

## ***Background***

The policy environment and institutional framework for corporate reporting in South East and South Central Europe (the Region)<sup>1</sup> suffer from weaknesses. Such weaknesses have been associated with illicit corporate behavior and increased fraud and corruption, which can lead to reduced direct foreign investment and lowered investor confidence. Furthermore, the consolidation of peace and stability in the Region, as well as eventual accession to the European Union (EU), hinges upon well-working market institutions. These market intuitions would engender investment and growth by facilitating business transactions, enhancing job creation, and integrating the Region’s domestic markets with the world economy.

## ***The REPARIS Program***

The Road to Europe – Program of Accounting Reform and Institutional Strengthening (REPARIS) is a proposed regional program aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within participating countries/entities of South Central and South East Europe. The REPARIS program is designed around the introduction, implementation, and effective enforcement of relevant portions of the EU’s *acquis communautaire*.<sup>2</sup> The program’s intended focus is the strengthening of institutionalized incentives based on the *acquis* that lead to the rigorous application of high-quality corporate financial reporting standards in the corporate (financial and non-financial) sector. Although the *acquis* facilitates an appropriate model for enforcing high-quality financial reporting standards, significant challenges remain in the design and strengthening of suitable institutions to implement the *acquis* requirements.

The REPARIS program will contribute to long-term prosperity by promoting growth and reducing volatility through:<sup>3</sup>

- Facilitating potential integration into the European Union.
- Strengthening financial architecture and reducing the risk of financial market crises and their associated negative economic impacts.
- Contributing to foreign direct and portfolio investment and helping to mobilize domestic savings.
- Facilitating smaller-scale corporate borrowers’ access to credit from the formal financial sector by lowering high costs of information and borrowing.

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<sup>1</sup> The Region comprises Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Kosovo (UNSCR1244), Former Yugoslav Republic of Macedonia, Romania, and Serbia and Montenegro.

<sup>2</sup> The entire body of EU laws is known, collectively, as the *acquis communautaire*. The *acquis* includes all primary legislation (treaties), secondary legislation (Regulations, Directives, Decisions, Recommendations, etc.) and case law. Hence, since EU rules are constantly changing (new Directives are enacted, Regulations are amended, judgments are handed down), the *acquis* is also not a static document, but one that is in constant evolution. In order to join the EU, a country must meet certain criteria, among which is the adoption of the *acquis communautaire*. For enlargement negotiations, the *acquis* has been divided into 31 chapters. Chapter 5 (Company Law) has greatest relevance to private sector accounting and auditing.

<sup>3</sup> REPARIS assists countries in adopting and implementing significant portions of Chapter V, a cornerstone of the Internal Market. As Commissioner Bolkenstein emphasized not long before the new Commission took over, “The Internal Market ... has directly contributed to the creation of more than 2.5 million new jobs, whilst adding about 900 billion euro to our GDP, or an extra 1.8% in annual growth.”

- Allowing investors to evaluate corporate prospects and make informed investment and voting decisions, which will result in a lower cost of capital and a better allocation of resources. Financial reporting is also a gauge for market-based monitoring, which allows shareholders and the public at large to assess a company's management performance.

The program will assist market institutions in implementing and enforcing relevant parts of the *acquis communautaire* in a regional context<sup>4</sup>, while avoiding substantial costs in developing uniquely national solutions. Since the timetable differs for the Region's countries to join the European Union, some may adopt the *acquis* early, while others may delay. The program provides flexibility for the World Bank and other donors to support early adopters, without holding them back by the slower progress of others. The European Commission<sup>5</sup> underlined in the CARDS strategy paper that the Western Balkans need "*familiarization with the *acquis communautaire*. And this has to be focused on core *acquis* issues relating to the internal market.*" Further, the Commission noted in the CARDS paper that the Region has to "...develop administrative procedures in conformity with EU standards and a trade-related regulatory and policy framework compatible with international rules, which encourage trade and investment."

The key interventions under the program include strategic input on (a) drafting and phasing-in of legal and regulatory instruments to comply with the *acquis*; (b) institutional design and operating procedures; and (c) design of ongoing education and training programs, both academic and professional. In addition, the program will include twinning arrangements with leading foreign institutions, as well as the establishment and start-up support of a network of regulators, standard-setters, and officials from participating countries. The network will serve as a conduit for sharing knowledge and experiences among countries and international organizations and will also facilitate multi-country activities.

On a global level, the World Bank plays a leading role in advising countries on accounting and audit regulation. The World Bank is also the international institution charged with assessing countries' systems of accounting and auditing regulation through the Reports on the Observance of Standards and Codes (ROSC) accounting and auditing program.<sup>6</sup> The ROSC program was established to assist countries in implementing international accounting and auditing standards in order to strengthen their financial reporting regime. These ROSC reports have formed the analytical and diagnostic underpinnings for the REPARIS project. For first and second wave accession countries, the ROSC assessments have been carried out in close cooperation with the European Commission. The completed ROSC reports can be accessed at: [http://www.worldbank.org/ifa/rosc\\_aa.html](http://www.worldbank.org/ifa/rosc_aa.html).

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<sup>4</sup> The European Commission advocated the importance of the regional cooperation in the CARDS strategy paper 2000 – 2006: "Regional cooperation is a critical component, essentially extending the EU's own philosophy to the western Balkan region that deeper cooperation with neighboring countries is a route to national as well as regional stability. Greater economic stability in the region can only develop if the countries establish normal relationships between themselves. Build a network of the regional cooperation progressive alignment of national policies to the *acquis communautaire*."

<sup>5</sup> The responsibility for the Western Balkans was recently transferred from DG Relex to DG Enlargement." Oli Rehn, EU Enlargement Commissioner stressed that "it is a strong signal to the countries concerned that they are part of the process of European integration, and the shared goal is their future membership in the EU."

### *The REPARIS Conference*<sup>7</sup>

The World Bank hosted a one-day conference in Brussels on Wednesday, June 30, 2004, with the participation of the Region's Ministers of Finance and their designates, to discuss REPARIS. The conference was organized in close cooperation with the European Commission, the Organisation for Economic Co-operation and Development (OECD), the private sector, and multilateral and bilateral partners.

The REPARIS conference had two objectives. First, to share with participating countries/entities the requirements for developing a sound corporate financial reporting infrastructure, which is essential not only for generating private sector growth, but is also a requirement for joining the European Union (EU). Second, to discuss the World Bank's proposed regional program of institutional capacity building.

The REPARIS program was very well received by all who attended the conference. The donor community expressed their strong support for REPARIS and demonstrated interest in financing some of its activities. The World Bank is now in the process of meeting with multilateral and bilateral partners to cement support for the program.

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<sup>7</sup> A website with information on the REPARIS conference, such as the agenda and presentations, has been developed and can be accessed at: <http://www.seerecon.org/reparis>.