IMPACT BOARDS
EMERGING MARKETS

DIRECTORS VIEW

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Under the leadership of President Mirziyoyev, Uzbekistan has embarked on one of the most ambitious state reforms ever witnessed. While Uzbekistan is the largest country in Central Asia and the third largest of the former Soviet Union (after Russia and Ukraine), it remains a poor country despite its large natural resource reserves. Until the beginning of the transformation, the country had a closed economy where the state owned a large majority of companies and controlled up to 90% of the GDP.

In order to modernize State Owned Enterprises (SOEs) and State Owned Banks (SOBs), the Government appointed new managers including young, educated Uzbek, many of whom came with international experience. They also retained international reputable experts as members of the Supervisory Boards. In many cases, these experts represented a minority versus state representatives. However, in some cases, they were a majority and in one particular case, a Bank which was later privatized, was also a Chairman of the Board.

Thus far, the experience has been mixed to say the least. In many cases, foreign independent directors have faced resistance from the management of banks or companies while scrutinising information, reviewing results and/or proposing strategies. Management of SOEs and SOBs have been used to managing their companies without supervision. The decision to appoint foreign experts to the Boards comes from the President and the decision for each individual case is made by the Ministries, typically the Ministry of Finance. The companies' management have not been involved in the process.

In addition to a "natural" resistance to change, companies and banks are hiding years of inefficient management, heavy losses and, at times, questionable practices. Often conflicts between Management and Supervisory Board have appeared, which in some extreme cases have led to the reshuffle of the foreign members of the Supervisory Board.

But the real question is how to achieve the best outcome for the Supervisory Board given that interests are not always aligned, transparency is low and, in several cases, professionalism is absent. Based on my experience, here are some recommendations on how these challenges can be tackled:

- **Build trust with management.** This can be achieved by having gradual and focussed areas of influence and coverage.
- **Do not attempt to manage the Bank,** this is responsibility of the Management Board, but focus on the responsibilities of the Supervisory Board: strategy, governance & transparency, appointments & succession planning.
- **Communicate regularly and involve** those who have appointed you on your activities and challenges.
- **Keep up your demands for information** and do not give up but be patient. Transformation takes time, be ready for advances and setbacks.
- **Respect management but challenge their proposals.** Set clear red lines and vote against resolutions you do not agree. Most likely they will be approved anyway as independent members are minority, but your decision goes on record any vote against is an embarrassment for management.

Uzbekistan has demonstrated that it can produce detailed action plans but has been less successful in their implementation. **Supervisory Boards are the key to facilitating implementation of such important plans and achieve a true transformation of the economy.**