

Recommendations for Future Action by the South East Europe Corporate Governance Roundtable to the Ministerial Meeting of the Investment Compact, Vienna, 26 and 27 June 2006

1. Introduction

The South East Europe Corporate Governance Roundtable,¹ launched by the OECD in co-operation with the World Bank Group as part of the Investment Compact in 2001, is continuing to work to promote better corporate governance in order to enhance the overall business climate and attract more investment in the region. The Roundtable, which met most recently in February 2006 in Istanbul, has just completed an assessment of progress in implementing priorities established through its White Paper on Corporate Governance in Southeast Europe. The Roundtable's conclusions and recommendations for an action plan setting out future priorities are elaborated upon here² with the objective of inviting Ministers to support the Roundtable's future work within the framework of the Investment Compact.

The Roundtable has seen some progress in corporate governance since it issued its White Paper recommendations in 2003, including a number of legislative and regulatory reforms undertaken in recent years. Corporate governance codes have been developed with the support of the business sector, and stock exchanges have introduced special listing segments requiring higher corporate governance standards. The Roundtable contributed to this progress not only through policy dialogue and development of recommendations at its meetings, but also through the ongoing efforts of its participants – representatives of stock exchanges, regulators, corporate governance institutes and other reform-oriented stakeholders – to raise awareness and support reform initiatives in individual countries. A recent concrete example of the positive effects of the corporate governance reform process for companies in SEE is the successful privatisation of Banca Comerciala Romana, which could increase its book value from 1 billion Euro to some 6 billion Euro in less than three years after a complete reorganisation of its corporate governance structures. In addition, companies such as Pliva and Podravka in Croatia adapted their internal corporate governance rules to comply with international expectations, notably the OECD Principles of Corporate Governance and the recommendations in the Roundtable's White Paper, and have become internationally successful businesses.

Yet, it is commonly agreed among investors that the region requires substantial additional improvements in corporate governance in order to strengthen capital markets and create a better climate for investment and economic growth.

2. Recommendations for future action

Taking into account the discussions in the latest Roundtable meeting, the results of a survey undertaken among Roundtable participants, and additional research, the Roundtable considers the following topics a priority for its concrete policy work in the future:

¹ Participating countries in the SEE Roundtable from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia, Moldova, Romania, and Serbia and Montenegro are part of a global OECD programme to promote corporate governance.

² The SEE Roundtable has issued a more detailed report on its conclusions, entitled, "Report by the South East Europe Corporate Governance Roundtable to the Preparatory Meeting for the Investment Compact Ministerial." This report and the Roundtable's White Paper are available on the OECD corporate governance website at <http://www.oecd.org/daf/corporate-affairs/roundtables>.

- **Effective enforcement of corporate governance rules:**

The most significant improvements in the area of corporate governance in SEE could come from effective enforcement of existing laws and regulations. This not only concerns regulatory authorities and courts, but all mechanisms of enforcement, including creating incentives for compliance and use of alternative dispute resolution. The results of the survey and additional research show that progress in this area has been limited so far, with several major obstacles remaining (lack of sanctioning powers and independence of regulators, limited co-operation and trust between authorities and the private sector, etc.). It was the general view of Roundtable participants that enforcement should be a top priority in its work programme.

- **Commitment of the private sector, in particular of boards, to the corporate governance reform process:**

The private sector, and in particular boards, plays a crucial role in improving corporate governance. However, too often, boards are not aware of the (economic) benefits of good corporate governance and their functions and duties, including their duties owed to the company and all shareholders. Most of the responses in the survey and further analysis of the situation in SEE confirm that there has been little progress in the reinforcement of boards: all board members, whether or not decided by controlling shareholders, should be aware of their fiduciary duties towards the company. Given the importance of boards for good corporate governance, both policy-makers and companies need to act rapidly to tackle this problematic area, for which the Roundtable should provide concrete recommendations. To support these efforts, increased participation from the business sector in the work of the Roundtable is an additional priority for the future. A first step in this direction will be the establishment of a group of companies, either having already a good record regarding corporate governance or taking concrete steps in this direction that would report on their experience, provide guidance to companies and private sector input to the Roundtable as a model for other companies in the region (a so-called “Companies Circle”), an initiative supported by the Global Corporate Governance Forum and the International Finance Corporation.

- **Disclosure of financial and non-financial information:**

According to the White Paper issued by the Roundtable in 2003, convergence with International Financial Reporting Standards (“IFRS”) should be pursued, as it is indispensable for ensuring adequate quality, credibility and comparability of financial statements. Although a number of participating countries have adopted laws that implement IFRS and International Standards of Auditing, according to the review undertaken, actual implementation and enforcement of those standards is not adequate in many cases, in particular because of the lack of qualified accountants and auditors as well as of shortcomings in the implementation process (language, delays, etc). Therefore, further action by the Roundtable on these issues is considered a priority, in close co-ordination with stakeholders in this field in the region.

3. Conclusion:

The Roundtable should continue to play an important role in reviewing and comparing progress of countries on priority issues. This will enable policy-makers especially to identify remaining shortcomings, to compare and contrast the situation in their country with developments in other countries in the region, as well as to observe and respond to emerging trends.

It is proposed that the Roundtable report back regularly to future meetings of the Investment Compact concerning progress on the above agenda for action as a way of working to further raise awareness and strengthen support for corporate governance improvements in the region.