



Organisation for Economic Co-operation and Development
In co-operation with the World Bank Group

SECOND SOUTH-EASTERN EUROPE CORPORATE GOVERNANCE ROUNDTABLE

"Transparency and Disclosure"

Meeting Hosted By
The OECD Centre for Private Sector Development
and
The Turkish International Co-operation Agency (TICA)

Sponsored By
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Opening Session: Welcoming remarks

Rainer Geiger, Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD

**Welcoming Remarks by Rainer Geiger,
Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD**

Ladies and Gentlemen, Dear Colleagues,

It is a great pleasure for me to welcome you to this second meeting of the South East Europe Corporate Governance Roundtable. I am pleased to see once again so many distinguished experts and policy makers from across the region, from OECD countries and from various international organisations. This attests to the importance of the issues that you are here to work on. It is also a further evidence of the commitment of the international community in support of the process of reconstruction, and economic and social transformation, taking place in South Eastern Europe.

First of all, I wish to thank all those who made the effort to join us here today. I want also to thank the Turkish government and more precisely the Turkish Agency for International Co-operation (TICA) for co-hosting this event as it usually does for the Istanbul OECD Centre for Private Sector Development. I want also to thank the Istanbul Stock Exchange for kindly inviting all the participants to this Roundtable to visit its premises and having a cocktail tonight. And last but not least our deepest gratitude to Germany and the Deutsche Gesellschaft für technische Zusammenarbeit whose support is essential in making this regional initiative on corporate governance a reality.

Over the next two days you will engage in focussed technical discussions on ways and means to improve corporate governance, and more precisely on how to improve transparency and disclosure. In this brief introduction, I wish to say a few words on the wider context in which your work takes place, so as to underline that this meeting should not be seen as an isolated event. I will then elaborate on why regional co-operation is important and why the OECD is well-suited to help your countries to carry out this regional co-operation. Finally, I will say a few words on the importance of transparency and disclosure, the focus of our Roundtable today.

Which larger initiatives or efforts does the SEE Corporate Governance Roundtable belong to?

The first point I would like to make in these opening remarks is that this meeting is a contribution to two important ongoing processes in the OECD's perspective.

First, it is part of OECD's contribution to the **concerted effort of the international community in support of South Eastern Europe**, mainly through our participation in the workings of the Stability Pact. More specifically, this Roundtable is one activity developed by the Compact for Reform, Investment, Integrity and Growth. The Investment Compact can be seen as a checklist of policy areas where reform is needed not only to attract foreign direct investment (FDI) but also to foster domestic investment and the development of the private sector. Together with Austria, the OECD is in charge of co-ordinating the design and implementation of this Investment Compact. After two years of activity, country diagnoses have been done on all concerned policy areas and policy recommendations were adjusted to country specificity. The Investment Compact will now focus on monitoring the implementation of the policy recommendations.

Second, this Roundtable is part and parcel of the **OECD's contribution to a global effort at improving corporate governance world-wide**. Indeed, the countries in South Eastern Europe are not alone in struggling for improving corporate governance. Your meeting is part of a global effort, world-wide, which concerns OECD member countries as well as non-members. Indeed, the OECD Principles of Corporate Governance, on which your discussion will be based, were developed through a comprehensive process involving all relevant actors in OECD countries and in non-Member countries as well. However, more important than drafting or adopting Principles is actually making use of them. As my colleague from the World Bank will surely develop, the OECD and the World Bank have now established Regional Corporate Governance Roundtables in many regions of the world: in Asia, Eurasia, Russia, and Latin America. While each Roundtable reflects regional circumstances in developing reform agendas, the Roundtables are all structured around the OECD principles. They form part of a larger global dialogue. We are pleased that South Eastern Europe has joined last year in this global endeavour. And, as other regional Roundtables, this one is financially supported by the Global Corporate Governance Forum, a joint OECD-World Bank endeavour, which activities will be presented during the last session of this meeting.

Why regional co-operation is important and what is the OECD comparative advantage in this area?

The second point I would like to make in these opening remarks **is the importance of regional co-operation** for reform, and what I would call the "comparative advantage of the OECD" in this regards.

Indeed, in order to reap all the benefits from reforms, in terms of economic growth as well as peace, strong co-ordination between different SEE countries is necessary, as well as a strong partnership between donors and recipients. These two also make an effective co-operation between donors also necessary.

The first Roundtable in Bucharest underlined that your countries share a common background and experience the same difficulties in corporate governance. This common background relates to the corporate governance landscape and institutional framework. Indeed, your countries share a lot of macro-economic, ownership structure and legal characteristics. Ownership structures inherited from the various privatisation programs resulted in common corporate governance difficulties related to the concentration of ownership and the significance of some specific shareholders, namely the managers, the State and former privatisation funds. Moreover, SEE countries share the same difficulties in corporate governance, even though their specific characteristics and acuteness obviously vary among countries.

With regards to these common characteristics and difficulties, regional co-operation allows a better access to international expertise as well as a sharing of experience on reform difficulties and on existing remedies used in OECD countries or other transition countries. This regional co-operation obviously does not prevent each country to build its own menu and fine tune possible remedies to adapt them to its legal and economical context.

The OECD has definitely a comparative advantage in this necessary regional and international cooperation. Its main and core mission has always been to co-operate between member countries on their respective economic policies, by comparing experiences and seeking answers to common problems. Therefore, the OECD has developed a unique experience in carrying out

policy dialogue, in sharing best practices among members and cross monitoring through peer reviews. This unique experience has then been used increasingly with non-member countries, by developing an extensive policy dialogue and in capacity building activities with more than 70 non-member economies, international organisations and other stakeholders. Through this policy dialogue, and building on OECD expertise in this respect, SEE countries could shorten and hopefully smooth the hard way toward economic growth and social welfare.

Why transparency and disclosure is a crucial pillar of corporate governance and even further of market development?

The final point I would like to make is the importance of corporate governance and the crucial significance of the transparency and disclosure issue in today's world. These two points have been indeed repeated in the final communiqué of the OECD Ministerial Council, the 15-16 May 2002. Let me just quote one excerpt from this final communiqué:

" We agree that implementation of best practices in corporate and financial governance entails an appropriate mix of incentives, balanced between government regulation and self-regulation. We seek to improve such governance to enhance transparency and accountability and thereby strengthen investor confidence and the stability and resilience of financial markets. Effective enforcement of rules on corporate governance is essential"

In South East Europe, improvements in corporate governance frameworks and practices have become even more fundamental. Indeed, investment is the most wanted commodity in the region nowadays and good corporate governance practices are a prerequisite for the ability to attract and retain the financial resources necessary for restructuring, long term investment and sustainable growth.

The focus of our discussion during these coming two days will be transparency and disclosure. These are a building block of good corporate governance practice. But they go far beyond the unique defense of shareholders rights. Indeed, transparency and disclosure is crucial to the integrity of our market system as a whole. The independent audit of the company and the required disclosures to the regulatory agencies constitute the backbone of effective capital market regulation. Recent high profile events of governance failure and corporate mis-conduct have only underlined how crucial and how difficult it is to build strong institutional framework for disclosure with strong enough incentives and sufficient safeguard against abuses. These events have also shown what is at stake: investors' savings, companies survival, and generally confidence into market institutions.

So these issues of how to implement accounting and auditing standards, what financial and non-financial information is it necessary to disclose, what are the respective roles of boards, management and external auditors in this respect, and finally how stock exchanges and securities commission can monitor and enforce such disclosure requirements are real challenges. The challenge is even bigger in a transitional environment where the judicial system is weak and totally new accounting and auditing systems have been adopted recently.

I am convinced that through a frank, open and forward-looking dialogue over the next two days, you will set a landmark in discussing these issues of corporate governance reform in SEE. I wish you a successful and enjoyable meeting. Thank you for your attention.