

Enhancing the efficiency of Arab capital markets by implementing corporate governance

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Abstract:

Financial markets are markets where securities are traded at both national and international levels. Investors or traders buy and sell such securities to make potential profits while trying to keep their risks limited. They also reflect the countries' economic situation, and the Arab stock exchanges may be the most volatile than their counterparts due to the scarcity of data and the lack of sufficient information, the reason why traders in such markets insist on the need to implement corporate governance to avoid violent vibrations of the indicators, or the control of the stock price trends ups and downs by some individuals. This study will clarify the Arab capital markets status and the enhancement of their activities under governance.

Keywords: Corporate governance, Arab financial markets, Constraints.

JEL Classification: G10, G34.

تعزيز كفاءة أسواق المال العربية بتطبيق حوكمة الشركات

ملخص :

الأسواق المالية هي الأسواق التي يتم فيها تداول الأوراق المالية على المستويين الوطني والعالمي. يقوم المستثمرون أو المتداولون بشراء وبيع هذه الأوراق المالية لجني الأرباح المحتملة مع محاولة إبقاء مخاطرها محدودة وهي بمثابة مرآة للوضع الاقتصادي للدول وقد تكون البورصات العربية الأكثر تقلباً بين كل نظيراتها على مستوى العالم نظراً لندرة البيانات وعدم رواج المعلومات الوافية عنها، لذلك يصر المتعاملون في هذه السوق على ضرورة تطبيق حوكمة الشركات لتفادي الاهتزازات العنيفة للمؤشرات أو تحكم بعض الأفراد في اتجاهات أسعار الأسهم صعوداً وهبوطاً. تأتي هذه الدراسة لتوضيح وضعية أسواق المال العربية وتعزيز أنشطتها في ظل تطبيق مبادئ حوكمة الشركات في الأسواق المالية العربية من أجل تطوير وتنمية أسواقها المالية، بترشيد المواد المالية على درجة كبيرة من الكفاءة والتنظيم بوجود نظم قوية وفعالة للمعلومات تتيح للمتعاملين معلومات تتعلق بالشركات التي يرغب في شراء أسهمها وتعلق أيضاً بالسوق نفسها والتطبيق الواسع للتقنيات المتطورة وكذا تطبيقات حوكمة الشركات التي ترفع من مستويات الثقة لدى المتعاملين.

الكلمات المفتاحية : حوكمة الشركات، الأسواق المالية العربية، مصادقية التقارير المالية، المعوقات.

تصنيف JEL : G10، G34 .

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Introduction :

Financial markets have become the main pillar of global economic growth, and Arab countries must develop their financial markets by rationalizing the financial products at a very high level of efficiency and organization, the establishment of a strong and effective information systems which provide traders with information on companies whose shares they would be willing to purchase, and which are also related to the market itself, and the wide application of advanced technologies and corporate governance that increase confidence among dealers.

First: Corporate governance and efficiency of financial markets**1- Definition and determinants of corporate governance:**

The use of the term corporate governance began in the early nineties of the twentieth century, and increased widely in the recent years especially by the experts in the international, regional and local organizations, and also through the identification of international experience on corporate governance. It was noted that the United States was the first in this field after New York Stock Exchange (NYSE) proposed rules that obliged companies to identify independent directors and review the potential risks periodically, while for Japan, the Stock Exchange of Tokyo announced the development of new guideline for implementing corporate governance in order to guide the Japanese institutions (Nicole Decoopman.p105).

Therefore, interest in the organization's success and maintaining its survival increased by preserving the rights of all parties concerned, i.e. the stakeholders, by paying more attention to the principles of corporate governance and implementing the principles developed mainly by the OECD (Helbling. C. and J. Sullivan.2003. p 7).

Anyone who followed the previous events that affected the money markets and the collapse of many US companies such as: the energy company ENRON in 2001, the global communications company WorldCom in 2002, and some European companies in the Asian East, realizes that they were the main reasons that led to the implementation of the principles of corporate governance, and compliance with transparency and accountability standards to maintain the credibility of information issued by institutions for the benefit of shareholders, investors and other parties to ensure the good functioning of institutions, and activate the performance of the boards of directors and related committees, which express the correct financial conditions of the economic units(Ahmed MeerAl-Najjar.2007).

There are many definitions of corporate governance for its several uses, and it was defined as follows:

1.1. The Cadbury Report:

Defined it as «the system that allows shareholders to guide, manage and select the external auditor. It also involves the organization of rights and responsibilities of the

company related parties, and provision of the mechanism that achieves the balance between economic and social objectives of the company on the one hand and between the individual and common objectives on the other hand(Jean-Claude Chesnais. 2018.P6).

1.2. Organization for Economic Cooperation and Development (OECD):

According to OECD: «the system of corporate governance is the structure through which the company management and control are organized by ensuring that such structure involves a system of incentive for managers, and that the board of management is related with the company's performance which aims to maximize shareholder profits, and encourages the optimal investment of the company's resources (OCDE. 2004.P2).

1.3. International Financing Corporation (IFC):

Corporate governance is defined as «the structures, control processes and management of companies focused on the relationship between the board of directors, shareholders, and qualified shareholders with the rest of the stakeholders, and it is the system through which institutions manage and control their business(FIDA. 1999. p 2).

In addition to the definitions of international organizations, there are other definitions by some prominent researchers and intellectuals such as: **Farid Courtel** who defined it as a «a set of rules, systems and decisions that aim to achieve quality and excellence in performance by choosing appropriate and effective methods to achieve the institutions' goals and objectives(Farid Courtel. 2008.P5).

2- Determinants of corporate governance:

They refer to the rules and principles that define how decisions are made, and the distribution of powers within the organization between the general assembly, the board of directors, and executives (Iskandar and Chamlou. 2002, p 122).

Corporate governance also increases confidence in the national economy, deepening the role of the capital market and increasing its capacity to mobilize savings, raising investment rates and preserving the rights of minority and small investors. The good implementation of corporate governance depends on the quality of two sets of determinants:

2.1. External determinants:

They are the organizational elements that guarantee the general climate for investment in the country which includes all the laws regulating the market and the efficiency of the financial sector, and provides the necessary funds for projects and the efficiency of regulatory bodies and companies operating in the capital market(Bhuiyan, M.B., Roudaki, J. and Clark, M. 2010.P24.25).

2.2. Internal determinants:

They refer to the rules and basis that determine how decisions are made and the distribution of powers between the boards of directors, administration, management and the general assembly in order to mitigate conflict of interest between all the parties.

3- Efficiency of financial markets:

It is a market where there is equilibrium and where securities prices are completely equal to their real value and move in a random manner without the ability to control them(Fama.1995.p.75).

Given that information is the spirit of financial markets and the main source for making investment decisions, whether for sale or purchase, and continuity in their flow and time of publication, validity, accuracy and credibility are the basis of the efficiency of financial markets; disclosure, transparency, provision of information on the functioning of companies and revealing the truth about their financial positions create hence confidence in the market and more sovereignty for disclosure and transparency, and the available information reflects the prices of securities, and these prices are adjusted quickly if new information appears(Fama.1996.p.55).

This is confirmed by the concept of corporate governance which determines how to regulate the relationship between all the organization's parties, and preserve the rights of shareholders and stakeholders, while organizing the market value resulting from the good performance, functioning of the corporate activity and raising its competitiveness.

Concepts of transparency, responsibility and accountability are considered as the fundamental principles. Literature identified several channels through which corporate governance may impact investments growth in the financial market including:

- Increasing opportunities of access to the external financing by companies which can lead to increased rates of investment; achieve higher growth rates and increase the generation of employment opportunities.
- Reducing the cost of capital and the associated high level of evaluation of the company which makes it more attractive to the investor, and thus achieving more investments.
- Building better relationships with all stakeholders and reducing the risk of crises, especially the financial crisis which can have a significant impact on the economic and social costs.

4. Literature Review :

Several studies support the relationship between corporate governance and financial performance (especially for emerging markets), while others do not. We summarize the main findings of some leading studies in this field as follow.

Table (1): the relationship between corporate governance and financial performance.

Country	Authors	Year	Results
USA	Gompers, Ishii, Metrick	2003	Firms with strong shareholder rights have higher firm value, profits, sales growth and lower capital expenditures
USA	Core, Guay, Rusticus	2006	Results do not support that weak governance causes poor stock returns
Canada	Klein, Shapiro, Young	2005	Shareholder rights, disclosure mechanisms valued by investors, no evidence for board composition and independence
Emerging Markets	Klapper, Love	2004	Better corporate governance is highly correlated with better operating performance and market valuation

Second: Analysis of the Arab financial markets performance

Stock market is one of the most important areas of investment that allows large and small investors to make profits. It was defined by many researchers as “the channels through which money flows between individuals, institutions and different sectors, in a way that helps to mobilize savings and encourage investment”.

It is the mechanism by which society's savings can be mobilized and transferred from individuals and institutions to serve the economic development goals. There are also many researchers who considered that the financial market is a measure of the country's economic situation because it continuously explains price levels and their trends, which means that there is a sufficient amount of information about securities traded so that the traders in that market make their various investment decisions with rationalization, which pushes them to seek to maximize their wealth, in addition to providing information for everyone from lenders, investors, management, government agencies, and auditors without any cost, which leads to the similarity of their expectations regarding the performance of companies during the coming periods, and complete freedom to trade securities without any tax restrictions.

For this reason, Arab countries considered adopting the contemporary method of financing through financial intermediation by establishing financial markets, due to their importance in the financing process and development in light of the urgent needs for financing (Mohamed Said Binani, 2008).

To achieve this goal, the financial markets must consolidate and establish the principles of equity and transparency where investor confidence can only be built by the proper implementation of the principles and rules of corporate governance that seek to achieve a fair distribution of the economic surplus to dealers in financial markets, especially managers, founders and shareholders, in addition to the commitment to transparent institutional performance which will be an important component to access domestic and foreign capital.

We will try below to focus on the characteristics of implementing the transparency and disclosure standards in the Arab stock market.

1- Arab stock exchanges: Origin and difference.

There are some Arab stock exchanges that made great strides in the field of finance such as the Amman Stock Exchange, and there are others that are still static such as : Algiers Stock Exchange, which is not yet a stock exchange in the common sense.

The Arab stock exchanges are different in terms of their origin, the number of the listed companies and the volume of current transactions, in addition to the levels of growth or failure to fulfill their role. These factors vary according to each country and according to the Arab markets' ability to contribute to the availability of funding for economic activity. They received decent attention from governments, such as the Saudi market, the Arab Republic of Egypt, and the Amman market in the Kingdom of Jordan which are moving towards developing their methods of work, whether through the internal operations (internal efficiencies) or through urging the issuing markets to create other financial instruments to be traded.

Given that the stock market development and growth is considered as a real incentive for the growth and development of issuing markets which provide all investors with opportunities to diversify the components of their financial portfolios, the presence of such markets in the Arab countries contributes to creating an economic dynamic and thus speeding up economic development as follows:

- The presence of such markets contributes to mobilizing the local savings scattered in all economic markets to be invested locally in a way that provides funders and fund seekers with the opportunity to achieve returns; and attract investors to demand liquidity available in the stock exchange to make more profits by raising the levels of public trading and achieve economic development, which prompted all the authorities in the Arab countries to establish such markets and try to organize them in a manner that makes them able to perform their roles, such as the possibility to use the state-owned enterprises as a tool of development and industrial policies in the Middle East and North Africa, and to perform

their role as an engine for competitiveness and development at the economic level. The following table shows the market capitalization in the Arab financial markets:

Table (2):Market capitalization of the Arab markets (billion dollars)

	Change %	2018	Change %	2019	Change %	2017	Change %	2016	2015
Abu Dhabi Market	(3.17)	129.72	14.58	133.96	52.69	116.91	7.75	76.57	71.06
Amman Market	(1.72)	25.09	0.04	25.53	(4.47)	25.52	(1.05)	26.71	27.00
Bahrain market	(17.05)	17.47	14.02	21.06	19.73	18.47	(6.60)	15.42	16.51
Beirut Market	0.68	17.76	4.13	17.64	1.73	16.94	1.49	16.65	16.41
Casablanca market	(16.47)	45.50	(0.06)	54.47	5.23	54.50	((13.83	51.78	60.09
Damascus market	(20.78)	0.61	(9.41)	0.77	(18.66)	0.85	(31.84)	1.04	1.53
Doha Market	(18.28)	151.89	21.80	185.86	16.77	152.59	1.74	130.68	128.44
Dubai market	(4.50)	83.91	24.25	87.86	41.28	70.71	1.01	50.05	49.55
The Egyptian market	(18.11)	57.25	12.83	69.91	1.06	61.96	25.95	61.31	48.68
Kuwait market	(4.02)	96.27	(2.88)	100.30	(0.64)	103.27	2.97	103.93	94.30
Muscat Market	(1.17)	27.01	(0.29)	27.33	23.09	27.41	13.04	22.27	19.70
Palestine Market	4.70	3.34	(1.54)	3.19	13.58	3.24	2.76	2.86	2.78
Saudi Market	(14.81)	421.04	7.57	494.25	23.04	459.45	10.22	373.40	338.79
Tunis market	(4.96)	8.82	10.08	9.28	(3.41)	8.43	(9.52)	8.73	9.65
Total	(11.84)	1,085.67	9.93	1,231.47	19	1,120.25	6.44	941.41	884.49

Source: Arab Monetary Fund.

The table shows a low market capitalization in the Gulf capital markets during 2019 as a result of a sharp drop in oil prices, as well as negative economic indicators and regional tensions that contributed to the destabilization of investor confidence in the Arab capital markets and in the Gulf in particular. It is remarkable that investors in emerging markets, including Arab markets, are distributed between %30 for financial institutions and %70 for individual investors. This is the opposite case of what is happening in the global markets and this special distribution allows the predominance of speculations that lead to violent vibrations of indicators or to the control of the stock price trends ups and downs by some individuals.

The result is that the movements of individuals is the most important actor and the problem is that this situation helps more the presence of random speculations, and perhaps spreading rumors and thus weakening the dependence on technical analysis of stock trends.

In the wake of recent events which occurred in the region, interested parties demanded more transparency regarding ownership of the companies by the governments in a growing number of Middle East and North Africa countries, by issuing a code to show the governance of the state-owned enterprises like Egypt and Morocco, in order to strengthen the process of disclosure by the state-owned enterprises.

The ministries exercising ownership rights in the state-owned enterprises have to issue governance codes or guidelines on disclosure, and stimulate the companies to provide better reports on their financial and non-financial performance. It is also recommended that the governmental regulatory bodies must have the authority to audit the accounts of the state-owned enterprises and publish the results publicly, or at least report them to the competent executive branches. Such procedures can enhance the effectiveness of the state-owned enterprises.

Field studies showed that countries whose markets had high liquidity achieved faster rates of growth than those whose markets had less liquidity.

- The stock markets activity in Arab countries and markets in general are an indicator that reflects the reality of economic activity in terms of its recovery or stagnation, as well as the efficiency and effectiveness of the activity of the issuing companies to direct resources towards the productive sectors which contribute to economic development.
- The presence of such markets helps attract the Arab capital invested abroad or deposited in foreign banks to be invested locally, including the exploitation of these important resources within the Arab region to push forward the process of economic development, and achieve financial balance between the Arab countries by providing various investment alternatives.
- Contribution to alleviate the pressures on the budgets of the Arab countries, especially those related to external debt. In the presence of an opportunity to replace the debts of these countries with the contributions in some of their companies, these countries can solve the problem of their external debt and thus be a center of attraction for foreign capital in a way that stimulates their markets and increases their liquidity, given that foreign investors represent the most important parties in all emerging markets due to their expertise in the field.
- Avoid traditional long-term financial intermediation by refraining from borrowing from the banks and financial institutions.

2- Institutional performance and promotion of the efficiency of Arab capital markets :

Financial crises in the Southeast Asian countries, Russia and Brazil increased the protection of shareholders' equity in the transitional market. Actually, many writers attributed much of the occurrence of these crises to the poor practices of corporate governance, commitment to its rules in those markets, enhancement of stability in the financial markets and strengthening them by financial and economic efficiency, consequently, investors and especially investment institutions started demanding evidence and proof that the institutions are managed in accordance with the proper practice of business that lead to reduce the possibilities of corruption, and mismanagement to a lesser extent possible before committing to any amount of funding.

Moreover, foreign investors want to be able to analyze and compare potential investments according to the same standards of transparency, clarity and confidence in the

financial statements prior to investment. In fact, governance has become essential to the local institutions and the efficiency of the economies to grow and prosper.

Not far from the emerging markets, the Arab countries were able to establish the stock market as their economic conditions forced them to proceed with this approach and benefit from its positive financial aspects, which had always stood as a barrier to the challenges of the modern economy, and to the urgent and permanent need for creating funds for the existing projects or under establishment in various activities.

Barriers to economic growth and lack of increase in productivity efficiency were among the reasons for seeking to develop the Arab financial markets and especially the secondary ones.

Studies in the field of financial markets showed that they contribute effectively to the development of savings returns, and to moving them towards the available national investment opportunities as evidenced by the large size and number of issues in the primary market in some Arab countries.

The MENA countries endured over the past three years that followed the outbreak of the Arab awakening in the end of 2010 exacerbate conflicts and political unrest alongside the deterioration of the economic situation. Political turmoil severely affected the economic activity in the region in 2013 where growth stabilized at 2.8% and became a danger for economy as a result of political developments in the oil-exporting countries, especially : Libya, Iran and Syria, which led to low growth rates. Many Arab countries received during these conflicts many aids, especially from Europe.

The apparent economic weakness contributed to the aggravation of the internal public finances, especially among the oil-importing economies alongside the deterioration of government procedures; the increase in current public spending and the high cost of supported imports and debt service in some cases, which had a strong and negative impact on the overall FDI flows in the Arab region, especially in the wake of the global financial and economic crisis in 2008.

Back to the issue of investments, they were mostly concentrated in the sectors of commercial services, natural resources and non-commercial goods sectors, from which oil importing countries obtained 60% from FDI in the 1990s, and 70% of this investment went to its exporting countries, but it remained low in the non-oil manufacturing sector, which is the sector that creates jobs and transfer knowledge(Riad Bin Jalili.2013 p12.) .

Third : Implementing the principles of corporate governance and improving the performance of Arab capital markets

Principles of corporate governance emphasizes on adopting the right approach in managing companies, and encourages the use of the latest and best modern management methods in management, contributing thus to the growth in the long term and increase of profits, or at least reducing the risks that such companies may be exposed to; through the efficiency of the board of directors in managing the company, and the committees that

ensure the proper functioning of financial and administrative matters in accordance with the policy of the company and its owners. All this is reflected in the performance of companies and then in the stock market which is an indicator of the strength of the economy, and which certainly provides balanced and reliable funding sources to the rest of the institutions that are in need of funds to complete their projects within the framework of economic development, whether they were local or foreign(The National Bank of Egypt.2003.P10).

The company that implements the principles of corporate governance increases the level of trust and confidence among its shareholders regarding their investments, because this is an indicator that the board of directors and executive management are aware of the risks that surround the company, and thus are able to manage and reduce them, and all that helps the investor to make the right decision while observing the other basic criteria of investment(Al-Saeedi Nasser.2003.P67).

Moreover, commitment to corporate governance means providing reassurance for investors regarding their money, their subscription and issuances offered by the company to obtain financing either through shares, such as share capital increase, or loan such as bonds and others.

Promoting the implementation of governance by Arab companies leads to convincing the foreign investors that their investments and money will be managed in a way that guarantees the increase of their profits, because they are looking for an environment with a strong basis to protect and improve their investments.

1- Corporate Governance in the Arab countries:

Economies of the Arab countries are generally characterized as rentier economies relying on oil as a major supplier. Therefore, government spending is the main driver of economic activity in addition to government control over most of the public services such as transport, electricity, water, communications; and transactions whose shares were sold to the private sector private are rare because such concept is still recent(Hatamleh Muhammad.2003.P67).

As for the financial markets, there is a great variation in their level between the various Arab countries, for example: the financial markets in the Gulf countries are considered as emerging but with good legislation to control their activity. Moreover, such emerging markets are improving their legal legislation and developing the investment tools. Yet, some departments of such markets may be blamed for slow and sluggish development.

However, the Gulf companies were not immune to the repercussions of that crisis which affected all their activities, and which contributed to practical transformations through the activation of some procedures and systems of governance in the companies of the Gulf Cooperation Council but to varying degrees, and their interest in governance issues was demonstrated by organizing many activities in this field, establishing the relevant agencies that oversee the implementation of the governance rules in most of the GCC countries, in addition to issuing regulations and rules that regulate the work of Gulf

companies, especially those listed in the financial markets, but still have much to do to apply safer standards for corporate governance(Al-Hamid Ibrahim.2010.P2).

A field study on corporate governance conducted by the Dubai Institute for Corporate Governance and Corporate Governance in 2010 in the Gulf Cooperation Council countries found out that more than 56% of the companies in the region lacked sufficient experience in defining the advantages of corporate governance, and the practices of nearly 95% of the companies indicated that their practices in corporate governance needed improvement in the structures and roles of their boards of directors, and some control aspect such as risk management and internal audit.

The same report of a study conducted on the stock market in Egypt revealed that, despite the large number of companies operating in Egypt and their large capital in the market, there was approximately 95% of the shareholding companies on the stock exchange whose governance were difficult to assess due to their non-listing on the stock exchange, and the presence of approximately 39% of joint-stock companies and recommended shares listed on the stock exchange whose governance were also difficult to assess because their securities were not traded on the stock exchange due to the fact that they were not subject to the supervision of the Capital Market Authority(Al-Hamid Ibrahim.P4).

Regarding the regulatory and legislative developments in the Amman stock exchange, the unit of anti-money-laundering and financing of terrorism ordered the issuance of instructions on the forms and means to inform about the operations that are suspected to be related to money laundering or financing of terrorism in order to instill confidence among economic operators. As for the Muscat stock exchange, it issued a decision to establish the Amman Center for Governance and Sustainability and its system. The center is affiliated with the Capital Market Authority. In the same context, the board of directors of the Capital Market Authority approved the new version of the Corporate Governance Charter of the public joint stock companies.

The Egyptian stock exchange also enacted a set of legislation. The General Authority for Financial control issued regulations and decisions for the governance of private insurance funds in the light of the recent amendments to the executive regulations of the real estate funding law.

It also issued licensing rules and a decision for the new companies to practice securities brokerage. The new regulations require that the company wishing to obtain the license submits its work plan and estimates on the volume of its activity, and the number of branches to be licensed in the light of the study of the market and the needs of the services provided(Arab Monetary Fund.2013.P57).

The study concluded that failure to apply the corporate governance principles occurs in the public business sector companies that were privatized and whose ownership and management are still controlled by the state. This is a characteristic shared by most

Arab countries which is known as the state's economic dominance and is evident through what follows:

- The government owns the largest share of vital projects and infrastructure projects.
- The restrictions set by the central bank to regulate credit at local banks.
- Lack of efficient legislative system capable of developing legislation that would protect the interests of investors as in the developed countries.

Good governance is largely linked to the improvement of operating performance and evaluation of companies in the market by maintaining the local and foreign shareholders' equity. It also contributes to the promotion of innovation and long-term investment in human and physical capital, foreign direct investment and to save intellectual property by stimulating performance and generating higher revenues and higher corporate profitability (Catherine L. Cocheta Hilling, John, D. Sullivan. CIPE, 2003). What is lacking in the Arab countries is the necessary transparency regarding making highly efficient investments due to the ambiguous commercial laws, and the opportunity for registrants to obtain exceptions that harm the general framework of corporate governance.

Many studies indicated a decrease in the efficiency and performance of state-owned enterprises in most Arab countries due to the absence of an effective corporate governance system, and consequently, the lack of a safe environment for an effective financial system through which investors can be assured of the channels for investing their money, which causes many problems that hinder the institutions productivity and destroy the main goal of achieving development, in addition to the weakness of the will of the public institutions managers, and their harm to the services of general interest in the absence of accountability, as they are not the real owners of these institutions, which raises the costs of investment and undermines the reputation of the Arab national bodies and institutions, and accordingly, the investors would stay away from them. Additionally, they desperately need funding for the purpose of completing their development and investment programs, as their failure to attract local and foreign investors weakens international trade and leads to the decline in economic activity.

Arab countries, including the Middle East, sought to improve the performance of their institutions and upgrade their economy in light of their encouragement to follow corporate governance principles to correct deficiencies of the Arab market, and develop equity and justice in obtaining tenders and distributing them fairly to operators. This procedure allowed the development of integrated, balanced economic, political and administrative practices within the framework of corporate governance that gave new concepts to general management (Gestion publique) which indicates a lower role for the state and a greater role for the market forces and the private sector (Mustafa Abdel-Aziz Morsi. 2003).

In fact, privatization movement started in general in the mid-1990s except in Tunisia, which adopted it in 1988 and Egypt in 1991, and came within the framework of a

more comprehensive strategy for economic reform and structural adjustment, often accompanied by expected improvements in the efficiency of government installations, and promotion of the state budget and support of the financial markets. However, in order to succeed, they should ensure a real competition in their own markets, and this is not possible in the Arab countries due to the interference of the political elites.

Privatization is generally affected by factors beyond the weak micro-economic environment in which privatized firms operate. In fact, it requires changes in financial, trade and foreign investment policies, as well as the existence of adequately developed markets and launching of institutional reforms in parallel, which is unfortunately significantly absent in the Arab region (Joseph .T .Siegle.Michael.M .Weinstein. 2005.P6).

2- Constraints of the Arab financial markets in the absence of corporate governance:

Despite the reforms of the Arab financial markets in line with the developments in the global financial system, and despite the remarkable growth in their activity, they are still below the required level and are not more than being developing markets below the level of efficiency of the strong financial markets, still lacking rational investment practices, and facing a number of obstacles preventing them from achieving the efficiency and effectiveness required to attract the financial resources necessary for the process of economic development in the Arab countries.

The most important constraints are as follows:

2-1- Regulatory, legislative and structural constraints:

Such as the inability of the regulations and laws of the Arab markets to keep abreast of the latest developments, in addition to the frequent issuance of decisions, the complexity and inconsistency of the relevant laws and the different bodies in charge of their implementation which resulted in the interdiction of the work of such markets in many Arab markets.

In addition to the absence of laws on the separation between the legislative role played by the market control authority appointed by the government, and the executive role played by the stock exchange, Arab markets are not financially and administratively independent, which means that they are not subject to their own movement.

Absence of legislations that define the establishment of agencies of setoff, settlement, conservation, central depository and other supporting bodies, which led to increased volatility in stock prices and investment risks, the lack of Arab markets for promoting and underwriting companies and many legislations and clear texts on protecting small investors.

2-2- Insufficient mechanisms of work in the Arab financial markets:

Such as the absence of market makers for controlling the extreme price volatility, inefficiency of financial intermediaries and their inability to give advice to investors.

There are some Arab markets which have not seen until today the issuance of a disciplinary law regarding violations and suspicious deals, weak mechanisms of control and supervision, and the discovery of any defect or deviation, such as obtaining data by illegal means, and wrong information and rumors. In this regard, we find that the sanctions are not definitively determined on such practices.

2-3- Structural constraints:

- Lack of effective participation of the private sector in the economic development as an investment engine to achieve profits, and the delay in privatization programs in the Arab countries
- Arab banks do not benefit from the existence of financial securities markets as a long-term financial source.
- Individuals in Arab countries tend to invest in banking away from financial markets because of the fluctuations in the markets, and the absence of clear laws that protect investors and rational governance that preserves right.
- The lack of openness to the outside due to the lack of encouraging investment regulations in all Arab countries, which negatively affects investor confidence in the Arab markets, and consequently, not opening the door to foreign investment and transfer of expertise.

2-4- Insufficient financial disclosure systems:

Despite the legislations enacted in this regard, the reality is far from the required level witnessed by the developed markets. Financial disclosure systems in the Arab countries are not audited and sometimes tend to generalities, and the transfer of financial reports to companies is far from the desired quality, and its credibility varies from one country to another. Sometimes, it is limited to publishing the final assessment and being satisfied with annual publications in a way that does not provide sufficient information for investors as a basic rule for making their investment decisions.

Conclusion:

The study describes the efforts that are made to promote the good quality of the Arab financial markets by implementing the principles of corporate governance that takes the same approach, i.e. codification and legislation of the work of economic institutions where corporate governance maintains a balance between economic and social goals and individuals and society goals. The aim is convergence between the interests of individuals, companies and society as a whole. However, in light of weak accounting systems and lack of accountability, there is a difference in the levels of progress towards implementing the principles of corporate governance in public and private administrations, where attention should be paid to the characteristics and differences between these countries, and to the fact that frameworks of corporate governance companies and the required reforms cannot be reviewed independently of the environment in which they operate. Therefore, Arab countries should review their legal systems and revitalize their legislative bodies

continuously with a high degree of transparency, and any country that fails to establish an effective system of corporate governance in an integrated legal framework will somehow fail to attract the local and foreign investors, since the law clarifies the shareholders' rights and the requirements of an effective accounting system. Accordingly, focus on the legal and legislative framework is a way to improve the good quality of institutions and ensure the minimum commitment.

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