

ASIAN DEVELOPMENT BANK

TAR: OTH 36027

TECHNICAL ASSISTANCE

FOR

REGIONAL FINANCIAL SECTOR DEVELOPMENT

November 2003

ABBREVIATIONS

ADB	–	Asian Development Bank
BIS	–	Bank for International Settlements
CAC	–	transition economy in Central Asia and the Caucasus
GDP	–	gross domestic product
FSSA	–	financial system stability assessments
IAS	–	international accounting standards
IMF	–	International Monetary Fund
JSC	–	joint stock company
RETA	–	regional technical assistance
ROSC	–	reports on the observance of standards and codes
TA	–	technical assistance

NOTE

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

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I. INTRODUCTION

1. Financial sector development is essential for sustainable economic growth. A developed financial system will improve savings mobilization and financial intermediation, more efficiently allocate resources for productive investments, and allow risk spreading and risk pooling. However, the transition economies in Central Asia and the Caucasus (CACs) have yet to establish a financial system that fulfills these functions.

2. While financial sector development in CACs is constrained by various factors, the small size of the economies is probably the single most important one.¹ Financial institutions have more-than-usual problems to reduce transaction cost through economies of scale, and financial market activity cannot easily reach a critical volume to increase liquidity and realize economies of scale. To overcome this constraint, CACS will have to integrate their financial markets with each other or with larger ones. While this is not achievable in the near future, the countries could gradually move towards integration by harmonizing standards and regulations according to international best practices.

3. Although all CACs have been confronted with similar development challenges over the last decade, the pace and progress of reforms, particularly in the financial sector, has been uneven across the region. CACs must address a long list of weaknesses to pave the way to harmonization and financial integration. However, at least three key constraints warrant immediate attention in all countries in the region: (i) risk management in the banking sector, (ii) more reliable financial disclosure, and (iii) improved corporate governance in companies seeking access to finance. Improvement is not only critical to expand national financial markets but also to facilitate cooperation and integration with each other and/or with larger financial markets. A regional approach to strengthening financial sector regulations will offer CACs opportunities to address common weaknesses, share experiences, and maintain the momentum to adopt regulations in line with international standards and practices.

4. The proposed regional technical assistance (RETA)² will cover Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan, and aims to harmonize and strengthen (i) banking sector regulation with regard to risk management, (ii) financial disclosure standards, and (iii) the regulatory framework for corporate governance. The RETA also aims to foster knowledge sharing among participating countries. The RETA framework is presented in Appendix 1. The RETA is part of the Central Asia Regional Economic Cooperation Program initiated by the Asian Development Bank (ADB) in 1996, and complements other program initiatives by facilitating financial sector development and cooperation within the region.

¹ Despite progress made, the financial sectors remain small and dominated by banks. At the end of 2002, banking sector assets ranged from 10.0% of gross domestic product (GDP) in the Kyrgyz Republic to 25.0% in Kazakhstan, equity market capitalization from 0.3% to 9.0%, and corporate bond market capitalization from 0.2% to 3.0%. The insurance sector's share in GDP ranged from 0.6% in Kazakhstan to negligible in other CACs. In 2002, CAC GDP ranged from \$1.5 billion in the Kyrgyz Republic to \$24 billion in Kazakhstan.

² The RETA was listed in *ADB Business Opportunities* on 24 March 2003. Two fact-finding missions were fielded on 4–10 July in Kazakhstan and Kyrgyz Republic, and on 18–20 August in Uzbekistan.

II. ISSUES

5. The specifics of the three identified areas are the following:

6. **Risk Management.** Banking sector regulations have been strengthened in all CACs, and authorities now impose minimum requirements for capital and liquidity, and limits on asset concentration. Supervisory frameworks have also been strengthened by improving on-site and off-site inspection to monitor compliance with regulations. However, remaining regulatory gaps increase the sector's vulnerability and undermine depositor and investor confidence. One of these gaps, identified in all five countries, is weak capacity of the banking sector regulator (Appendix 2) to assess systemic risk in the banking system in line with the Basel Core Principles for Banking Supervision, and to take proactive measures to establish risk management in line with the Basel Capital Accord.

7. With no guidelines on methods and institutional arrangements to ensure effective risk management in commercial banks, most banks avoid rather than manage risk. This is evidenced by weak lending levels in most countries, unusually high collateral requirements, high real interest rates, and short-term credit maturities. Improving regulatory authorities' understanding of, and establishing proper guidelines on, basic principles of managing credit/counterpart, market, operational, and other risks are, therefore, crucial to develop efficient financial sectors and improve financial intermediation and resource mobilization. To ensure financial stability, CAC banking sector regulators also need capacity building to anticipate and manage systemic risk. The focus of supervision must be changed from merely monitoring compliance to a more proactive and risk-based approach.

8. **Financial Disclosure and Corporate Governance.** All five countries have made progress in adopting legislation and regulations in line with international best practices. Basic corporate governance requirements are outlined in corporate laws, and corporate governance ethic codes have been or are being developed. CACs have also formally adopted or are in the process of formally adopting international accounting standards (IAS). Accountants have been trained in IAS. However, compliance is still low. Regulators (Appendix 2) lack capacities to monitor and support compliance with these standards in enterprises. Enforcement of regulations, particularly those related to financial disclosure and corporate governance, remains weak. Market pressure on noncompliant companies is mostly absent as the market is small.³

9. While commercial banks generally comply with regulations, only a small number of nonfinancial joint stock companies (JSCs) can meet requirements for financial disclosure and corporate governance. These JSCs, which are typically export oriented, have better access to finance through bank credit, foreign direct investment, and, in some cases, domestic and foreign capital markets. However, most medium-sized and large JSCs do not follow regulations on financial disclosure and corporate governance. With questionable reported balance sheets, combined with poor corporate governance that does not, among other things, hold management accountable for the misuse of companies' resources, these firms have considerable difficulty gaining access to credit. For the same reasons, these enterprises have almost no access to direct or portfolio investors, particularly as poor corporate governance in these enterprises fails to protect shareholder's rights. Unless corporate governance in JSCs and financial disclosure requirements are strengthened, investors' confidence will remain weak, preventing JSCs from gaining access to capital markets and undermining development of CACs' financial sector.

³ Only a fraction of shares of JSCs, if any, are traded, and the market lacks depth.

10. The RETA incorporates lessons learned from three loans,⁴ with regard to risk management as a remaining key weakness in banking sector regulation, and difficulties of introducing and enforcing regulations on financial disclosure and corporate governance. A technical assistance (TA) has provided effective measures to facilitate conversion of major JSCs to IAS, which can be replicated.⁵ In risk management, the RETA will complement another TA.⁶ In the area of corporate governance, the RETA will build on and complement three TA.⁷ The RETA also incorporates findings of ADB's *Diagnostic Studies of Accounting and Auditing Practices*. Preliminary findings of ADB's work on banking sectors and capital markets in CACs have been taken into account.

11. The RETA will benefit from IAS training provided to local accountants under projects funded by United Nations Development Programme (UNDP), European Union (EU-TACIS), United States Agency for International Development (USAID), and other external funding agencies in the region, and from TA provided by the International Monetary Fund (IMF) to strengthen banking sector supervision and regulation in the region.

III. THE TECHNICAL ASSISTANCE

A. Purpose and Output

12. The purpose of the TA is to (i) strengthen banking sector regulation in line with international risk management standards, (ii) strengthen financial disclosure by facilitating transition to IAS, (iii) improve the regulatory framework for corporate governance, and (iv) facilitate knowledge sharing between participating countries.

13. The outputs will include the following:

- (i) reviews of banking sector risk management regulations, surveys on risk management practices, country-specific strategies to introduce risk management in line with Basel Core Principles for Banking Supervision and Basel Capital Accord, training, and knowledge sharing;
- (ii) IAS implementation guidelines, regional knowledge sharing, and training; and
- (iii) a strategy to strengthen regulation of corporate governance in nonfinancial JSCs, and sharing of knowledge on enforcement of corporate governance regulations.

⁴ ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Financial Intermediation and Resource Mobilization Program*. Manila. (approved in December 1999 and completed in 2002); ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Corporate Governance and Enterprise Reform Program*. Manila. (approved in September 1997 and completed in 2001). Another loan (ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kyrgyz Republic for Corporate Governance and Enterprise Reform Program II*. Manila.) was approved in October 2001 and will be completed in 2004.

⁵ ADB. 2001. *Technical Assistance to the Kyrgyz Republic for Strengthening Corporate Governance and Judicial Reforms*. Manila.

⁶ ADB. 2002. *Technical Assistance to the Kyrgyz Republic for Financial Sector Reforms*. Manila.

⁷ ADB. 2001. *Technical Assistance to the Republic of Uzbekistan for Corporate Governance Reform Program*. Manila; ADB. 2002. *Technical Assistance to the Republic of Tajikistan for Strengthening Corporate and Financial Governance Reforms*. Manila; ADB. 2002. *Technical Assistance to the Republic of Uzbekistan for Enterprise Restructuring and Corporate Governance*. Manila.

B. Methodology and Key Activities

14. The TA methodology will comprise in-depth diagnostic assessments of existing legislation and regulations, and—through surveys and case studies—of practices, as well as training and dissemination seminars and workshops. The TA will undertake the following:

1. Strengthen Banking Sector Regulation for Risk Management

15. This activity will entail the following:

- (i) Assess the banking sector regulators' risk management and early-warning framework, including financial reporting, regulatory response policy, and stress testing approaches. Identify weaknesses and training needs.
- (ii) Review risk management practices in commercial banks, and the regulatory framework, including guidelines on organizational and methodological approaches to risk management. Identify key weaknesses and training needs.
- (iii) Train regulators based on (i) and (ii), covering basic principles of assessment and management of credit/counterpart, market, operational, and other risks; regulatory guidelines to develop internal control systems to ensure compliance with regulations and internal policies; risk-focused supervision; and guidelines for prompt corrective actions and other regulatory responses.
- (iv) Based on (i)–(iii), outline steps to strengthen the regulatory framework in each country to identify, measure, and control risk in the banking sector.
- (v) Conduct a regional seminar for senior regulators to disseminate and discuss the RETA findings.

2. Strengthen Financial Disclosure by Facilitating Transition to International Accounting Standards

16. This activity will entail the following:

- (i) Conduct two regional workshops for regulators of financial disclosure on each country's experience in introducing IAS, and steps needed to facilitate conversion to IAS and maintain compliance with them.
- (ii) Survey major nonfinancial JSCs for IAS compliance.
- (iii) Identify constraints on major nonfinancial JSCs converting to IAS, and develop an action plan to remove these constraints.
- (iv) Develop IAS implementation guidelines incorporating international best practices and giving detailed instructions on how to use current local documents to record and report enterprise activity in IAS-compliant financial statements.
- (v) Conduct workshops for accountants from major JSCs, focusing on practical steps to IAS conversion.

3. Improve the Regulatory Framework for Corporate Governance

17. This activity will entail the following:

- (i) Assess and compare the legal and regulatory framework for corporate governance in each country.
- (ii) Identify steps needed to strengthen the legal and regulatory framework for corporate governance in nonfinancial JSCs.

- (iii) Conduct two regional seminars for regulators and promoters of corporate governance on each country's experience and steps needed to strengthen corporate governance in nonfinancial JSCs.

C. Cost and Financing

18. The total cost of the TA is estimated at \$800,000. The TA will be financed on a grant basis by ADB's TA funding program. Details of the cost estimates are in Appendix 3.

D. Implementation Arrangements

19. ADB will be the Executing Agency for the proposed RETA. The Governance Finance and Trade Division of the East and Central Asia Department will administer and implement the RETA with support from financial sector regulators and other stakeholders. The countries covered will nominate a high-level counterpart to be responsible for the RETA. The counterpart will guide the consultants' research, facilitate access to relevant government agencies and officials, and provide necessary information.

20. The RETA will require consulting services of 70 person-months (15 international, and 55 domestic). The international consultants will be a banking sector specialist/team leader for 7 person-months, an accounting expert for 5 person-months, and a corporate governance specialist for 3 person-months. The Financial Stability Institute—the training arm of Bank for International Settlements—will provide an instructor for a 2-week regional risk-management seminar and cover related costs. The domestic consultants will be a team of four banking sector specialists for a total of 10 person-months, and a team of five accountants for a total of 35 person-months and two corporate governance specialists for a total of 10 person-months. In view of RETA components' specific and detailed nature, the specialists will be engaged on an individual basis for each component in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory for ADB for the selection of domestic consultants. The outline terms of reference for the consultants are in Appendix 4.

21. Seminars and workshops will be organized intermittently during implementation to invite comments from international and domestic experts in the field, provide government officials in charge of their respective areas the opportunity to exchange experiences, and disseminate the RETA findings. One regional risk management seminar will be coordinated with the Regional Group on Banking Sector Supervision of the Countries in Central Asia, the Caucasus and the Russian Federation, and undertaken in the first half of 2004.⁸ The TA is expected to start in December 2003 and be completed in May 2005.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$800,000 on a grant basis for Regional Financial Sector Development, and hereby reports this action to the Board.

⁸ The RETA will only finance expenditures of representatives from ADB member countries. On 10 October 2003, the Regional Group on Banking Sector Supervision formally decided to organize a risk management seminar with support from international financial institutes, if possible ADB, in the first half of 2004.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal Support financial market development and economic growth by helping harmonize financial sector regulation in line with international standards and best practices</p>	<ul style="list-style-type: none"> • Financial sector regulation with regard to risk management, financial disclosure, and corporate governance, in line with international standards • Enhanced role of financial markets in resource mobilization and allocation 	<ul style="list-style-type: none"> • Financial system stability assessments (FSSAs) of the International Monetary Fund (IMF) and reports on the observance of standards and codes (ROSCs) • Country reports • Project evaluation • Policy dialogue 	<ul style="list-style-type: none"> • Sustained political will to establish a modern legal and regulatory framework and integrate the national markets into larger financial markets • Removal of other constraints for financial market development relevant for individual countries, including progress with structural reforms in the enterprise sector and with judicial reforms • Macroeconomic stability
<p>Purpose</p> <ul style="list-style-type: none"> • Strengthen banking sector regulation with regard to international standards on risk management • Strengthen financial disclosure by facilitating transition to international accounting standards (IAS) • Improve the regulatory framework for corporate governance • Facilitate knowledge sharing between participating countries 	<ul style="list-style-type: none"> • Banking sector regulation with regard to risk management in line with Basel Core Principles for Banking Supervision and the Basel Capital Accord • Compliance of major joint stock companies (JSCs) with IAS • Discussions on how to change the regulatory framework to introduce corporate governance in line with international standards 	<ul style="list-style-type: none"> • Reports of financial sector regulators • IMF FSSA reports and ROSC • Audits of annual reports of JSCs • Reports of regional stock exchanges • Asian Development Bank (ADB) reports 	<ul style="list-style-type: none"> • Financial regulators' commitment to establish a regulatory framework in line with international standards • Growing awareness of management and shareholders of benefits of compliance with IAS and corporate governance standards • Authorities' sustained openness for regional knowledge sharing in the selected areas
<p>Outputs</p> <ul style="list-style-type: none"> • Training for banking sector regulators in risk management in line with international standards 	<ul style="list-style-type: none"> • Staff of banking sector regulator familiar with Basel Core Principles for Banking Supervision and Basel Capital Accord 	<ul style="list-style-type: none"> • Regional Technical Assistance (RETA) reports • ADB missions and reports • IMF reports, including 	<ul style="list-style-type: none"> • Supervisory agencies send qualified staff to training and dissemination seminars/workshops • Trained staff in supervisory agencies

⁹ ADB. 1999. *Regional Technical Assistance for Strengthening Financial Management and Governance in Selected Developing Member Countries*. Manila.

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<ul style="list-style-type: none"> • Steps identified to bring banking sector regulation on risk management in line with international standards • Regional dialogue on steps to strengthen banking system regulation of risk management • Introduction of IAS guidelines (conversion manuals) through workshops • Regional knowledge sharing on conversion to IAS • Steps identified to strengthen the legal and regulatory framework for corporate governance in nonfinancial JSCs • Knowledge sharing on the regulatory framework for corporate governance 	<ul style="list-style-type: none"> • Comprehensive review of the regulatory framework for risk management in the five banking sectors against the Basel Core Principles for Banking Supervision • Survey on risk management in commercial banks in each country • Discussions during regional seminars • Exchange of materials • IAS compliance survey in selected JSC in each country • Conversion manuals drafted • Accountants of JSCs familiar with conversion manuals • Major JSCs with a listing or potential for a listing at the national stock exchange comply with IAS • Exchange of existing manuals, and experience during two workshops • Comprehensive review of the regulatory framework for corporate governance against international standards and best practices • Case studies on experience in promoting and enforcing corporate governance • Dialogue between the regulatory agencies in charge of monitoring compliance with, and enforcing regulation of, corporate governance in nonfinancial JSCs 	<p>FSSA and ROSC</p> <ul style="list-style-type: none"> • TA reports • ADB's diagnostic studies on accounting and auditing (to be updated under a RETA⁹) • Audits of annual reports of the selected JSCs • Annual reports of stock exchanges • TA reports • Dialogue with beneficiaries • Media articles and reports 	<p>stay in their positions during the RETA</p> <ul style="list-style-type: none"> • Selected JSCs participate in a survey and support relevant regulators for the survey • Supervisory agencies send qualified staff to seminars/workshops • Qualified JSC accountants train to use conversion manuals

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Activities</p> <ul style="list-style-type: none"> • All items identified in the methodology and key activities section of the RETA paper • Risk management: Two regional training seminars (2 weeks each) and one regional dissemination workshop (2 days) • Financial disclosure: Five country-specific training seminars and two regional dissemination workshops (2 days each) • Corporate governance: Two regional workshops/seminars (2 days each) 	<ul style="list-style-type: none"> • Sound progress demonstrated by timely submission of interim assessments and reports 	<ul style="list-style-type: none"> • Periodic reports of consultants • Government reports • Interim review meetings and final workshops/seminars 	<ul style="list-style-type: none"> • Supervisory agencies send qualified staff to workshops/seminars
<p>Inputs</p> <ul style="list-style-type: none"> • International consultants (15 person-months) • BIS instructor (1 person-month) • Local consultant (50 person-months) • Training and workshops • Seminars 	<ul style="list-style-type: none"> • \$340,000 • \$ 20,000 (BIS financing) • \$ 82,500 • \$145,000 • \$ 70,000 	<ul style="list-style-type: none"> • Periodic reports • Interim review meetings and other dialogue with governments 	<ul style="list-style-type: none"> • Consultants are competent and available

FINANCIAL SECTOR REGULATORS IN COUNTRIES IN CENTRAL ASIA AND THE CAUCASUS

Country	Commercial Banks	Accounting ^a	Corporate Governance ^a
Azerbaijan	ANB	Ministry of Finance	Ministry of Economic Development
Kazakhstan	NBK ^b	Ministry of Finance	Ministry for Economy and Budget Planning
Kyrgyz Republic	NBKR	State Commission for Accounting and Auditing	State Commission for Securities Markets
Tajikistan	NBT	Ministry of Finance	Ministry of Economy
Uzbekistan	CBU	Ministry of Finance	Ministry of Finance, Center on Coordination and Control of the Securities Market under the State Property Fund

ANB = Azerbaijan National Bank, NBK = National Bank of Kazakhstan, NBKR = National Bank of Kyrgyz Republic, NBT = National Bank of Tajikistan, CBU = Central Bank of Uzbekistan.

^a The banking sector regulator is in charge of financial disclosure and corporate governance of commercial banks.

^b In Kazakhstan, an independent agency for unified financial market regulation will be established in January 2004.

Sources: National authorities, Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Cost
Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	340,000
ii. Domestic Consultants	82,500
b. International and Local Travel	39,000
c. Reports and Communications	17,000
3. Training and Workshops ^b	145,000
4. Seminars ^c	70,000
5. Translations	12,000
6. Miscellaneous Administration and Support Costs	27,000
7. Contingencies ^d	67,500
Total	800,000

^a Financed by ADB's TA funding program.

^b Training includes (i) two regional risk management workshops for banking sector regulator staff and (ii) five national roundtables to disseminate the international accounting standards (IAS) conversion manuals developed under the TA.

^c Seminars include (i) one regional 2-day dissemination seminar on risk management for banking sector regulator senior management, (ii) two regional seminars for senior management of agencies in charge of IAS, and (iii) two regional seminars on corporate governance.

^d Technical equipment will be purchased in accordance with ADB's *Guidelines for Procurement*.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants (15 person-months)

1. Banking Sector Expert/Team Leader (7 person-months)

1. The consultant will have in-depth knowledge of the Basel Core Principles for Banking Supervision and be familiar with ongoing discussions on changes to the Basel Capital Accord. The consultant will also have a solid background in methods of risk assessment, management of commercial banks, and relevant work experience in developing economies. The consultant will supervise and guide the work of four domestic banking sector experts and consolidate the reports of the international consultants. The consultants will be based in Almaty and Bishkek, where banking sector regulators will provide office space and counterpart facilities. The terms of reference of the consultant will include, but not be restricted to, the following:

- (i) Assess the regulatory framework for risk management in each country against international best practice, including financial reporting, regulatory response policy, and stress-testing approaches. Identify weaknesses and training needs in the countries covered.
- (ii) Undertake a survey, in close cooperation with the on-site supervision units of the banking sector regulator, to assess practices of risk assessment and management in commercial banks.
- (iii) Take into account the preliminary findings of TA¹⁰ on (i) and (ii) in the Kyrgyz Republic, and coordinate with the international banking sector expert consulted under the TA on measures to strengthen risk management in the banking system of the Kyrgyz Republic.
- (iv) Based on (i)–(iii) outline a policy, institutional, and legal reform agenda to strengthen the regulatory framework in each country to identify, measure, and control risk in the banking sector.
- (v) Provide on-the-job training for staff of the Integrated Financial Sector Supervision Agency in Kazakhstan on integrated risk management and for the staff of National Bank of Kyrgyz Republic on guidelines for risk assessment and management in commercial banks.
- (vi) Prepare and provide one two-week regional risk-management training seminar for staff of the banking sector regulators. The training will complement a seminar that will be organized by the Regional Group on Banking Sector Supervision of the Countries in Central Asia, the Caucasus and the Russian Federation in the first half of 2004, and supported by the Financial Stability Institute—the training arm of the Bank for International Settlements.
- (vii) Prepare and support a two-day workshop for senior management of the banking sector regulators from each country to discuss and disseminate the TA findings.

2. Accounting Standards Expert (5 person-months)

2. The consultant will be an experienced accountant, with extensive experience in introducing international accounting standards (IAS) in transition economies. The consultant will also have advanced Russian-language skills. The consultant will guide and supervise the work of five domestic consultants. The terms of reference of the consultant will include, but not be restricted to the following:

¹⁰ ADB. 2002. *Technical Assistance to the Kyrgyz Republic for Financial Sector Reforms*. Manila.

- (i) Survey compliance of major nonfinancial joint-stock companies (JSCs) with IAS. Take into account the findings of TA.¹¹ JSCs should be selected in cooperation with the regulatory body and after agreement through the Asian Development Bank (ADB) based on information about the total population of JSCs and criteria such as compliance/noncompliance with requirements for accounting standards, size, branch, potential for listing or sale to foreign investors, etc.
- (ii) Identify constraints that prevent major nonfinancial JSCs from converting to or sustaining compliance with IAS, and propose measures for the regulator to overcome these constraints.
- (iii) Help the body that monitors compliance with IAS in each country select JSCs that could be converted to IAS.
- (iv) Prepare and undertake two regional workshops for regulators to share experiences in conversion to IAS and steps to promote and sustain compliance with IAS.
- (vi) Guide local consultants in drafting IAS introduction guidelines (conversion manuals) that incorporate international best practices, and give detailed guidance on how to use local documents, journals, and ledgers to record and report enterprise activity in IAS-compliant financial statements, and thereby implement conversion to IAS. Take into account manuals on some accounting standards in similar countries, in particular those developed in the Kyrgyz Republic under TA (footnote 11).
- (vii) Guide the work of local consultants in undertaking country-by-country workshops that support conversion to IAS in selected JSCs. In designing the workshops take into account TA output mentioned in (vi).

3. Corporate Governance Legal and Regulatory Expert (3 person-months)

3. The consultant will have advanced qualifications, preferably in law, and extensive experience in a range of corporate sector issues, including international standards and best practices in corporate governance, and corporate development in comparable economies. The terms of reference of the consultant will include, but not be restricted to, the following:

- (i) Compare the legal and regulatory framework for corporate governance and promotional activities in the countries covered, identifying strengths and weaknesses.
- (ii) Take into account the TA findings mentioned in (vi) above, and the preliminary findings of other TA.¹²
- (iii) Develop a strategy to strengthen the legal and regulatory framework for corporate governance, and propose changes to legislation and regulation.
- (iv) Review and further develop, as needed, the concept of an institute of corporate directors drafted by the Corporate Development Center in the Kyrgyz Republic with support from TA (footnote 11), and assess its applicability to other countries.
- (v) Draft a strategy to promote corporate governance in the countries covered.
- (vi) Prepare and undertake two regional seminars for organizations regulating and promoting corporate governance on experience in enforcing and promoting

¹¹ ADB. 2001. *Technical Assistance to the Kyrgyz Republic for Strengthening Corporate Governance and Judicial Reforms*. Manila.

¹² ADB. 2002. *Technical Assistance to the Republic of Tajikistan for Strengthening Corporate and Financial Governance Reforms*. Manila; ADB. 2002. *Technical Assistance to the Republic of Uzbekistan for Enterprise Restructuring and Corporate Governance*. Manila.

- corporate governance in different countries and on steps to strengthen enforcement and promotion.
- (vii) Provide advice on promotional activities to local organizations promoting corporate governance in the countries covered.

B. Domestic Consultants (55 person-months)

1. Four Banking Sector Experts (2.5 person-months each)

4. The consultants will be supervised by the international banking sector expert, and will help the international banking sector expert undertake a diagnostic assessment of risk management framework and practice in Kazakhstan, Uzbekistan, Azerbaijan, and Tajikistan, and in other areas covered by the terms of reference of the international banking sector expert. A similar assessment is not required for the Kyrgyz Republic, as it will be done under a TA¹³ starting in November 2003.

2. Five Accounting Experts (7 person-months each)

5. The experts will be guided and supervised by the international accounting specialist and will closely cooperate with the international consultant and agencies in charge of introducing international accounting standards.

3. Two Corporate Governance Experts (5 person-months each)

6. The consultants will be guided by the international corporate governance specialist, whom they will help compare the legal, regulatory, and promotional framework for corporate governance in the countries covered; prepare and undertake workshops/seminars; and work in other areas.

C. Reporting Requirements

7. The international banking sector specialist has to provide an inception report to ADB within one month after services start. The other two international consultants have to provide their inception reports within two weeks after services start. Monthly reports for each component incorporating inputs from local consultants have to be presented to ADB during the RETA. Comprehensive draft final reports for each component outlining activities undertaken have to be presented two weeks before the RETA ends. Final reports incorporating comments received from ADB and counterpart agencies have to be presented at the end of the RETA.

¹³ ADB. 2002. *Technical Assistance to Kyrgyz Republic for Financial Sector Reforms*. Manila.