

## TECHNICAL ASSISTANCE COMPLETION REPORT

Division: ECGF

<b>TA No. and Name</b> TA 3779 – KGZ: Strengthening Corporate Governance and Judicial Reforms		<b>Amount Approved:</b> \$850,000			
		<b>Revised Amount:</b> \$769,943			
<b>Executing Agency:</b> Office of the Prime Minister of the Kyrgyz Republic	<b>Source of Funding:</b> TASF	<b>TA Amount Undisbursed</b> \$13,566.95	<b>TA Amount Utilized</b> \$769,943		
<b>Dates</b>		<b>Completion date</b>			
<b>Approval:</b> 22 Nov 01	<b>Signing:</b> 28 Feb 02	<b>Fielding of First Consultant:</b> 18 October 2002	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"><b>Original</b> 31 Jul 03</td> <td style="width: 50%;"><b>Actual</b> 30 Jun 04</td> </tr> </table>	<b>Original</b> 31 Jul 03	<b>Actual</b> 30 Jun 04
<b>Original</b> 31 Jul 03	<b>Actual</b> 30 Jun 04				
		<b>Account Closing date</b>			
		<b>Original</b> 31 Jul 03	<b>Actual</b> 10 Feb 05		
<b>Description</b> The TA was approved together with Loan 1860-KGZ: Second Phase of the Corporate Governance and Enterprise Reform Program (CGERP-II). CGERP-II aimed to enhance investor confidence by strengthening corporate, financial, and judicial governance and taking steps necessary to improve the efficiency and viability of the enterprise sector. The Corporate Development Center (CDC) was the executing agency for the TA and in charge of coordinating CGERP-II. Implementing agencies were the State Commission on Securities Markets (SCSM), the State Commission on Financial Reporting and Auditing (SCFRA), and the National Bank of Kyrgyz Republic (NBKR). The TA also supported the Judiciary Reform Monitoring Group (JRMG) and a Judiciary Advisory Council (JAC), which were established to oversee judicial reforms and provide overall supervisory support for the judicial reform component of CGERP-II.					
<b>Objectives and Scope</b> The objective of the TA was to strengthen corporate and financial governance and judicial reforms by supporting (i) the adoption and monitoring of good corporate governance norms, (ii) the adoption of modern accounting standards in enterprises, and (iii) a comprehensive diagnostic assessment of the problems facing the judiciary. The TA was to focus on institutional capacity building for (i) corporate governance reforms with focus on enterprise management, finance, and internal controls; (ii) developing a corporate governance rating system; (iii) developing a sound institutional and regulatory framework for formulating and adopting corporate governance norms; and (iv) undertaking a comprehensive legal and judicial sector assessment.					
<b>Evaluation of Inputs</b> The design of the TA was relevant, with the exception of the corporate governance rating system, which cannot have an effect on the practice of corporate governance in joint stock companies (JSCs) in the absence of market pressure.  The TA envisaged 20.5 person-months services of international consultants and 75 person-months services of domestic consultants. The amount of inputs was adequate overall. However, service delivery was delayed by 7 months due to problems encountered by the firm in identifying international consultants that were suitable and available. This delayed TA support that was important for the Government in complying with CGERP-II conditions, such as the development of a corporate governance rating system and transition of key JSCs to international accounting standards (IAS).  During implementation the firm replaced two out of four international consultants, i.e. the team leader and the corporate governance legal expert due to "personal reasons". This affected overall project management and continuity of corporate governance work. Further, the international accounting expert deviated from the terms of reference (TOR) by preparing a generic seminar not covered by the TOR. The expert also lacked responsiveness to the needs of SCFRA, despite guidance provided by ADB. Therefore, the consultant was rated unsatisfactory. In contrast, the international legal expert closely cooperated with all key players in judicial reforms. For his accomplishments he required two person-months less than budgeted. The consultant was rated highly satisfactory. Likewise, the domestic consultants, which accomplished their task without much guidance, were rated satisfactory or highly satisfactory. On request of SCFRA, two additional domestic consultants were recruited for a total of 3 person-months to (i) draft additional regulatory guidelines on IAS and (ii) undertaking IAS conversion seminars. TA savings were also used to (i) disseminate a regulatory guideline on annual general meetings (AGMs) in JSCs, and (ii) modernize the IT equipment of the SCSM. The IT upgrade was based on an IT needs assessment undertaken in close cooperation with SCSM under TA 4069-KGZ Financial Sector Reforms.  The TA required an unusually high degree of day-to-day supervisory capacity on ADB's part and was reviewed on three occasions in conjunction with CGERP-II reviews. ADB's performance is rated highly satisfactory. The consultant's reports were submitted on schedule. The implementing agencies showed a high degree of ownership for the TA. Due to weak management of SCSM, however, absorptive capacities were limited. The performance of the EA (CDC) is rated satisfactory. The Government was not satisfied with the delay in service delivery and not entirely satisfied with the services delivered by the international consultants.					

### Evaluation of Outputs

The reports produced and activities carried out under the TA covered following areas:

**Corporate Governance Reforms:** Guidance and assistance was provided to CDC in designing and implementing a corporate governance training program. The direction provided to strengthen the legal framework for corporate governance came too late to have an impact on the Law on JSCs that was approved in January 2003 and enacted in April 2003. A review of this law, undertaken under the TA in February 2003, found the law overall in compliance with international standards and best practices. However, this assessment proved incorrect. After the replacement of two consultants, the TA provided effective support to SCSM in drafting amendments to the law. These amendments were enacted in June 2004. Recommendations provided on regulatory activities of SCSM were too unspecific to have a measurable impact. An action plan for strengthening SCSM and its regulatory activities was developed. However, SCSM's ownership for this plan remained weak and the action plan failed to gain practical relevance. With regard to the corporate governance rating system, the consultants failed to involve international rating agencies into developing such a system. However, the consultants supported CDC in developing a system, which was subsequently used by CDC to rate the corporate governance of listed JSCs and commercial banks. In compliance with a CGERP-II condition, one set of ratings was published. However, the exercise has never been repeated due to the considerable time required to undertake the ratings. Support was provided for an educational program of SCSM aimed at informing the management of JSCs about legal and regulatory requirements pertaining to protection of shareholders rights and conduct of AGMs. This educational program was successfully completed in February 2004, i.e. just in time for a new round of AGMs.

**Accounting Reforms.** While the quality of an SCFRA capacity assessment and a train-the-trainer program on IAS, which were undertaken under the TA, was questionable, the IAS conversion support was highly efficient and effective. Written recommendations on 17 international accounting standards were developed and printed with ADB support. These manuals were subsequently disseminated in the country under the TA and throughout Central Asia under a regional TA. Further, based on an IAS compliance survey, more than 10 seminars provided targeted support for various sub-groups of large JSCs with similar conversion problems. All these JSCs were required by law to convert to IAS in 2003-2004. The 10-12 days IAS training seminars were followed by one-day roundtables to address specific questions of accountants working on IAS conversion. As a result, almost 100 large JSCs, including all commercial banks, all listed companies, and most mining companies, submitted their 2004 financial statements in line with IAS.

**Judicial Reforms.** A diagnostic assessment of process-related constraints and systemic weaknesses was conducted under the TA in the first half of 2003, using a survey. The work was undertaken in close cooperation with all key players involved in judicial reforms, including JAC, the Ministry of Justice, and the Supreme Court. JAC reviewed and distributed questionnaires to 227 judges and 177 advocates. The findings and recommendations of the assessment were disseminated and discussed through a major participatory workshop in July 2003. The international legal expert was also able to facilitate coordination of judicial reforms through JAC and members of JRMG. The effectiveness of the judicial reform component was significantly facilitated by the overall political support judicial reforms enjoyed in the Kyrgyz Republic during TA implementation and beyond.

### Overall Assessment and Rating

The TA evaluation presents a mixed picture. Some of the inputs and outputs were highly satisfactory, especially in the area of judicial reforms and IAS conversion support, whereas others unsatisfactory. While the TA design was appropriate overall, a delay in service delivery and replacements of international consultants were constraints. Initial TA savings were used efficiently to increase the TA impact. In conclusion, the TA is rated partly successful. It should be noted that other projects (L1547-KGZ: Capacity Building for Corporate Governance, TA 4069-KGZ, and TA 6137-REG: Regional Financial Sector Development) helped to achieve an overall satisfactory and sustainable outcome of the TA.

### Major Lessons Learned

(i) Services provided by qualified domestic consultants can be highly efficient in increasing the effectiveness of a TA if guided adequately; (ii) efforts to strengthen financial disclosure and corporate governance should focus on carefully selected enterprises rather than individuals; and (iii) formal or informal clusters of projects facilitate the solution of implementation problems of individual interventions and provide flexibility to reach the ultimate reform objectives.

### Recommendations and Follow-Up Actions

To further strengthen capacity in the area of financial disclosure and corporate governance reforms, the Government should merge SCSM and SCFRA, given (i) close links between their respective responsibilities, (ii) limited management capacities available, and (iii) possible synergies in support services. To further strengthen financial disclosure and governance, supply side reforms (policy, legal, and regulatory framework, capacity building in state agencies, promotional activities) have to be complemented by reforms on the demand side (securities market development to build market pressure). With regard to project processing and implementation, responsibility for project clusters should be concentrated as much as possible to ensure a critical frequency of interaction with the counterpart agencies.