

The 2006 South East Europe Roundtable Meeting on Corporate Governance

Corporate Governance Developments in SEE

Session 1

Alexander Karpf
Corporate Affairs Division, OECD

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Outline

- Introduction
- Main Findings
- Key Priorities I - VI
- Possible Areas of Focus for Future Work of RT
- Next Steps

Introduction

- **White Paper 2003**
- **Phase II** of the Roundtable – Implementation and Enforcement
- Questionnaire based on six **Key Reform Priorities**
 - **Overall progress**
 - **Key developments**
 - **Obstacles**
 - **Priorities** for the future
- **20 Respondents** (out of 26 approached) from private sector and authorities
- **No scientific process**, no ranking of countries, but indicator of progress and lack of progress
- Objectives are to **update** on status-quo and future projects in CG area and to **identify priorities** for the follow-up work of the SEE Roundtable

Main Findings

- **SEE White Paper** and **OECD CG Principles** benchmarks in reform process both for regulatory and private-sector initiatives
- **Raising awareness** among all stakeholders regarding importance of CG still important issue
- **Legal framework** is **advanced** – **implementation and enforcement** were **weak**
- **Governments overwhelmed** by extent of reforms necessary – **self-regulatory efforts** to complement and further reforms **not fully exploited**
- **More co-ordination** among national and international drivers of CG projects needed
- **Underdeveloped capital markets** – **illiquid** exchanges – **no incentives** for new listings – **bank lending dominant** source of raising capital
- **Foreign shareholders** frequently **hesitant** in pushing for good CG in SEE companies

Key Priority I – Strengthening of Regulatory Authorities

- **Little/some progress**
- **Key developments**
 - Reform-strategy on the judiciary (FYROM)
 - On-line access to case law (Romania)
- **Obstacles**
 - Limited or no (financial) sanctioning powers of regulators in CG field
 - Lack of qualified staff
 - Resistance to reforms from within the judiciary
 - Lack of trust in effectiveness of enforcement
- **Priorities for future**
 - Safeguards for independence of regulators and judiciary
 - Better co-operation between regulators and courts
 - Build trust between authorities and private sector -Improving consultation practices of regulators
 - Need for arbitration and other ADR for cost-effective enforcement

Key Priority II – Commitment of the Private Sector

- **Little/some progress**
- **Key developments**
 - CG codes (Croatia, FYROM, Serbia) and requirement of CG programmes of listed companies (Bulgaria)
 - Launch of CG Institute (Romania) and CG Forum (Albania)
 - CG award (Bulgaria)
- **Obstacles**
 - Many companies not voluntarily public, but because of mass-privatisation
 - Lack of institutional investors for driving reforms in companies
 - “Good CG” tiers of stock exchanges not increasing investors’ interest
- **Priorities for future**
 - Cleaning-up of markets
 - Explain benefits of good CG to companies in a better way
 - Support efforts to create CG code

Key Priority III – Better Training

- **Little/some progress**
- **Key developments**
 - Increased number of training programmes for key stakeholders (Albania, FYROM, Montenegro)
 - Launch of CG Institute (Romania)
 - Lawyers' and accountants' associations advanced in their training programmes
- **Obstacles**
 - Lack of interest of the private sector in taking part in training (“I know it anyway”-attitude)
 - Lack of training programmes taking into account local characteristics
 - Limited number of courses at universities specifically dealing with CG issues
- **Priorities for future**
 - Better co-ordination by entities providing training
 - Enhance local capacities for training
 - Raise awareness as to need for better training

Key Priority IV – Minority-Shareholder Protection

- **Some progress**
- **Key developments**
 - Company Act fully or largely in line with White Paper (FYROM, Bulgaria)
 - Takeover Acts in place with protection of minority shareholders (FYROM, Croatia, Republica Srpska)
 - Out-of-court redress mechanism for small shareholders (Serbia)
- **Obstacles**
 - Unclear rules on related-party transactions and insider transactions making enforcement difficult
 - Effects of mass-privatisation
 - Protection of shareholders of non-listed companies considerably reduced compared with listed companies
- **Priorities for future**
 - Educational efforts targeted at small shareholders
 - Establishment of effective shareholders' associations and low-cost redress mechanisms
 - Sufficient investigatory and sanctioning powers for regulatory authorities

Key Priority V – Reinforcing Boards

- **Little progress**
- **Key developments**
 - Requirement of independent directors and criteria for independence (Bulgaria, Serbia)
- **Obstacles**
 - Majority shareholders regard board members as their “delegates”
 - Lack of understanding of function and role of boards
 - Specialised committees exceptional
 - Concentration of ownership
 - Board members rarely taken to court for breach of fiduciary duties
 - State-ownership
- **Priorities for future**
 - More training
 - Raise awareness among boards and shareholders

Key Priority VI – Convergence with International Standards and Practices for Accounting, Audit and Non-Financial Disclosure

- **Some progress**
- **Key developments**
 - Applicability of IFRS (Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYROM, Romania)
- **Obstacles**
 - Shortage of qualified accountants and auditors
 - Disclosure of non-financial information not satisfactory
 - Translation of international standards often not by experts in this field
 - Different accounting standards for financial institutions and listed companies result in inconsistencies
- **Priorities for future**
 - More effective financial reporting supervision and enforcement
 - More effective auditor oversight mechanisms
 - Increase number of qualified accountants and auditors

Possible Areas of Focus in Future Work of RT

- **Enforcement**
- **Dialogue with companies** in the work of the RT (more input + raising awareness among companies as to need and benefits of good CG for companies)
- Ways and means to **improve shareholders' knowledge** about corporate governance
- Corporate governance of **state-owned enterprises**
- **Disclosure** of financial and non-financial information
- **Regular up-date** on status of implementation of White Paper recommendations and subsequent **publication** of results

Next Steps

- Preparation of a **draft work programme** of RT by OECD Secretariat
- **Comments** in writing
- Seek **support** from other entities
- **Launch** of work



THANK YOU FOR YOUR ATTENTION !