

SERBIA

The Road to Europe – Program of Accounting Reform and Institutional Strengthening

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Ladies and Gentlemen,

- It is a pleasure to be with you today. Frederic Gielen, Head of the World Bank's ROSC Accounting and Auditing program in the Europe and Central Asia Region was unable to join us. However, I have the privilege of representing him at this session.
- It is a pleasure to be here with you in Serbia and let me first start by thanking you, for your great hospitality.
- While we are to discuss the findings of the accounting and auditing ROSC report for Serbia and develop key policy recommendations to enhance the quality of corporate financial reporting, we would like to stress that the ROSC assessment of accounting and auditing standards and practices is not conducted in a vacuum.
- As you may know, the accounting and auditing ROSC reports have been conducted in over 50 countries worldwide, including all new EU Member States and most countries of South Central and South East Europe. In the region, these reports have formed the analytical underpinnings for the "Road to Europe - Program of Accounting Reform and Institutional Strengthening", dubbed REPARIS.
- We have named this regional program the "Road to Europe" because it is very much about enacting, implementing and enforcing the relevant portions of the European Union's *acquis communautaire*, aimed at improving financial reporting. The policy recommendations that we will discuss today could be implemented under the REPARIS program.
- Before getting into specifics about reforming corporate financial reporting, I would like to highlight the unique and historical transition that has taken place over the last fifteen years. The region of Central and Eastern Europe has undergone an economic transition from central planning to a market economy. At the same time, there was a

political shift from authoritarian political systems to pluralistic democracies. And in May 2004, the European Union went through its fifth and the largest enlargement since the creation of the European Community. It admitted ten new countries, eight of which are a part of the Europe and Central Asia Region of the World Bank.

- The European Union stressed several times that the historic process of Europe's unification will not be complete until the countries of the Balkans join the Union. We, Slovak citizens, used to say "Europe's history is our history, Europe is our home." You can make this statement yours.
- The Copenhagen European Council (in December 2002) confirmed the European perspective of the countries of the Western Balkans, as potential candidates, and underlined its determination to support their efforts to move closer to the European Union. Later the European Council (in March 2003) reiterated that the future of the Western Balkans is within the EU and pledged the full support to promote economic development. The Balkans will be an integral part of a unified Europe. The ongoing enlargement should inspire and encourage the countries of the Western Balkans to follow the same successful road of reforms and to increase their efforts in that direction.
- The benefits of joining the EU are numerous: growth, development of foreign direct investments, growth of population's savings and investments, enlargement of capital markets (new capital flows, diversity of financial products), business and private sector development, encouragement of competition, access to the EU labor market and substantial rise in population's living standard. In fact, according to a study carried out by the European Commission, enlargement can raise annual GDP growth in acceding countries by between 1.3 and 2.1 percentage points.
- However, joining the EU also brings responsibilities. The European Council has agreed on a set of criteria for membership that prospective members must meet in order to be admitted to the Union. Among them, applicant countries must have a functioning market economy and the capacity to compete within the EU's single

market. There are no short cuts on the road to European integration. Enlargement is a difficult process, it calls for determination, commitment and dedication for reforms.

- Among such reforms, a key challenge is to enhance the quality of corporate financial reporting in the South Central and South East Europe, which in turn will contribute to private sector growth and financial stability through mitigating the risk of financial crises. Over the long run, this translates into long-term prosperity and the improvement of living standards. However, financial stability and growth cannot be had without the creation of a transparent policy environment and effective institutional framework for corporate reporting.
- Serbia suffer from weaknesses in this regard. But you are not alone. The United States and the Europe Union know all too well what consequences lax accounting and auditing standards can bring (examples such as the Enron, WorldCom and Parmalat). Therefore, there is a huge amount of work that we must tackle. Achieving a robust financial reporting framework is crucial for all countries, as weaknesses in financial reporting have been associated with illicit corporate behavior, as well as increased fraud and corruption. Obviously, such problems lead to lowered investor confidence and, consequently, reduced foreign direct investment and economic growth.
- Accounting scandals in the United States as well as in Europe have made it clear that there is a pressing need for accounting and auditing standards that are harmonized across countries and completely enforced.
- The World Bank together with the European Commission, OECD and IMF has been doing a great deal of analytical work on improving corporate financial reporting,
- We look forward to being able to provide you with capacity building assistance in the adoption, implementation and enforcement of the *acquis communautaire*, which will help you enhance the quality of corporate financial reporting in Serbia.
- As discussed in Brussels at a conference gathering Ministers of Finance and their designates from South Central and South East Europe, the World Bank is proposing to set up a regional program of technical assistance to create a transparent policy

