

4th Meeting of the Eurasian Corporate Governance Roundtable

Keynote Speech (4 min)

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Mr. Chairman, dear colleagues and friends,

It is a great pleasure and honor for me to deliver a keynote speech on behalf of Asian Development Bank at the beginning of this Roundtable. It a pleasure and honor for three particular reasons:

- First, it is important that this Roundtable on Corporate Governance is taking place at all.
- Second, it is very fortunate that it is taking place in Central Asia, and,
- third, it is very pleasant that it is taking place in Bishkek.

The reason why I think that the Roundtable is so important is that it will contribute to raising the profile of the topic *Corporate Governance* and also help to deepen the understanding for corporate governance. Without a higher profile of and deeper understanding for corporate governance, it might be possible to strengthen some more laws and regulations, and bring them fully in line with international standards. However, it will continue to be very difficult to persuade companies to effectively adopt these standards. In fact, implementation and enforcement of laws and regulations on corporate governance is doomed to fail, as long as a critical number of managers, shareholders, judges and the general public does not understand what corporate governance is about and what corporate governance is good for. So, we urgently need to talk about corporate governance more frequently, and the Roundtable is giving us opportunity for doing so.

In this context, it is very fortunate that our Roundtable is taking place in Central Asia this time. The reason being that the economies in this region would especially benefit from improving corporate governance. One thing has to be understood: Good corporate governance is no end in itself. It is a means to an end. And the end, or objective is to improve the enterprises' access to finance; and when I say finance, I mean both, finance in form of bank credits and finance in form of direct and portfolio investment. With better access to finance, companies would be in a much better position to invest, and with higher investment into viable projects, economic growth would be higher. This is what corporate governance is good for.

It is, unfortunately, a fact that too many medium-sized and large joint stock companies in the region have yet to adopt good corporate governance. With poor corporate governance that does not, among other things, hold the management of these companies accountable for the misuse of companies' resources, it goes without saying that these companies have considerable difficulty in getting credits. For the same reasons, the enterprises I am talking about have almost no access to direct or portfolio investors, particularly because poor corporate governance in these enterprises fails to protect shareholder's rights. In other words, unless corporate governance is strengthened, investors' confidence will remain weak.

There are certainly other factors that need to be mentioned, whenever we discuss the access of firms to finance, like, for instance, inadequate financial disclosure or difficulties with enforcing credit- or ownership rights through the court systems. Still, the importance of corporate governance should never be underestimated, the more so, as poor corporate governance will likely aggravate the two additional problems I mentioned.

I have mentioned initially, that it is a pleasure that our Roundtable is taking place in Bishkek. This is not only because Kyrgyz Republic is a very hospitable country, which I know from many visits. It is also because the Kyrgyz authorities have gone a long way in improving corporate governance in this country, and, therefore, have a lot of experience to share. ADB has been given the chance to support Kyrgyz Republic in the area of corporate governance over many years. Starting in 1996, a first Corporate Governance and Enterprise Reform Program Loan was provided. Our Second Corporate Governance Program is still ongoing. In the interest of time, I do not want to mention all the projects, through which technical assistance was provided - mostly in form of grants - to support the corporate governance reform initiatives of the Government and National Bank. Let me only mention some components of the Corporate Governance and Enterprise Reform Program II, to give you an idea how many areas need to be covered to improve corporate governance: Under the Corporate Governance Program II, together with the Kyrgyz authorities,

- we have been strengthening several laws, including the JSCs law, LBBA, bankruptcy laws, and a number of laws that define credit relations;
- we are also covering state representation in SOE;
- we are supporting capacity building in institutions responsible for good corporate governance, such as the CDC and SCSM, which are the esteemed co-hosts of our Roundtable;
- we are promoting judicial reforms and also public awareness programs; and
- we are trying hard to directly support enterprise restructuring and resolution.

However, among the key areas of corporate governance are certainly all the issues that will be discussed during this Roundtable, namely the Responsibilities of the Boards of Directors and the Role of Stakeholders in Corporate Governance.

I wish you all interesting presentations, open and lively discussions, and deeper insights.