



The Egyptian Code of Corporate Governance for SOEs

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2nd Meeting of
OECD Global Network on Privatisation and CG of SOEs
2-3 March 2010
OECD - Paris, France

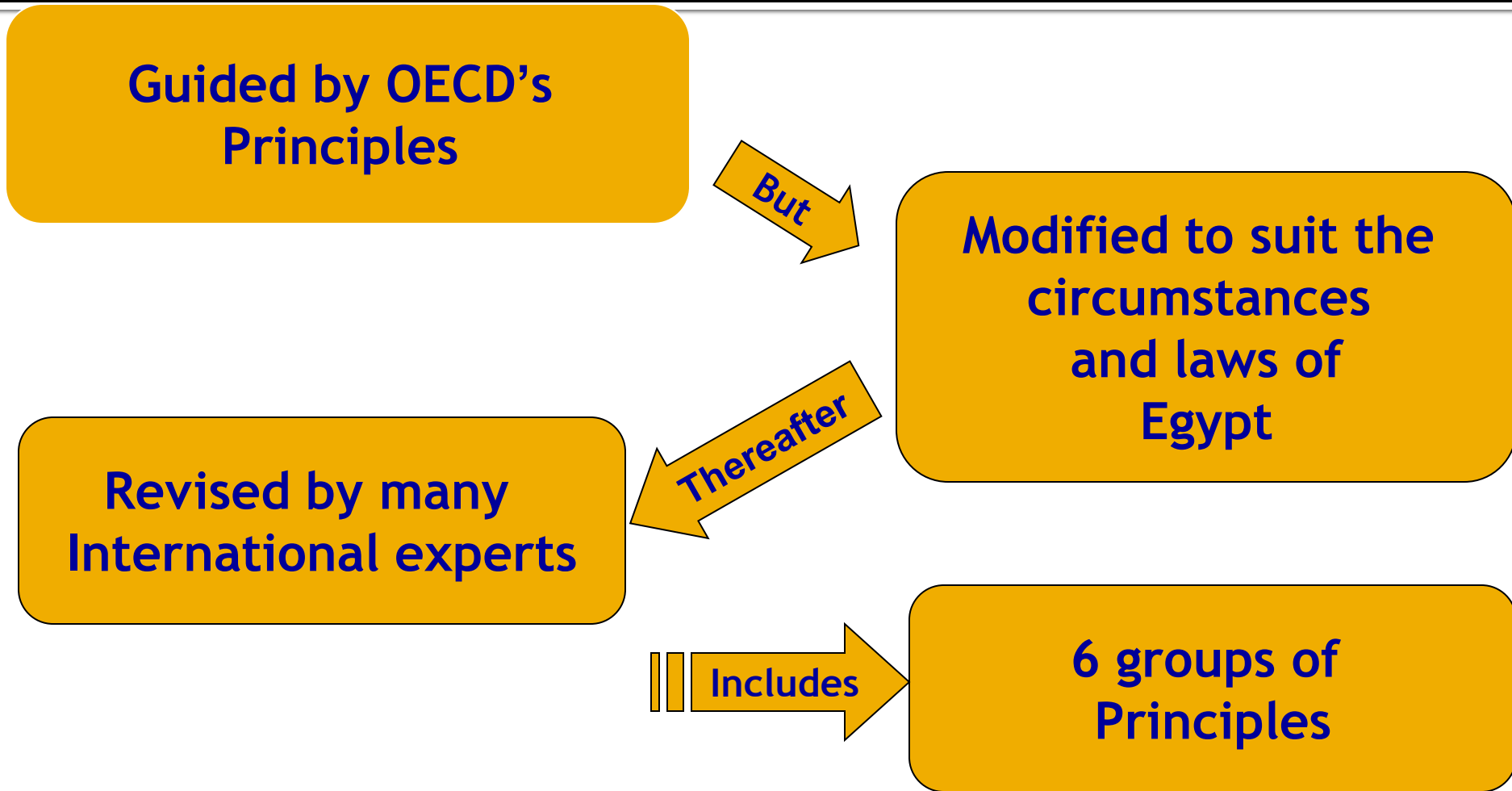
Major Developments in CG in Egypt

- 2001: 1st ROSC in Egypt & the region
- 2001-2002: changes in response to ROSC recommendations including new listing rules
- 2003: establishment of the EloD
- 2004: 2nd ROSC
- 2005: first ever Arabic code of CG – listed companies
- 2006: second Arabic code of CG – SOEs
- 2007: Audit Committee Manual
- 2008: Establishment of the ECRC under the EloD
- 2009: 3rd ROSC
- 2010: ESG index with S&P

Importance Corporate Governance in SOE's

1. For the importance of SOE's:
 - Labor force
 - Investments
 - Economic sectors affected by SOE's
2. Minimizing restrictions that affect SOE's ability to compete freely in the market
3. Improving the credibility of SOE's
4. Setting the companies to deal with banks and to partner with the private sector
5. Facilitating the Asset Management Program

Corporate Governance Code for SOEs



1. Ensuring effective legal & regulatory framework for SOE's

- This group aims to equalize the public and private sector companies from the legal and regulation point of views
- Not forcing the companies to implement production policies that conflict with their economic interests
 - The State avoids practices that violate the fair competition with the private sector
 - SOE's should not carry on sovereign or social burdens, unless properly disclosed & financial compensation is given
 - Companies are subordinated by the same principles of treatment of the private sector concerning disputes with stakeholders such as suppliers or creditors

2. The State acting as the Owner

- The State must have a clear and consistent vision regarding SOE's ownership and be certain of implementing the CG principles
- There must be one Central Unit for the Ownership Function whose line of custodianship to one ministry (or more) should be clearly determined
- The ownership unit has to define the general company's policy
- The State should not interfere in the management and define how the companies can accomplish the non-economic goals without affecting their values
- The company can prepare a database that includes names of qualified experts that boards of directors of its companies could benefit from

- The holding company must have a degree of flexibility and transparency in the management of financial structures of affiliated companies
- The holding company must have a clear and transparent system to nominate members of the board of directors of affiliated companies or companies in which the State owns the majority stake
- The role of the holding company is confined to performing all of its rights to protect its interest without interfering in the affairs of the board of directors

- The holding company may nominate any of its board members to the board of directors of its affiliated companies. However, it is better if this is done when it is only necessary and with a limited number of board members to minimize the potential impact of conflict of interest
- The holding company should set terms of reference to evaluate the performance of affiliated companies
- The Central Auditing Organization acts as the external auditor. Companies, especially those in which the private sector participates, may appoint an additional auditor from the private sector provided that this will not obviate the responsibilities of the Central Auditing Organization

3. Equitable Treatment of Shareholders (Owners)

- The State and the public enterprise should respect the rights of all shareholders, treat them equally, and furnish all shareholders with the means to obtain the required information
- As soon as a part of an affiliated company is sold, the holding company should change the articles of association and the internal bylaws to reflect the new situation
- It is important to view minority shareholders as true partners in the company, listen to their suggestions, have them properly represented in the general assembly, and protecting their interests

- The participation of minority shareholders in the decision making process should be facilitated by instituting specific mechanisms regarding their rights of representation inside the board of directors or giving them a veto power on some strategic decisions taken by the board
- Majority owners ought not to use inside information to serve their interests without considering the interests of others

4. Relationships with Stakeholders

- Public enterprises bear their responsibilities towards stakeholders that have interests in their companies and recognize their rights as specified in the relevant rules and laws
- In order to build strong companies able to compete and succeed during the long term, holding companies must be aware of the importance of maintaining strong and good relations with stakeholders
- The State should not use the public enterprise sector to achieve targets that are different from those ordinarily prevalent in the private sector, unless necessary compensations are made

- Companies should respect the employees' rights, introduce employees incentive schemes, make possible for them to have free access to the board of directors to report any illegal practices against them or that infringe on their rights
- The company sets a systems or mechanisms that guarantee shareholder rights and protect employees and creditors
- Public enterprises– especially those listed in the stock exchange– should submit a report on their social and environmental policies

- When public enterprises seek to secure funding, they should be subject to the prevailing competitive market conditions
- The holding company should encourage its affiliates to enter the capital market in order to obtain the financing required for their projects through the issuance of bonds.
- Consequently, companies will be monitored by the market and their performance will be continuously followed up

5. Transparency and Disclosure

- The holding company should disclose in an accurate and correct manner and in a timely fashion all important issues concerning affiliated companies such as goals, private sector sharing with it, donations received, the risks faced and its financial reports, the complementary demonstrations, and the auditor's report
- Financial statements, their complementary explanatory notes, and financial indicators must be published quarterly based on international best practice
- The company should disclose all essential events that will impact its activities or affect its financial status
- It is useful for the companies to establish websites where their reports and all the information can be posted to facilitate their review by individuals and institutions alike

- To increase the authority and independence of the internal auditors, they should report directly to the Chairman of the board of directors and to the Audit Committee, formed by the board.
- Companies should not be precluded from employing external auditors side by side with the Central Auditing Organization, provided that all of this will not hinder the responsibilities of the CEO

6. Responsibilities of SOEs Boards

- The board has the authority to take the strategic decisions and to put in place policies. Consequently, it is necessary that the board should have the human competencies and skills needed to fulfill these roles
- The size of the board should not be large enough to negatively impact its performance
- Members of the board should possess experience relevant to the company's line of work. The majority should be from independent members who are not from the executive manager cadre, and preferably they should be from the private sector

- The nomination and election process of members of the board should be based on clear principles and should be completely transparent
- The two functions of the Chairman of the board and the CEO should be separated in as much as possible. Preferably, the Chairman should possess financial or technical expertise and should be from the private sector so that he can bring in with him the direction and thinking that rely on the free market mechanism

- The board has the authority to hire and fire the executive directors including the Chairman, and the right to set his salary and makes sure that this is related to the company's performance
- The role of the holding company is confined to determining the key objectives of the board without being involved in the work policies
- The board is working for the shareholders' interests and treats them equally

- Listening to employees' suggestions inside the board
- The Chairman should present a detailed report about the company's performance, the risks that it encountered, and relation with stakeholders. The report should be accompanied by the financial statements and should be forwarded to the financial auditors for their review and evaluation
- The board may form specialized committees from amongst its members to assist it in carrying out its functions. The Chairmen of these committees should not be from the executive members of the board. They should also include a large number of independent members

- The existence of board committees does not free the board from its responsibilities concerning all matters related to the company
- Appropriate mechanisms must be instituted to evaluate the performance of the board
- The board may seek technical assistance from experts outside the board and from the holding company when it prepares its self-assessment. According to accepted best practices, the responsibility of evaluating each board member lies with the board Chairman

Conclusion: realization of the return on having a Corporate Governance code depends on:

**Real not cosmetic
application of CG
rules**

**Adopting the
Philosophy
of CG**



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