

CORPORATE GOVERNANCE IN RUSSIA

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

Transparency and Russian Financial-Industrial Groups

CORPORATE GOVERNANCE IN RUSSIA

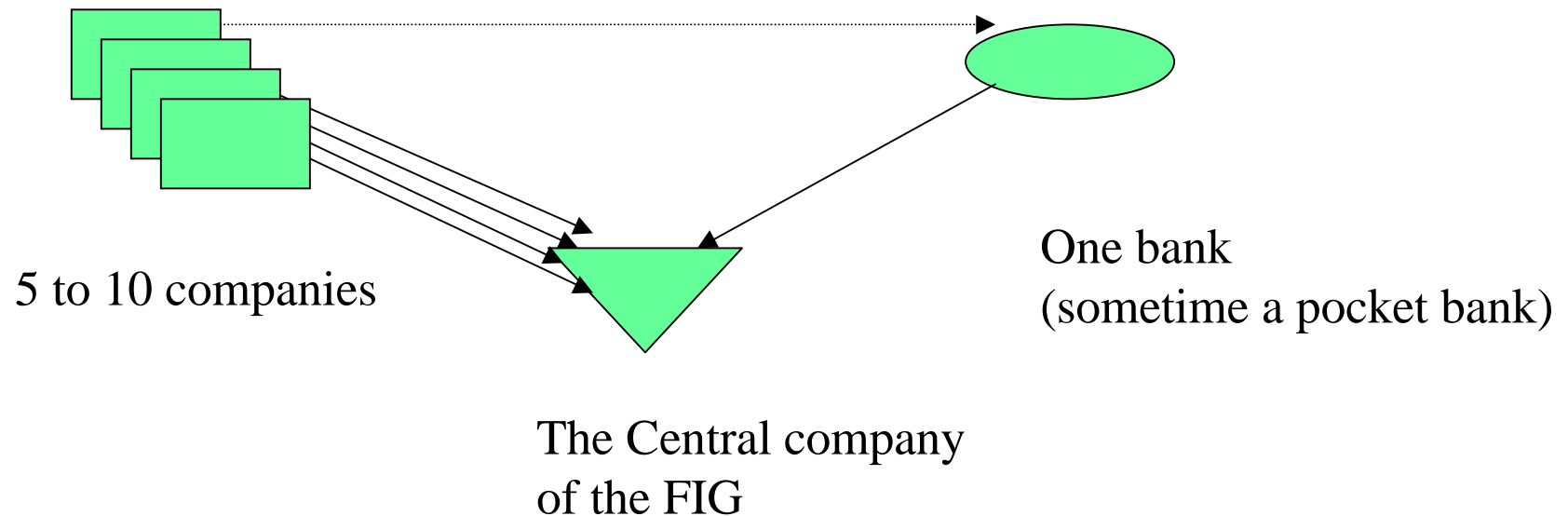
OECD, in co-operation with USAID and the WB.

- 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

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• What are Financial-Industrial Groups (FIGs) in Russia (1)?



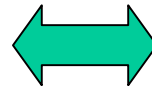
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• What are Financial-Industrial Groups (FIGs) in Russia (2)?

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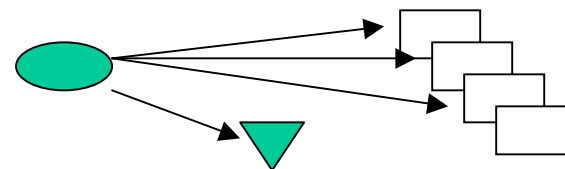
OECD, in co-operation with USAID and the WB.

• What are Financial-Industrial Groups (FIGs) in Russia (3)?

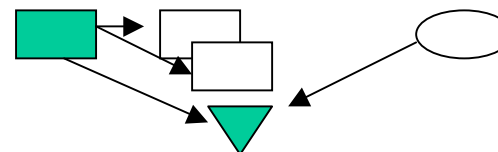
(Summary of the results of a Tacis technical assistance project in 1998/99)

• According to their origin:

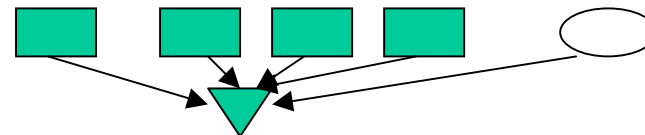
Bank-led (ex: Interros/Onexim - Yukos/Menatep)



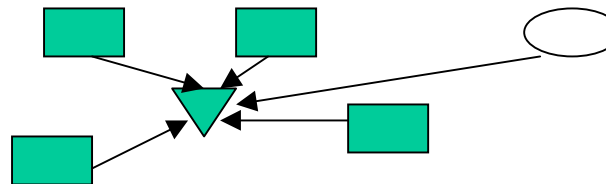
One company's (ex: Kontur - Neftekhimprom)



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

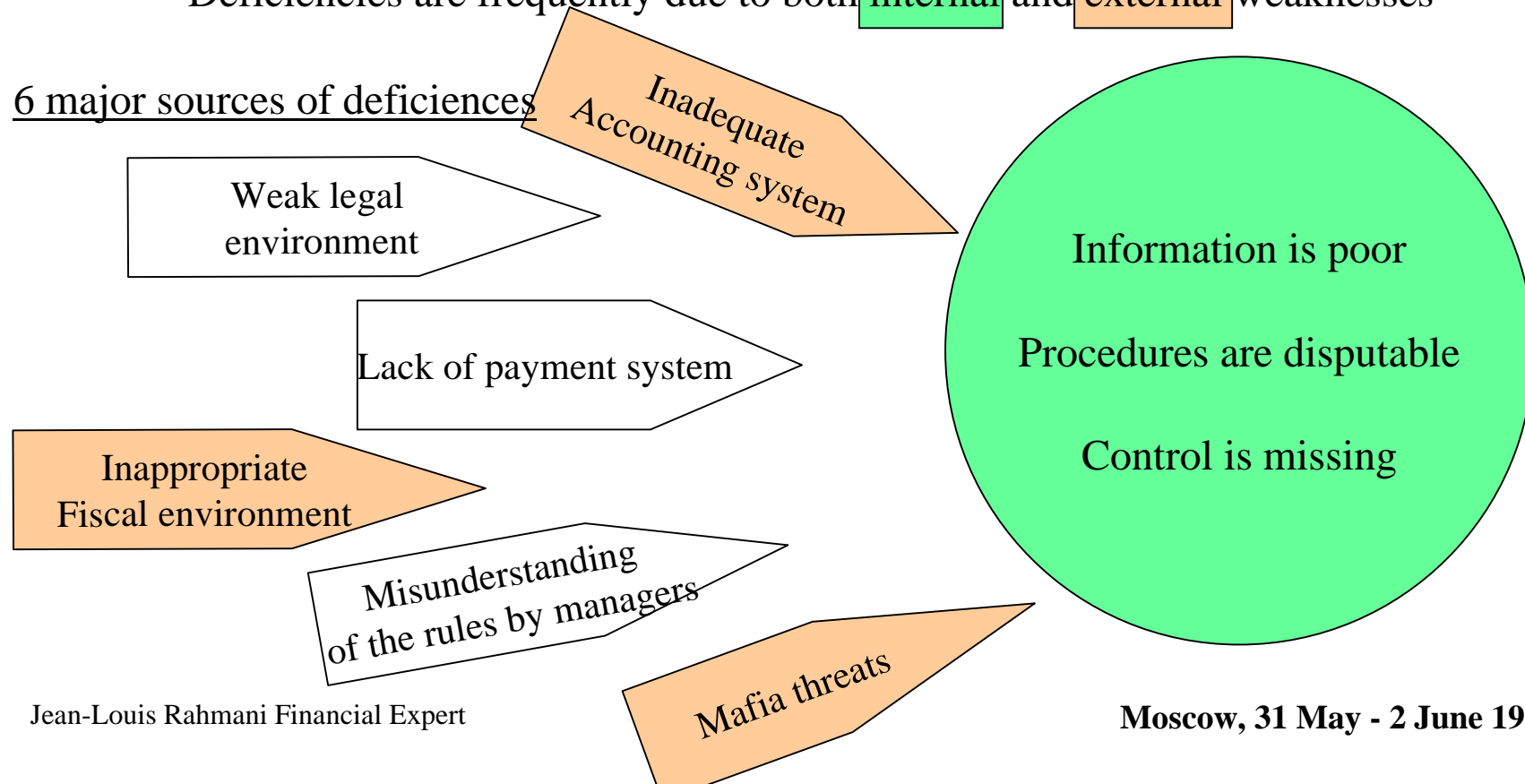
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- Frequent deficiencies (in terms of Corporate Governance) (1)

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

6 major sources of deficiencies



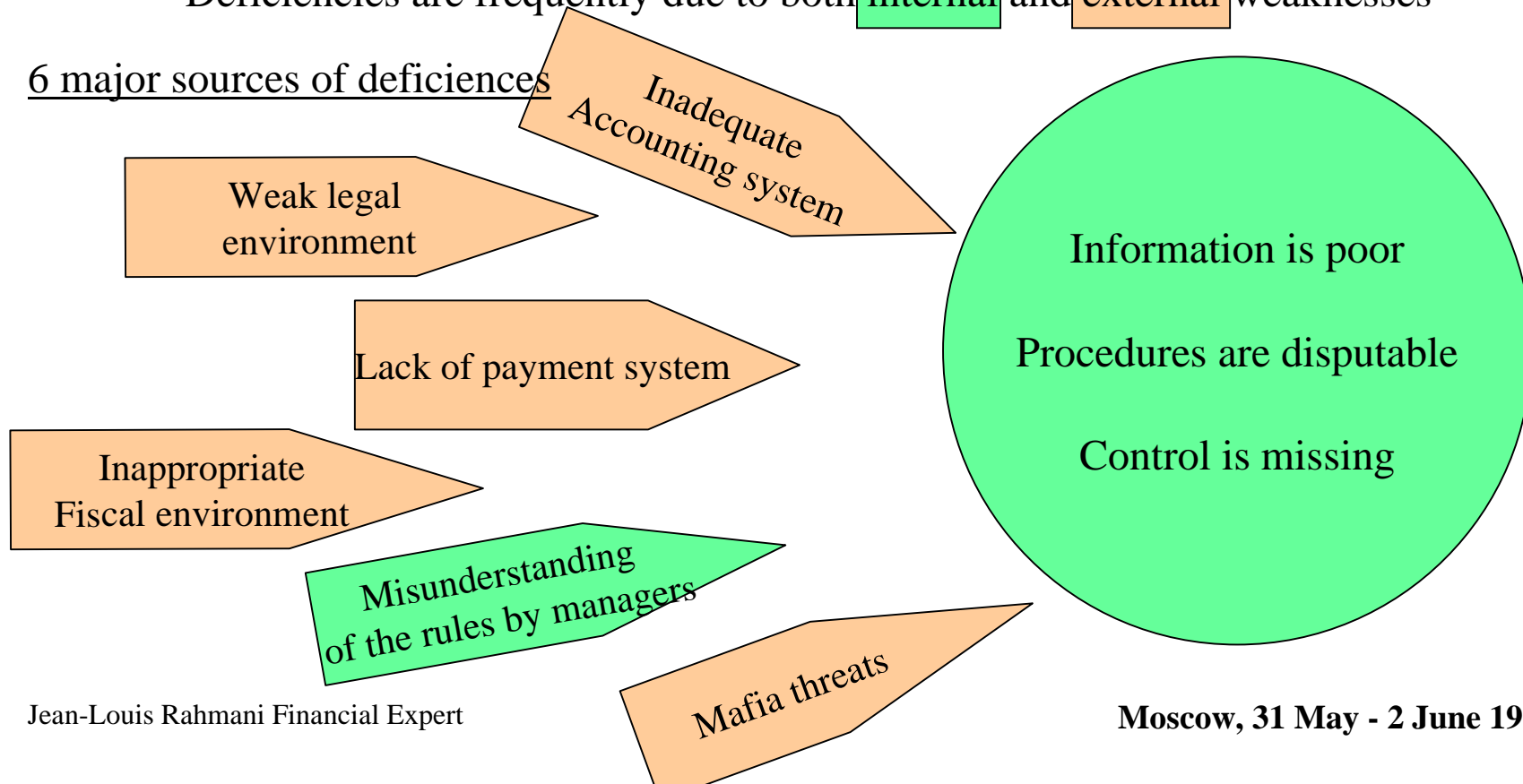
CORPORATE GOVERNANCE IN RUSSIA

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

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

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

6 major sources of deficiencies



CORPORATE GOVERNANCE IN RUSSIA

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• Typical deficiencies (in terms of Corporate Governance) (3)

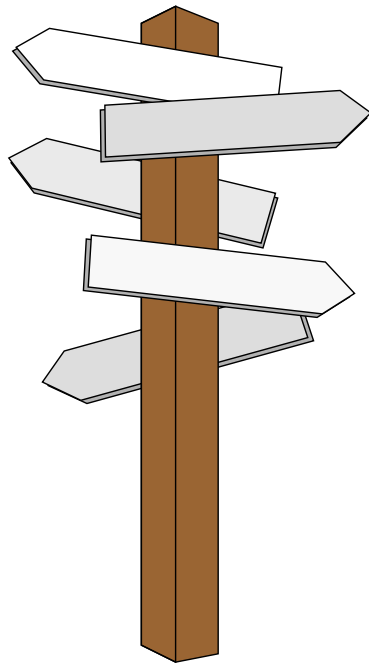
(All real examples of misconduct studied during the Tacis project)

- 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 ?

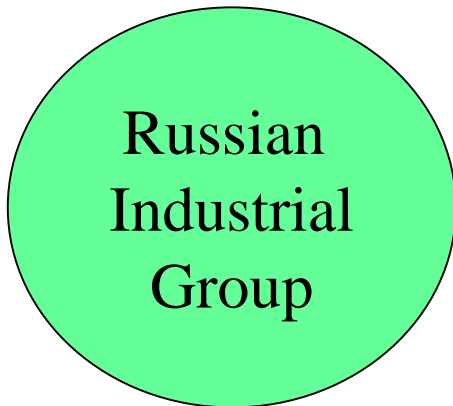
Russian
Industrial
Group

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• Perspectives (3)

Top management choices



Identify strategy ?

Adjust structure to strategy ?

Create holding structures?

Chose transparency ?

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