The views expressed in this paper are those of the author and do not necessarily represent the opinions of the OECD or its Member
Regional Context

- All countries in East Asia, particularly higher income countries, are moving forward in reforming corporate governance as part of improving their competitiveness.
- As countries move toward convergence of basic principles of corporate governance (accountability, transparency and the rule of law), it makes it easier to integrate their capital markets at the regional level.
Regional Context (cont)

- Good governance influences the environment in which firms operate.
- Corporate governance is an important element of good governance and should be promoted as part of a larger reform agenda.
- Corruption often increases uncertainty of the business environment, has a major impact on cost of doing business.
Figure 1: Growth in Physical Capital Per Worker (% per year)

Source: Bosworth and Collins (2003); World Bank calculations.
Fig. 2 Major investment climate constraints

Fig. 3: Confidence that courts will uphold property rights
(% of firms)

Figure 4: Firms that believe interpretation of regulations is unpredictable (%)

Figure 5: Share of Management's time spent dealing with officials (%)

Figure 6: Cost of registering a property as % of property value

Fig. 7: Bribe as Share of firm's sales (%)

- Philippines
- Indonesia
- China
- Cambodia

Corporate Governance Country Assessment (ROSC)

- Since 2000 Indonesia has taken significant steps to address weaknesses in its corporate governance framework.
- Indonesia now has an elaborate system of formal corporate governance rules.
- Equity market as percentage of GDP remains small.
- Major challenges remain.
Context

- Corporate sector is characterized by:
  - Companies with concentrated ownership
  - Controlling shareholders
  - Business culture known to be relationship-based rather than rule-based
  - Enforcement is weak and level of sanctions for violations of laws and regulations may not be adequate
Assessment

- Principle-by-principle assessment using OECD principles as benchmark is, in general, partially observed.
- While the legal and regulatory framework complies with the OECD principles, practices and enforcement diverge.
Key Recommendations

- Strengthen the role of Bapepam as the securities regulator
- Strengthen enforcement of laws and regulations
- Clarify in company law the fiduciary duties of directors and commissioners for violation of securities law
Key Recommendations (cont)

- Consider addressing accountants’ legal liability with respect to third parties in the draft public accountants’ law
- Improve transparency and reliability of financial reports and adequacy of disclosure
- Adopt fully international accounting and auditing standards
- Make accessible on company website annual reports and other relevant company information
Key Recommendations (cont)

- Strengthen process for nomination and selection of independent commissioners
- Improve effectiveness of audit committees
- Further enhance minority shareholder rights
- Intensify training of directors and commissioners, establish an accredited program
Conclusion

Improving corporate governance is a long term process and requires a collective effort by all market participants, including regulators, creditors, institutional investors, directors, commissioners, accountants, and shareholders.

Thank you