

The Fourth Meeting of the Eurasian Corporate Governance Roundtable

29-30 October 2003, Bishkek

Opening Remarks by Rainer Geiger, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

Ladies and Gentlemen;

It is a great honour for me to provide a few opening remarks to this fourth meeting of the Eurasian Roundtable on Corporate Governance.

I am pleased to see that - once again - this Roundtable has brought together so many distinguished policy makers, private sector representatives and other experts from across the region; from OECD countries, and from various international organisations. Your presence confirms that improving corporate governance remains a priority in this region.

Let me first of all thank our co-organisers, the World Bank, and the Global Corporate Governance Forum, who have contributed so much in developing and supporting this Roundtable, our co-hosts, The Corporate Development Centre (CDC) and The State Commission on Securities Markets of the Kyrgyz Republic, for their kind hospitality and efficient assistance in preparing for this meeting. I would also like to thank our generous sponsors for their support: the Asian Development Bank, the Government of Japan, the International Finance Corporation, the Canadian International Development Agency and the State Secretariat for Economic Affairs of Switzerland.

The Roundtable Process

As you are all aware, this meeting of the Roundtable is one step in an ongoing process that began in Kiev three years ago. It is a process where the countries of Eurasia have shown a commitment to the ongoing reform of their corporate governance structures and have taken leadership in developing those reforms.

The Eurasian Roundtable is also part of a global process. It forms part of a family of Regional Roundtables around the world. Similar roundtables have been established in Asia, Latin America, Russia, and Southeast Europe. While they all have their focus on aspects of particular importance to the different regions they all use the OECD Principles of Corporate Governance as the framework for discussion.

Over the last four years, the Roundtables have proved to be a critical forum for policy-dialogue and exchange of experiences between policy makers and other experts, in the process illuminating the specific challenges of the different regions. As part of this process, the other regions have developed White Papers that provide action plans for ongoing policy reform. The

Russian Roundtable completed its White Paper in 2002, and the Asian and South East Europe Roundtables theirs earlier this year. The Latin American White Paper will be launched next month. As you know, this Roundtable is producing a Comparative Overview of Corporate Governance in Eurasia that will be released early next year.

The coalitions formed through the Roundtable process will of course continue to work together to further corporate governance reforms. I believe the strength of this exercise is continuity and commitment to follow our intentions through. To also implement and enforce what needs to be done is a major ingredient of success. The OECD experience is that reforms do not happen over night and require our constant attention.

The Importance of Corporate Governance in Eurasia Today

Globally, corporate events over the last two years have confirmed the importance of good corporate governance practices. Reassuring the confidence of domestic and international investors has never been more important to ensure a good investment climate.

Even the world's seemingly most successful companies, in the world's most advanced economies, can suffer from severe corporate governance failures that destroy substantial wealth for investors and employees. Such failures naturally breed a certain scepticism towards corporations as a whole. The best way to address this scepticism is to take direct, substantive action to hold managers and board members accountable, protect the rights of stakeholders, and of course greatly improve corporate transparency and disclosure.

In Eurasia the development of the corporate sector is still very much a work in progress. In some countries privatisation has created thousands of joint-stock companies with millions of shareholders. In others, the state still dominates ownership, and state appointees control most major companies. While the basics of company law and securities regulation exist in all countries in the region, implementation has lagged and sometimes substantial gaps remain.

Improved corporate governance is essential if Eurasian companies are to be managed effectively, have access to capital, and allocate that capital to its best uses. Improving corporate governance will also involve reforms that are in many cases essential in and of themselves. This includes increasing the capacity of the judiciary, bolstering civil society and non-governmental bodies such as stock exchanges and shareholder organisations, and more generally reducing corruption and improving public governance.

The Fourth Meeting of the Eurasian Roundtable

The subjects that we will discuss over the coming days are two of the most fundamental issues in terms of the functioning of an economy's corporate sector.

A competent board of directors, free of conflicts of interest, can help protect shareholders, ensure compliance with laws and regulations, and provide useful guidance to management on areas of strategic concern. They can create substantial value for companies, their shareholders, and their stakeholders.

Our sessions on the board should provide useful guidance on a range of issues, including the board's role in related party transactions, how to improve board professionalism and training, and how to better enforce board member duties and legal obligations. These are important issues for Eurasia, and we will certainly gain a better understanding of the functioning of boards, and what steps can be taken to improve the effectiveness of this critical company organ.

Stakeholders and their role in the company is clearly a fundamental issue, and our discussions here can only touch on those issues that are most directly relevant to corporate governance. Our main concerns will be how the rights of stakeholders can be effectively respected and how employees and other key resource providers to the corporation can become active participants in the process of wealth creation.

Creditors will not lend, and employees will not be motivated to perform, if they feel that their rights are not being respected. The scarcity of external finance for Eurasian companies makes creditor protection particularly important. In many other emerging market economies, the main protection for creditors—bankruptcy law—is rarely used, and used at great cost in terms of time and resources spent in the judicial system. Our limited information indicates this is also a serious problem in Eurasia. Establishing good governance *for* financial institutions is also essential to ensure that scarce financial capital is allocated efficiently.

In turn, the presence of worker councils and widespread employee ownership in many countries in the region imply that employees should be playing a significant role in the governance of the companies they work for. This does not seem to be the case. In fact, there have been some notable abuses, for example executives voting the shares of their employees. Hopefully our sessions will provide us with a better idea of how to maintain good relations with these important stakeholders, an achievement that can leave both shareholders and stakeholders better off.

I would like to conclude by expressing my belief that we will make real progress on both of these critical issues over the next days. I am convinced that your active participation in the Roundtable will allow for productive discussions and lay the groundwork for continued improvements in corporate governance in Eurasia over the years to come. While the OECD, the World Bank and the Global Corporate Governance forum assist in the organisation of these Roundtable meetings, the real work lies with you. I'm very impressed with your achievements so far and can assure you of our support in this important exercise.