

ASIAN DEVELOPMENT BANK

TAR: KGZ 28395

TECHNICAL ASSISTANCE

TO THE

KYRGYZ REPUBLIC

FOR

CAPACITY BUILDING IN SAVINGS AND CREDIT UNIONS

AND MICROFINANCIAL SYSTEMS

December 2002

CURRENCY EQUIVALENTS

(as of 17 December 2002)

Currency Unit	–	som (Som)
Som1.00	=	\$0.02
\$1.00	=	Som46.01

ABBREVIATIONS

ADB	–	Asian Development Bank
DGRV	–	Deutscher Genossenschafts-und Raiffeisenverband e.V. (German Cooperative and Raiffeisen Confederation)
FCCU	–	Financial Company for the Support and Development of Savings and Credit Unions
GTZ	–	Deutsche Gesellschaft fur Technische Zusammenarbeit GmbH (German Agency for Technical Cooperation)
KAFC	–	Kyrgyz Agricultural Finance Company
MFI	–	microfinance institutions
MSE	–	micro and small enterprises
NBFI	–	nonbank financial institution
NBKR	–	National Bank of the Kyrgyz Republic
OTJ	–	on-the-job
PEARLS	–	protection, effective financial structure, asset quality, rates of return and costs, liquidity, and signs of growth.
SCU	–	savings and credit unions
TA	–	technical assistance
USAID	–	United States Agency for International Development
WOCCU	–	World Council of Credit Unions

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Government of the Kyrgyz Republic has requested technical assistance (TA) to strengthen the capacity of the National Bank of the Kyrgyz Republic (NBKR) to regulate and supervise microfinance institutions (MFIs) and savings and credit unions (SCUs). The TA aims to develop a sound and viable financial system that can provide a range of financial services on a sustainable basis, particularly in rural areas of the Kyrgyz Republic. The TA¹ will (i) assist the nonbank financial institutions (NBFI) supervisory division of NBKR to strengthen its capacity to effectively supervise MFIs, and (ii) further develop the capacity of the Financial Company for the Support and Development of Savings and Credit Unions (FCCU) to carry out day-to-day oversight of SCUs. The TA framework is in Appendix 1.

II. ISSUES

2. **Overview of the Microfinance Sector.** The Kyrgyz Republic has made significant strides to promote the development of the microfinance sector to help meet the requirements of micro and small enterprises (MSEs), households, and individuals who have not been well-served by the formal financial system. The Asian Development Bank (ADB) has actively supported this sector. In 1996, through a project preparatory TA, the first SCUs were successfully piloted in the country. This led directly to the Rural Finance Institution Project,² which began its activities in 1998 and whose purpose is to create a sustainable rural financial system based on SCUs that can both mobilize savings and increase the supply of credit to people living in rural areas.

3. The SCU system has grown dramatically since the inception of the Rural Finance Project. By the end of 1998, 83 SCUs were in operation. The number grew to 166 by end-1999, increasing to 192 in 2000. By the end of 2001 there were 275 SCUs, and it is estimated that by the end of 2002, the number will be 355. In the latest annual period alone, the system grew by 29%. The assets of the SCUs system now represent 4% of total financial sector assets. Approximately 29,000 people are members of SCUs. The Rural Finance Project set targets for number of SCUs (280) and number of members (28,000) to be achieved by 2005, and both have been surpassed.

4. In the past few years, other microcredit programs have also enjoyed substantial growth. Currently, 18 MFIs are operating in the Kyrgyz Republic. Overall, MFIs reach 33,000 customers (apart from the SCU's 29,000), generally with average loan sizes less than \$2,000 equivalent. Two institutions are worth mentioning: the Kyrgyz Agricultural Finance Company (KAFC), established in 1996 with funding from the World Bank; and FINCA Kyrgyzstan, in operation since 1995, and funded by United States Agency for International Development (USAID). KAFC's assets alone account for 14% of total financial sector assets, most of which are provided by the Ministry of Finance through various rediscount facilities made available by International Development Association, International Fund for Agricultural Development, United Nations Development Programme, and ADB. KAFC is the dominant agricultural lender, but it should be noted that only a relatively small portion of its loans are micro loans. FINCA started as a nongovernment organization (NGO) credit program but has grown to be the major urban MFI in the Kyrgyz Republic. SCUs and MFIs, which together comprise the microfinance sector,

¹ The TA first appeared in ADB Business Opportunities (Internet edition) in October 2002.

² ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Rural Financial Institutions*. Manila.

play a vital role as virtually the only providers of credit to MSEs and rural borrowers. Significantly, not one of these institutions has yet been allowed to accept deposits.

5. **Legal and Regulatory Framework for the Microfinance Sector.** The Government enacted the Law on Micro-Finance Organizations in August 2002, which identified three types of MFIs: a microfinance company, similar to a commercial bank, which takes deposits and makes loans; a microcredit company, which is a commercial entity that makes loans but may not take deposits; and a microcredit agency, which is noncommercial and makes loans from its own funds. NBKR is responsible for regulating and supervising MFIs under the new law, and it has drafted regulations to govern the first two types of MFIs.³ A separate law covers SCUs in the Kyrgyz Republic, and NBKR is responsible for regulating SCUs. At present, the operations of SCUs are governed by a set of temporary regulations approved by NBKR prior to the inception of the Project. These regulations need to be updated in light of the project experience and applied more effectively.

6. **Supervisory Framework for MFIs.** NBKR established a Division for Supervision of NBFIs within the Banking Supervision Department in 1997, with authority to supervise SCUs, MFIs, and also pawnbrokers and foreign exchange bureaus. This division has drafted regulations to govern the activities of MFIs (excluding SCUs). NBKR has determined that only microfinance companies will be subjected to on-site supervision; microcredit companies and agencies will be required to provide periodic reports only. The NBFi division plans to build up the present staff of five to eight in 2003. The division urgently requires assistance to develop its call report formats, software systems, procedures for on-site and off-site supervisory examinations, as well as staff training in all these areas.

7. To support the development of a sustainable SCU system, the Government in 1997 established FCCU as a special-purpose apex financial institution responsible for financing SCUs with funds provided by the Project. FCCU is wholly owned by NBKR. In addition to acting as a financial intermediary, FCCU was delegated the responsibility for day-to-day supervision of SCUs. Credit union apex institutions are often given such a dual role of financial service provider and supervisor. SCUs are generally small institutions, and the failure of one SCU, or even a great number of SCUs, is not likely to put the financial system at risk. That being the case, financial regulators are not advised to spend scarce resources to closely supervise small individual SCUs. It is considered best practice to establish a strong apex that can provide a variety of services to SCUs and can also carry out the supervision function on behalf of the financial regulators. NBKR, however, directly supervises FCCU.

8. Under ADB's Rural Finance Institutions loan (footnote 2), the Government has managed to effectively promote SCUs. The rapid growth in the number of SCUs, however, has challenged FCCU and NBKR to establish an effective oversight regime. During the period June-October 2002, FCCU found that at least 12 credit unions had engaged in fraudulent financial activity and malpractices. FCCU and NBKR submitted an inspection report to the Government and ADB about these activities. The incidents demonstrate that the rapid growth of SCUs has outpaced the capacity of FCCU to monitor and supervise them effectively. The small size of the total SCU system poses no real risk to the financial system. In any event, the financial sector remains fragile, and the SCU system itself is in its infancy; widespread failures of—or continued incidences of fraud in—SCUs could dampen public enthusiasm for this type of financial institution, and would deal a further blow to an already battered public trust in

³ Microcredit agencies are not considered to pose a material risk to the financial system and will be left outside the NBKR's supervision regime. This is consistent with best practice in "risk-based" banking supervision.

depository financial institutions. In consideration of these issues, NBKR and FCCU have launched efforts to consolidate, restructure, and strengthen the system.

9. To date the SCUs have not begun deposit mobilization. So far, ADB under the Project has provided funding to get the system running, plus operational support for FCCU. SCU member contributions or “share capital” aggregates to Som295.2 million (equivalent to approximately \$3.4 million), which represents 50.2% of total SCU lending. Most of the remainder of SCU funding is provided by ADB, \$3,765,038.43 to date. Five years into the project, ADB loan funds remain the sole external source of funding for SCUs. New regulations are needed to promote deposit taking, steer the SCUs away from dependence on external sources of funds, and to provide for sufficient capital adequacy.

10. **FCCU's Supervision Capacity.** The capacity of FCCU to supervise SCUs is inadequate. FCCU has neither adequate off-site monitoring and evaluation systems and capacity, nor on-site auditing systems and capacity. In the area of off-site supervision, the World Council of Credit Unions (WOCCU) attempted to introduce the PEARLS⁴ system of credit union financial analysis, which results in a risk rating system for individual SCUs. WOCCU's PEARLS system is used widely in the United States and has been adopted by SCUs in many other countries. FCCU has not adopted PEARLS due to a combination of lack of capacity and lack of a sense of urgency. There is therefore no financial early warning system in place to flag poorly performing SCUs, an absolutely necessary component of off-site supervision. The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH/Deutscher Genossenschafts- und Raiffeisenverband e.V. (DGRV-German Cooperative Bankers Association) project team supporting FCCU is in the process of developing a modified version of PEARLS that can be adopted by SCUs. Assistance is needed to introduce this risk rating system and make it fully operational throughout the SCU system; these tasks are to be directed by an SCU supervision specialist.

11. FCCU's on-site supervision efforts to date have been mainly ad hoc and lack any clear methodology. FCCU staffing levels in the area of supervision (5 people) are low, and the skills and background of the staff are inappropriate to the task of supervising of financial institutions. A major effort needs to be undertaken to hire and to train a sufficient number of qualified supervisors, preferably with auditing backgrounds, so that all SCUs are brought under an effective regime of audit and supervision as quickly as possible. FCCU will hire local auditors who, with the proper training, direction, and support systems, can implement an effective supervision regime over the entire SCU system. There is an urgent need at the moment to launch a kind of rapid assessment effort to ensure that the kinds of fraud that were detected earlier this year (2002) in 12 SCUs are not widespread.

12. ADB has taken a leadership role in microfinance and rural finance in the Kyrgyz Republic, but coordinates closely with other aid agencies supporting the sector. The World Bank, International Finance Corporation, and USAID supported the effort to write a microfinance law and assisted NBKR in preparing MFI regulations. USAID has provided substantial assistance to the MFI sector through its support of FINCA Kyrgyzstan and Mercy Corps, both of which have created substantial microfinance lending organizations. USAID also supports the activities of NBKR's banking division, which regulates commercial banks. The World Bank, for its part, provides substantial support to KAFC, which is engaged mainly in SME lending.

⁴ PEARLS is the terminology used to represent key classes of ratios related to protection, effective financial structure, asset quality, rates of return and costs, liquidity, and signs of growth.

13. In the area of assistance to the SCU sector, ADB coordinates all assistance closely with GTZ, which has an on-site advisory team⁵ supporting FCCU. Originally, consulting services under the ADB project were to be loan-funded, and a TA program was included in the original loan proposal. In 1998, the Government asked GTZ to carry out a TA program with grant funds. Soon after the inception of the project, the promotion of SCUs proceeded more as a political or social, rather than a financial sector program. The number of SCUs, therefore, has grown at an overly rapid rate, and the resources in GTZ's TA program have proven insufficient to build the capacity needed to ensure that the system grows in a controlled and manageable way. Some deficiencies, particularly in the area of supervision, are now clearly evident. The present TA deals directly with these deficiencies in the SCU system, namely capacity building for supervision at FCCU. Coordination with GTZ on all key TA-related issues is managed by frequent contact between ADB and GTZ. The capacity building agenda that this TA addresses was most recently agreed upon in the November 2002 Project Steering Committee meeting, in which both parties participated fully. GTZ/DGRV provides direct advisory support to the management of FCCU. Soros Foundation Kyrgyzstan provides support for SCU training.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

14. The TA aims to improve the regulatory and supervisory capacity of NBKR and FCCU to ensure that both SCUs and MFIs are brought under an effective regime of supervision. The TA will prepare new regulations and develop the institutional capacity of the supervision authorities: FCCU in the case of SCUs, and the NBF division of NBKR for MFIs.

15. The TA will

- (i) review MFI regulations;
- (ii) create policies, procedures, and systems to support NBKR supervision of MFIs;
- (iii) implement the new policies, procedures, and systems for MFIs;
- (iv) provide on-the-job (OTJ) training at NBKR in off- and on-site supervision of MFIs;
- (v) review, revise, and update the temporary regulations governing SCU operations;
- (vi) develop policies, procedures, and systems for off- and on-site supervision of SCUs;
- (vii) implement the new policies, procedures, and systems; and
- (viii) provide OTJ training to FCCU staff in off-site and on-site supervision of SCUs.

B. Methodology and Key Activities

16. The expertise required to update the regulations related to SCUs and build capacity to supervise SCUs and MFIs will be delivered by consulting services. Working closely with NBKR, one consultant will revise and update the SCU regulations. Two consultants will also work with NBKR to develop off-site and on-site supervision systems and staff capacity within the NBF division. In the case of FCCU, one consultant will be integrated into FCCU's management team

⁵ GTZ has a contract with DGRV to carry out the TA program. Two full-time experts—a project manager, and a senior advisor—provide the bulk of the assistance. The project manager has a small local staff and an office adjacent to FCCU. The senior advisor recently joined the project for a period of 1 year and has an office within FCCU. He works directly with FCCU senior managers. The two individuals, plus local staff, comprise the GTZ Rural Finance Project Team. GTZ has made a provision for approximately 7 months' additional consulting level of effort for short-term technical assistance, which is programmed by the project manager. At present, they plan to use this assistance to strengthen information technology systems (and have some small amount of additional funds available for equipment) in support of the supervision function at FCCU.

to develop the supervision function and provide OTJ training and ongoing supervision to the new team of supervisors at FCCU. Each of the international consultants will have different reporting requirements. The TA will provide funding for a team of supervisors who will be engaged by FCCU and be integrated into FCCU's supervision department, under the direction of the international consultant who will oversee the development of the supervision function. The detailed consultants' terms of reference are in Appendix 2.

C. Cost and Financing

17. The estimated cost of the TA is \$654,000, comprising \$482,000 in foreign exchange and \$172,000 equivalent in local currency. The Government has requested ADB to finance the entire foreign exchange and \$68,000 equivalent of the local currency costs. The TA will be financed on a grant basis by ADB's TA funding program. Detailed cost estimates and a financing plan are in Appendix 3.

D. Implementation Arrangements

18. NBKR will be the Executing Agency for the TA. NBKR's NBF1 division and FCCU will be the Implementing Agencies. Each Implementing Agency will provide the consultants with the necessary office support, counterpart staff, and transportation. ADB will review and monitor the implementation of the TA through missions and consultant's reports. TA activities carried out at FCCU will be coordinated with the GTZ Rural Finance Project Team.

19. To implement the TA, ADB will select and engage consultants individually. Four international consultants, will serve for a total of 16 person-months. They (16 person-months) will include a savings and credit union regulatory specialist (1), a financial institutions (off-site) supervision specialist (3), a financial institutions supervision (on-site) specialist (3), and a savings and credit union supervision specialist (9). Ten domestic consultants with auditing experience will be engaged for 10 person-months each as SCU supervisor (totaling 100 person months of domestic consulting services). The consultants will be selected and recruited in accordance with ADB's *Guidelines on the Use of Consultants*. The TA is expected to begin in January 2003 and to be completed in December 2003. Relevant reporting requirements for the consultants are outlined in detail in Appendix 2.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, not exceeding the equivalent of \$550,000 on a grant basis, to the Government of the Kyrgyz Republic for Capacity Building in Savings and Credit Unions and Microfinancial Systems, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal A sound and viable financial system that can provide a range of financial services on a sustainable basis, particularly in the rural areas of Kyrgyz Republic</p>	<p>More than 80% of the savings and credit unions (SCUs) established are operationally and financially viable and are in compliance with all SCU regulations at the end of the project.</p> <p>At least three MFIs are fully licensed according to the new regulations and are in compliance with all MFI regulations operating and have been subjected to new off-site and on-site supervision carried out no later than July 2003.</p>	<p>Rural Finance Project quarterly and annual reports, project completion report, review missions</p> <p>NBKR reports, ADB missions.</p>	<p>Government commitment to develop sustainable SCU and microfinance institution (MFI) systems that can intermediate local funds continues.</p> <p>A stable macroeconomic environment exists.</p>
<p>Purpose Build capacity to supervise MFIs and SCUs by strengthening regulations and building capacity within supervisory institutions</p>	<p>Adequate staff are trained at the National Bank of the Kyrgyz Republic (NBKR) (8 staff) and carrying out active supervision of MFIs. NBKR staff are providing effective oversight of the Financial Company for the Support and Development of Savings and Credit Unions (FCCU).</p> <p>FCCU supervision department (10 staff) is trained and carries out on-site audits of 75% of SCUs participating in Rural Finance Project within calendar year 2003, and provides financial performance rating for 100% of SCUs.</p>	<p>NBKR reports, ADB missions</p> <p>Internal FCCU audit reports; Rural Finance Project periodic reports; ADB missions</p>	<p>Laws are amended to allow for regulatory regimes to take full force.</p> <p>Political pressure to expand SCU system at recent overly rapid pace ceases.</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>Set of revised, updated regulations governing operations of SCUs</p> <p>Complete set of recommendations and technical specifications for NBKR supervision of MFIs</p> <p>Complete set of recommendations and technical specifications for SCU supervision function within FCCU</p>	<p>Regulations are adopted by NBKR and given legal force. Necessary amendments are made to Rural Finance Project Loan Agreement to accommodate revised regulations.</p> <p>Regulations are adopted by NBKR and given full legal force. NBKR's NBFi division is fully staffed. Off-site and on-site reports are prepared.</p> <p>FCCU supervision department is fully staffed by trained supervisors, supervising SCUs according to standard policies and procedures, and applying standard financial evaluation criteria to all SCUs. Off-site reporting systems are in place and functioning; on-site supervision is ongoing.</p>	<p>NBKR reports, ADB missions, revised Loan Agreement</p> <p>NBKR reports, ADB missions</p> <p>Rural Finance Project quarterly and annual reports, ADB missions</p>	<p>There is commitment to fund (or find funding for) necessary staff capacity building at NBKR.</p> <p>Aid coordination is improved, specifically; aid agencies agree to clearly delineate areas where assistance will be provided and to avoid overlapping TAs.</p> <p>NBKR and FCCU agree to draw on loan to finance any additional costs of developing supervisory capacity, supplemented by funding from GTZ/DGRV.</p>
<p>Activities</p> <p>Consultations and meetings</p>	<p>Consulting services</p> <p>Technical assistance budgeted as follows:</p> <p style="padding-left: 40px;">\$482,000</p> <p style="padding-left: 40px;"><u>\$172,000 *</u></p> <p style="padding-left: 40px;">\$654,000</p> <p>(*local currency equiv.)</p>		

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Experts

1. A team of four international specialists will be recruited to assist the National Bank of the Kyrgyz Republic (NBKR) with regulatory and supervision issues, and to provide on-site assistance to build supervision capacity at Financial Company for the Support and Development of Savings and Credit Unions (FCCU). The specialists will provide consulting services for 16 person-months.

1. Savings and Credit Union Regulatory Specialist (1 person-month)

2. The specialist will have at least 10 years experience in regulating and supervising credit unions, as well as in working with SCUs in Central Asia or other transitional economies. The SCU regulatory specialist will

- (i) review the present set of SCU temporary regulations governing the establishment and operation of SCUs, and assist NBKR to revise and update the regulations. The consultant will incorporate into the regulations key concepts related to the definition of capital, capital adequacy, and external borrowing limits to reflect both international best practice and local circumstances. The regulations will outline conditions under which SCUs may be allowed to take deposits. The consultant will work closely with NBKR, Asian Development Bank (ADB), and Deutsche Gesellschaft fur Technische Zusammenarbeit GmbH (GTZ) to ensure the revised regulations reflect the consensus between these institutions on all key concepts;
- (ii) advise NBKR on ways to improve the supervision/oversight of SCUs, including ways to improve direct supervision of FCCU; and
- (iii) prepare a brief report that contains the revised regulations and a set of recommendations for improved supervision/oversight of SCUs. This report must be prepared and submitted to ADB and NBKR before the consultant leaves the Kyrgyz Republic.

2. Financial Institution (Off-Site) Supervision Specialist (3 person-months)

3. The specialist will have at least 10 years experience as a bank examiner/supervisor, with particular expertise in the area of off-site supervision, and significant advisory experience in developing countries working with central banks or financial institution supervisory bodies to improve supervision of financial institutions. Recent consulting experience related to supervision of microfinance institutions and programs (MFIs) or nonbank financial institutions (NBFIs) is essential, preferably in a transitional economy. The specialist will

- (i) review the recently enacted Law on Microfinance Organizations and the set of draft regulations prepared to facilitate the implementation of the law, and recommend improvements to the regulations;
- (ii) in conjunction with the on-site specialist, assess the capacity of NBKR to effectively regulate MFIs by analyzing the present staffing structure and

considering additional staffing needs; make recommendations for capacity building and training to improve staff skills;

- (iii) assist NBKR to prepare the methodology, call report formats, policies, and procedures for carrying out off-site supervision of MFIs, and summarize these in a manual on off-site MFI supervision;
- (iv) provide on-the-job (OTJ) training to NBKR staff in the area of off-site supervision of MFIs;
- (v) advise NBKR on appropriate computer software programs to be used to facilitate off-site supervision; and
- (vi) prepare a brief report on activities that includes all relevant output as per (i), (ii), (iii), and (v) as appendixes. This report must be prepared and submitted to ADB and NBKR before the consultant leaves the Kyrgyz Republic.

3. Financial Institution (On-Site) Supervision Specialist (3 person-months)

4. The specialist will have at least 10 years experience as a bank examiner/supervisor, with particular expertise in the area of on-site supervision, plus significant advisory experience in developing countries working with central banks or supervisory bodies to improve the supervision of financial institutions. Recent consulting experience related to MFI or NBFIs supervision is essential, preferably in a transitional economy. The specialist will

- (i) review the recently enacted Law on Microfinance Organizations and the set of draft regulations prepared to implement the law, and recommend improvements on the regulations;
- (ii) in conjunction with the off-site specialist, assess the capacity of NBKR to effectively supervise MFIs by analyzing the present staffing structure and considering additional staffing needs; make recommendations for capacity building and training to improve staff skills;
- (iii) assist NBKR to prepare the methodology, policies, and procedures for on-site supervision of MFIs, and summarize these in a manual for on-site MFI supervision;
- (iv) provide OTJ training to NBKR staff in on-site supervision of MFIs;
- (v) advise NBKR on appropriate computer software programs to be used to facilitate on-site supervision; and
- (vi) prepare a brief report on activities that includes all relevant output as per (i), (ii), (iii), and (v) as appendixes. This report must be prepared and submitted to ADB and NBKR before the consultant leaves the Kyrgyz Republic.

4. Savings and Credit Union Supervision Specialist (9 person-months)

5. The specialist will have substantial training in auditing and/or accounting, with at least 10 years experience in auditing/supervising SCUs. The specialist must have worked as an advisor

to credit unions in transitional economies. Working with FCCU management and in close cooperation with the GTZ advisory team, the specialist will

- (i) evaluate FCCUs' capacity to supervise SCUs;
- (ii) develop a set of supervision policies and procedures to be applied to SCUs;
- (iii) advise FCCU on how best to organize the supervision department at FCCU so as to provide adequate off-site and on-site supervision of SCUs;
- (iv) provide OTJ training, supplemented by workshops as needed, to local supervisors who will be hired for FCCUs' supervision department;
- (v) develop a long-term staffing and staff training plan for the supervision department of FCCU;
- (vi) monitor the technical work of the supervisors and develop job performance criteria;
- (vii) advise NBKR on measures that FCCU should take to develop the internal audit function, including policies and procedures, as well as staffing and training requirements;
- (viii) assist FCCU to implement the PEARLS system of financial performance evaluation for off-site monitoring throughout the SCU system, and other systems for financial performance evaluation at FCCU, if possible, in conjunction with GTZ; and
- (ix) submit quarterly progress reports to NBKR and ADB detailing progress in carrying out activities (i) through (viii), and prepare a final report assessing progress made in meeting each of the terms of reference, identifying problems encountered, and recommending future activities, including additional TA support, to further build FCCU's institutional capacity. The final report must be prepared and submitted to ADB, FCCU, and NBKR before the consultant leaves the Kyrgyz Republic.

B. Domestic Experts

6. A team of 10 domestic consultants for 100 person-months will be recruited and hired to develop and strengthen the FCCUs supervision department. The domestic consultants will have been trained as auditors and have experience in carrying out on-site auditing of enterprises. At the end of their consulting contracts, they will be fully integrated into FCCU and form part of the supervision department. TA funding is provided to engage 10 people for 10 months, after which FCCU will bear the cost of these personnel, which may be defrayed in full or in part by charging SCUs a mandatory supervisory fee. It is anticipated that within 10 months, FCCU will have in place a strategy to recover the unavoidable costs of its essential supervision function. Specific terms of reference for the domestic consultants will be determined by FCCU management, as advised by the SCU supervision specialist and the GTZ project team, and will be acceptable to ADB.

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. International Consultants			
a. Remuneration and Per Diem	400,000		400,000
b. International Travel	23,000		23,000
2. Domestic Consultants			
a. Remuneration		50,000	50,000
b. Local Travel for SCU supervision		10,000	10,000
3. Contingencies	59,000	8,000	67,000
Subtotal (A)	482,000	68,000	550,000
B. Government Financing			
1. Office Accommodation and Transport		25,000	25,000
2. Remuneration and Per Diem of Counterpart Staff		47,000	47,000
3. Translation		5,000	5,000
4. Transportation		12,000	12,000
5. Contingencies		15,000	15,000
Subtotal (B)		104,000	104,000
Total	482,000	172,000	654,000

SCU = savings and credit union.

^a Funded by ADB's TA funding program.

Source: Asian Development Bank staff estimates.