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Corporate Governance TRENDS

25 years of strengthening democracy through market-oriented reform

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Corporate Governance Center Launch Leads Progress in Tunisia

Tunis, Tunisia – Building upon more than three years of work in Tunisia with CIPE, l'Institut Arabe des Chefs d'Entreprises (IACE) launched the Tunisian Center of Corporate Governance on June 25, 2009. The first of its kind in North Africa, the new center builds upon the broader efforts of IACE and CIPE – supported by the Middle East Partnership Initiative and the National Endowment for Democracy – that resulted in IACE's release of the *Guidelines for Corporate Governance Best Practices in Tunisia* one year ago. Both milestones are part of IACE's work to improve the corporate governance environment in Tunisia, attract foreign investment, and boost economic growth.

The wide range of speakers at the launch event demonstrated the wide range of support for the Tunisian Center of Corporate Governance. The Governor of the Tunisian Central Bank Taoufik Baccar gave opening remarks, stressing the value of the center as a driving force behind improving corporate governance in Tunisia. CIPE board member John Stout reinforced that "the center will become one of the international voices in the global community that seeks to improve corporate governance." Martin Steindl, program manager for corporate governance/ PEP-MENA at the International Financial Corporation of the World Bank Group, also spoke at the event. The center will play a pivotal role by providing training programs for board directors, awareness-raising seminars, media outreach, and research.

Participants at the Tunisian Center of Corporate Governance launch event listen attentively to presentations by the Governor of the Tunisian Central Bank Taoufik Baccar and CIPE board member John Stout.

As the largest business association in Tunisia, IACE has been at the forefront of corporate governance reform. As a result of IACE's advocacy efforts, the Ministry of Finance introduced amendments in March 2009 to the Tunisian Commercial Code

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Taking the Lead on Corporate Governance in Argentina

by Martin Friedl, CIPE Program Officer

Barely recuperated from its last financial crisis, Argentina has been hit again and is suffering the brunt of the global economic downturn. The lack of stable, efficient, and transparent institutions has been at the root of past political and financial crises and continues at present. Underlying this issue is the low level of compliance with best practices of corporate governance. To address this problem, CIPE has been working with the Centro para la Estabilidad Financiera (CEF), or the Center for Financial Stability, to instill transparent practices in banks and publicly listed firms by instituting better standards for corporate accountability and expanding access to information about good corporate governance.

As the potential benefits derived from adopting good corporate governance practices are not widely understood, CEF has adopted a creative approach to expanding the availability of information

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Interview with CIPE Board Member John Stout

You recently traveled to Bahrain, Oman, and Tunisia to participate in CIPE's corporate governance programs. What were your expectations about corporate governance in the region before you traveled there and what were your impressions?

CIPE board member John Stout

I was curious to see if current thinking in the region recognized the importance of good governance, and I certainly found that the answer was yes. People were aware of how international governance principles – such as board functions, board and management relations, and directors' responsibility to act for the company they serve rather than those who elected them – fit their culture.

Although the degree of awareness is high, the state of compliance is mixed – as it is elsewhere in the world, including the United States. Many countries' governance codes are written by consultants to apply to every type of corporation – and many principles do from an aspirational sense – but there are differences in ownership patterns, development stage, size, and culture that also need to be taken into account.

What do you see as the biggest challenges to improving the corporate governance framework in each of these countries?

The public sector and political institutions must establish effective policies and regulations to develop the kind of environment in which the private sector can grow through good governance. This requires partnership and dialogue about the rule of law, respect for private property, and fair resolution of disputes. In Tunisia, for example, there is close cooperation and recognition of mutual interests between the public and private sectors, and this has been very productive.

What is the connection between corporate governance and democratic principles?

Fundamental to democracy is citizen participation – the freedom to assemble and the freedom to petition the government. The necessary level of interaction and dialogue between the state and the private sector on issues of concern is exemplified in business organizations and leaders voicing their concerns to a responsive government. In many cases in the Middle East and North Africa (MENA) region, this interaction has helped the government to recognize the positive benefit of this type of dialogue to society as a whole.

Where do you see possible opportunities in the region?

An institution like the Center for Corporate Governance in Tunisia is critical to promoting corporate governance with Tunisian characteristics, and adding a MENA voice to the global governance dialogue. In Bahrain, the CEO of the Bahrain Mumtalakat Holding Company (Bahrain's sovereign wealth fund) has shown great appreciation for the importance of strong corporate governance in the public and private sectors. This kind of leadership demonstrates the importance of the endorsement by the region's sovereign wealth funds of strong corporate governance practices.

What role can CIPE partners play in advancing these ideas?

CIPE and its partners in the MENA region are promoting dialogue between the public and private sectors by supporting business associations as vehicles for discussion. On this recent trip, I was able to see how our partners' work dispels the notion that governance is purely a Western phenomenon, but rather it is a global topic. I have been able to help CIPE partners convey the message that governance is a journey, not a destination, and that we need the participation of the public and private sectors in all countries. ♦

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that included aspects of the IACE guidelines for corporate governance, such as greater protection for minority shareholders and disclosure of financial information – notably the executive salaries of listed companies. This type of disclosure, which has long been a priority for IACE, is critical to enhancing transparency and establishing a culture of accountability in corporate practices.

These achievements place Tunisia as a model for its neighbors and a force for improving the business environment in the Middle East and North Africa region. IACE's recent advocacy success and the launch of the center will help to establish corporate governance best practices within Tunisian companies, raising the bar for the private and public sector in Tunisia, while mitigating unemployment and fostering economic development. ♦

At the launch event, IACE recognized journalists for their excellent work in corporate governance reporting.

The results of the TDI were presented at a CEF-hosted "Regional Seminar on Corporate Governance, Social Responsibility, and Transparency."

Leading on Corporate Governance in Argentina

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about corporate governance practices in Argentina by creating a Transparency and Disclosure Index (TDI) for banks and listed firms. Through the TDI, CEF is working to highlight how corporate governance practices can have a significant, positive impact on democratic institutions and foster a positive business environment.

Based on international best practices, the TDI is calculated from information gathered from public firms' websites, local and international securities and banking regulators, and stock exchanges. Since 2003, CEF has produced the index on an annual basis for all listed firms, (and since 2005 for banks) providing consistent evaluation of changes in corporate governance practices, identification of shortcomings, and quantitative measurements of increased awareness. The publicly disclosed index creates a competitive incentive among listed firms and banks for the best ranking. As companies improve their corporate governance practices, it benefits not only the individual company, but the business community as a whole. Pablo Souto, director of CEF, remarked that "Since its inception, the TDI program has put the importance of improving corporate governance practices at listed firms and banks at the forefront of the public discussion in Argentina. Voluntary adoption of good practices and regulatory action has resumed in recent years, and CEF has been a reference point both for listed firms and banks."

The TDI has already resulted in:

- the average TDI score increasing since the inception of the index;
- the Argentinean Securities and Exchange Commission adopting additional rules to strengthen corporate governance;
- companies with a lower-than-anticipated score seeking guidance from CEF about which practices need to be improved; and
- companies with high scores, or demonstrating the greatest improvements, publicizing their achievements in the media.

Building upon this success, CEF is now working with banks to create a framework to evaluate the corporate governance practices of potential clients when making decisions about loans. Although banks had rarely considered corporate governance procedures and structures, particularly for small and medium-sized enterprises (SMEs) seeking credit, the increased focus on risk due to the financial crisis has established a tangible incentive to better evaluate credit risk. The banks' emphasis on good corporate governance practices as part of loan criteria will provide an incentive for SMEs to improve practices and drive implementation. While change does not happen overnight, incremental steps such as these will improve governance and help strengthen Argentina's institutions against economic recessions in the future. ♦

CG Events

October 2009-January 2010

MENA Events

October 12-15, 2009, Dubai, UAE
Strategy and Opportunity for Commercial, Investment, and Retail Banks (DIFC)
www.terrapinn.com/2009/bankingme/index.stm

November 7-8, 2009, Doha, Qatar
Global Forum VI on Fighting Corruption and Safeguarding Integrity (UNODC)
www.unodc.org

November 2-4, 2009, Dead Sea, Jordan
Corporate Governance and Responsibility (Schema)
www.schematt.com

November 9-10, 2009, Dubai, UAE
Hawkamah Fourth Annual Conference: Building Middle East Markets and the Corporate Governance Imperatives (Hawkamah Institute for Corporate Governance)
www.hawkamahconference.org

Global Events

November 16-17, 2009, New York, New York
Directorship Boardroom Leaders Forum (Directorship Boardroom Intelligence)
www.directorship.com/events/boardroom-leaders-forum/

December 2, 2009, Stockholm, Sweden
The New Role of Government in Corporate Governance (ECGI/ Brookings Institution/ Columbia Law School)
www.ecgi.org/conferences/events.php

December 2-3, 2009, Stockholm, Sweden
Beyond the Crisis – New Challenges for Corporate Governance (Swedish Corporate Governance Board/ ECGI)
www.iab.se/EisfluuClient/default.aspx?id=3581626

January 13-14, 2010, New York, New York
Corporate Governance and Compliance Crash Course (The Conference Board)
www.conference-board.org/knowledge/govern/workshopAssessment.cfm

These events represent corporate governance trends in MENA and around the world. To participate, contact sponsoring organizations.

What the Financial Crisis Taught Us About Independent Directors

by Aleksandr Shkolnikov, Ph.D., CIPE Director for Policy Reform

Although for some Russia has been a great economic success story of the last decade, the global financial crisis is exposing a number of structural problems in the Russian economy that need to be addressed – problems that were easy to ignore while the money was flowing and are harder to put aside today. A closer look at these issues is particularly relevant for resource-rich countries in the Middle East and North Africa (MENA) region, which in many ways – willingly or not – have emulated some elements of the Russian economic "miracle" of the past 10 years.

One key factor leading to Russia's decline has been its over-reliance on natural resources. Russia's exports, budget stability, and overall economy were about 75 percent dependent on oil, natural gas, and other resources before the start of the global financial crisis. As the global demand for natural resources waned, so too did the country's economy. The financial crisis not only exposed the inherent dangers of natural resource-driven growth, it also highlighted several corporate governance issues that were lurking beneath the surface.

Overall, in the last decade, Russian enterprises made a significant step forward in reforming their corporate governance structures. Reforms were driven by government priorities, and by the desire of Russian companies to acquire capital abroad, which requires establishing the necessary mechanisms to assure investors that enterprises are well-managed and worth the risk. However, while major enterprises have improved their practices, the overall corporate governance climate in Russia has remained relatively weak. As the financial crisis has revealed, Russian enterprises are ill-equipped to recognize, analyze, and handle risk. Although the financial crisis showed that risk management was a problem in many countries around the world, the failures in Russia were much higher – the stock market at one point declined by more than 70 percent (compared to a 30-40 percent drop in major Organisation for Economic Co-Operation and Development countries).

Risk management is the primary responsibility of boards of directors. Their failure to fulfill their role suggests a number of needed governance reforms such as the establishment of formal risk management committees (which in the past was a function of audit committees) and sufficient training for board members. As a recent KPMG International survey of Russian enterprises highlighted, risk management has to be connected to the process of strategic planning.

Ibrahim Zeinal, first vice-chairman of the Bahrain Chamber of Commerce, and Abbas Al Radhi, chairman of the Bahrain Accountants Association, at a CIPE-supported conference to release the draft corporate governance code for consideration and stakeholder consultations in Manama, Bahrain in May 2008.

More importantly, risk failures in Russia raised a number of issues regarding independent directors, especially foreigners sitting on boards. In light of their recent failure to recognize and assess risk, many have questioned their overall usefulness, their abilities, and their savvy with the Russian economic environment. Were they brought in to actually turn around Russian enterprises? Or were they put on the boards simply to highlight to foreign investors a concern for corporate governance without actually substantially improving internal practices?

These issues are valid not only for Russia, but for the MENA region as well, where many have wondered whether publicized improvements in corporate governance and independent directors are genuine commitments connected with deep-rooted reforms or just a façade. Both independent directors and corporate governance principles are integral to improving a company's practices and ability to evaluate risk, but they must grow from a commitment to reform to reach their potential. Independent directors cannot be brought in simply to "tick the box" and move on with business as usual. Establishing proper professional criteria for independent directors, ensuring that independent directors are actually empowered to perform their duties, and keeping a strong commitment to corporate governance principles should be reform priorities. These reforms will increase the ability of companies to effectively analyze and assess risk, reducing the likelihood of drastic financial repercussions in the future. ♦

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CIPE strengthens democracy around the globe through private enterprise and market-oriented reform.