

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: CWGF

TA 4062-UZB : Enterprise Restructuring and Corporate Governance		Amount Approved: \$1,000,000	
		Revised Amount: n.a.	
Executing Agency: State Committee for Economic Insolvency of Enterprises	Source of Funding: TASF	Amount Undisbursed: \$77,842.90	Amount Utilized: \$922,157.10
TA Approval Date: 19 December 2002	TA Signing Date: 7 January 2003	Fielding of First Consultant: 9 September 2003	TA Completion Date Original: 31 December 2003 Actual: 31 August 2005 Account Closing Date Original: 31 December 2003 Actual: 26 April 2006

Description. Enterprises in Uzbekistan suffer from barriers to entry and exit, and typically have poor corporate governance. Restrictions on market competition, inadequate legal and operational framework for insolvency, and inconsistencies within and across laws, resolutions, and decrees have all contributed to a difficult environment for the enterprise sector. The capital markets regulator lacked both legal and functional independence, and minority shareholders lacked information and protection. In 2001, 71.4% of unprofitable enterprises in Uzbekistan had state shareholdings and accounted for 94.7% of the total losses of the enterprise sector. To address these and other related issues, the Government of Uzbekistan requested ADB assistance to rationalize and strengthen the policy, legal and regulatory framework for the corporate sector and restructure state-owned enterprises and enterprises with state ownership. Leading to this, the Government had adopted a program of modifying, restructuring, and liquidating over 400 medium and large enterprises, and established the State Committee for Economic Insolvency of Enterprises (CEIE) to provide leadership in policy and regulatory oversight.

Expected Impact, Outcome and Outputs. The TA aimed to facilitate Uzbekistan's economic transition of the enterprise sector by providing assistance for: (i) formulating a strategy for corporate governance in, and restructuring of, enterprises; (ii) launching restructuring initiatives in the state enterprise sector; (iii) rationalizing and strengthening the enabling policy, legal, and regulatory framework for the corporate sector; and (iv) enhancing the capacity for regulatory oversight of enterprises in a market-based environment. The two components were: (i) sector policy and enterprise restructuring, including (a) industrial policy and regulatory assessment, (b) enterprise restructuring and development of a social safety net mechanism and (c) legal and judicial assessment to support enterprise restructuring; and (ii) evaluating the need for establishing an enterprise restructuring equity fund.

The TA was relevant as it was designed in line with the proposed Corporate Governance and Enterprise Reform Program (CGERP) loan requested by the Government to facilitate initiatives for restructuring and liquidating targeted enterprises that are operationally or financially weak. It was a follow-up to a project preparatory TA approved in December 2000.¹ Stakeholder participation and ownership were sought through broad based consultations during TA fact finding in November 2002. Executing arrangements were appropriate with CEIE as the Executing Agency (EA) and the establishment of an interagency group, formalized through an Order of the Cabinet of Ministers, to coordinate the TA.

Delivery of Inputs and Conduct of Activities. There was delay in processing the consultant's contract due to scheduling problems within ADB, with the consultant selection process spread out over February-August 2003. The consulting firm's contract provided for 28 person-months each of international and domestic consulting services to undertake the first component.² The resulting inputs totaled 29.7 person-months of international and 33 person-months of domestic services. Necessary changes were effected, including extension of contract completion date, due to (i) the EA's request for assessing the financial restructuring needs of more than 50 enterprises on the bankruptcy list, (ii) information gathering proved to be extremely cumbersome and time consuming due to inadequate monitoring process of those in the bankruptcy list, and (iii) reshuffling of international and domestic consultants due to specialization required and their other commitments. The resulting changes were all promptly accommodated within the negotiated contract amount. The consultant's performance was satisfactory. The EA found the consultant to be very productive having provided valuable assistance and useful recommendations in many areas.

The second component of the TA was to be carried out by two individual consultants: an international private equity specialist and a counterpart domestic consultant, each for two person-months. The international consultant was not successfully recruited due to unavailability of the shortlisted candidates, thus this component was eventually dropped.

The draft final report (DFR) was submitted in early December 2004. In late April 2005, CEIE was merged with the State Committee on Demonopolization and Competition Development, and a department in support of entrepreneurship under the State Committee on State Property Management, to form the State Committee on Demonopolization, Support for

¹ ADB. 2000. *Technical Assistance to the Republic of Uzbekistan for Preparing the Corporate Governance Reform Program*. Manila (TA 3562-UZB, approved on 8 December 2000, for \$700,000).

² BearingPoint was selected as the consultant.

Competition and Entrepreneurship. The EA had not commented on the DFR until a concluding tripartite meeting was held in late June 2005. Thereat, the EA concurred with the analysis and recommendations of the DFR and requested support in the conduct of a seminar to facilitate effective integration of the merged entities. This was delivered in late August 2005 in four regions of Uzbekistan benefiting 225 participants.

ADB effectively monitored TA implementation with an inception mission in early October 2003, through regular communication with the consultants during the course of the TA, and a review mission to attend the final tripartite meeting. The Uzbekistan Resident Mission provided effective support in coordinating with the EA. However, due to the delay in consultant engagement and its inability to identify a suitable international private equity specialist, ADB's performance is less than satisfactory.

The EA honored their commitment to provide counterpart support, including funding a portion of training expenses. The EA also actively participated in the design of training programs. Yet, despite the impending reorganization, the EA could have provided timely feedback on the DFR.

Evaluation of Outputs and Achievement of Outcome. The TA has served its purpose through, among others, legal and judicial sector assessment; industrial policy, macro and regulatory assessment; formulating improved strategies for evaluating and restructuring enterprises; and capacity building for efficient enterprise supervision and regulation. The TA satisfactorily delivered the expected outputs with the accomplishment of performance indicators such as assessment of bankruptcy legal framework, diagnostics of bankruptcy cases, complete review of the legal framework on pledges including the pledge registration and execution systems, capacity building programs, comprehensive market analysis to determine survivability of selected enterprises for workout, formulation of detailed restructuring options for selected enterprises on the CEIE workout list, and others. Its usefulness could have been considerably enhanced by ADB pursuing the second component of the TA more effectively.

The TA also supported a large-scale training and certification program for court managers,³ as requested by the EA. The program aimed to establish knowledge and experience standards for insolvency professionals. The program attracted 165 participants, 45% more than the initially estimated 114 participants. It was conducted in seven regions throughout Uzbekistan between December 2003 and March 2004. The participants indicated a high degree of satisfaction with the training program, teaching materials and handouts.

In June-July 2004, the International Enterprise Restructuring Specialist conducted two-day training programs in four regions of Uzbekistan on international experience with enterprise insolvency. The program introduced various frameworks and methods for insolvency proceedings in other countries and discussed international case studies that present the challenges of rehabilitating financially-distressed enterprises. Each seminar also included two site visits to enterprises either in liquidation, external management, or pre-court restructuring to gain an understanding of issues faced by court managers. A total of 138 participants benefited from the program. The participants rated the program to be useful, interesting and well-organized.

Upon request of the EA, the TA also supported a two-day Agricultural Insolvency Training Program in Djizzak Oblast in May 2004 attended by 42 participants. Apart from presentations of resource speakers and group discussions, the program also included site visits to farming enterprises to learn from experiences of farm managers in restructuring.

Overall Assessment and Rating. The TA's goal was to support the economic transition from central planning to a market-based one. By the end of TA implementation, however, the state continued to maintain a dominant ownership position in the economy and progress in privatization had been slow. While the TA has served its purpose of rationalizing the policy framework for enterprise restructuring, strengthening legal and regulatory frameworks, and launching enterprise restructuring, there is uncertainty as to the sustainability of the TA's goal. In light of the overall policy and regulatory environment, the TA is rated partly successful, although its implementation was fully satisfactory.

Major Lesson. The reorganization of CEIE toward the end of TA implementation was sudden as neither ADB nor the consultant was aware of it being planned. This underlines the importance of continued policy dialogue with the Government to ensure that capacity building efforts are consistent with the Government's plans and programs, and that reforms initiated are sustained.

Recommendations and Follow-Up Actions. The TA was part of efforts to prepare the proposed CGERP. However, given the unfavorable policy environment and perceived lack of firm commitment from the Government at that time, ADB has deferred the processing of CGERP. It is recommended that ADB carefully assess the Government's commitment in moving toward a market-based economic environment before pursuing further activity in enterprise restructuring and corporate governance.

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³ Court manager or "proxy manager" refers to a court-appointed professional responsible for external management, liquidation, pre-court restructuring, or restructuring of insolvent enterprises. Article 24 of the Bankruptcy Law provides that court managers are to be certified according to procedures and minimum requirements approved by the Cabinet of Ministers.