2nd Meeting of the Eurasian Corporate Governance Roundtable

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Transparency and Disclosure

Welcome and Opening remarks

by

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with the support of

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Ladies and Gentlemen;

It is a pleasure and an honour for me to welcome you to this second Eurasian Corporate Governance Roundtable. I am pleased to see once again so many distinguished experts from across the region, from OECD countries and from international organisations. The presence of such a diverse audience from government, the business community and civil society suggests to me a growing momentum for policy dialogue, providing an opportunity to build further upon the first Eurasian Regional Roundtable meeting that was held last October.

Those of you who were at our first Roundtable meeting in Kiev will recall that we addressed many of the issues of overarching importance involving corporate governance. The enhanced accountability, transparency, and integrity flowing from improved corporate governance practices create value for shareholders and other stakeholders, reduce the cost of capital, and increase a company's competitiveness in the global marketplace. Good corporate governance therefore plays a crucial role in corporate sector development and economic growth in market economies, including in attracting and retaining necessary investment.

This 2nd meeting will allow us to go into greater depth, into a particularly important aspect of corporate governance – transparency and disclosure on all material matters regarding the corporation. The need for greater transparency is an issue that the OECD promotes not only in relation to corporate governance, but also more broadly in relation to issues of global and public sector governance.

So I would like to focus my remarks this morning on this broader context -- that is, the importance of public transparency and overall governance improvements as a means for further reinforcing the gains that may be achieved through corporate governance reforms. My hope is that my remarks will provide a broad context for focusing more specifically during the rest of this meeting on the issue of transparency and disclosure in the corporate sphere.

The end of the Cold War and the rise of market economies and democracy across the globe has brought many benefits – better access to information, goods and services, greater freedom for citizens, and increased economic growth. But we have also seen the rise of increasingly vocal concerns about the abuses of globalisation – concerns about impacts on the environment, crime and abuses of the market.

In the past, government has been perhaps a more dominant player in trying to address such concerns, but in the age of globalisation, where markets and civil society have gained increased power, good governance has involved a system of interdependence and co-operation among four major actors: governments, international organisations, business, and civil society. If any one of these actors fail, we all fail, so each has an interest in co-operating with the other. If one becomes perceived as too dominant, the others may join together to try to create a more stable balance of interdependence among the actors.

This Roundtable provides a good example of how the four actors can all gain through co-operation: representatives of international organisations, national governments, business and civil society are working together to find common ground through a system of corporate governance that all four actors can support. Such a system depends upon transparency and accountability, not only for corporations, but across the governance systems of all of the actors, so that all may hold each other accountable.

The OECD and its 30 Member countries use such a co-operative approach across many areas. Its Corporate Governance Principles were adopted in 1998 after consultation with business and civil society, as well as many countries outside the OECD. We have since then expanded this process to promote corporate governance improvements globally by developing Corporate

Governance Roundtables in joint co-operation with the World Bank and regional partners here in Eurasia, as well as in Asia, South America, Russia, and soon in Southeast Europe.

The use of "soft law" Principles, Recommendations and Guidelines allows the OECD to promote the highest standard possible with broad-based support, while at the same time avoiding one-size-fits-all prescriptions. They generally allow some room for interpretation, but nevertheless establish a kind of best practice model which countries can look to in seeking to address global concerns on such issues as corporate governance, investment, tax policy, competition policy and public governance.

In all of these areas, transparency and accountability are fundamental values underpinning the OECD's commitment both to democracy and market economy. Success in any single area of governance is dependent on the capacity to establish and maintain a culture of integrity and accountability across all sectors of society. Improvements in each area can be mutually reinforcing. But the challenge is not only a moral one. It is a key requirement for the good functioning of democracies and the efficient performance of market economies.

Corporate governance practices are clearly influenced by the state of public governance and the level of corruption in society. For example, shareholders – particularly minority shareholders – of private firms will have great difficulty asserting their shareholder rights in countries with weak legal systems. The likely result is a corporate ownership structure characterised by highly concentrated ownership, often insider, and few minority shareholders.

In addition, unaccountable and non-transparent public governance can lead to a blurring of the lines between the public and private sectors and to dysfunctional corporate governance. This is manifested through excessive government interference, corrupt capital market or utility regulation, or state "capture" by private interests. This capture can influence legislation and regulation to the firm's advantage.

In many transition countries, the public perceives corruption to be woven into the basic institutional framework, undermining transparency of decision-making, and weakening the credibility of the state. There is strong demand for strengthening governance structures in these countries.

For a country in transition, good governance practices are essential for strengthening democracy; promoting economic prosperity, social cohesion and environmental sustainability; and maintaining confidence in public institutions. Effective governance requires balancing and managing the changing relationships among states, markets and civil society. It should also include public participation, accountability, transparency and the rule of law.

In recent years, the OECD has increasingly focused its own efforts on fighting the abuses of globalisation by working co-operatively to increase transparency and accountability in both the public and private sectors. Corporate governance is of course the most obvious example, which we will focus on at this meeting.

Another has been the OECD's fight against bribery and corruption. Important progress was made with the adoption in 1999 of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. About the same time, the OECD also agreed to a Recommendation on Public Sector Ethics. Work with OECD countries as well as those outside the OECD – through regional Anti-Corruption Networks – has sought to make progress in these areas. I believe we have now largely moved beyond awareness-raising. What is most needed is to combine political will with knowledge to achieve impact; to match diagnoses with better prevention and cures.

Actions across *three* aspects of governance can help support anti-corruption efforts.

At the most basic level, *the rule of law must be institutionalised*, through comprehensive programmes of judicial reform and the creation of truly independent, impartial, and professional judiciaries.

Secondly, *governments and their civil servants have a responsibility to lead by example*. The OECD is advising its Member countries on codes of conduct and ways of improving standards of governance, which the citizenry can trust. These standards must also be picked up by the business sector for full effect.

Thirdly, to garner support for existing efforts and to consolidate success, *citizens must engage in the fight as well.* For this is not only a fight against corruption and bribery; it is also a battle of transparency and better governance. All measures that are designed to fight corruption are at the same time contributing to government efficiency. The very notion of transparency is to allow the public to understand the inner working of government, to make the government accountable to its citizenry; and – in turn – to enable the government to harness popular support for difficult reforms.

Conclusion

To conclude, and to return to the main subject of this meeting, I would note that broader governance reforms such as this will complement efforts in the corporate governance area. While we will focus on corporate governance today and tomorrow, and particularly on the issues of transparency and disclosure on all material matters regarding the corporation, it is worth keeping in mind that corporate governance reforms are part of a larger reform effort involving all four actors – governments, international organisations, business and civil society. All four should strive for transparency and accountability as part of the broader effort to achieve well-functioning market economies and democracies.

I would like to extend my sincere gratitude to our co-hosts, the National Securities Commission of Georgia, the Georgian Stock Exchange, and the International Regional Federation of Accountants and Auditors of Eurasia, who have done a fantastic job in supporting and helping to organise this event. I would also like to thank the US Agency for International Development, the Government of Japan, and the Global Corporate Governance Forum for their important support. Finally, I would like to acknowledge our close partnership with the World Bank group, notably the International Finance Corporation. The presence of senior representatives and experts from our two multilateral partners is of great importance for the success of our work.

Given how important corporate governance is to the future of your economies, I am particularly pleased to see in this room so many high-level representatives of companies, financial institutions, regulators and judicial authorities actively supporting this effort in Eurasia. Because ultimately it will be up to you to take the actions necessary to strengthen corporate governance in the region.

It is my hope that the dialogue we re-embark upon here can play an ongoing role in improving the understanding of present corporate governance practices, informing about ongoing initiatives and – ultimately – guiding future reform efforts. In Georgia and throughout the Eurasian region, corporate governance is extremely important. This is because countries in the region are in the early stages of building an institutional framework for private enterprise. Such a framework is key if the privatisation they have undertaken during the last decade is going to produce growth, through a robust private corporate sector.

I very much look forward to following the discussion over the coming days, and also the future work of the Eurasian Roundtable on Corporate Governance.