I. BACKGROUND

1. The Government of Uzbekistan has requested policy-based loans totaling $200 million from the Asian Development Bank (ADB)’s ordinary capital resources, to support demand and supply measures to broaden and deepen the financial system and ground it in a strong legal and regulatory framework. A transaction technical assistance (TRTA) will support the underlying diagnostic studies, policy dialogue, and assist in the preparation of the proposed Uzbekistan: Financial Markets Development Program.

2. The proposed program will support the implementation of reforms to (i) improve the legal and regulatory structures for securities market development in line with global standards, and (ii) increase the supply and demand of securities. These will include measures to amend securities market laws and regulations toward an integrated capital market legal and regulatory and prudential framework (including preparatory work towards the development of a “Capital Market Code” and “Capital Market Development Agency (CMDA) Act”); rationalize and streamline prudential roles and responsibilities and enhance the regulatory capacity of the newly-established CMDA; align corporate reporting, auditing, and disclosure requirements for listed companies with international standards; address binding constraints to development of a shallow and illiquid corporate bond and equity markets; and improve the (cost-)efficiency of market trading platforms across securities.

3. The TRTA will identify the required policy actions to implement these reforms under the program. In pursuance of the Presidential Decree of Uzbekistan dated January 24, 2019, No. DP4127, this will include the preparation of a Capital Market Development Strategy and Roadmap under the purview of the CMDA—guiding a holistic approach to capital market development and the reform program.¹ The preparation of the strategy and roadmap will be supported jointly by the ADB TRTA and European Bank for Reconstruction and Development (EBRD) who will draw broad consensus among all capital market-related stakeholders, including the CMDA, Ministry of Finance (MOF), Ministry of Economy and Industry (MOEI), Central Bank of Uzbekistan (CBU), and capital market participants such as investors, issuers, and intermediaries. The strategy and roadmap will serve to clearly define capital market functions and stakeholder roles and responsibilities to enhance its overall efficiency and competitiveness.

4. The capital market development strategy and roadmap will be developed in the broader context of financial market reform and restructuring and align with the directives expressed in Clause 1 under 2.2. of Appendix No. 1 of Presidential Decree No. UP5614.² The proposed reforms will serve to diversify the predominantly bank-based system of financial intermediation and thereby reduce financing costs by stimulating healthy competition with the banking sector. It will also enhance the capital market’s contribution to meeting the increasing financing requirements of a growing economy, particularly for infrastructure financing needs where long-term financial markets present the most viable solution (given the associated prolonged gestation periods of these projects).

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¹ The full versions of Presidential Decree No. DP 4127 & No. UP 5614 in Russian can be found in Uzbekistan Laws on-line website, LexUz (www.lex.uz). The related clauses of Presidential Decrees with capital market development strategy and roadmap, and new financial market architecture, are extracted to show in the Annex # 1.

² Ibid.
II. SCOPE OF SERVICES

5. The TRTA will be delivered in close collaboration with EBRD who will together be responsible for developing the following:

   (i) An overall assessment of the capital markets in Uzbekistan to draw recommendations for the appropriate model of development (ADB lead)

   (ii) Review and evaluation of the financial market regulation and prudential framework for the financial system as a whole and capital markets specifically, preparation of comprehensive legal amendment reform proposals, and 5-year roadmap/action plan in line with the directives presented in clause 2.2. of Appendix 1, Presidential Decree No. UP5614 (ADB lead)

   (iii) In-depth assessment of the debt market and related development strategy, priority actions and recommendations (ADB lead)

   (iv) In-depth assessment of the equity market and related development strategy, priority actions and recommendations (EBRD lead)

   (v) Consolidation of (i), (ii), (iii) and (iv) for an integrated Capital Market Development Strategy and Roadmap, which will include legal and regulatory reforms (ADB lead with EBRD input).

6. Given the close linkages of the different components of the financial system (and debt and equity markets in particular) and holistic approach being pursued, the ADB and EBRD project teams will establish strong collaboration mechanisms and work as a team. This includes ensuring synchronized recommendations on inter-related issues such as the regulatory environment, market infrastructure, intermediary industry, and investor base—to deliver a consistent and integral approach to capital market development. Both ADB and EBRD will co-lead the process and issuance of the Capital Market Development Strategy and Roadmap (as will be referenced in the final document).

7. Under the ADB TRTA, a team of consultants will be recruited through a firm to conduct the following activities:

   (i) The firm will conduct a top level review and analysis of the entire spectrum and architecture of the financial market services regulation in Uzbekistan (key regulators, its powers, financial policy coordination, consumer and investor protection, etc.), including but not limited to the securities and asset management, banking services, insurance, pension funds, and other services offered in the market;

   (ii) Upon completion of the overview, the firm will conduct a comparative analysis of the financial market regulatory architecture in Uzbekistan, vis-à-vis various existing international prudent models used in other successful developed markets (e.g. UK, South Korea, Switzerland) and emerging markets (e.g. Turkey, Poland, South Africa, Kazakhstan). The firm will make recommendations to help define the future financial market regulatory architecture for Uzbekistan—based on an assessment of what could be best suited and adopted to facilitate sustainable, inclusive and healthy economic prosperity for its citizens;

   (iii) The firm will complete a comprehensive diagnostic review of the capital market legal and regulatory structures, trading infrastructure, performance, and supervision frameworks;
The firm will present the draft diagnostic report to stakeholders and will conduct a series of workshops to present, discuss, and refine findings and recommendations in close consultation with the EBRD project team;

Utilizing the diagnostic report and feedback from the extensive stakeholder consultations, the firm will prepare a draft long-term national capital market development strategy and implementation plan/roadmap, integrating inputs from both the ADB and EBRD project teams. The roadmap will include recommendations with concrete actions, a clear assignment of responsibilities, and the associated timeframe to complete the activities. The draft final strategy and roadmap will be presented and discussed with key stakeholders for input and consensus building;

The firm will finalize the national capital market development strategy and roadmap for review and final approval of ADB, EBRD, CMDA as lead focal agency, and other government counterparts as required;

The firm will provide capacity building support, both as part of the above-mentioned workshops and on an ad hoc basis for the duration of the assignment, with a focus on CMDA staff capacity building needs as assessed in the course of TRTA implementation. The consulting team will ensure strong understanding and buy-in from all relevant CMDA and other government counterparts in the final strategy and roadmap.

III. OUTPUT AND REPORTING REQUIREMENTS

8. The following will be the firm’s deliverables:
   • Comprehensive diagnostic study of financial regulation and prudential frameworks for the financial system (including the capital markets), comprehensive legal reform proposals, and 5-year roadmap/action plan;
   • Comprehensive diagnostic study of the capital market in Uzbekistan (with in-depth focus on debt markets);
   • Conduct three consultation workshops with all key stakeholders to obtain feedback, refine TA findings and recommendations, and arrive at a consensus on the formulation of the capital market development strategy and implementation plan/roadmap;
   • Long-term national capital market development strategy and roadmap; and
   • Hands-on guidance and support to key stakeholders in the implementation of the policy actions derived from the roadmap to be supported under the ADB program; alongside targeted capacity building support to CMDA and other key stakeholders as per needs assessment identified during TRTA implementation and on government request to support preparation and implementation of the strategy and roadmap.

A capital market development workshop will be held during the early part of the engagement to discuss with the concerned stakeholders in the public and private sectors their major concerns and ensure that these are identified early and given attention under the proposed TRTA and follow-on program. At the end of the engagement, a national conference involving stakeholders, including the various donors, the private sector, and the Government will be held to discuss the findings of the report that will be used as the basis for the program loan. The interim and finalization of the draft final reports will be discussed at a tripartite meeting involving the Government, the consulting team, and ADB. The final report will incorporate results from the workshop, national conference and tripartite meeting and be made available 2 weeks prior to the end of the consulting team’s engagement.
9. The firm shall also submit the following reports:
   • An inception report to be submitted within 2 weeks from mobilization;
   • Quarterly reports to be submitted within 1 month after the end of the reporting period;
   • Midterm report to be submitted midway through the assignment implementation period;
   • A draft final report to be submitted 1 month before the end of the engagement, which will be presented to, and will incorporate the comments of CMDA, public and private stakeholders, ADB and EBRD; and
   • A final report to be submitted 2 weeks before the end of the engagement.

10. The reports will be reviewed by ADB, the CMDA and other key government counterparts, and comments (if any) addressed by the firm prior to acceptance. All materials and reports shall be prepared in English; key reports will be prepared in both English and Uzbek and/or Russian, as advised by ADB, the CMDA, and other key government counterparts.

IV. EXPERTS REQUIRED

11. The consultancy will be led by an international firm with preferably 10 years of experience delivering similar assignments or closely related assignments, preferably with broad experience across the Asia region. In particular, the firm should be specialized in capital market development with experience working with public and private sector entities and global market experience. Regional experience in the Caucasus region or Eastern Europe is preferred.

12. The technical proposal must include the specialists (identifying whether international or national) together with their respective curriculum vitae highlighting relevant experience, number of person-months required for each, and how these inputs will be allocated to achieve each deliverable. The estimated input includes 15 person-months of international, and 3 person-months of national, consultant inputs. Table 1 below shows the summary of specialists’ inputs. The consulting firm may propose some adjustments with justification. Depending on the emerging circumstances, ADB as the implementing agency of the TA, will retain flexibility on the number and person-months allocated among the experts as well as their tasks.

13. All international specialists will have a relevant academic degree and at least 7-10 years of relevant work and project experience in their field of expertise in several countries. Work experience in the region will be an advantage. They must demonstrate a deep understanding of issues and authority pertaining to their area of expertise, as well as strong analytical and leadership expertise in identifying strategic policy options and recommending reforms. Specifically, (i) the Capital Market Specialist and Team Leader will demonstrate extensive experience in complex assignments managing diverse interests and building consensus across public and private entities for capital market development planning and implementation. The expert will demonstrate a deep understanding of issues pertaining to government finance and government securities, corporate bond and equity markets, and their broader contribution to implementation of reforms for the development of financial systems and global market integration; market experience conducting industry analysis, defining/deploying investment and trading strategies and working with liquidity providers; and strong analytical and proven leadership expertise in identifying strategic policy options, preparing action plans for development of financial markets, and capacity building; (ii) the Capital Market Infrastructure Expert must demonstrate substantive experience in the operation, management and/or design of the financial infrastructure of securities exchanges and other trading platforms, preferably in both developed and transition
economies; (iii) the **Capital Market Legal and Regulatory Expert** must demonstrate strong experience advising national administrations on the reform of institutional and legal frameworks for capital market development and public debt management functions, including review and legal drafting, preferably in both developed and developing markets; and a working knowledge of the implementation of best-practice principles of the International Organization of Securities Commissions in securities regulation. Aside of policy advisory roles, experience establishing and maintaining standards for financial (preferably securities) market regulation and/or conducting enforcement activities is required; (iv) the **Securities (Bond Market) and Derivatives Market Expert** must demonstrate extensive experience in fixed income and derivatives market development in similar market conditions, practical broker-dealer experience, and a working knowledge of international trading and financial standards; and (v) the **Insurance and Pension Expert** will demonstrate relevant experience in the development and implementation of pension and/or insurance product schemes; public pension policy, reform and implementation issues; and/or insurance and pension supervision. Working knowledge of Uzbek and/or Russian languages would be an advantage.

14. All national specialists will have a relevant academic degree and at least 5 years of relevant work and project experience. National specialists must demonstrate fluency in English, as evidenced by publications of relevant reports and/or articles, and strong writing skills in Uzbek and/or Russian. They must have a strong client focus, and excellent communication, team coordination and applied training skills. Experience with similar policy-based programs of ADB and/or other development partners will be an advantage.

<table>
<thead>
<tr>
<th>Area of Expertise</th>
<th>Person-months</th>
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<tbody>
<tr>
<td>International</td>
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<tr>
<td>1 Capital Market Specialist and Team Leader</td>
<td>3.00</td>
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<td>2 Capital Market Institutional Expert</td>
<td>2.00</td>
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<td>3 Capital Market Infrastructure Expert</td>
<td>2.00</td>
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<tr>
<td>4 Capital Market Legal and Regulatory Expert</td>
<td>3.00</td>
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<tr>
<td>5 Securities (Bond Market) and Derivatives Market Expert</td>
<td>3.00</td>
</tr>
<tr>
<td>6 Insurance and Pension Expert</td>
<td>2.00</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>15.00</strong></td>
</tr>
<tr>
<td>National</td>
<td></td>
</tr>
<tr>
<td>7 Capital Market Legal and Regulatory Expert</td>
<td>1.00</td>
</tr>
<tr>
<td>8 Program Coordinator</td>
<td>2.00</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>3.00</strong></td>
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<td><strong>Total</strong></td>
<td><strong>18.00</strong></td>
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15. **Capital Market Specialist and Team Leader (1 international, 3 person-months).** The expert’s primary objective will be to formulate a long-term national capital market development strategy and implementation plan/roadmap, which will embrace all relevant dimensions (including equity market, bond market, derivative market [including commodities], money market, market surveillance and enforcement, and qualification framework for securities industry professionals) and facilitate agreement on new initiatives to tackle policy, legal, regulatory, supervisory, institutional, and capacity constraints. The expert will work in coordination with the legal and regulatory, institutional, securities and derivatives market, and other experts on the consulting
team and of the EBRD and adopt the following three-phased approach to prepare the development strategy and implementation plan:

(i) **Phase 1: assess the current structure of the financial system and regulatory and prudential frameworks across financial industries, their inter-linkages and efficiency.** The expert will collect market data and conduct wide-ranging stakeholder consultations and work closely with the Legal and Regulatory Expert to develop future performance benchmarks, development vision statement, and a roadmap for reform.

(ii) **Phase 2: assess the current state of capital market development.** The expert will (a) conduct secondary desktop research to obtain benchmark data; (b) collate information provided by the CMDA, Ministry of Finance, Ministry of Economy and Industry, Central Bank of Uzbekistan, and other key stakeholders; (c) review regional trends and challenges; and (d) interview Uzbekistan’s capital market stakeholders. The expert will incorporate international experience and specific country case studies both with successful and failed strategies for capital market development. The countries should be comparable to the economy of Uzbekistan in regards of size, level of savings and other characteristics (i.e. bank-based economies with similar level of development of insurance and pension systems, etc.).

(iii) **Phase 2: develop the hypothesis.** The expert will (a) analyze findings from research and interviews; (b) develop a hypothesis; (c) confirm the vision for Uzbekistan’s capital market development; (d) develop preliminary objectives, recommendations, and implementation framework.

(iv) **Phase 3: formulate strategic recommendations.** The expert will conduct two to three strategy workshops with Uzbekistan’s key capital market stakeholders including CMDA, Ministry of Finance, Ministry of Economy and Industry, Central Bank of Uzbekistan, and market participants to (a) obtain feedback on the vision statement, objectives, recommendations, and implementation framework; and (b) arrive at a consensus with Uzbekistan’s key capital market stakeholders on the formulation of a long-term national capital market development strategy and implementation plan, with strong linkages to overall financial sector reform and vision statement. The workshop discussions will be held through the Coordination Council, as a key platform for cross-agency coordination.

16. While developing the capital market development strategy for Uzbekistan, it is important to analyze and understand strengths, weaknesses, opportunities and threats in regional and international context from both demand and supply perspectives. Throughout this analysis, it will be essential to inspect specific capital market products as well as the market as a whole and whether to focus on a niche strategy. Such an assessment should be incorporated at each phase of the strategy. The strategic recommendations should incorporate assessment of potential linkages of the capital market development strategy with the country’s economic policy. Linkages with the policy could also be formed by supporting particular industries and company profiles (such as export exposure, size and other characteristics of the companies). Furthermore, the strategy will identify the capital market’s sequenced role as an instrument of financial sector reform and serve to lay out the objectives sought in an integrated agenda for financial sector development.

17. The Capital Market Specialist and Team Leader will also assess opportunities to include gender elements in the reforms supported by the program, particularly as relates to corporate
18. **Capital Market Institutional Expert (1 international, 2 person-months).** In coordination with the team leader and other consulting team members, the expert will (i) focus on building and understanding financial markets, financial regulations, and trends in financial integration in Uzbekistan; (ii) enhance policy-makers’ conceptual understanding and practical skills in capital market development; and discuss conceptual and practical policy issues concerning capital market development, particularly the bond market; (iii) share best practices and information that would be beneficial to developing and managing the capital market in Uzbekistan, the analytical framework for capital market development, institutional and legal settings, infrastructure issues, and strategies and policy recommendations; (iv) map additional training scope and resource needs for a comprehensive training program for market participants to be supported under a subsequent and dedicated TA; (v) assess the institutional and governance structure of the new Capital Markets Development Agency and recommend measures to strengthen its capacity and procedures; and (vi) provide hands-on training for CMDA and other key counterparts as per needs identified during, and within the scope of, TA implementation.

19. **Capital Market Infrastructure Expert (1 international, 2 person-months).** The expert will assess (i) existing trading systems and procedures for the full range of market instruments (i.e. money market instruments, government and corporate bonds, equity instruments, other traded instruments, and open-market operations) and their integration; (ii) regulatory and surveillance equipment and software of the CMDA currently supporting the implementation of its new mandate; and advise (iii) on optimal software and systems to improve the (cost-)efficiency of market trading operations and regulatory, surveillance and enforcement functions.

20. **Capital Market Legal and Regulatory Expert (1 international, 3 person-months; 1 national, 1 person-month).** The principal aim of this assignment will be to strengthen the regulatory framework governing Uzbekistan’s financial system as a whole and capital market specifically, including by assessing and proposing amendments and consolidation of the existing securities market laws and regulations with a view to remove complexity in the existing framework, broaden market access, and strengthen the legal rights of creditors. The assignment will also focus on setting suitable supervisory policies, rationalizing institutional responsibilities across different products and sectors (and identifying any legal implications), defining any regulatory areas to be strengthened for enhancement of trading platforms and market supervision. The experts will further assess and recommend measures to align financial reporting, auditing and disclosure requirements for listed companies with international standards, with clear directives on accuracy and a periodic disclosure regime, and to establish a reliable surveillance and enforcement system.

21. **Securities (Bond Market) and Derivatives Market Expert (1 international, 3 person-months).** The expert’s primary objective will be to advise the Government on developing effective market-based government and corporate bond market yield curves that encourage issuances and facilitate the participation of institutional investors. The expert will (i) assess the government bond market and existing yield curve, advise and assist the Government to prepare and finalize a technical proposal for the development of a public debt strategy with a clear capital market development component; and support the team leader to identify measures to (ii) develop the corporate bond market as a competitive source of financing; (iii) improve liquidity and market efficiency for secondary trading of securities; and (iv) introduce a wide range of capital market products. The expert will assess the existing repo market and primary dealer system and identify measures to facilitate their enhanced contribution to bond market development. In addition, the
expert will advise on the sequenced introduction of alternative financing instruments; prepare a feasibility study to assess and guide the establishment of a commodities exchange, advise the integration of all cash and derivatives products trading, and assess the pros and cons of over-the-counter market trading; and develop an appropriate legal and regulatory framework for financial derivatives based on international best practices (including trading in derivatives) in close coordination with the Legal and Regulatory Expert.

22. **Insurance and Pension Expert** (1 international; 2 person-months). The expert will provide detailed analysis and policy recommendations (i) identifying measures to strengthen contractual savings institutions and pension funds—including improved governance and regulation of the insurance and pension industries in conformance with international best practices to facilitate achievement of the industry’s potential; (ii) identifying sequenced actions/initiatives to stimulate institutional investors’ demand for securities and participation in the capital market. The expert will also consider steps on how to strengthen professional qualification certifications.

23. **Program Coordinator** (1 national; 2 person-months). The program coordinator will work closely with the government, ADB and team of experts to maintain effective institutional coordination for the preparation of the program and compliance with the agreed policy actions. The coordinator will monitor the progress of the relevant line Ministries/Agencies to carry out the program preparatory activities as agreed with ADB; follow-up on and collect relevant documents to evidence full compliance of the agreed policy actions; review the submission of evidence against the ADB policy matrix and Uzbek legal/regulatory requirements; translate relevant sections from Uzbek/Russian to English and visa-versa; work with relevant government agencies to identify areas for support and report to the project team; assist the consulting team with data requirements; and provide inputs to regular progress reports.
The extracted clauses from Presidential Decree No. DP4127 and No. UP5614 as the directives for Capital Market Development Strategy Roadmap.

**Presidential Decree No. DP4127 extracts: Clause 7-b)**

7. To the Agency:
   b) jointly with interested ministries and departments, based on a study of advanced foreign experience and comprehensive discussion with international financial institutions and experts, by December 20, 2019, submit to the Administration of the President of the Republic of Uzbekistan the Capital Market Development Strategy, which includes measures to ensure the smooth functioning and development of all segments of the financial market in order to maximize the satisfaction of the investment needs of the population, entrepreneurs and the economy; create equal conditions and freedom of business activities for all participants in the capital market, including foreign ones, and creating a healthy competitive environment on this basis; increase the availability of the capital market for all categories of investors through active integration with international financial markets, the widespread use of modern information and communication technologies and the use of advanced approaches successfully tested abroad; create the necessary conditions in the stock market for active financing of investments for development, by introducing international best practices, eliminating unnecessary obstacles, restrictions and excessive regulation in this area; assist the growth of capitalization and competitiveness of the capital market through the introduction of attractive mechanisms for investors, the creation of an effective alternative to bank lending; developing the necessary legal framework to ensure the integrity of capital market regulation and the prevention of systemic risks, based on the implementation of relevant international standards and practices; ensuring coordination of measures for the development of the capital market in conjunction with the objectives of economic policy and the need for a balanced development of industries; stimulation and comprehensive promotion of investment and business activity in the capital market, through the provision of reasonable incentives and preferences used to improve competitiveness in foreign financial markets; developing a sustainable system of staffing the capital market in accordance with modern standards, creating an attractive environment for attracting promising specialists, including foreign ones.

**Presidential Decree No. UP5614 extracts: Clause# 1 under 2.2**


2.2 Development and Deepening of Financial Markets

1. Development of the Concept for the further development of the financial sector, which includes: gradual reduction of the state share in the banking sector; expanding the autonomy of the financial regulator; improvement of the procedure for maintaining the credit register as a tool to strengthen banking supervision; strengthening the capacity of the Central Bank in the management of supervision and control of the banking sector; revision of the norms and restrictions of the capital market in relation to foreign investments; expansion of the interbank and capital markets, including the stock and insurance markets, leasing services; developing the bond market and other financial instruments, expanding the possibilities of equity and debt financing instruments, simplifying the procedures for issuing securities; development of a market for derivative financial instruments, which are key instruments for hedging market risks and increasing financial stability; development of investment companies, underwriters, venture funds; the introduction of alternative financing mechanisms for start-ups and projects of business entities (for example, crowd funding); creating a regulatory framework for the development of modern financial technologies (“Fin-tech”);
measures to improve the business environment for electronic digital financial services; developing strategies to increase financial inclusion, protect consumers in the financial sector and increase financial literacy of the population.