HOW TO ADDRESS THE SUPPLY SIDE OF CORRUPTION THROUGH CORPORATE GOVERNANCE

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Corruption is hard to cure, but can be prevented

- It's not possible to eliminate corruption, but it can be deterred by good corporate governance, ensuring transparency of decision making and effective shareholders control.

- Shareholders expect companies’ managers to serve their best interests and to manage companies’ resources properly on a daily basis.

- Management ethics and transparency are a prerequisite to public trust and a keystone of good corporate governance.
How corruption in emerging markets can be prevented by good corporate governance? (Case studies)

RAO UES Restructuring

- Management proposes complicated and non-transparent restructuring plan, developed without involvement of recognized outside experts.

- RAO UES complicated scheme puts the process of assets re-allocation beyond the control of shareholders and the Board.

- Failure to use civilized corporate procedures creates suspicion of corruption and assets stripping.
Example: Tiny generation, transmission and sales companies may have led to non-transparent deals with local industry and regional governments, corruption.
Any sales of assets were planned to be done at a very low price

Enterprise Value per kW of Capacity

Russian Companies
Stock market has negatively reacted to the concept - the stock declined sharply

UES share price history
Preventing Potential Corruption

After active protests by UES Independent Directors and minority shareholders:

- Board of Directors banned all asset transactions until approval of the restructuring plan;

- President Putin announced a cancellation of the original restructuring plan and set up a commission including minority shareholders to devise new plan

- Government agreed negotiations with minority shareholders to change the Charter of the company to prevent asset sales.
Achieved success

- RAO UES hired international experts to devise the new restructuring plan and established the dialogue with shareholders

- The new Restructuring Plan, approved by the Government, is more transparent and provides much less room for corruption

- The Board of Directors plays a much more important role in restructuring. Asset sales are subject to its approval

- A Reforming Committee was created at RAO UES Board of Directors, chaired by an independent director
Conclusions: addressing corruption through corporate governance

- Board of Directors shall have more controlling powers over management

- Independent Directors prevent absolute concentration of corporate power, reducing potential corruption

- Use of outside independent expertise to evaluate management actions

- Maximum transparency of corporate actions for shareholders to prevent abuses and/or conflicts of interests
Conclusions: the market must take initiatives

- Introduce high ethical standards of corporate behavior

- Promote best practices of resolution of conflicts of interest

- Shareholders must exercise their rights
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