

**ASIAN DEVELOPMENT BANK**

**TAR: KGZ 32141**

**TECHNICAL ASSISTANCE  
TO THE  
KYRGYZ REPUBLIC  
FOR  
INSTITUTIONAL STRENGTHENING  
OF THE  
FINANCIAL SECTOR**

**August 1999**

### **CURRENCY EQUIVALENTS**

(as of 10 August 1999)

Currency Unit	—	Som
Som1	=	\$0.025
\$1.00	=	Som39.41

### **ABBREVIATIONS**

GDP	—	gross domestic product
ICC	—	International Chamber of Commerce
JSC	—	joint-stock company
KGM	—	KyrgyzGazMunaizat
MIS	—	management information system
MOF	—	Ministry of Finance
NBKR	—	National Bank of the Kyrgyz Republic
NSC	—	National Securities Commission
SISA	—	State Insurance Supervision Authority
TA	—	technical assistance

### **NOTES**

- (i) The fiscal year of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

## **I. INTRODUCTION**

1. Building on recent banking sector reforms, the Government is planning to launch a comprehensive financial sector reform program to improve resource mobilization and allocation, and reduce the cost of financial intermediation in the country. The program provides an integrated approach to improve the efficiency of the banking sector, facilitate the development of the capital market, and promote institutional investors. The Government has requested technical assistance (TA) to support institutional strengthening of the principal regulatory agencies, including the National Bank of the Kyrgyz Republic (NBKR), the National Securities Commission (NSC), and the State Insurance Supervision Authority (SISA), to effectively improve regulatory standards and their enforcement. The Fact-Finding Mission for the TA visited the Kyrgyz Republic from 6 to 28 May 1999 and reached agreement with the Government on the objectives, scope, and implementation arrangements.<sup>1</sup> The TA framework is presented in Appendix 1.<sup>2</sup>

## **II. BACKGROUND AND RATIONALE**

2. After a severe contraction of economic growth, estimated at 50 percent between 1991 and 1995, the Kyrgyz economy began to recover in 1996 when 7.1 percent real gross domestic product growth was recorded, followed by 9.9 percent in 1997. The recovery began after a number of reforms toward establishing an open market economy had been initiated. However, the recovery was based largely on the gains from production at the Kumtor gold mine, revealing the need to develop a broad economic base to make the economy less susceptible to external shocks and achieve robust growth. During 1998, in view of its weak economic base, the Kyrgyz Republic was severely affected by the fall in commodity prices and by the Russian and Asian crises.

3. The effects of the crises have been severe because of the close economic links with Russia and other Commonwealth of Independent States. Economic growth slowed significantly, to 1.8 percent in 1998, and the inflation and interest rates rose, the latter reaching 140 percent in November 1998. The local currency, the som, depreciated from som20 per dollar in May 1998 to som40 per dollar in May 1999.

4. The growing economic distress adversely affected the financial sector. The depreciation of the local currency raised the foreign currency liabilities of bank borrowers, who could not meet obligations because their cash flow was predominantly in som. The defaults on foreign currency liabilities resulted in an increase of banks' nonperforming loans from 3.6 percent of the loan portfolio in mid-1998 to 12.1 percent in April 1999. Growing risk perceptions in the region created renewed interest rate pressure as reflected by the sharp rise in yields on treasury bills. To ease the pressure of rising debt servicing obligations, the Government redeemed treasury bills and restricted new issuance of them. Yields on treasury bills subsequently came down to 30 percent by May 1999. While the redemption of treasury bills eased fiscal pressures, the lack of treasury bills in the market place reduced investment options, and rendered interbank transactions more difficult due to the lack of instruments to be used as collateral.

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<sup>1</sup> The Bank is currently processing a program loan in support of the Government's Financial Intermediation and Resource Mobilization Program. The fact-finding mission for the program was fielded concurrently with that for the TA.

<sup>2</sup> The TA was first listed in *ADB Business Opportunities*, in July 1999

5. The banking sector distress has been compounded by the defaults of one of the largest state-owned enterprises, KyrgyzGazMunaizat (KGM), the state oil and gas company. Between November 1997 and September 1998, domestic and foreign banks extended \$18.5 million to KGM against collateral in the form of treasury notes issued by the Government to KGM. In late 1998, the General Manager of KGM disappeared without settling the company's \$18.5 million worth of liabilities. Four large domestic banks, accounting for 48 percent of total assets and 56 percent of total deposits, and with significant exposure to KGM, have suffered marked deterioration in their portfolios. Of these, Mercury, Maksat, and Kramds banks were put under NBKR conservatorship in February 1999, and the on-site inspection is underway of Bishkek Bank. The unfortunate conflux of these events in late 1998 eroded public confidence in the banking system and domestic currency deposits as the proportion of total deposits fell from 60 to 45 percent between August 1998 and February 1999. In view of the depreciation of the som, depositors seem to have converted their domestic deposits into foreign currency deposits.

6. To strengthen the banking sector and facilitate recovery from the present crisis, the Government is keen to develop a coherent strategy for the banking sector, including the (i) reporting and disclosure rules for banks, and (ii) improved on-site supervision capabilities to detect and prevent inaccurate accounting practices of banks seeking to circumvent NBKR's prudential regulations. Commercial banks need to strengthen their capital base and achieve effective compliance with recently introduced international prudential regulations, and develop proper credit and risk management procedures.

7. The slowdown in the real sector has adversely affected capital markets. While the stock market has been operating since 1995, and efficient trading, clearing, and settlement systems have been established, the economic downturn and confidence crisis has led to a severe drop in trading activities. During the first eight months of 1998, monthly turnover averaged som3.7 million, but later fell to som119,000, and to som23,000 in April 1999. The capital markets lack breadth and depth, and growth prospects depend on an adequate supply of securities and adoption of a strong regulatory and supervisory system. Development of capital markets is also critical to support the restructuring of the banking system and enterprises. As such, the Government is keen to develop NSC's capacity to effectively regulate market participants and improve investor protection, disclosure rules, and reporting systems. A proper management information system (MIS) is required to enhance monitoring and supervision of market participants and their activities.

8. To exploit alternative sources of funding and improve liquidity in the capital markets, there is a need to encourage contractual savings and develop institutional investors. At present, only 35 out of 88 registered insurance companies are operating, and the products offered are short-term insurance categorized as personal and property insurance. The insurance industry is financially weak, as reflected by the high ratio of reinsurance with more than 70 percent of the liabilities reinsured with foreign firms. The investment portfolios rely heavily on bank deposits with little investment in government securities or equities. The insurance companies' role as financial intermediaries therefore remains underexploited. A new law on insurance was enacted in 1998, but the Government has not developed prudential regulations and investment policies for the industry, and guidelines for SiSA to adequately regulate and supervise insurance companies. Progress has been made toward developing legislation for private pension funds, but without a comprehensive reform toward a fully funded accumulation system there is little scope for a fiscally and socially sustainable public pension system and private pension funds to develop. The Bank has provided a TA for designing a system that will ensure the long-term

financial and social sustainability of the pension system in the Kyrgyz Republic,<sup>3</sup> and the World Bank, under its Social Sector Adjustment Credit loan, has supported measures to improve the current notional defined contributions pension system.

9. Efforts to strengthen the financial sector have been under way since 1992. The Bank provided TA in 1994 to devise restructuring policies for the commercial banks and formulate appropriate legislation and regulations for the banking sector in the post-Soviet economy.<sup>4</sup> A number of the recommendations regarding restructuring of banks formed policy recommendations for the Financial Sector Adjustment Credit program supported by the World Bank in 1996. Under this program, a new law on banks and banking activity, and a new pledge law were enacted, and a major restructuring was undertaken of the unprofitable and nonviable banks inherited from the old Soviet banking system. Furthermore, international accounting standards and prudential regulations were introduced, but have yet to be effectively implemented. With the Russian crisis, problems in the banking sector reemerged, revealing the persistent weaknesses in the banking system that are due to noncompliance with prudential regulations and inadequate bank supervision.

10. Institutional strengthening is needed to maintain the momentum, ensure continuity of the reform process, and restore public confidence in the financial sector. The capacity, both in terms of skills and number of staff, within the supervisory units of NBKR, NSC and SISA must be strengthened, and the regulatory framework conducive to the development of efficient financial intermediaries must be enhanced. To gain public support and ensure transparency, a focused and targeted public information campaign will be initiated to disseminate information and educate the general public about the Government's financial sector reform strategies. The Bank is proposing (i) a financial intermediation and resource mobilization program loan supporting the Government's objective of improving the efficiency of financial intermediation by promoting a sound, well-functioning, and resilient banking sector, and enhancing the role of capital markets; and (ii) a TA loan to finance audits of selected banks and provide training in commercial banking skills. The proposed TA will carry reforms forward and support the Government's reform program by strengthening the regulatory and supervisory institutions and drafting amendments to bring the legal and regulatory framework fully in line with international standards.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Objective**

11. The TA is advisory, and will support institutional strengthening of the financial sector to assist (i) effective implementation of the financial sector strategy, and (ii) development of a sound regulatory environment for the sector. The TA will support institutional strengthening of NBKR, NSC, and SISA, and raise the general public's awareness about the reforms through an information campaign.

<sup>3</sup> TA 2963-KGZ: *Pension Reform*, for \$680,000, approved on 23 December 1997.

<sup>4</sup> TA 2220-KGZ: *Strengthening the Banking System*, for \$600,000, approved on 6 December 1994.

## **B. Scope**

12. The TA will support institutional strengthening of the three key regulatory and supervisory agencies overseeing different segments of financial market. This includes:

- (i) advise and support to NBKR on the banking sector reform strategy, evaluating the feasibility of the proposed deposit insurance, reviewing restructuring plans for individual banks, formulating revised methodologies and procedures for on- and off-site supervision, developing implementation plans for accounting and auditing, assessing the procedures for loan classification, recommending an appropriate reserve policy, and developing incentives for foreign participation in the banking sector;
- (ii) developing and strengthening NSC's regulatory capacities, evaluating the strategy for capital market development, evaluating procedures for privatization through the stock exchange, recommending measures to attract foreign investors to the Kyrgyz securities market, developing MISs, reviewing regulation and supervision procedures, and providing advice in other areas including investor protection and disclosure rules; and
- (iii) development and adoption of prudential norms and investment guidelines by SISA for insurance companies in accordance with international standards and best practice, designing and developing comprehensive MISs to administer the insurance industry and facilitate its supervision, and establishing a regulatory framework to establish reserve funds of the insurance industry.

## **C. Cost Estimates and Financing Plan**

13. The total cost of the TA is estimated at \$675,000 equivalent, of which \$590,000 is the foreign exchange cost and \$85,000 equivalent is the local currency cost. The Government has requested the Bank to finance the entire foreign exchange cost of \$590,000 and \$10,000 equivalent of the local currency cost for a total of \$600,000 equivalent. The TA will be financed on a grant basis from the Bank-funded TA Program. The Government will finance the remaining \$75,000 through the provision of office support, translation, transportation, and local counterpart staff. The cost estimates and financing plan are given in Appendix 2.

## **D. Implementation Arrangements**

14. The Ministry of Finance (MOF) will be the Executing Agency for the TA. NSC, SISA and NBKR will be the implementing agencies. Each implementing agency will provide the necessary office support, counterpart staff, transportation, and other services to the consultants.

15. The TA will require a total of 17 person-months of service of international consultants and 5 person-months of service of a domestic consultant. The international experts will include (i) a banking specialist for 5 person-months, (ii) a capital market specialist for 4 person-months, (iii) an insurance system specialist for 3 person-months, (iv) an MIS specialist for 2 person-months, and (v) a legal expert for 3 person-months. The domestic consultant will be a public information campaign manager for 5 person-months. The banking specialist and the legal expert will be recruited as individual consultants, and a firm will be recruited for the capital market activities. The consultants will be recruited in accordance with the Bank's *Guidelines on the Use*

*of Consultants* and other arrangements satisfactory to the Bank on the engagement of domestic consultants. The terms of reference for the consultants are given in Appendix 3.

16. The consultants will provide inception reports to MOF, the implementing agencies, and the Bank within one month of the commencement of services. The consultants will also provide the Bank with monthly reports on TA progress and on key policy developments. The consultant will present draft final reports outlining activities undertaken and training completed to MOF, the implementing agencies, and the Bank four weeks before the end of each TA component. Final reports incorporating the comments received from the Bank and the Government, will be presented at the end of each component. The TA will commence in August 1999, and be implemented over a period of 10 months.

#### **IV. THE PRESIDENT'S DECISION**

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Kyrgyz Republic in an amount not exceeding the equivalent of \$600,000, for the purpose of Institutional Strengthening of the Financial Sector, and hereby reports such action to the Board.

**TECHNICAL ASSISTANCE FRAMEWORK**

<b>Design Summary</b>	<b>Performance Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions/ Risks</b>
<b>1. Sector Goal</b>  To promote an efficient, well-regulated, competitive finance sector.	<ul style="list-style-type: none"> <li>Increased resource mobilization and allocation.</li> <li>Deeper and more liquid capital markets.</li> <li>Developed insurance industry.</li> </ul>	<ul style="list-style-type: none"> <li>Policy dialogue, review missions, and reports.</li> <li>Increased activity in the financial sector as measured by deposits/gross domestic product (GDP), credit/GDP, stock market turnover, and growth of institutional investors.</li> </ul>	<ul style="list-style-type: none"> <li>Delayed economic recovery.</li> </ul>
<b>2. Objective</b>  To support institutional strengthening in the National Bank of the Kyrgyz Republic (NBKR), National Securities Commission (NSC), and State Insurance Supervision Authority (SISA), and create a legal and regulatory framework conducive to the development of the finance sector.	<ul style="list-style-type: none"> <li>Establishment of a legal and regulatory framework for the financial sector in line with international standards, and best practice. Skilled staff in the supervisory agencies.</li> </ul>	<ul style="list-style-type: none"> <li>Policy dialogue, review missions, and progress reports of the individual components as specified below.</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness will depend on enactment of necessary legislation, passage of necessary regulations, and enforcement of these.</li> </ul>
<b>3. Outputs</b>  Measures to support institutional strengthening in the banking sector to respond to the current difficulties.	<ul style="list-style-type: none"> <li>A comprehensive banking sector strategy adopted by the Government.</li> <li>A time-bound action plan to promote recapitalization, rehabilitation, consolidation, or closure of banks unable to meet capital adequacy requirements.</li> <li>Review of current reserve policy, and plan for reserves for foreign currency</li> </ul>	<ul style="list-style-type: none"> <li>Developed and implemented strategy.</li> <li>Developed and implemented action plan.</li> <li>Review and recommendation of reserve policy.</li> </ul>	<ul style="list-style-type: none"> <li>Economic recovery.</li> <li>Enforcement of existing and proposed laws and regulations.</li> </ul>



Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions/ Risks
	deposits to be held in foreign exchange. <ul style="list-style-type: none"> <li>Recommendation of incentive structure for foreign participation in the banking sector.</li> </ul>	<ul style="list-style-type: none"> <li>Review and recommendation of incentive structure.</li> </ul>	
Assessment of the desirability and feasibility of a deposit insurance scheme.  Analysis and, if necessary, revision of risk management, internal controls, and loan classification in commercial banks.	<ul style="list-style-type: none"> <li>If feasible, introduction of deposit insurance.</li> <li>Procedures for risk management, internal controls, and loan classification in commercial banks based on international best practice.</li> </ul>	<ul style="list-style-type: none"> <li>Assessment and recommendation.</li> <li>Developed and implemented procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Enactment of law, and establishment of deposit insurance.</li> <li>Assumes development and introduction of risk management procedures, internal controls, and appropriate loan classification.</li> </ul>
Measures to enhance on- and off-site supervision of banks.	<ul style="list-style-type: none"> <li>Procedures for on- and off-site supervision of banks in line with international best practice.</li> </ul>	<ul style="list-style-type: none"> <li>Developed and implemented procedures for on- and off-site supervision.</li> </ul>	<ul style="list-style-type: none"> <li>Assumes development and introduction of new procedures and adequate staff.</li> </ul>
Measures to respond to the current situation in the capital markets.  Measures to augment the supply of securities	<ul style="list-style-type: none"> <li>A comprehensive strategy for the development of capital markets adopted by the Government.</li> <li>Drafted regulations, and enactment of necessary legislation for investor protection.</li> <li>Program to attract foreign investors to the securities market.</li> <li>Develop proper disclosure and reporting rules for market participants.</li> <li>Assessment of the feasibility of moving secondary trading of treasury bills and</li> </ul>	<ul style="list-style-type: none"> <li>Developed and implemented strategy for capital market development.</li> <li>Implemented investor protection.</li> <li>Developed program for attracting foreign investors.</li> <li>Developed and implemented disclosure and reporting rules.</li> <li>Assessment and recommendation.</li> </ul>	<ul style="list-style-type: none"> <li>Enactment of necessary legislation and regulations.</li> </ul>

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions/ Risks
	foreign exchange trading to the stock exchange.		
<p>Measures to support the development of the insurance industry.</p> <p>Management information systems (MIS) in NSC and SISA to facilitate monitoring and supervision.</p> <p>Measures to disseminate information about the Government's strategies and reforms in the financial sector.</p>	<ul style="list-style-type: none"> <li>Establish prudential regulations, and manual for supervisors.</li> <li>Draft regulations for reserve funds.</li> <li>Establish reserve funds.</li> <li>Develop standard qualifications for professionals in the insurance industry.</li> <li>Prepare time-bound action plan for in-service training.</li> <li>Operating MIS in NSC and SISA, based on needs of each agency.</li> <li>Design and execution of a targeted and focused information campaign.</li> </ul>	<ul style="list-style-type: none"> <li>Developed and implemented prudential regulations.</li> <li>Developed manual.</li> <li>Developed and implemented regulations for reserve funds.</li> <li>Established qualification criteria.</li> <li>Developed action plan.</li> <li>Implemented MIS.</li> <li>Implemented information campaign.</li> </ul>	<ul style="list-style-type: none"> <li>Assumes development and introduction of prudential regulation.</li> <li>Economic recovery in order for reserve funds to invest.</li> </ul>
<p><b>4. Activities</b></p> <p>Strategies for the banking sector, and capital market development.</p> <p>Review, analysis, and revision of existing regulations for supervision of banks and insurance companies.</p> <p>Development of MIS within NSC and SISA.</p>	<ul style="list-style-type: none"> <li>Strategies produced and implemented.</li> <li>Drafted and implemented regulations at NBKR and SISA.</li> <li>Supervision manual for SISA.</li> <li>Implementation of MIS at NSC and SISA.</li> </ul>	<ul style="list-style-type: none"> <li>Policy dialogue, review missions, and progress reports to effectively monitor implementation.</li> <li>Policy dialogue, review missions, and progress reports to effectively monitor implementation.</li> <li>Review missions and progress reports to effectively monitor implementation.</li> </ul>	<ul style="list-style-type: none"> <li>Strategies to be developed and implemented.</li> <li>Dissemination of reporting requirement to market participants and enforcement of supervisory guidelines is vital.</li> <li>Submission of data from market participants is essential.</li> </ul>

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions/ Risks
<p>Amendments to the legal and regulatory framework conducive to efficient and competitive finance sector.</p> <p>Devise and implement a public information campaign.</p>	<ul style="list-style-type: none"> <li>• Drafting and implementation of necessary legislation and regulations, including revisions to the law on banks and banking activity.</li> <li>• Preparation and execution of the campaign.</li> </ul>	<ul style="list-style-type: none"> <li>• Policy dialogue, review missions, and progress reports to effectively monitor implementation.</li> <li>• Review missions and progress reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Implementation and enforcement of regulations and laws is essential.</li> <li>• Strategies to be developed and disseminated to the general public for effective implementation.</li> </ul>

**COST ESTIMATES AND FINANCING PLAN**  
(\\$)

<b>Item</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Bank Financing</b>			
1. International Consultants			
a. Remuneration	415,000	0	415,000
b. Per Diem	55,000	0	55,000
c. Travel	25,000	0	25,000
2. Domestic Consultant	0	10,000	10,000
3. Equipment, Material <sup>a</sup>	30,000	0	30,000
4. Reports and Communication	10,000	0	10,000
5. Contract Negotiations	5,000	0	5,000
6. Contingencies	50,000	0	50,000
<b>Subtotal (A)</b>	<b>590,000</b>	<b>10,000</b>	<b>600,000</b>
<b>B. Government Financing</b>			
1. Office Support	0	30,000	30,000
2. Local Counterpart Staff	0	20,000	20,000
3. Translation	0	10,000	10,000
4. Transportation	0	5,000	5,000
5. Contingencies	0	10,000	10,000
<b>Subtotal (B)</b>	<b>0</b>	<b>75,000</b>	<b>75,000</b>
<b>Total</b>	<b>590,000</b>	<b>85,000</b>	<b>675,000</b>

<sup>a</sup> Including material for the public information campaign.  
Source: Staff estimates.

## **TERMS OF REFERENCE FOR CONSULTANTS**

### **A. Banking System Specialist (5 person-months)**

1. The consultant should have experience in development of banking sector strategies and in-depth knowledge of bank restructuring procedures, banking supervision, and prudential norms. The terms of reference of the consultant will include, but not be restricted to the following:

- (i) review the banking sector reform strategy of the National Bank of the Kyrgyz Republic (NBKR), and assess its adequacy in addressing problems facing the Kyrgyz banking sector;
- (ii) develop a time-bound action plan to promote recapitalization, rehabilitation, consolidation, or closure of banks unable to meet capital adequacy standards prescribed by NBKR;
- (iii) assist NBKR in formulating a medium-term action plan for strengthening the banking sector, focusing on (a) new regulatory features; (b) enhanced on- and off-site supervision, including methodologies and procedures in line with international best practice; and (c) resolution of problem banks, including restructuring plans for individual banks;
- (iv) analyze implementation of the qualitative analysis of loans, the use of the capital asset quality, management, earnings, and liquidity approach in assessing banks, the review and evaluation of credit, risk management, and internal control systems and procedures of commercial banks;
- (v) revise the on-site inspection procedures regarding assessment of organizational structures, credit policy, and internal control mechanisms;
- (vi) assess the feasibility and desirability of introducing the proposed deposit insurance system, particularly for small domestic and foreign currency depositors, based on a structure that minimizes moral hazard problems;
- (vii) review the current policy that all reserves be held in som, and prepare a plan to allow banks to hold reserves on their foreign deposits in foreign currencies;
- (viii) recommend an incentive structure conducive to foreign participation in financial institutions, with a possible focus on tax and other incentives; and
- (ix) develop the public information campaign on the proposed reforms, and developments in the banking sector.

## **B. Legal Expert (3 person-months)**

2. The consultant should have a solid background in legal matters pertaining to the financial sector, in particular banking. The consultant will:

- (i) draft a negotiable instruments law compatible with the provisions in the Law on Banks and Banking Law, the Central Bank Law, and International Chamber of Commerce (ICC) 500;
- (ii) draft a documentary credit law along the lines of ICC 500; and
- (iii) review proposed amendments to the Law on Banks and Banking Activity regarding (a) providing procedures for release of information of bank accounts to the State Tax Inspectorate, (b) giving NBKR full discretion to determine adequacy of applications for bank licenses and for accepting or rejecting the same, (c) specifying personal liabilities of and punitive actions on the shareholders and the Council of Directors for any major actions the bank takes that affects the health of the institution, and (d) prohibiting the shareholders and/or members of the Council of Directors from interfering with the day-to-day activities of a joint-stock company (JSC) bank.

## **C. Capital Markets Specialist/Team leader (4 person-months)**

3. The specialist should have had extensive experience with capital market regulation and supervision from developed and emerging markets. The specialist will provide advice and assistance to National Securities Commission (NSC) with the overall objective of promoting transparent and efficient securities markets with properly regulated and supervised participants. The specialist will also be team leader for the capital markets activities including insurance, management information system (MIS), and the proposed public information campaign. Specific areas should include, but not be limited to the following:

- (i) assisting the Government to formulate its strategy for capital market development, including regulatory reform, infrastructure development, and promotion of more liquid and efficient markets;
- (ii) developing disclosure rules and reporting requirements for all market participants;
- (iii) developing a plan for introducing investor protection, including necessary laws and regulations;
- (iv) jointly with the MIS specialist, developing MISs for trade reporting to increase transparency of market activities;
- (v) preparing a program to attract foreign investors to the securities market;
- (vi) assessing the feasibility, costs, and benefits of moving the trading of foreign exchange and secondary treasury bill from NBKR to Kyrgyz Stock Exchange;
- (vii) reviewing, and, if necessary, revising the procedures for privatization through the stock exchange;

- (viii) developing the public information campaign on the proposed reforms of the capital markets; and
- (ix) as team leader, supervising and coordinating the activities of the MIS expert and the public information campaign manager, and coordinating with the insurance sector expert, and the banking system specialist.

#### **D. Insurance Sector Expert (3 person-months)**

4. The consultant is required to have in-depth knowledge of insurance regulations, policy, and management, as well as operations of insurance companies, and should be familiar with the best international practices and standards for insurance sector regulation. The terms of reference will include, but not be limited to the following:

- (i) reviewing and developing rules and guidelines for effective supervision, and operational manuals for the State Insurance Supervision Authority (SISA);
- (ii) developing prudential norms and standards for insurance companies including reporting and disclosure requirements, accounting standards, auditing requirements, investment guidelines, and other conditions in accordance with international best practice;
- (iii) developing a regulatory framework and operating guidelines to establish a reserve fund for the insurance industry;
- (iv) developing standard qualifications for various participants in the insurance industry (e.g., professional management, agents, brokers, surveyors); and developing a time-bound action plan to implement an in-service training program for insurance industry personnel to upgrade skills for actuarial analysis, valuation, underwriting, surveying, pricing, and adjusting;
- (v) assisting the MIS expert in identifying the required information system and database for SISA to effectively administer and monitor insurance companies; and
- (vi) developing the public information campaign to improve acceptability and enforcement of reforms of the insurance sector.

#### **E. Management Information System Expert (2 person-months)**

5. The consultant should have a solid background in developing MISs in the financial services industry. Previous experience from capital markets in developing and transition economies is preferred. The consultant will:

- (i) with the capital market specialist, design and develop an MIS at NSC for reporting trading and financial data in the capital markets;
- (ii) with the insurance sector expert, design and develop an MIS at SISA to facilitate monitoring and supervision of the insurance industry;

- (iii) develop operations manuals for the MISs at NSC and SISA; and
- (iv) train users of the MIS, in order to ensure effective utilization of the MIS.

**F. Public Information Expert (5 person-months)**

6. This domestic consultant should have experience in marketing and public relations, and in-depth knowledge of communication channels in the Kyrgyz Republic. Based on the factual input from the banking sector specialist, the capital market specialist, and the insurance sector specialist, the consultant will

- (i) coordinate and implement a targeted public information campaign to inform all market participants about the Government's strategies and reforms in the financial sector;
- (ii) identify the most efficient communication channels to disseminate information and educate the general public across the nation;
- (iii) design information materials and public service announcements to be broadcast;
- (iv) arrange and monitor production of information materials and broadcasts; and
- (v) implement the public information campaign.