

ASIAN DEVELOPMENT BANK

TAR: KGZ 34172

TECHNICAL ASSISTANCE

TO THE

KYRGYZ REPUBLIC

FOR

FINANCIAL SECTOR REFORMS

December 2002

CURRENCY EQUIVALENTS

(as of 19 November 2002)

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

ABBREVIATIONS

ADB	–	Asian Development Bank
FIRM	–	Financial Intermediation and Resource Mobilization Program
GDP	–	Gross domestic product
IMF	–	International Monetary Fund
IT	–	Information technology
JSC	–	joint stock companies
KSE	–	Kyrgyz Stock Exchange
MOF	–	Ministry of Finance
NBKR	–	National Bank of Kyrgyz Republic
SCSM	–	State Commission on Securities Markets
SCSP	–	State Committee on State Property and Direct Investment
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

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

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I. INTRODUCTION

1. The Government of the Kyrgyz Republic requested technical assistance (TA), during the 2002 Country Programming Mission of the Asian Development Bank (ADB), for advice on banking sector and financial market reform initiatives to continue the ADB-supported Financial Intermediation and Resource Mobilization Program (FIRM).¹ Subsequent fact-finding and consultation missions reconfirmed the understanding reached and finalized the TA objectives, scope, and implementation arrangements. The logical framework is in Appendix 1.²

II. ISSUES

2. The financial sector has been transformed significantly since the transition to a market economy started. Over the last decade, measures were taken to shift the banking system inherited from the Former Soviet Union to a market orientation and to establish capital markets. However, macroeconomic difficulties, the contagion from the Russian financial crisis, and slow progress in state-owned enterprise (SOE) restructuring impeded the financial sector's development. Although the basic legal, regulatory, and institutional framework has been established and the immediate and most direct effects of the Russian crisis have been overcome, the financial sector does not yet significantly contribute to the wider development goal. The role of the sector in financial intermediation and resource mobilization and in instilling good governance norms in enterprises outside the financial sector is not significant.

3. Banking sector regulation and supervision have been substantially improved, but remaining gaps increase the sector's vulnerability and limit the confidence of the population as well as the interest of investors in financial institutions. Most notable here are insufficient capacities of the National Bank of Kyrgyz Republic (NBKR) to assess risks related to the operations of commercial banks, and the lack of proactive measures to establish adequate risk rating and risk management procedures within them. Regulatory guidance is still lacking for market, interest rate, operational, country, or transfer risk assessment and management.

4. The restructuring of remaining problem banks is not yet finalized, and consolidation of the banking sector has only started. Both factors considerably limit the banking sector's role in financial intermediation as consolidation is a prerequisite to pool a critical mass of resources for meaningful levels of intermediation. The number of banks has declined from 24 to 20 over the last 3 years, and financial intermediation ratios are still comparatively low.³ One key problem is that NBKR is facing serious problems in enforcing prudential norms to prevent weak banks from continuing operations. These difficulties seem to result from a combination of weaknesses in the court system, remaining shortcomings in banking sector legislation, and suboptimal preparation of cases by NBKR, given the negative perception of the court system and recent frequent rulings against NBKR.

5. The Government has not finalized its position yet on resolving Kairat Bank, a major state-owned commercial bank, which accounts for about 11% of the capital of the banking sector. The uncertainty of the future of the bank has affected its financial and operational position. The bank's profitability is declining as it depends largely on the margin between deposit rates and yields of treasury bills, due to restrictions on lending. Finally, the lack of a strategic framework to involve foreign investors in restructuring and consolidating the banking

¹ Loan 1723 approved in December 1999 in the amount of SDR25.2 million. FIRM will be completed in 2002.

² The TA first appeared in *ADB Business Opportunities* in December 2002.

³ The ratio of banking sector assets and deposits to gross domestic product (GDP) stood at 6.7% and 3.4%, respectively, at end-2001. The ratio of broad money to GDP is quite low, by regional and international comparisons, at 7.4%.

system is also a major problem, since few transition economies have managed to reform their banking systems without a systematic integration of foreign banks.

6. The legal and institutional framework supporting creditor rights continues to be inadequate. In case of a borrower's payment difficulties, bank managers have strong incentives to extend maturities, settle for partial repayments, and roll over credits, rather than foreclose assets of insolvent enterprises through the court system, as enforcement procedures are slow, unreliable, and costly. Kyrgyz legislation and banking sector regulation also prevent banks from lending to financially restructure insolvent enterprises that implement restructuring or reorganization plans agreed upon by creditors.⁴ As a consequence of both factors, the propensity of commercial banks to provide credit to the real sector is lower than it otherwise would be. To offset high regulatory risks, lenders have adopted a policy of fully securing all the loans in nearly all corporate transactions, and the collateral taken is typically twice the loan value.

7. Although the volume of primary issues of securities on the Kyrgyz Stock Exchange (KSE) is increasing, the general role of capital markets in mobilizing resources and improving financial disclosure and corporate governance practices in the enterprise sector is still small due to a combination of shortcomings.⁵ First, supervision and regulation of capital markets are still not adequate. The State Commission for Security Markets (SCSM), the supervisory agency, has limited financial and operational autonomy and weak technical and professional capacity. SCSM is not capable of supervising the 60 professional participants of the securities markets and 400 joint stock companies (JSC) whose stocks are traded. Second, privatization of viable enterprises through KSE is lacking, without which development of healthy equity markets has proven to be difficult in many transition economies. Enterprises offered for privatization through KSE have frequently not been sold due to insufficient information disclosure and lack of any serious restructuring to attract investors.

8. Only a fraction of the JSCs are willing and able to comply with listing requirements and enhanced corporate governance standards, which deters JSCs' entry into capital markets. Only 24 companies are still listed on KSE, compared to 64 at end-2000.⁶ Shares of nonlisted companies are also traded at KSE as a result of a presidential decree in May 1999, which required all equity trading to go through KSE without specifying listing as a precondition. These observations point to the importance of two factors to develop the equity market: (i) corporate restructuring and enhancing investor confidence through better corporate governance, continuing the efforts that have been supported over the last four years; and (ii) the need to quickly reach a critical level of trading volume to attract investors, which would, in turn, increase the incentive for companies to get a listing.

9. Trading in government securities, such as treasury bills, takes place exclusively between Kyrgyz banks on trading platforms in NBKR, resulting in conflicts of interests for NBKR, as it is not only the market regulator but also a market participant. Secondary trading in treasury securities is also very low. These factors have reduced the attractiveness of Kyrgyz government securities for investors, as a consequence of which the Ministry of Finance (MOF) has been forced to offer higher yields for these securities. Yet, the market is not a significant source of funding for the Government.

⁴ Banks are forbidden to (i) hold more than 15% ownership in legal entities and (ii) extend credit to insolvent enterprises.

⁵ The highest estimate of total stock market capitalization by KSE as of May 2001 is Som1.5 million (\$33 million).

⁶ The top four enterprises, which account for 70% of the capital stock in the economy, are JSCs Kyrgyz Energo, Kyrgyz Telecom, Kyrgyz Gas, and Kyrgyz Airlines; only Kyrgyz Telecom remains listed after the delisting of Kyrgyz Gas and Kyrgyz Energo in 2001. Out of 14 financial institutions listed in 2000, 6 were delisted in 2001; 8 commercial banks are still listed.

10. ADB has supported financial sector development in the Kyrgyz Republic through TA,⁷ and the FIRM Program, which was provided to continue the reforms launched under the World Bank's Financial Sector Adjustment Credit and focused on (i) strengthening banking sector oversight, (ii) restructuring and consolidating the banking system, (iii) developing the Government's securities market, and (iv) facilitating the development of the equity markets. ADB has also supported the development of rural financial institutions.⁸ A key lesson from the FIRM Program is that progress in enterprise reforms is a precondition for progress in financial sector reforms. As a result of progress being made under the second phase of the Corporate Governance and Enterprise Reform Program supported by ADB—introducing good corporate governance standards in JSCs, adopting international accounting and financial reporting standards, and restructuring selected large enterprises—the Government wishes to formulate measures to strengthen the financial sector.

11. ADB has closely coordinated with the International Monetary Fund (IMF) and World Bank, which are jointly assessing the financial sector under their Financial Sector Assessment Program. World Bank is preparing a financial sector and business environment program, which will focus on restructuring and privatizing Settlement and Savings Bank, institutionally strengthening the Debt Restructuring Agency, and implementing payment system reforms. IMF is providing short-term advisory support to NBKR on risk assessment in the banking system. The United States Agency for International Development (USAID) is providing legal advice on securities market legislation. ADB's efforts will focus on capacity building for efficient risk management in commercial banks as well as the central bank, and the securities market component will focus on medium- to long-term development needs.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

12. The purpose of the TA is to (i) strengthen the financial sector regulatory framework and its enforcement, with focus on effective risk management; (ii) promote consolidation of the banking sector; and (iii) facilitate capital market development. The outputs will include (i) an enhanced oversight and enforcement framework for the banking sector; (ii) a strategic framework aimed at consolidating and enhancing foreign investments in the banking sector; and (iii) a sound policy, institutional, and regulatory framework to guide capital market development.

B. Methodology and Key Activities

13. The TA methodology will comprise in-depth diagnostic assessments of selected banking sector and capital market issues. The TA will undertake the following:

1. Strengthen the Banking Sector Regulatory Framework

14. This activity will entail the following:

- (i) Assess the state of risk assessment and management in commercial banks and NBKR's risk management and early warning framework for the banking system, against international best practices.

⁷ ADB. 1999. *Technical Assistance for Institutional Strengthening of the Financial Sector*. Manila.

⁸ ADB. 1997. *Technical Assistance for Rural Financial Institutions*. Manila.

- (ii) Design and implement a training program to enhance commercial bank risk assessment and management, and NBKR's regulatory approaches to risk management, in line with Basel Committee II requirements.
- (iii) Review NBKR's regulatory response policy, and formulate a sound mechanism to guide interface between various departments in NBKR to enforce banking sector regulation.
- (iv) Launch a diagnostic study on asset foreclosure of commercial banks through the court system.
- (v) Review the legal framework relevant for involvement of commercial banks in restructuring insolvent enterprises.
- (vi) Based on all of the above, formulate a policy, institutional, and legal reform agenda to (a) strengthen risk assessment and management, (b) enhance NBKR's overall regulatory response, (c) strengthen the interface between NBKR and the Government in ensuring banking system soundness, (d) facilitate asset foreclosure, and (e) enable commercial banks' involvement in enterprise restructuring.

2. Establish a Sound Institutional Environment to Improve Financial Intermediation

15. This activity will entail the following:

- (i) Evaluate policy, institutional, and legal reform options to enhance overall public confidence in the banking system.
- (ii) Assess the ownership and operational and financial position of individual banks, and formulate a banking sector consolidation plan, comprising policy, institutional and legal measures and stimulus needed to achieve an optimal structure for the banking sector.
- (iii) Assess the potential for foreign investment in the banking sector, and formulate a strategy to involve foreign institutions and investors in restructuring and consolidation of Kyrgyz banks.

3. Formulate a Capital Market Reform Agenda

16. This activity will entail the following:

- (i) Review the regulatory and enforcement procedures of SCSM with regard to JSCs and professional participants in the capital market.
- (ii) Design measures to increase the listing of JSCs on KSE, with due regard to capital market integrity, and design a sound method to privatize SOEs through KSE, and help prepare selected SOEs for sale.
- (iii) Improve the management of state-guaranteed debt taken over from insolvent enterprises and recommend measures to convert the debt into equity.
- (iv) Establish a viable trading platform for government securities outside NBKR.
- (v) Undertake an exploratory review, and formulate initial policy, institutional, and legal measures to support the development of regional trading platforms in the Central Asian Region with participation of enterprises incorporated in the Kyrgyz Republic.

C. Cost and Financing

17. The total TA cost is estimated at \$710,000 equivalent, of which \$492,000 is the foreign exchange cost, and \$218,000 equivalent, the local currency cost. The Government has

requested ADB to finance the entire foreign exchange cost of \$492,000 and \$108,000 equivalent of the local currency cost for a total of \$600,000 equivalent. The TA will be financed on a grant basis from ADB's TA funding program. The Government will finance the remaining \$110,000 by providing office support, workshop facilities, translation, transportation, and local counterpart staff. Appendix 2 presents the cost estimates.

D. Implementation Arrangements

18. The TA will require 14 person-months of international consulting inputs and 42 person-months of domestic consulting services. The international consultants will include (i) a banking system specialist for 5 person-months, (ii) a legal expert for 3 person months, and (iii) a capital market specialist for 6 person-months. The local experts will include (i) an accountant for 10 person-months, (ii) a legal expert for 10 person months, (iii) a capital market specialist for 8 person-months, and (iv) an information technology specialist for 14 person-months. An international consulting firm will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory for ADB for the selection of domestic consultants, using a simplified technical proposal and quality- and cost-based selection procedures. The outline terms of reference for the consultants are in Appendix 3. Training SCSM staff in international accounting and auditing standards will be financed under the TA but not provided by the consultants. The training will take place in the Kyrgyz Republic. Training of MOF staff and professional capital market participants in government securities trading will be financed under the TA and provided in Central Asia.

19. The team leader (capital market specialist) will be responsible for coordinating the inputs of all the international and domestic consultants and consolidating all reports. An inception report will be presented within three weeks of the commencement of services. The team will also provide monthly reports on TA progress and on key developments. The consultants will present a draft final report on all aspects of the TA two weeks before the end of the TA, which will be finalized upon receipt of comments from the Government and ADB.

20. NBKR will be the Executing Agency for the TA. NBKR, MOF, Office of the Prime Minister, and SCSM will be the implementing agencies. Given the need to coordinate measures to support capital market development across MOF, SCSM, State Committee on State Property and Direct Investment (SCSP), NBKR, and other ministries and agencies, the Office of the Prime Minister will play a key role in this TA by closely coordinating capital market-related activities of the other agencies except NBKR. Each implementing agency will provide the consultants with the necessary office support, counterpart staff, transportation, and other services. SCSP and KSE have also committed to provide necessary office support, counterpart staff, and other services to the consultants. The TA will commence in March 2003, and it is expected to be completed in January 2004.

IV. THE PRESIDENT'S DECISION

21. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to the Government of the Kyrgyz Republic for Financial Sector Reforms, and hereby reports this action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Improve the efficiency of financial intermediation and resource mobilization</p>	<ul style="list-style-type: none"> • A sound, resilient, and competitive financial system • Enhanced role of capital markets in resource mobilization and allocation 	<ul style="list-style-type: none"> • Yearly reports of NBKR, SCSM, and KSE • IMF reports • Policy dialogue • TA reports and review mission 	<ul style="list-style-type: none"> • Macroeconomic stability • Progress in restructuring the corporate sector • Kyrgyz authorities' commitment to implement the financial sector reform strategy
<p>Purpose</p> <ul style="list-style-type: none"> • Strengthen the financial sector regulatory framework and its enforcement, with focus on effective risk management • Promote consolidation of the banking sector • Facilitate capital market development 	<ul style="list-style-type: none"> • Banking sector regulation in line with international best practice • Improved enforcement of banking sector regulation • Further consolidation of the banking sector • Supervision of capital markets and joint stock companies institutionally strengthened 	<ul style="list-style-type: none"> • TA progress reports of the individual components as specified below • TA review missions • NBKR monthly reports • IMF reports 	<ul style="list-style-type: none"> • Coordination among ministries, other state bodies, and private sector organizations such as KSE • Successful coordination between funding agencies organizations • Implementation of Corporate Governance and Enterprise Reform Program II • Progress with reforms of the court system
<p>Outputs</p> <ul style="list-style-type: none"> • Measures to strengthen regulation of commercial banks and enforcement of regulation 	<ul style="list-style-type: none"> • NBKR staff made familiar with methods to assess commercial bank risk and banking system risk in line with international best practice • A policy reform agenda to introduce risk assessment and management methods in line with Basel II requirements • An enforcement exercise of 	<ul style="list-style-type: none"> • TA reports • TA review missions • Reports of THE NBKR supervisory department • IMF reports 	<ul style="list-style-type: none"> • Affected staff in supervisory and legal departments of NBKR to stay in their positions over the TA period • Close coordination between Kyrgyz authorities and ADB as well as other donors active in the field • Progress with reforms of

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> • Measures to support consolidation of the banking sector • Measures to further capital market development 	<p>banking sector regulation through the court system</p> <ul style="list-style-type: none"> • A policy reform agenda to strengthen the enforcement of banking sector regulation • A diagnostic study on asset foreclosure of commercial banks, and a review of laws on engaging banks in restructuring insolvent enterprises • A policy reform agenda to improve asset foreclosure and engage commercial banks in restructuring cases • A strategy paper for involving foreign investors in the consolidation of Kyrgyz banks • A policy reform agenda to consolidate the banking system • A review of supervision, regulation, and enforcement of SCSM procedures • Skilled staff in the SCSM online inspection department • A policy reform agenda to develop capital markets • A concept paper to establish a market for government securities outside NBKR • A concept paper to promote KSE listing • SCSP offer of SOE for sale through KSE • A policy agenda to improve 	<ul style="list-style-type: none"> • TA reports • TA review missions • Monthly reports of NBKR • IMF reports • TA reports • TA review mission • SCSM and KSE reports • IMF reports 	<p>the court system</p> <ul style="list-style-type: none"> • Close coordination between Kyrgyz authorities and donors such as ADB, IMF, and World Bank on questions related to banking sector strategy • Affected SCSM and SCSP staff to stay in their positions over the TA period • Sustained commitment of authorities to privatization through stock exchanges • Coordination between funding agencies such as ADB and USAID

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	management of state-guaranteed debts of insolvent enterprises and an assessment of possibilities to transform these debts into securities		
Inputs <ul style="list-style-type: none"> • 14 person-months of international consultants • 42 person-months of local consultants • Training and equipment for SCSM staff 		<ul style="list-style-type: none"> • TA reports • TA review missions 	

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	350	0	350
ii. Domestic Consultants	0	63	63
b. International and Local Travel	25	5	30
c. Reports and Communications	15	0	15
2. Equipment ^a	40	0	40
3. Training and Seminars	0	30	30
4. Miscellaneous Administration and Support Costs	5	0	5
5. Representative for Contract Negotiations	5	0	5
6. Contingencies	52	10	62
Subtotal (A)	492	108	600
B. Government Financing			
1. Office Accommodation and Transport	0	50	50
2. Remuneration and Per Diem of Counterpart Staff	0	30	30
3. Workshop and Translation Needs	0	30	30
Subtotal (B)	0	110	110
Total	492	218	710

^a Equipment consists of computers, copy machines, other technical equipment necessary for the work of the consultant, notebooks for the on-site inspection department of SCSM, and hardware necessary to improve transparency of trading at the **Kyrgyz Stock Exchange**. Equipment will be purchased in accordance with Asian Development Bank (ADB) *Guidelines for Procurement*.

Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. All international consultants will be required to formulate the terms of reference for the domestic consultants in their respective areas, and oversee the domestic consultants' work. All consultants (international and domestic) will be required to provide detailed written inputs in their respective areas to the team leader (capital market specialist) in a timely manner to meet the reporting requirements outlined in para.16 of the technical assistance (TA).

2. All international consultants (with inputs from the domestic consultants) will be responsible for preparing a summary matrix clearly outlining the various reform measures deemed necessary in the consultants' areas. The team leader will be responsible for consolidating all the reform recommendations into a coherent matrix of well-sequenced policy, institutional, legal, and regulatory reforms to strengthen the financial sector.

A. International Consultants

1. Banking System Specialist (5 person-months)

3. The consultant will have in-depth knowledge of Basel II requirements related to banking sector risk assessment and management. The consultant will also have a solid background in bank restructuring and consolidation. The consultant will supervise and guide the work of a domestic accountant. The terms of reference of the consultant will include, but not be restricted to, the following:

- (i) Help National Bank of Kyrgyz Republic (NBKR) develop a policy reform agenda to consolidate the banking sector while taking into account suggestions made by other donors such as International Monetary Fund and World Bank. In particular, undertake a broad-based assessment of the ownership and operational and financial position of individual banks, and formulate a banking sector consolidation plan comprising policy, institutional, and legal measures and stimulus needed to achieve an optimal structure for the banking sector.
- (ii) Submit a concept paper on systematically involving foreign banks in consolidating the banking system, based on experience in other transition economies.
- (iii) Undertake a diagnostic study on current practices and capacities of risk assessment and management in Kyrgyz banks, based on information from the on-site supervision division of NBKR and, if necessary, complemented by additional information requested from commercial banks. Develop a questionnaire to collect information from on-site inspectors and, if necessary, from commercial banks.
- (iv) Develop a policy reform agenda to introduce risk assessment and risk management methods into the banking system in line with Basel II requirements, while ensuring that NBKR will not adopt any nonstandardized approaches (such as internal rating-based systems) to credit risk assessment and management.
- (v) Train NBKR staff to systematically assess banking system-related risks and risks related to the operations of commercial banks in line with international best practices, while taking into account MBKR's ad hoc supervisory activities in this field.

2. Legal Expert (3 person-months)

4. The consultant will have in-depth knowledge in enforcement of banking sector regulation, asset foreclosure of commercial banks, and banking sector law. The consultant will supervise and guide the work of a domestic legal expert. The terms of reference of the consultant will include, but not be restricted to, the following:

- (i) Examine the adequacy of the legal framework with regard to restructuring and liquidation of commercial banks, focusing on the adequacy of the regulator's authority.
- (ii) Review current enforcement of banking sector regulations, including a diagnostic study on enforcement of prudential norms through the court system by NBKR. Take into account spade work by United States Agency for International Development (USAID). Support the cooperation and coordination between NBKR's legal and supervisory departments in enforcing banking sector regulation through an enforcement exercise focusing on banks not complying with prudential norms. Help the Legal Department prepare cases.
- (iii) Submit a policy reform agenda to improve enforcement of prudential norms.
- (iv) Undertake a diagnostic study on asset foreclosure of commercial banks through the court system and develop a policy reform agenda to facilitate asset foreclosure.
- (v) Review the legal framework relevant to commercial bank involvement in restructuring insolvent companies and develop a policy reform agenda that makes involvement possible and efficient.

3. Capital Market Specialist—Team Leader (6 person-months)

5. The specialist will have extensive experience in capital market development, a solid background in capital market regulation and privatization, and knowledge on asset management. The specialist will supervise and guide the work of the domestic legal expert, capital market expert, accountant and/or auditor, and information technology (IT) specialist. The specialist's tasks will include, but not be limited to, the following:

- (i) Oversee and coordinate the work of all the consultants and prepare periodic reports as outlined in para. 16 of the TA paper.
- (ii) Develop a policy reform agenda to establish viable trading platforms for government securities and outside NBKR in close cooperation with the administration of the Prime Minister, the working group on capital market reforms (headed by the deputy prime minister for economic reforms), SCSM, and professional market participants.
- (iii) Review SCSM's current supervision and enforcement practice related to joint stock companies (JSCs) and professional capital market participants and develop a policy reform agenda to strengthen supervision and enforcement of prudential norms, and to address the issue of SCSM's status.
- (iv) Help the Kyrgyz authorities establish a trading platform for government securities outside NBKR.
- (v) Help the Kyrgyz authorities and Kyrgyz Stock Exchange (KSE) develop a policy reform agenda and an action plan to promote listing of commercial banks and enterprises at the stock exchange.
- (vi) Provide a methodology to estimate the value of selected state-owned enterprises in close cooperation with a domestic accountant, and support State Committee

on State Property and Direct Investment (SCSP) in preparing the privatization of selected SOEs for sale through the stock exchange. Support SCSP in preparing offering circulars for the selected SOE in close cooperation with a domestic legal expert.

- (vii) Assess the adequacy of KSE's capacities to increase financial market activities in close cooperation with a domestic IT specialist, and help KSE draft an action plan to strengthen the exchange.
- (viii) Assess the capacities of the State Fund for Development of the Economy under Ministry of Finance (MOF) in managing state-guaranteed debt taken over by MOF from defaulted enterprises professionally, and also the possibilities to securitize a part of these debts. Develop a policy reform agenda to strengthen the management of these debts and prepare securitization of debts, if advisable.
- (ix) Undertake an exploratory review, and formulate initial policy, institutional, and legal measures to support the development of regional trading platforms in the Central Asian Region with participation of enterprises incorporated in the Kyrgyz Republic.

B. Domestic Consultants

6. All domestic consultants will be required to help the international consultants by (i) providing country background information; (ii) collating recent policy, institutional, legal, and regulatory measures in the consultants' respective areas; (iii) providing logistics and other technical translation services as appropriate and needed; and (iv) providing written inputs to facilitate the preparation of team reports.

1. Accountant-Auditor (10 person-months)

7. The consultant will have experience in accountancy and audit of JSCs in the Kyrgyz Republic and solid knowledge of SOE privatization. The consultant will have reporting lines to the international banking expert and the international capital market expert. The consultant will undertake the following:

- (i) Help the international banking sector expert and NBKR conduct a diagnostic study on current practices and capacities of risk assessment and management in Kyrgyz banks.
- (ii) Help the capital market expert estimate the value of SOEs selected for sale through the stock exchange and prepare SOE privatization through the stock exchange.

2. Legal Expert (10 person-months)

8. The consultant will have a solid background in Kyrgyz legislation related to commercial banks, have experience in working with the Kyrgyz court system, and support the international legal expert. The consultant will also have a background in preparing documents for SOE privatization. The terms of reference of the consultant will include, but not be limited to, the following:

- (i) Help the international legal expert (a) undertake a diagnostic study on enforcing of banking sector regulation; (b) undertake a diagnostic study on asset foreclosure; (c) support NBKR in preparing cases; and (d) formulate a policy

- reform agenda to facilitate enforcement of prudential norms, asset foreclosure, and involvement of commercial banks in restructuring of insolvent enterprises.
- (ii) Help the international capital market expert prepare offering circulars for SOEs eligible for sale through the stock exchange.

3. Capital Market Specialist (8 person-months)

9. The consultant will have solid experience in developing equity and fixed-income markets in Central Asia, and will work under the supervision of the international capital market expert. The terms of reference of the consultant will include, but not be limited to, the following:

- (i) Contribute to the development of a concept to establish a market for government securities outside NBKR.
- (ii) Contribute to the review of SCSM's current supervision and enforcement practice and support the development a policy reform agenda to strengthen supervision and regulation of capital markets.
- (iii) Contribute to the elaboration of a concept to encourage listing at KSE.
- (iv) Support SOE privatization through stock exchanges in the Kyrgyz Republic in close cooperation with SCSP experts.

4. Information Technology Specialist (14 person-months)

10. This consultant will have solid experience in organizing data flows in financial sector institutions and will work under the supervision of the capital market expert. The consultant's terms of reference will include, but not be limited to, the following:

- (i) Help SCSM strengthen its IT systems related to supervision on capital market developments and JSCs.
- (ii) Develop and implement a concept to automatize the update of KSE's web page and make available relevant information for potential investors on this page.
- (iii) Review concepts of KSE to strengthen its IT infrastructure, and make proposals for their improvement. Closely cooperate with the KSE IT specialists.