

Bahrain Reaches a Milestone with First Code on Corporate Governance

Manama, Bahrain – Amidst the turbulence of the global financial crisis, Bahrain has emerged as a leader for investment in the Middle East – garnering recognition from governments and the private sector alike. Leveraging its new role, Bahrain is employing corporate governance as a key element of growth and success. In this crucial moment, CIPE and its partners, with support from the Middle East Partnership Initiative of the U.S. Department of State, have contributed to the development and release of the inaugural *Code of Corporate Governance in the Kingdom of Bahrain* March 16 in Manama – a significant achievement for Bahrain.

With an audience of 250 high-level participants, the launch event marked a

turning point for Bahraini companies and a step towards improving the country's corporate governance record. The participation and remarks from Minister of Industry and Commerce Hassan Abdullah Fakhro, Governor of the Central Bank of Bahrain Rasheed Mohammed Al Maraj, and U.S. Ambassador to Bahrain J. Adam Erel all demonstrate the high-level of support from important government agencies and key stakeholders.

The development of the code was a three year, consultative process. The National Steering Committee on Corporate Governance – established by the Ministry of Industry and Commerce and the Central Bank of Bahrain – directed the code development process



U.S. Ambassador to Bahrain J. Adam Erel addresses the audience at the code launch event in Bahrain.

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Public and Private Sectors in Yemen Advance Corporate Governance with Release of New Guidelines

Sana'a, Yemen – Yemen faces pressing challenges in the political, economic, and security spheres, yet even within this context, the public and private sector have worked cooperatively to improve corporate governance practices, bolstering economic growth by attracting investors, increasing productivity, and sustaining family-owned businesses. The public and private sector's productive working relationship has resulted in the launch of the first-ever *Guidelines for Corporate Governance in Yemen* on March 29.

The release of the Yemen guidelines marks a major achievement – the Yemeni private sector now has a roadmap to enhance transparency and accountability, improve growth, and ensure sustainability. The guidelines received high-level public and private support and more than 150 decision-makers, businesspeople, and academics attended the launch event. Minister of Industry and Trade Yahya al-Mutawakel opened the conference by acknowledging the significance of this achievement for Yemen's development.

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Corporate Governance in the Wake of the Global Financial Crisis: Challenges and Solutions

Paul DeNicola is the Director of the Conference Board Governance Center. For over 90 years, the Conference Board has published information about management and the marketplace to help businesses strengthen their performance and better serve society.

CIPE: How has the current crisis affected corporate governance in emerging markets?

PD: There are fears that the financial crisis might cause developing countries to backslide on governance. A lot of those fears have proved largely unfounded – according to many fund managers investing in those markets – but we have certainly seen corporate governance changes around the globe. For instance, the government in Singapore introduced changes to its listing rules to make it easier for companies to raise equity in order to manage the availability of credit following the market crises. However, investors are worried that this will erode the ability to prevent dilution of the holdings. In Russia, corporate governance has shown vast improvements over the last decade, although the trend slowed down this past year due to the end of the previously constant flow of Western money and companies coming to market. However, for the most part, the pace of improvement in many emerging markets has remained relatively steady.

Overall, the fear that the financial crisis might cause developing countries to backslide on governance is exaggerated to some degree. Most developing countries continue to improve their corporate governance. There are clearly challenges from a country-to-country, region-to-region perspective, but I am hopeful as to what I see.

CIPE: The financial crisis has called into question existing models of corporate governance – especially in the developed world. How would you respond to such criticisms?

PD: To look at the current crisis as a complete failure of corporate governance among all publicly traded companies is misguided. There have been significant governance failures, and many can be attributed to the excessive

leveraging that went on within the financial services sector. The large majority of Western companies have an excellent history and an excellent record of robust governance processes. It is inaccurate to place a causal relationship between failed governance in its totality and excessive risk-taking at a small number of companies.

CIPE: Do you think failures in corporate governance led to this financial crisis?



Paul DeNicola spoke with CIPE about the effect of the global financial crisis on corporate governance trends.

PD: From my perspective, ethics are at the core of corporate governance. Companies need to examine their incentive structures to determine whether they assist or impede ethical decision-making on the part of senior managers. If a company is going to seek to attract capital, it needs to be aware of the world's expectations with regard to its behavior. In terms of dispute resolution, for instance, investors want to see that when problems are identified, there are governance and ethical structures in place that allow the company to continue operating functionally. This requires a robust ethics program and that begins in the boardroom and at the most senior levels of management.

CIPE: What recommendation would you have for companies in emerging markets that have made significant good governance achievements but still face the challenges of implementation?

PD: Companies should consider the best ways to gather the information material to the disclosure.

Corporate culture should be carefully examined so that the appropriate disclosure procedures are adopted to foster transparency and the proactive participation of relevant employees, and the appropriate business units are encouraged to participate in the disclosure process. A culture of business integrity and a working environment prone to rigorous compliance with applicable laws and regulations originate at the top and flow down through all branches of the company. As such, ethics and compliance practices are a crucial component of corporate governance programs and should take center stage in board agendas. ♦



Rinvest President Muhamet Mustafa (right) gives an interview to Voice of America in Washington, DC on the state of reforms in Kosovo and Rinvest's role in moving the reform process forward.

Corporate Governance Leads the Way to Privatization

A newly independent Kosovo seeks to build stronger economic institutions to encourage greater investment and to gain access to the international financial system. For any true economic growth, Kosovo needs a dynamic private sector. The newly launched privatization process has promise to breathe new life into the national economy.

Currently, the publicly-owned enterprises (POEs) that are candidates for privatization provide crucial public services and utilities and have a strong role in the business environment. Yet, a lack of transparency and the sway of political interests on board members and company managers has made POEs rife with corruption. Corporate governance principles in POEs are critical to enhancing confidence in the overall business climate, bolstering growth, reducing the impact of the global downturn.

CIPE partner the Rinvest Institute for Development Research has worked with POEs to improve their governance structures and management operations. Rinvest's leadership has helped to establish a law that requires POEs to comply with corporate governance principles. The Kosovo Government has also been an active partner in ensuring the privatization of Kosovo's three main POEs: the Electricity Corporation of Kosova, the Post and Telecommunications

Corporation of Kosova, and the Pristina International Airport.

The corporate governance code for POEs – developed with Rinvest recommendations – establishes a clear governing system to divide control between the management and boards of directors. Many public utility, communication, and transportation services are provided by POEs, so creating more transparent and productive public sector companies through enhanced corporate governance is essential for creating a dynamic economic system. The government's support for a privatization process and institutional framework that promotes and requires greater transparency and accountability demonstrates an effective path forward for Kosovo's successful democratic transition.

While the government and POEs in Kosovo are taking incremental steps to improve transparency, disclosure, and corporate governance standards, there are still many challenges ahead before they are fully compliant with international standards. Introducing corporate governance practices during the POE privatization will increase the value of assets and improve the quality of products and services these enterprises offer. This is a move in the right direction for the recovery of Kosovo's economy, and helps to lay the foundation for stronger democratic institutions. ♦

CG Events

August-November 2010

Global Events

August 22, Lake Louise, Alberta, Canada
12th Annual Corporate Governance Conference (Canadian Society of Corporate Secretaries)
www.cscs.org

October 7, San Francisco, California, USA
2010 International Corporate Governance Network Mid-Year Conference
www.icgn.org/conferences/

November 8-9, New York City, New York, USA
The NACD Directorship Forum: Pillars of the Boardroom (Directorship LLC)
www.directorship.com

MENA Events

June 19-20, Amman, Jordan
Family Business Conference (Events Unlimited)
www.eventsunlimited.com.jo

June 22, Cairo, Egypt
Corporate Governance in Small and Medium-Sized Enterprises (Egyptian Institute of Directors)
www.eiodqa.eiod.org

October 3-7, Manama, Bahrain
FundForum Middle East 2010 (FundForum Middle East)
www.icbi-events.com

October 22-24, Marrakech, Morocco
World Economic Forum on the Middle East and North Africa (World Economic Forum)
www.weforum.org

November 1-3, Dubai, UAE
Senior Director Workshop (GCC Board Directors Institute)
www.gccbdi.org

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

New Code Launch in Bahrain

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with support from the U.S. Department of Commerce Commercial Law Development Program and from CIPE. Committee members, including representatives from government agencies, the banking and accounting sectors, and business associations and leaders, worked with Bahraini stakeholders and international experts to develop corporate governance standards that would provide a roadmap forward and reflect the Bahraini context.

CIPE also worked to improve broad-based awareness in Bahrain's business community about corporate governance practices and guidelines through surveys, skills-building, and training programs. CIPE worked with its partner the Bahrain Accountants Association (BAA) to conduct a survey on business' awareness of corporate governance practices and to assess existing laws and upcoming legislative changes. CIPE and BAA's work also highlighted the importance of corporate governance for family-owned firms in Bahrain and the need for effective leadership to promote a culture of good governance.

“The process of developing this code demonstrates the positive benefit when the public and private sectors work together to strengthen the economic environment in Bahrain. The real impact of the code will come as we translate the concepts enshrined in the Bahrain code into practice and produce tangible results.”

~ Bahrain Minister of Industry and Commerce Hassan Abdullah Fakhro

With the completion of the code, the focus must now turn to implementation. Effective application of the code will require both ongoing outreach to the business community to demonstrate why and how corporate governance will benefit them and strong regulatory agencies that provide oversight. Ultimately, advancing the core principles of corporate governance – transparency, accountability, responsibility, and fairness – depends on leadership and commitment at the highest levels. With these principles in place, Bahrain has the tools to attract foreign investment and further economic development. ♦

Corporate Governance Guidelines in Yemen

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The development of the voluntary guidelines is the culmination of two years of work between CIPE and its partner the Yemeni Businessmen Club (YBC) to raise awareness about the benefits of corporate governance. With support from the U.S. Department of State Middle East Partnership Initiative, the guidelines were developed by the Yemeni Corporate Governance Task Force, established by CIPE and YBC in March 2008, comprising more than 20 key stakeholders from the government, business community, academia, and media.

Building consensus and interest in corporate governance practices, CIPE and YBC not only supported the task



Yemen Minister of Industry and Trade Yahya al-Mutawakal speaks about the Guidelines for Corporate Governance in Yemen at the launch event.

force in developing guidelines, but also worked to raise public awareness and educate journalists, board directors, academics, and Shari'a scholars about the importance of good corporate governance. These efforts resulted in several high-profile endorsements from Minister of Industry and Trade Yahya al-Mutawakal, the Central Bank, and the Ministry of Finance.

In addition to strong public support, the guidelines have also been embraced by the private sector: several family-owned businesses have approached task force members for assistance in developing individual corporate governance guidelines for their companies. As family-owned businesses are a majority of the Yemeni economy, their leadership could have a profound multiplier effect.

Improving corporate governance in Yemen is crucial for the country's future growth. Establishing corporate governance principles will help improve the performance of individual business and investment in the private sector. Yemen will also stand on stronger footing as it engages with regional and global economies. Advancing transparency and accountability is key for Yemen's economic growth and development. ♦

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