Corporate Governance TRENDS

Special Publication for the Middle East and North Africa

Number 20 • 2010

# New Lebanese Publications Enhance Anti-corruption Efforts in the Region

Mosbah Majzoub from the Lebanese Association of Certified Public Accountatns reviews the results from a survey on corruption in Lebanon.

Beirut, Lebanon – A new survey and guidebook are raising awareness about the incidence and costs of corruption, improving public access to information, and helping to advance governance and transparency in Lebanon. Launched on July 7, 2010, the *2010 Survey on Administrative Corruption in Lebanon* and the *You're Being Audited Reference Guidebook* were created by the Lebanon Anti-Bribery Network (LABN), a multi-stakeholder initiative established in 2008 by CIPE and its local partner the Lebanese Transparency Association (LTA). These publications are an important example of what can be achieved when the public, private, and civil society sectors work together to advance economic and political reform by improving transparency and reducing instances of bribery.

The *2010 Survey on Administrative Corruption in Lebanon* quantifies the extent of the bribery problem in Lebanon. Gleaned from face-to-face interviews with upper management representatives of 250 small and medium enterprises in the greater Beirut area, the survey results revealed that 65 percent of respondents pay bribes to facilitate and accelerate government-related procedures. When a bribe is "required", a government official asks for the bribe in 50 percent of instances; in 37 percent of cases the enterprise simply offers the bribe up front. The high incidence of bribery affects business owners and the business environment alike. Payment of bribes has concrete, tangible costs to Lebanon's economic development; bribery wastes money, time, and human resources that could be used to grow businesses and provide new job opportunities for an ever-growing youth population. In addition, foreign investors are less likely to choose Lebanon for future investments if transparency is weak and the burden of bribes becomes a deciding factor.

In the Transparency International Corruption Perception Index, Lebanon ranks 130 out of 180 countries, a score that is better than only Iraq and Yemen in

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# Can Transparency Spur Increased FDI and Economic Growth?

Danya Greenfield, CIPE Program Officer, and Ali Ayadi, CIPE Program Assistant, Middle East and North Africa Division

Washington, DC – In recent decades, developing countries have recognized the importance of foreign direct investments (FDI) as a driving force to economic growth. In order to lure investors, many countries raced to a build a sound investment climate through reforms aimed at improving institutional and human capacities, building solid infrastructure, adopting progressive economic policies, and strengthening the rule of law.

Although progress varies widely between countries, at least eight MENA countries have improved their economic policies to lower the regulatory and institutional barriers in establishing businesses. According to *Doing Business 2010*, a report published by the World Bank Group, Saudi Arabia and Bahrain are listed in the top 20 countries worldwide for their ease of doing business.

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published by the
**Center for International Private Enterprise**
1155 Fifteenth Street NW • Suite 700 • Washington, DC 20005 • USA
ph: (202) 721-9200 • fax: (202) 721-9250 • www.cipe.org • e-mail: cipe@cipe.org

# Corporate Governance for Islamic Financial Institutions: An interview with Dr. Abdelbari Meshal

Dr. Abdelbari Meshal works with CIPE partners in Bahrain and Yemen to highlight the importance of implementing corporate governance in Islamic Financial Institutions. He is a recognized expert on the topic with more than 16 years of experience in Shari'a consultation and auditing. He is a board member of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and arbiter at the Islamic Center for Reconciliation and Arbitration. Dr. Meshal has authored more than 30 articles and research papers in the field of Islamic banks and Shari'a control in international publications.

Why are Islamic Financial Institutions (IFIs) attracting greater attention?

Islamic banks have existed for decades, but there has been increased interest in them recently because many IFIs did not suffer the same degree of loss incurred by other banks during the global financial crisis. Islamic banking is gaining popularity not only in predominantly Muslim countries but throughout the world, including in Europe.

You worked with the Central Bank in Syria to develop a corporate governance code specifically for Islamic financial institutions. Why was this needed?

Islamic banking refers to banking activity that is consistent with the principles of Islamic law (Shari'a), which prohibits the payment or acceptance of interest fees for lending, as well as prohibits investment in businesses that provide goods or services considered contrary to its principles. Unlike conventional banks, IFIs have a specific mandate when it comes to adherence of Islamic Shari'a. To ensure that the operations and activities of the banking institutions comply with Shari'a principles, IFIs must establish an internal Shari'a supervisory board, and the institution must conduct external and internal Shari'a audits. Introducing a mechanism like the Shari'a supervisory board means that the relationship must be clearly defined between Shari'a board and the board of directions, employees, and shareholders in order to minimize conflict of interest and ensure accountability. This is what necessitates a corporate governance code specific for IFIs.

What is the value of a corporate governance code in terms of the Syrian economy? Do you think that other countries will use the Syrian code as an example?

Developing the corporate governance code places the Syrian Central Bank at the forefront of regulatory authorities in the region. The first Syrian Islamic bank was established only three years ago, whereas other countries such as the United Arab Emirates, Kuwait, and Bahrain have had Islamic banks for more than 30 years. Still, these more experienced countries have not issued formal guidance regarding Islamic banks and good governance to date.

The Accounting and Auditing Organization for Islamic Financial Institutions in Bahrain and Islamic Financial Services Board in Malaysia have issued standards related to corporate governance in Islamic financial institutions, but these international standards are not translated into mandatory requirements on the country-specific level. For this reason, the IFIs in the region suffer from shortcomings in implementation of corporate governance standards. Taking leadership and issuing the corporate governance code has raised the level of confidence in the banking system and IFIs in Syria.

Now with the code in place, what kinds of changes to you expect within the Islamic financial institutions in terms of improved practice?

The code became mandatory starting at the beginning of 2010. Since that time, Syrian IFIs have started to align with the requirements of the code. In particular, they have modified their structures so that members of the Shari'a supervisory board are not employees of the company and do not sit on the internal audit committee. Now, the function of assessing compliance with the requirements is more independent and separate from the company and occurs regularly.

What are the next steps to ensure compliance with the principles in the code?

The Central Bank of Syria is working hard to ensure compliance with the code and to ensure that Shari'a board members in each bank have the right qualifications and expertise, and will adhere to principles of transparency and accountability. The Central Bank has a Shari'a Advisory Council that reviews the rulings of the Shari'a boards in the Islamic banks, and works to harmonize these various rulings and ensure minimum standards and consistency among Syrian IFIs. ♦

# Directors' Training Key to Corporate Governance Advances in Thailand

By Laurent Malespine, Project Consultant, Thai Institute of Directors

*IOD President Charnchai teaches a Director Certification Class in Thailand.*

Bangkok, Thailand – The Thai Institute of Directors Association ( IOD) was established in 1999 in the wake of these tragic events as part of a national effort to avoid another economic crisis in Thailand. Created with the support of the World Bank, Thailand's central bank, and market regulators, the IOD seeks to improve the behavior of corporate directors, to help ensure sustainable development, and to spread the word that good corporate governance and ethical business practices make business sense. Since its founding, the IOD has trained and certified nearly 4,000 company directors through its flagship Director Certification Program as of September 2010.

Eleven years since its founding, corporate governance has gained acceptance in Thailand, thanks in part to the hard work of the market regulators and the IOD. The IOD's focus on training has accompanied the strong regulatory changes implemented after the financial crisis by the Stock Exchange of Thailand and the Securities and Exchange Commission to improve governance. These regulations include the requirement that all listed companies have an audit committee and that their boards ensure compliance with clearly-stated good corporate governance principles. Additionally, the Thai Government has acknowledged the role that IOD's and regulators play in efforts to strengthen corporate governance practices.

Furthermore, it is widely accepted by analysts that the advances in Thai corporate governance contributed to the resilience of the economy in the face of both political instability in the country and the impact of the 2008 United States and Western European financial crisis. "In the corporate sector, there has been a great deal of improvement," stated IOD President and CEO Charnchai Charuvastr in a recent CNBC interview on September 21, 2010. "The boards are now more responsive, and they know their fiduciary duties. They know what they need to do to protect shareholders interest."

Charnchai estimates that half of the boards of the companies listed on the Stock Exchange of Thailand have gone through the IOD's certification program, and the demand for training remains constant. New directors join listed companies boards' on an ongoing basis and an increasing number of directors of non-listed companies, government organizations, and non-governmental organizations have joined the queues to take the IOD courses.

The IOD's training courses provide a much-needed resource for the private sector in Thailand and are consistent with international best practices and new global developments. Refresher courses are required for directors to maintain certification and keep up with changing regulations. New specialized and advanced courses have been introduced to further improve the level of professionalism, such as courses about the role of the board chairperson and the role of audit committees. In cooperation with the Central Bank of Thailand, IOD will launch another new course in Fall 2010, the "Financial Institutions Governance Program," which is aimed at directors of financial institutions to boost ethical standards and ensure compliance with the policies and regulations set by the central bank.

This kind of commitment and leadership from the Thai government will help keep the country on a path in the right direction. Embracing good governance and dedicating itself to creating a clean and fair business environment is essential for economic vibrancy and stability. For its part, the IOD is helping to pave the way for an effective, responsible, and strong private sector based on sound ethical principles; this not only will improve company performance, but also will help to ensure economic development and long-term sustainable growth that will benefit all Thai citizens. ♦

## New publications in Lebanon

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the MENA region. In order to mitigate these instances of bribe-paying and bribe-seeking, LTA and LABN worked to raise awareness about enterprises' rights through the *You're Being Audited Guidebook*. The guidebook is a valuable resource that offers practical tools for firms to directly counter coercive tactics employed by inspectors, collectors, or officers in pursuit of money or preferred treatment. Using the guidebook, LTA has already taught dozens of Lebanese firms through a series of workshops how to deal with audits and ensure that the proper transparency and accountability practices are enforced.

*Participants learn about new publications from the Lebanese Transparency Agency and the Lebanon Anti-Bribery Network.*

The development of the guidebook solidifies LTA's progress in raising standards of democratic governance within small and medium-sized Lebanese businesses while strengthening the inherent link between governance and sound business ethics. The participation of the private sector in the fight against corruption is crucial; the business community can effect positive change not only in the private arena, but also in the public sphere through improved corporate governance and better information. Further, the LABN's success is setting new standards for addressing the complex issue of governance in Lebanon. A multi-stakeholder effort of this kind is unprecedented in the Middle East, both in terms of its reach and results, and will serve as a model of success for other countries in the region. In this regard, Lebanon is leading the trend toward more comprehensive and transparent governance, not emerging from it. ♦

## FDI and Growth in the MENA Region

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Egypt, the world's top business reformer in 2007, continued its upward streak for the third year in a row, advancing 11 places in global ranking. Similar positive trends have been observed in other countries across the region, including Tunisia, Morocco and Oman.

Despite these positive indicators on the ease of doing business, the region still lags behind most developing countries in terms of attracting FDI. According to the Economist Intelligence Unit, despite increasing FDI inflows, the MENA region attracts the lowest level of external investment in any region except Sub-Saharan Africa. In fact, the International Monetary Fund estimates that about U.S. $56 billion will leave MENA in 2010 because investors from the region chose to invest elsewhere.

This weak FDI record prompts a close look at why the MENA region is not fully maximizing its investment potential. A number of obstacles deter investors, including government failure to enforce laws and regulations, widespread corruption and nepotism, and a shortage of educated and experienced nationals. Unless governments in the region effectively address these issues, the inability to attract greater investors is most likely to persist in spite of other institutional progress.

As important, a poor corporate governance record and the lack of transparency within local private and public sector companies are major deterrents to investors and a main reason behind the mediocre flow of FDI to the region. Attracting FDI depends in part on developing trust with shareholders, reducing opportunities for corruption, and providing full access to company information, which are essential elements to evaluate risk. Embracing a culture of accountability and transparency must be self-motivated by the business community, not imposed by government and the threat of negative recourse. The private sector in the MENA region could do more in making corporate governance changes, particularly in family-owned businesses.

Both the government and the private sector must take initiative and assume part of the responsibility for the region's failure to attract greater FDI. As the businesses in the region demonstrate maturity through the voluntary adoption of the principles of corporate governance, they can help attract more investment, improve companies' profitability, and strengthen the national economy as a whole. The need to spur economic growth through external investment can be a powerful motivating tool for private businesses and the public sector to make tough decisions that open up their companies and business practices to scrutiny and guarantee the rights of shareholders and stakeholders. Making such changes will require a shift in corporate culture, which can only come from strong leadership in the public and private sector. ♦

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