

Market efficiency in the Gulf

How do the GCC markets compare with more developed economies in terms of market efficiency? Not too well, according to this author, though recent developments have been encouraging.

Perhaps one of the most discussed topics in corporate finance is Efficient Market Hypothesis. In a developed market such as the United States, that discussion centers on the strength of market efficiency. But in emerging markets such as the Middle East, and the Gulf Cooperation Council (GCC) countries in particular, where the securities markets have not kept pace with the spectacular growth witnessed in the last few years, the question is more whether Efficient Market Hypothesis holds at all in the region.

Impeding factors

A major factor that impacts market efficiency in the GCC is ownership restrictions. All public joint stock companies listed on the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX) for example, have to be 51% owned by UAE nationals. The remaining 49% are further subdivided among non-GCC Arabs and non-Arabs. Of the total 69 companies listed on the ADX, 53 have an average foreign ownership (primarily Arab) of only 14%. The remaining 16 companies do not have any foreign ownership at all. Considering that foreigners make up over 80% of the United Arab Emirate's population of around 6.9 million, the prices quoted for a sizeable percentage of the stocks only reflect the views of a small minority of the population. Albeit, this may well be consistent with where the local wealth lies.

Another important factor prevalent in the GCC markets and that is common to emerging markets, has to do with the availability of financial and other relevant information. Pertinent information that is available in an efficient and timely manner is essential to the proper functioning of the market as it provides investors with the basis with which to form their decisions. An April 2010 study by The National Investor (TNI), a UAE-based investment bank, mentions that the majority of companies in the GCC do not announce the release date of annual reports in advance. Furthermore, many of them do not publish annual reports in English, often

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the functional business language of most of the region. Another factor that impacts decision-making is the level of analyst coverage and in the GCC, only 26% of listed companies have analyst coverage.

Impact on the markets

A direct consequence of these impeding factors could be the low trading volumes observed in a majority of the listed securities. Many companies trade only a few days a year, which can result in stale prices. Most major exchanges have witnessed an increase in volumes over the last few years, however exchanges in the Middle East have not, except in a limited number of stocks. On the DFM, by way of example, three stocks only accounted for almost 53% of the total volume traded in Q1 2010, to which the real estate company Emaar contributed 43% of the total traded value.

The volume of trade on the regional exchanges is further affected by the lack of short selling and equity derivative products. The use of such products has been limited to Kuwait, which has offered some derivatives for years, and more recently in the UAE (2005) with the Dubai Gold and Commodities Exchange, which offered metals and currency futures and options. The use of short selling and derivative products further incorporates the market's view, thus leading to better pricing of the securities. The UAE regulators were considering introducing these features a couple of years back though the global financial crisis put a hold on such plans. There are now reports suggesting that the Securities and Commodity Authority is considering these once again.

In addition to structural factors, a distinct characteristic of the GCC market is the demography with a significant proportion of the population made up of expatriates. Their "temporary" stay in the country leads to what behavioural finance terms as "home country bias", wherein people are more comfortable investing in securities with which they are familiar and comfortable i.e. those in their "home country". This of course further impacts demand and consequently, pricing.

If the basic tenet of efficient markets is that prices are the result of the market's view of a company's risk and prospects based on all publicly available information, then there are several factors that lead one to suggest

that the Middle East markets have some way to go before they come into line with more developed markets around the world. However, the Middle East markets have already come a long way and with further developments such as the recent announcement that Mubadala will look to IPO investments, albeit in 5 to 8 years' time, and with the continued focus on the development of transparency levels and the adoption of IFRS, interesting times lie ahead for exchange markets as the Middle East continues to close the gap. In the meantime, from a valuation perspective, speculators need to be as ever aware of these factors and apply a greater degree of subjectivity when dealing with the valuation of regional companies.

by **Ben Moore**, managing director, Valuation services, Deloitte Corporate Finance Limited



A not too efficient market, but the Middle East continues to close the gap.



Have governments been quicker than corporations to advance talented women?

Yes, but the Middle East still
has a long way to go

“The best clue to a nation’s growth and development potential is the status and role of women.”⁽ⁱ⁾

David S. Landes



Debates on the value of diversity and the empowerment and advancement of women have raged for centuries, but when it comes to gender equality, few achievements can compare with the rising role of women in government worldwide.

Paths To Power, a March 2010 report by Deloitte and Forbes Insights, reveals that women worldwide are rapidly advancing in the public sector, making government a leading example for businesses. The study reported that women hold chief executive and presidential positions in only 3% of the world's top 1,000 companies, yet almost 10% of United Nations countries now have women heads of state, a huge increase from the three female heads of state in 1975. Women also hold about 20% of parliamentary seats worldwide, nearly double that of 1995's 11.3%. However, only 9.4% of all jobs than higher Vice President at Fortune Global 500 companies are women.

Women are advancing faster in government than in business, but some countries are advancing faster than others and the report makes clear that women continue to have a low political impact in most parts of the world.

A Middle East snapshot

In the Middle East, women's gains and their leadership on public sector platforms remain unrecognized and uneven although they are entering politics and government in growing numbers. Despite their increased representation, they continue to be significantly under-represented in senior positions in politics as well as in the private sector.

Women in the Middle East have been at the core of governments' development work for a number of years, a very needed focus as on average, only 28% of the adult female population in the Middle East is

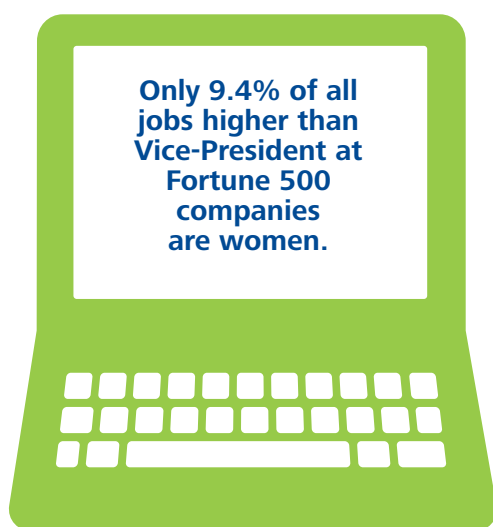
economically active, the lowest rate in the world. While this statistic is consternating, in nearly all Middle Eastern countries, women today are better represented and are beginning to play a more prominent role in the workplace than was the case in the year 2000. This appears to be the result of increased literacy and educational opportunities, slowly changing cultural attitudes and in some countries, government policies aimed at reducing dependence on foreign labor.

An 18-nation study, Women's Rights in the Middle East and North Africa, 2010, led by Freedom House, found that while on the whole, Middle Eastern women still suffer from a "substantial deficit in women's rights", 15 of 18 Arab countries have seen increases in women's literacy rates and suffrage over the past five years. The study noted that GCC countries have demonstrated the greatest degree of improvement, shrinking the gap between them and the rest of the region on some issues. The most significant achievement occurred in Kuwait, where women received the same political rights as men in 2005, enabling them to vote and run for office and paving the way for the election of the country's first female members of parliament in 2009. In the United Arab Emirates (UAE), eight women were appointed and one secured election to the 40-member Federal National Council (FNC), an advisory body to the rulers of the seven emirates. In Bahrain and the UAE, the first women judges were appointed in 2006 and 2008, respectively. In other countries, such as Oman and Bahrain, the government has appointed an increasing number of women to unelected positions, including cabinet and diplomatic posts. In Egypt, to increase women's representation in the legislature, a gender-based quota system for the lower house of parliament was passed in 2009 and is scheduled for implementation in 2010. A quota for women was introduced for municipal elections in Jordan and Lebanon among other

countries in the region. In general, women have become more visible participants in public life, education and business throughout the region, including Saudi Arabia.

Progress is occurring, but at a pace that is still too slow and what looks like progress may actually be deceptive as increased female participation in Middle East governments does not necessarily translate into more women in decision-making roles, where they have opportunity to advance, affect change and influence policy.

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More progress in the public sector in the Middle East will serve as a model for the private sector

A critical mass of women in leadership begets more women in leadership. Evidence suggests that once female representation reaches critical mass – commonly cited figures hover around one-third as the tipping point – their shared interests as women emerge. Countries where efforts to include women at the highest levels of government have been most successful have reaped rewards in the private sector as well. The increasing number of women in public service creates a critical mass essential to the continual empowerment and advancement of women in their societies: simply put, women in power begets more women in power.

There is a need to harness and continue to mine the wealth of female talent to improve the competitiveness of Middle Eastern countries

Talent is the most important natural resource a nation can possess and knowledge is the most valuable currency in the 21st century economy. Therefore, it is key to continue to advance the most talented women to decision-making levels as women are rapidly matching, or overtaking, men in terms of education in many parts of the world. More women than men in many countries in the Middle East are now likely to attend university, in some countries, by a wide margin. There are more women entrepreneurs, more women doctors, more women PhDs, and more women in universities than ever before. However, substantial roadblocks remain for women pursuing careers. Participation by women in senior roles translates to greater financial rewards in both public and private sectors: the top 500 multinational firms, which had at least three women on their boards, saw a 16.7% return on equity while average companies just saw an 11.5% return. The greater the number of women, the greater the difference -- those with the greatest number of women on their boards had 53 percent greater return on equity than those with the fewest.

Organizations in the public sector in the Middle East can address gender disparity through different tools

Recruitment rates, promotion rates, turnover rates, assignment and leadership appointments, are some of the critical metrics that can be adopted. Organizations in the public and private sectors have to establish an institutional approach to the advancement and retention of women. They can raise the profile of women through established networks, where women get to meet and be mentored by other women through organized networking and mentoring events. They can also promote work-life integration by helping women



40% of the workforce is women

accommodate their public role with their demands at home by providing accessible childcare and other support networks.

Numbers are also crucial for the inclusion of women in the public and private spheres. Introducing quotas for female representation has been often used as one of the most effective methods for increasing female representation in the public sector.

It is not enough to hold public office

Capacity-building for governance is essential not only for women but for men as well. It is not enough to be elected or to be appointed to government service without the ability to exercise that responsibility effectively. To address this need, Middle East governments need to invest in programs to strengthen the skills and leadership abilities of women and men parliamentarians and other elected officials.

Middle East governments as leading example for businesses

Women’s progress has vital implications for the health and growth of companies, governments and nations. On the frontlines of moderation, women are often the strongest advocates for positive political, economic, educational, legal and social reform. There are still few female role models in our region to encourage younger generations and entry barriers like gender prejudice, cultural pressures and a lack of resources often stand in the way.

In the final analysis, the struggle of women to reach senior levels cannot be seen as simply a “women’s issue,” but rather one of talent and economic development: women’s progress has vital implications for the health and growth of Middle East governments, companies, and countries.

Deloitte is not only a signatory of the UN Global Compact, the corporate code of conduct focused exclusively on empowering, advancing and investing in women worldwide, but was also involved in an international multi-stakeholder consultation process for crafting the UNIFEM’s and the UN Global Compact’s “Women’s Empowerment Principles - Equality Means

Business.” Organizations in both the public and private sectors in the Middle East should review its principles and recommendations in adopting appropriate strategies to address gender disparity.

Women’s Empowerment Principles

- Establish high-level corporate leadership for gender quality
- Treat all women and men fairly at work—respect and support human rights and nondiscrimination
- Ensure the health, safety and well-being of all women and men workers
- Promote education, training and professional development for women
- Implement enterprise development, supply chain and marketing practices that empower women
- Promote equality through community initiatives and advocacy
- Measure and publicly report on progress to achieve gender equality

By **Rana Ghandour Salhab**, ME Talent partner, Deloitte in the Middle East

(i) Landes, David, *The Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor*. New York: W. W. Norton & Company Inc., 1998.

Sources

- Paths to Power: Advancing Women in Government, published by Forbes Insights and Deloitte, March 2010. Available at: www.deloitte.com/pathstopower.
- Freedom House, *Women’s Rights in the Middle East and North Africa 2010* - March 2010, available at: <http://www.unhcr.org>.
- The Women’s Empowerment Principles are a set of Principles for business offering guidance on how to empower women in the workplace, marketplace and community. They are the result of a collaboration between the United Nations Development Fund for Women (UNIFEM) and the United Nations Global Compact. The development of the Principles included an international multi-stakeholder consultation process, which was launched in March 2009: http://www.unglobalcompact.org/Issues/human_rights/equality_means_business.html.

11%

of the 195 nations have female heads of state

3%

of CEOs of top 1000 multinational companies are women