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OECD, in co-operation with USAID and the WB.

Transparency and Russian Financial-Industrial Groups
What are Financial-Industrial Groups (FIGs) in Russia?

Problems faced by FIGs (and industrial groups)

Frequent weaknesses (in terms of Corporate Governance)

Perspectives

Annexes: Lists of Financial-Industrial Groups
• What are Financial-Industrial Groups (FIGs) in Russia (1)?

5 to 10 companies

The Central company
of the FIG

One bank
(sometime a pocket bank)
What are Financial-Industrial Groups (FIGs) in Russia (2)?

**Initial purpose**
- Fostering investment in Industry
- Creating stable organisations, possibly attracting foreign investment
- Compensating for previous links broken during the privatisation process
- Facilitating inside money flows when payments are a major difficulty

**Expected advantages**
(granted by the State as a counterpart for FIGs economic contributions)
- Consolidated status
- Tax exemptions
- Customs benefits
- Direct financial support
- State Guarantee for investment project

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Moscow, 31 May - 2 June 1999
What are Financial-Industrial Groups (FIGs) in Russia?

(Summary of the results of a Tacis technical assistance project in 1998/99)

According to their origin:

Bank-led (ex: Interros/Onexim - Yukos/Menatap)

One company’s (ex: Kontur - Neftekhimprom)

Chains (ex: Don - Slavianskaya Bumaga)

Co-operatives (ex: Tochnost - Soyuzagroprom)
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- What are Financial-Industrial Groups (FIGs) in Russia (4)?

- Other criteria

Registered/Not Registered:
(72 as of 1-98) /
(complete list of 88, including Lukoil - Gazprom - “Berezovski”)

Taxonomy: Vertical - Horizontal - Conglomerates

Other characteristics (By Region, By Size)

Preliminary conclusions: Russian Groups are different from Chaebols and Keireitsu and also different from German or US models

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• Problems faced by FIGs (and industrial groups)

The three major problems are the following:

• The decision making structure and the capital structure are most often not in line (discrepancy is very clear for FIGs, but also frequent in other groups)

• Most groups (either bank-led or conglomerates) lack a clear strategy and managerial instruments.

• Almost all groups lack financial resources
• Frequent deficiencies (in terms of Corporate Governance) (1)

Deficiencies are frequently due to both **internal** and **external** weaknesses

6 major sources of deficiencies:

- Inadequate Accounting system
- Weak legal environment
- Lack of payment system
- Inappropriate Fiscal environment
- Misunderstanding of the rules by managers
- Mafia threats

Information is poor
Procedures are disputable
Control is missing

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• Frequent deficiencies (in terms of Corporate Governance) (2)

Deficiencies are frequently due to both internal and external weaknesses.

6 major sources of deficiencies:

- Inadequate Accounting system
- Weak legal environment
- Lack of payment system
- Inappropriate Fiscal environment
- Misunderstanding of the rules by managers
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• Typical deficiencies (in terms of Corporate Governance) (3)
  (All real examples of misconduct studied during the Tacis project)

  • Issuance of shares without Board or General Meeting approval
  • Issuance of convertible bonds without proper approval
  • Issuance of shares with closed or limited subscriptions
  • Preferential pricing of new shares
  • Price transfer inside the group detrimental to minority shareholders of subsidiaries
  • Asset transfer inside the group detrimental to minority shareholders of subsidiaries
  • Reversal of administrative decision (against the interest of foreign partners)
  • Disputable decision of local (arbitrage) courts (against AGM decisions)
  • Limited access to AGM
  • Refusal by top managers to comply with AGM ’s decision
  • Major decisions by top managers without Board ’s approval
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• Perspectives (1)

Two basic parameters:

• Economic environment

• Top Management choices
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• Perspectives (2)

Economic environment

Legal environment?

Banking system & capital Market?

Accounting and Fiscal regulations?

Mafia Threats?

Russian Industrial Group

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• Perspectives (3)

Top management choices

- Identify strategy?
- Adjust structure to strategy?
- Create holding structures?
- Chose transparency?
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