercial functions, for example the investment promotion agency, and are presumably included because they are legally incorporated as public establishments (Presidency of the Government, Republic of Tunisia, 2018).

In Iraq, data on the financial relationships among the country's largest SOEs, state banks and the central government in 2014-15 has been published on the government's website as part of a World Bank-supported project. According to the publicly available dataset, Iraq's SOE Restructuring Committee manages a centralised database on SOEs' financial and non-financial information based on reporting by individual enterprises, as required by Decree 446 of 2015 (Republic of Iraq, 2018).

Table 5.5. Publicly available data on state-owned enterprises in MENA

	Country	Estimated number of SOEs	Estimated number of employees	Government institutions with state ownership responsibility
Information available	Egypt	150 (partial portfolio)	Not available	Ministry of Investment holds approximately 150 SOEs. Information is not available on SOEs held by the Ministry of Defence, Ministry of Transport or the military. The Egyptian state also holds shares in 620 joint ventures with privately owned companies.
	Iraq	157	479 100	Ten line ministries
	Morocco	253, comprising 210 public establishments (*établissements publics*) and 43 fully corporatised entities (*sociétés anonymes*), which have more than 400 subsidiaries	130 000	Ministry of Economy and Finance
	Saudi Arabia (Public Investment Fund)	24 (partial portfolio)	25 900	Public Investment Fund for this portfolio (end-2015). SOEs are also held by various line ministries, e.g. the Ministry of Communications and Information Technology.
	Tunisia	104	117 400	14 line ministries, Presidency of the Republic and Presidency of the Government
No information available	Algeria, Bahrain, Djibouti, Jordan, Kuwait, Lebanon, Libya, Mauritania, Oman, Palestinian Authority, Qatar, United Arab Emirates, Yemen.			

Source: (OECD, 2017) for Saudi Arabia; (OECD, 2013) and (Hassouna, 2018) for Egypt; (World Bank, 2014) for Tunisia; and questionnaire responses submitted by contributing institutions for Iraq and Morocco.

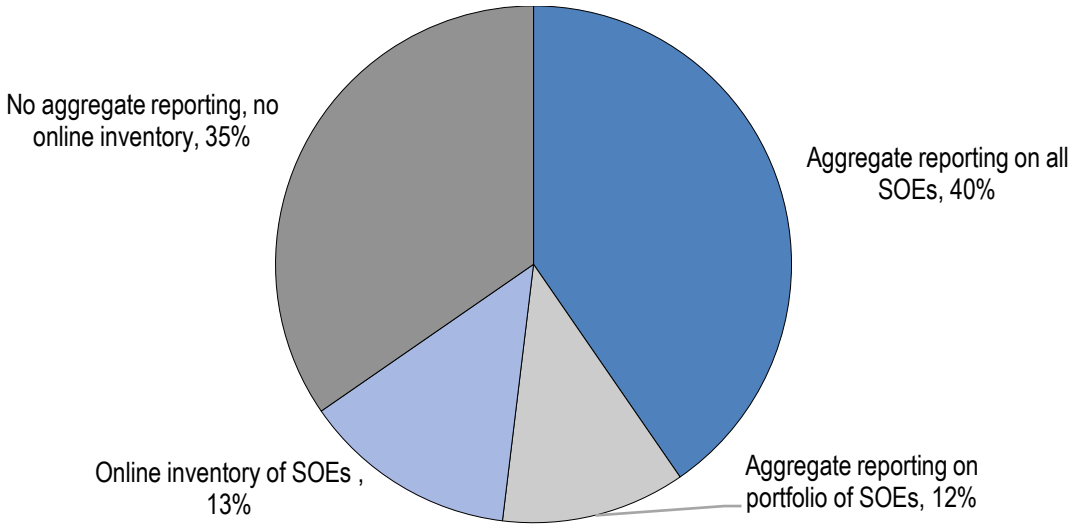
Some basic information on the number of SOEs and their sectors of operation is also publicly available Egypt and Saudi Arabia. Table 5.5 presents an overview of data on national SOE landscapes in the five MENA economies where such data is publicly available. This is not to say that there is a complete absence of information on SOEs in the other MENA economies under review in this report. However, no efforts appear to have been made for the central collection and publication of comprehensive quantitative information on national SOE sectors in these countries.

The collection and publication of centralised information on the characteristics and performance of state enterprises is clearly an area that could be further developed in the MENA region.

It bears noting that the absence of centralised data on SOEs is not unique to MENA. An OECD review of national SOE reporting practices in 52 countries – all 35 OECD countries and 17 emerging economies – found that about one-third of them did not undertake any form of public reporting on the SOE sector as a whole.

Nonetheless, the review found that more than half of the 52 countries surveyed provided some form of SOE reporting to the public, via annual reports on the entire SOE sector, reports on a portfolio of SOEs or online inventories of SOEs that are functionally equivalent to aggregate reports (Figure 5.6). The review focused on reports to the public and did not attempt to identify other forms of reporting, for example to Parliament or to line ministries, which also constitute important monitoring and accountability mechanisms (OECD, 2018).

Figure 5.6. SOE aggregate reporting practices globally



Note: The graphic portrays the results of a review covering all 35 OECD member countries as well as Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Kazakhstan, Lithuania, Malaysia, Paraguay, Peru, Philippines, Russian Federation, Saudi Arabia and South Africa and Viet Nam.
Source: OECD (2018), *Ownership and Governance of State-Owned Enterprises: A Compendium of National Practices*, www.oecd.org/corporate/ownership-and-governance-of-state-owned-enterprises-a-compendium-of-national-practices.htm.

Good practice on the reporting of SOE data

The publication of annual aggregate reports on SOEs is considered good practice for ensuring transparent and accountable state ownership. The internationally agreed *SOE Guidelines* consider the general public to be the ultimate owners of SOEs and recommend that the state and state-owned enterprises implement the same standards of transparency and disclosure that shareholders expect of listed companies.

The *SOE Guidelines* not only recommend that SOEs disclose corporate and financial information in line with international standards, but also call for the state to produce regular aggregate reports on the operations and performance of all SOEs (Box 5.7).

Box 5.7. Good practice on the publication of SOE aggregate reports

Chapter VI of the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* states the following:

"The ownership entity should develop consistent reporting on SOEs and publish annually an aggregate report on SOEs. Good practice calls for the use of web-based communications to facilitate access by the general public."

Annotations to Chapter VI add the following:

- Aggregate reporting should cover all SOEs. It should be a key disclosure tool directed to the general public, the legislature and the media, and should allow the ownership entity to deepen its understanding of SOE performance and to clarify its own policy.
- The reporting should result in an annual aggregate report issued by the state that focuses on financial performance and the value of the SOEs. It should provide an indication of the total value of the state's portfolio and should include a general statement on the state's ownership policy and how the state has implemented this policy.
- The aggregate report should provide key financial indicators including turnover, profit, cash flow from operating activities, gross investment, return on equity, equity/asset ratio and dividends. Information should be provided on the methods used to aggregate data. The aggregate report could also include individual reporting on the most significant SOEs.
- The ownership entity should consider developing a website, which allows the general public easy access to information.

Source: Edited excerpt from OECD (2015), *Guidelines on Corporate Governance of State-Owned Enterprises*, http://dx.doi.org/10.1787/9789264244160-en.

Table 5.6. Aggregate value and performance of SOEs in Sweden

State-owned enterprises, total		
SEK billion	2015	2014
Net sales	346.1	350.0
Net sales including associated companies	387.5	389.0
Profit/loss before changes in value	-6.6	23.0
Changes in value	5.2	5.1
Operating profit/loss (EBIT)	-1.4	28.1
Profit/loss before tax	-7.8	20.6
Profit/loss after tax	-1.8	16.5
Gross investments	48.2	47.9
Cash flow from operating activities (excluding SEK and SBAB)	60.3	65.2
Total equity	341.4	363.8
Total assets	1 491.1	1 540.3
Number of employees including associated companies (thousands)	158	163
Dividend	26.0	18.4
Estimated value	430	460
Return on equity, %	0.39	4.86
Equity/assets ratio, %	22.89	23.62

Source: Government Offices of Sweden (2015), *Annual Report State-Owned Enterprises 2015*, www.government.se/reports/2016/09/annual-report-state-owned-enterprises-2015/.

Table 5.7. Example of company-specific reporting: Sweden's postal service

State ownership (60.7%)	2015	2014
Income statement, SEKm		
Net sales	39 351	39 950
Operating profit	564	351
Financial income	21	89
Profit/loss before tax	451	245
Net profit	278	176
-of which attributable to minority interest	2	3
Balance sheet, SEKm		
Total assets	24 723	25 464
Non-current assets	15 605	16 407
Equity	9 150	7 991
-of which, minority interests	3	4
Net debt	1 695	3 284
Operating capital	10 845	11 275
Key indicators		
Operating margin, %	1.4	0.9
Return on equity (average), %	3.2	2.1
Return on operating capital (average), %	5.4	2.9
Net debt/equity ratio, multiple	0.2	0.4
Equity/assets ratio, %	37.0	31.4
Gross investments, SEKm	1 200	1 846
Appropriation, SEKm	0	0
Dividend, SEKm	0	0
Average no. of employees	32 256	37 407
Employees, gender distribution (women/men), %	34/66	35/65
Management group, gender distribution (women/men), %	29/71	25/75
Board, gender distribution (women/men), %	38/62	38/62
Reported in compliance with GRI guidelines		Yes
Externally assured GRI report		Yes
Reporting in compliance with IFRS		Yes

Source: Government Offices of Sweden (2015), *Annual Report State-Owned Enterprises 2015*, www.government.se/reports/2016/09/annual-report-state-owned-enterprises-2015/.

Sweden offers an example of good practice in aggregate reporting. An annual report on state ownership is published by the Government Offices of Sweden and is available online in both English and Swedish. The report includes extensive details on the state's ownership policy and practices and on the financial and non-financial performance of the state's portfolio of enterprises. Non-financial performance reporting includes information on the achievement of public policy objectives and sustainability targets.

Table 5.6 reproduces a table in the Swedish report that discloses basic information on the aggregate value and performance of the state's entire SOE portfolio.

Sweden's aggregate report also includes company-specific pages that reproduce annual income statements and balance sheets and disclose information on the following:

- significant events that occurred over the course of the year

- company performance against financial, sustainability and public policy targets
- the identity of board members and the CEO and their total remuneration
- key performance indicators.

The key performance indicators notably include reporting on the gender balance among SOE employees, board members and managers, which is related to the government's stated target that all SOE boards should comprise at least 40% of each gender. Table 5.7 reproduces data from PostNord AB, the national postal service.

5.6. The way forward

Key findings

This chapter has shown that exercise of state ownership remains dispersed across the public administration in the majority of MENA economies, with ministries in many cases simultaneously exercising ownership and regulatory roles. This can lead to conflicting objectives on the part of state actors.

As markets liberalise and are opened to greater competition with private companies, and as SOEs become increasingly active in cross-border trade and investment, their competitive conditions in home markets may lead to heightened concerns from abroad about how this impacts the global level playing field.

Many MENA governments have taken steps to harmonise state ownership and governance practices across ministries, for example through the development of SOE governance codes. Others have transferred commercially oriented SOEs to holding companies to subject them to more explicit financial performance targets. In a few countries, state audit institutions have begun to play a more prominent role in strengthening the accountability landscape for SOEs, by undertaking financial audits or, less frequently, in-depth reviews of SOEs' performance and governance.

Given the degree of decentralisation of state ownership arrangements in the MENA region, there have been limited efforts to gather and publish centralised information on SOEs' characteristics and performance in individual economies. There is also scope for clarifying and disclosing SOEs' commercial and public policy objectives.

Establishing a clear overview of the state-owned enterprise landscape is a crucial starting point for designing effective ownership reforms. Clarity regarding the nature of SOEs' objectives is also necessary to monitor and improve their performance.

These key findings can be summarised as follows:

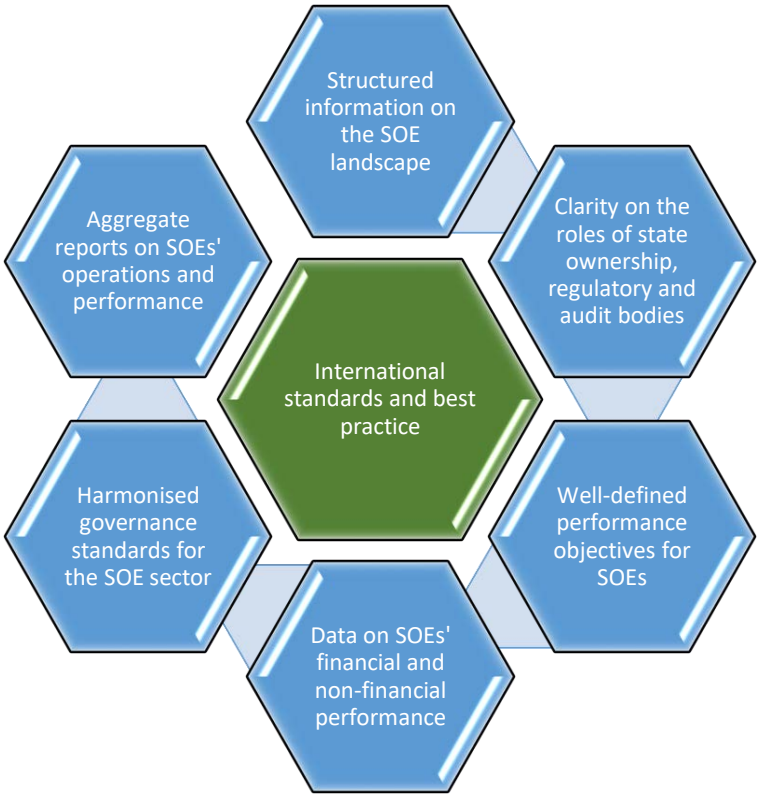
- State ownership is predominantly decentralised in the MENA region. Line ministries often simultaneously undertake state ownership and regulatory functions, leading to conflicts of interest and inefficiencies.
- There is scope for further professionalisation of state ownership practices, for example through the development of ownership policies or, at least, harmonised corporate governance standards applicable to all SOEs.
- Lack of transparency on the objectives, performance, governance and regulation of SOEs limits the scope for MENA governments to monitor, and ultimately improve, SOE performance.

- Measures could be taken to improve accountability in the state-owned enterprise sector, including by strengthening financial audits and clarifying the role of state audit institutions in monitoring SOE governance practices.

Policy options

A group of interrelated policy options can be proposed to address the challenges facing MENA governments as they seek to improve the performance and practices of state-owned enterprises (Figure 5.7).

Figure 5.7. Main policy areas for informed state ownership practices



The *OECD Guidelines on Corporate Governance of State-Owned Enterprises* provide a blueprint for ensuring that SOEs operate efficiently, transparently and on a level playing field with private enterprises. All recommendations in that document can be used as a guidepost for MENA governments as they consider undertaking policy and legislative reforms to improve the corporate governance of SOEs.

However, implementing the *SOE Guidelines* is a process that requires prioritisation of reform efforts. The policy options summarised in Table 5.8 and developed below attempt to support this prioritisation by proposing measures that are adapted to the current status of state ownership policy development in most MENA economies.

These policy options are by no means an exhaustive or prescriptive list. They mostly emphasise measures to improve the transparency with which SOEs in the region operate, with a view to strengthening accountability and ultimately driving better performance. The *SOE Guidelines* provide a more complete and long-term set of policy recommendations that take into account the holistic nature of SOE governance reform.

Table 5.8. Policy options to inform effective state ownership reforms

Objective	Policy options
Inform effective ownership policies through comprehensive data on SOEs	Undertake a comprehensive mapping of national SOE portfolios Publish aggregate reports on SOEs' operations and performance
Strengthen the accountability of SOEs and ownership ministries, leading to performance improvements	Clarify and disclose the objectives of individual SOEs Identify the rationales for maintaining state ownership in individual enterprises, which may lead to the decision to privatise
Professionalise state ownership practices to minimise conflicting objectives and introduce institutional efficiencies	Harmonise state ownership and governance practices across the SOE portfolio if centralisation of state ownership functions is not feasible
Streamline monitoring of SOEs' performance	Clarify the role of state audit institutions in monitoring SOEs' performance For commercial SOEs, ensure that financial audits are undertaken by external auditors

Mapping national SOE portfolios and undertaking aggregate reporting

A central mapping survey of all enterprises in the state's ownership portfolio is fundamental for the design of coherent and effective state ownership reforms. National governments could consider gathering and disclosing information on which companies are state-owned, what objectives they are expected to achieve and how they perform against those objectives.

Disclosing this information to the public would strengthen the accountability of state actors and of the corporate organs of SOEs concerning the performance of state-owned enterprises. Such a data collection could be facilitated by the identification of one state body clearly mandated and sufficiently resourced to lead the effort.

Clarifying and disclosing the objectives of SOEs

National governments could also consider measures for clearer definition and disclosure of individual SOEs' commercial and non-commercial objectives.

SOEs should be given the autonomy to achieve clearly defined performance objectives, which would help shield them from *ad hoc* or political interference that can hinder their efficiency or even jeopardise their commercial viability.

In jurisdictions where a comprehensive identification of all SOEs' objectives is not feasible at the current juncture, governments may find it fruitful to begin identifying and disclosing the rationales for state ownership of individual enterprises. This may lead to the decision to relinquish or gradually reduce state ownership of enterprises where there is no evident rationale for state ownership.

This exercise could lay the groundwork for the development of a policy that clearly outlines the rationales for state ownership as well the responsibilities of government entities involved in implementing the ownership policy.

Reorganising the state ownership function

It might not yet be feasible, or indeed economically efficient, for MENA governments to centralise state ownership functions in one entity. Steps could nonetheless be taken to harmonise state ownership practices across the public administration to ensure that

ownership is conducted on a whole-of-government basis rather than at the discretion of individual ministers.

For example, state ownership policies or, alternatively, SOE corporate governance standards applicable to all SOEs, could be formulated. Monitoring of their implementation could then usefully be undertaken through a regular reporting process, which could eventually be incorporated into aggregate reports to the public.

Any corporate governance standards applicable to all SOEs should be sufficiently flexible to accommodate SOEs operating with a variety of commercial and non-commercial objectives. For purposes of creating a level playing field, policy makers should also ensure that the code of corporate governance for SOEs is consistent with corporate governance standards for listed companies.

Clarifying the role of state audit institutions

The role of state audit institutions in monitoring the finances and performance of SOEs varies across the region, often depending on how integrated SOEs' operations are within the public administration.

For SOEs that are not incorporated according to general company law and that are mostly operated as part of the general government, state auditors have a legitimate role to play in reviewing the quality and credibility of SOEs' financial statements.

For SOEs that are incorporated as companies and operate in competitive sectors of the economy, audits of financial statements should be undertaken by a qualified external auditor. In such cases, the responsibilities of state audit institutions should be limited to conducting "performance audits" or "value-for-money" audits, which assess the extent to which SOEs create value from the resources at their disposal.

Such performance audits could usefully examine how state ownership and regulatory arrangements impact SOEs' value-for-money, and could make recommendations accordingly.

Avenues for future work

Building on the policy options proposed above, Box 5.8 summarises potential avenues for future work that were identified during the preparation of this report.

Box 5.8. Avenues for future work on state ownership

Possible avenues for future work emerged during the preparation of this report, many of them suggested by members of the Focus Group on State Ownership in MENA.

Monitoring developments and sharing good practices

In order to strengthen the performance, efficiency and governance of SOEs, MENA policy makers might consider taking the following steps:

- Seek and share advice on policy, institutional and legislative reforms that are necessary for successful implementation of a centralised state ownership model, including advice on how to sequence the reforms.

- Identify good practice for the use of holding companies to improve corporate governance and performance in SOEs. This could involve examining how state holding companies that manage special economic zones balance their regulatory and commercial (developer) roles.
- Monitor developments in the listing of shares of SOEs on stock exchanges and share related good practices. This could build on previous work by the OECD that examined the national experiences of China, India, New Zealand, Poland and Turkey in this domain (OECD, 2016).
- Examine the role of state audit institutions in strengthening accountability for state ownership in the region. Issues to investigate could include state audit institutions' degree of independence, their mandate and whether they have the resources for effective performance auditing of the SOE sector.

Strengthening data on SOEs in MENA economies

In order to facilitate reform through greater transparency and disclosure of data about state ownership, MENA policy makers might consider taking the following steps:

- Collect high-quality and comprehensive data on the value, employment and legal forms of all SOEs. This could potentially be undertaken with the support of the MENA-OECD Working Group on Corporate Governance.
- Add interested MENA economies to the OECD's recurrent data collection on the size and sectoral composition of SOEs (OECD, 2017), once they have collected the relevant data.
- Gather data on the ownership levels, sectoral distribution and value of MENA governments' listed shareholdings to shed light on this form of state involvement in the corporate economy.
- Explore the role of MENA SOEs in cross-border trade and investment, for example their export orientation and performance, and discuss policy concerns related to the internationalisation of SOEs. This could be carried out in collaboration with the MENA-OECD Working Group on Trade and Investment, and could build on OECD work on the issue (OECD, 2016).

The policy options for reform of state ownership that are presented in this chapter are necessarily broad in scope to maintain their applicability at the regional level. Building on this, it could be fruitful to develop country-specific options for reform.

The OECD undertakes reviews of national state ownership practices upon request. The reviews result in recommendations to align national practices more closely with the standards of the OECD *SOE Guidelines*. Examples are available here: www.oecd.org/daf/ca/oecd-soe-reviews.htm.

Notes

[1] This is based on an identification of government-owned companies in the 2017 edition of the Fortune 500 list of the world's largest companies, http://fortune.com/global500/list/. Of those 500 companies, about 20% are state-owned, most of which are domiciled in China.

[2] The conclusion that most MENA economies have decentralised state ownership arrangements is based on author judgment, drawing on a non-exhaustive online review and identification of the ministries overseeing large, known SOEs in individual MENA economies (e.g. national postal services operators, telecoms companies, oil and gas companies and national airlines and railways).

[3] The Working Group on Restructuring State-Owned Enterprises in Iraq developed a roadmap for SOE restructuring with the support of several international organisations (UNDP, UNIDO, World Bank, OECD). The roadmap was approved by the Iraqi Council of Ministers in 2010. It notably included plans for the full corporatisation of SOEs, but ultimately did not achieve its intended outcomes.

[4] Information on Morocco's draft legislative proposal on SOE governance and financial control, which was under consideration by the government as of early 2018, is available in French at: www.sgg.gov.ma/portals/0/AvantProjet/115/Avp_Loi_gouvernance_Fr.pdf.

[5] For more information on the planned partial listed of Enppi and Egypt's IPO programme, see: www.bloomberg.com/news/articles/2017-06-15/egypt-expects-to-raise-up-to-150-million-from-enppi-share-sale.

[6] To simplify, the figure does not include a fifth ownership model, the "twin track" system, which is not very commonly employed. To this spectrum of state ownership models could be added a sub-category of "centralised with exceptions", to reflect situations where almost all SOEs are overseen by a central ministry.

[7] The sectoral distribution of strategic SOEs in 16 MENA economies is adapted from OECD (2013). A number of companies have been reclassified into different sectors in an attempt to use the sectoral classification of the OECD dataset on the size and sectoral distribution of SOEs, the results of which were published in OECD (2017). Some enterprises were added in April 2018, based on feedback from the Focus Group on State Ownership in MENA.

[8] It is not possible to undertake a reliable comparison of the sectoral distribution of SOEs in the MENA region and OECD countries, given the lack of comprehensive, comparable data on MENA SOEs. In the absence of such data, this text highlights some general trends.

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Annex 5.A. Listing of strategic SOEs in the MENA region

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Algeria	Manadjim El Djazair Office National des Aliments du Bétail Sonatrech	Asmidal Entreprise Nationale des Industries de l'Électroménager Entreprise Nationale des Industries Électroniques Société Nationale des Véhicules Industriels	Banque de l'Agriculture et du Développement Rural Banque Extérieure d'Algérie Banque Nationale d'Algérie Crédit Populaire d'Algérie	Algérie Télécom	Naftal Sonelgaz	Agence nationale d'études et de suivi de la réalisation des investissements ferroviaires Entreprise Nationale de Transport Maritime de Voyageurs Société Nationale des Transports Ferroviaires	Algérie Poste Algérienne des Eaux		Entreprise Nationale des Matériels de Travaux Publics
Bahrain	Bahrain Lube Base Oil Company Bahrain National Gas Expansion Company Bapco Tatweer Petroleum	Aluminium Bahrain Gulf Petrochemical Industry Company	Al Ahli United Bank National Bank of Bahrain Securities and Investment Company	Bahrain Telecommunications Company	Bafco Banagas	Gulf Air			Bahrain Tourism Company

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Egypt	Egyptian General Petroleum Corporation	Chemical Industries Holding Company Misr Spinning and Weaving	Bank of Alexandria Banque du Caire Banque Misr Misr Insurance Holding Company National Bank of Egypt	Nilesat Telecom Egypt Vodaphone Egypt	Egyptian Electricity Holding Company GASCO (Egyptian Natural Gas Company)	Egypt Air Egyptian National Railways Suez Canal Authority	Egypt Post Holding Company for Water and Wastewater	Misr Real Estate Assets	Enppi (Engineering for the Petroleum & Process Industries)
Iraq	Central Petroleum Enterprise Iraqi Cement State Enterprise Iraqi National Oil Company State Company for Oil Projects State Establishment for Oil Refining and Gas Processing State Organisation for Agricultural Mechanisation and Agricultural Supplies	Electronic Industrial Company National Chemical and Plastic Company National Company for Food Industries	National Insurance Company Rasheed Bank	Iraq Telecommunications Iraqi Broadcasting and Television Establishment	State Company for Electrical Industries State Organisation for Electricity	Iraq Public Railways Iraqi Airways State Company of Iraq Ports		State Organisation for Building	State Organisation for Roads and Bridges

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Jordan	Arab Potash Jordan Phosphates Mining Company			Jordan Telecom Group	NEPCO (National Electric Power Company)	Royal Jordanian Airlines			
Kuwait	Kuwait Petroleum	Kuwait Cement Company	Al Ahli Bank of Kuwait Gulf Bank Kuwait Finance House	Mobile Telecommunications Company (Zain) National Mobile Telecommunications Company	Al Soor Fuel Marketing Company	Kuwait Airlines Livestock Transport and Trading Company			
Lebanon		La Régie des Tabacs et Tombacs	Intra Investment company	Alpha Ogero	Électricité du Liban	Beirut, Tripoli, Sidon, and Tyre ports Middle East Airlines	Four water authorities	Elyssar Linord Rashid Karami International Fair Sport City Centre	Casino du Liban
Libya	National Oil Corporation		Gumhouria Bank Libyan Foreign Bank Wahda Bank			Afriqiyah Airways Libyan Airlines			

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Morocco	Office Chérifien des Phosphates Office National des Hydrocarbures et des mines		Crédit Agricole du Maroc Crédit Immobilier et Hôtelier	Maroc Telecom Société nationale de radiodiffusion et de télévision	*(The Office National de l'Electricité, previously included in this category, was merged with the Office National de l'Eau Potable in 2011 and is included in the "other utilities" category)*	Autoroutes du Maroc Office National des Chemins de Fer Royal Air Maroc	Poste Maroc Office National de l'Électricité et de l'Eau Potable	Compagnie Générale Immobilière[1]	
Oman	Oman Oil Company Oman Petroleum Development ORPIC (Oman Oil Refineries and Petroleum Industries Company)	Oman Cement Company Raysut Cement Company	Bank Dhofar Bank Sohar National Bank of Oman	Oman Telecommunications Company	Electricity Holding Company Oman Gas Company Oman LNG	Oman Air	Oman Post		
Qatar	Qatar Petroleum	Industries Qatar	Al Khalij Commercial Bank Masraf Al Rayan Qatar National Bank	Qatar Telecom	Qatar Electricity and Water Company Qatargas	Qatar Airways	Q-Post	Barwa Real Estate Company	Gulf International Services

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Saudi Arabia	Rabigh Refining and Petrochemical Company Saudi Arabian Mining Company	National Industrialisation Company National Petrochemical Company SABIC Saudi Arabian Fertilizer Company Saudi Industrial Investment Group Saudi International Petrochemical Company Saudi Kayan Petrochemical Company Southern Province Cement Company Yanbu National Petrochemical Company	Al Khalij Commercial Bank Al Rajhi Bank Alinma Bank Banque Saudi Francis Riyadh Bank SABB Samba Financial Group Saudi Investment Bank Company for Co-operative Insurance	Saudi Telecom	National Gas and Industrialisation Company Saudi Electricity Company	Saudi Public Transport Company Saudi Railways Organization National Shipping Company of Saudi Arabia	Saudi Post	Saudi Real Estate Company	
Syria	Al Furat Petroleum Company Syrian Petroleum Company		Agriculture Co-operative Bank Commercial Bank of Syria Industrial Bank Popular Credit Bank Real Estate Bank	Syrian Telecom		Chemins de Fer Syriens Syrian Arab Airlines			

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
Tunisia	Compagnie des Phosphates de Gafsa Compagnie Tunisienne de Forage Entreprise Tunisienne d'actitivés Pétroliers Office des Céréales Office des Terres Domaniales Société Tunisienne d'Aviculture Société Tunisienne des Industries de Raffinages	El Fouladh (Société Tunisienne de Sidérurgie) Groupe Chimique Tunisien Manufacture des Tabacs de Kairouan Régie des Alcools Régie Nationale des Tabacs et des Allumettes Société des Ciments d'Oum El Kélil Société des Ciments de Bézirte Société des Industries Pharmaceutiques de Tunisie	Banque de Financement des Petites et Moyennes Entreprises Banque de l'Habitat Banque Nationale Agricole Compagnie Tunisienne pour l'Assurance du Commerce Extérieur Société Tunisienne d'Assurances et de Réassurances Société Tunisienne de Banque	Tunisie Télécom	Société Nationale de Distribution des Pétroles Société Tunisienne de l'Électricité et du Gaz Société Tunisienne de l'Électricité et du Gaz	Compagnie des Transports par Pipelines au Sahara Compagnie Tunisienne de Navigation Société de Transports des Hydrocarbures par Pipelines Société des Transports de Tunis Société des Transports du Sahel Société des Travaux Ferroviaires Société Nationale des Chemins de Fers Tunisiens Société Nationale du Transport Inter-Urbain Tunis Air Tunisie Autoroutes	La Poste Tunisienne Office National de l'Assainissement Société Nationale d'Exploitation et de Distribution des Eaux	Société Nationale Immobilière de Tunisie	La Pharmacie Centrale de Tunisie Société Générale d'Entreprises de Matériel et de Travaux Société Promosport Société Tunisienne des Marchés de Gros

Country	Primary sectors	Manufacturing	Finance	Telecoms	Electricity and gas	Transportation	Other utilities	Real estate	Other activities
United Arab Emirates (includes sub-national entities)[2]	Abu Dhabi National Oil Company Emarat (Emirates General Petroleum Corporation) Emirates National Oil Company	Abu Dhabi Ship Building Company Dubai Cable Company (Ducab) Dubai Aluminum (Dubal) Emirates Aluminium (Emal)	Dubai Holding Abu Dhabi Commercial Bank Abu Dhabi National Insurance Company Commercial Bank of Dubai Dubai Islamic Bank Emirates Investment Authority[3] Emirates NBD First Abu Dhabi Bank Mubadala Investment Company Tamweel Union National Bank	Emirates Integrated Telecommunications Etisalat	Abu Dhabi Water and Electricity Company Dubai Electricity and Water Authority Empower Energy Solutions[4] Sharjah Electricity and Water Authority TAQA (Abu Dhabi National Energy Company)	Dubai Ports Dubai Public Transport Agency Emirates Etihad Fly Dubai Roads and Transport Authority Sharjah Transport	Emirates Post	Emaar Properties Nakheel	Arkan Building Materials Company National Corporation for Tourism and Hotels
Yemen	General Company for Oil, Gas and Mineral Resources		CAC Bank Yemen Bank for Reconstruction and Development	Teleyemen	Yemen Public Electricity	Yemenia	Yemen Post		

Notes: The sectoral classification of entities has been updated to align with the methodology used in the OECD's recurrent SOE data collection exercise (OECD, 2017). For UAE, some enterprises held at the sub-national level of government (by individual states) are included in the inventory of strategic SOEs, while for the other countries only enterprises held by the central level of government are included.

[1] The Moroccan authorities report that the Compagnie Générale Immobilière is a medium-sized enterprise of no strategic importance operating in a highly competitive sector.

[2] The sectoral classification of entities has been updated to align with the methodology used in the OECD's recurrent SOE data collection exercise (OECD, 2017). For UAE, some enterprises held at the sub-national level of government (by individual states) are included in the inventory of strategic SOEs, while for the other countries only enterprises held by the central level of government are included.

[3] Emirates Investment Authority is the sovereign wealth fund of the United Arab Emirates and therefore could be classified as a state ownership entity, rather than as an SOE.

[4] Empower provides cooling solutions to buildings and is owned jointly by the Dubai Electricity and Water Authority (DEWA) and the Dubai Technology and Media Free Zone (Tecom).

Source: Adapted from OECD (2013), State-Owned Enterprises in the Middle East and North Africa: Engines of Development and Competitiveness? http://dx.doi.org/10.1787/9789264202979-en, with updates provided by Focus Group members as of May 2018.

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Corporate Governance

Corporate Governance in MENA

BUILDING A FRAMEWORK FOR COMPETITIVENESS AND GROWTH

A strong corporate governance framework is essential for MENA economies as they strive to boost economic growth, strengthen competitiveness and build prosperous societies. The G20/OECD Principles of Corporate Governance and the OECD Guidelines on Corporate Governance of State-Owned Enterprises are a reference in order to build such a framework. This report assesses the corporate governance landscape in the MENA region by identifying challenges and proposing policy options for reform. The findings of the report are based on an analysis of policies and practices in four thematic areas: boosting access to finance and capital markets, improving transparency and disclosure, achieving gender balance in corporate leadership and enhancing the governance of state-owned enterprises in MENA. Overall, the report finds that MENA economies have made progress in strengthening corporate governance frameworks in recent years, but that the region still faces challenges in adopting and implementing corporate governance measures that support economic efficiency, sustainable growth and financial stability.

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