

# The 2006 South East Europe Roundtable Meeting on Corporate Governance

## *Corporate Governance Developments in SEE*

### Session 1

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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 !**