

Box 1. Banking Sector Reform Program for 2003-2005

Bank supervision	Regulatory framework	State-owned banks	DEBRA	Payments system
<p>1. A NBKR task force will analyze the financial legislation and develop proposals to eliminate gaps and any inconsistencies with respect to the Basel Principles by end-March 2003;</p> <p>2. Submit to Parliament amendments to Banking Law to ensure the independence of the internal audits function by end-September 2003;</p> <p>3. Submit to Parliament amendments to the law on Audit to empower NBKR to reject, require replacement, and if necessary appoint external auditors and require auditors to disclose and discuss their findings, and working papers, at NBKR request - by end-September 2003;</p> <p>4. Submit to Parliament amendments to the Law on Audit by end-September 2003 to define the qualification requirements of external bank auditors.</p> <p>5. Establish a unit to supervise microfinance institutions - by end-January 2003.</p>	<p>1. Submit to Parliament draft AML/CTF legislation – by end-January 2003.</p> <p>2. Develop and design a deposit insurance scheme (DIS). Implementation is envisaged for 2005, provided the DIS is funded and participating banks meet all eligibility criteria ;</p> <p>3. Raise minimum own capital requirement to som 30 million by end-June, 2003 and to som 60 million by end-2005; 1/</p> <p>4. Eliminate the specialized bank status by end-January 2003;</p> <p>5. Submit to Parliament amendments to legislation to eliminate the 15 percent maximum ownership threshold by end-September 2003;</p>	<p>I. KAIRAT:</p> <p>1. Issue a privatization tender by end-March 2003;</p> <p>2. Actively seek IFI equity participation;</p> <p>3. Select a short list of fit and proper strategic investors and start negotiations by end-December 2003.</p> <p>II. SSC</p> <p>1. Adopt by end-January 2003 a joint Government-NBKR resolution to transfer ownership to the government and complete transfer by end-March 2003;</p> <p>2. By end-September 2003, streamline and increase efficiency of branch network in performing payments services possibly including postal offices (cost benefit study of the appropriate range of activities through the World Bank by end-June 2003);</p> <p>3. Prepare by end-September 2003 a proposal of a development strategy of the SSC, including the potential for microfinancing and equity participation by the IFIs;.</p> <p>III. KAFC</p> <p>1. Prepare a concept paper for sustainable financial development in coordination with WB and IMF by end-January 2003.</p>	<p>1. Make it independent legal entity as of February 1, 2003;</p> <p>2. Only liquidation and debt recovery tasks as of February 1, 2003;</p> <p>3. Aim at financing through fees starting July 1, 2003;</p> <p>4. Seek TA from IDA by end-November 2002;</p> <p>5. No write-offs of debts unless specifically authorized by DEBRA’s Supervisory Board.</p>	<p>1. Streamline and modernize regulatory and legal framework on electronic payments to reduce the risk in the payments system;</p> <p>2. Finalize and publish Strategic Plan for 2003-2005 by end-January 2003.</p>

1/ Own capital is defined as tier 1 capital less cross-shareholdings in any financial institution.

Box 2. Governance Reform Measures for 2003-2005

Institution building	Public awareness	Efficiency of public administration	Corporate governance	Judiciary
<p>1. Establish a National Integrity Working Group and related organizations within and outside government (IMF);</p> <p>2. Organize a National Integrity Workshop (IMF);</p> <p>3. Submit to parliament a conflict of interest law by end-March 2003 (WB);</p> <p>4. Prepare a restructuring plan of the State Commission for Procurement and amend the public procurement law in line with European Union directives by end-September 2003 (WB);</p>	<p>1. Conduct and publish annual perception surveys of public and corporate governance, starting 2003 (WB);</p> <p>2. Publish annually a list of the 50 largest delinquent tax payers and energy users (IMF);</p> <p>3. Publish a quarterly fiscal bulletin on budget execution (IMF);</p> <p>4. Approve and publish the 2004-2006 medium-term fiscal framework by end-March 2003 (IMF);</p> <p>5. Publish annually the Chamber of Accounts audits of state finances (WB).</p>	<p>1. Based on the functional review of these institutions, consolidate the Ministry of Foreign Trade and Industry, the State Antimonopoly Committee, the State Committee for Standards and Measures, the State Commission for Entrepreneurship, and the Center for Foreign Investment to eliminate functional duplications and inefficiencies (IMF).</p> <p>2. Revise the protocols for tax and customs inspections as recommended by the ADB by end-2003 (ADB);</p> <p>3. Eliminate the backlog in VAT refunds by end-March 2003 and streamline VAT refund regulation (IMF) by end-Sept. 2003;</p> <p>4. Strengthen the role of financial officers in line ministries (WB);</p> <p>5. Adopt a strategy for implementing structural changes in the Ministries of Health, Education, and Agriculture based on the recent functional review (by end-June 2003) (WB);</p> <p>6. Complete functional reviews of the Ministries of Labor, Social Protection, Justice, and Transport and Communications and of the State Property Fund by end-June 2003 (WB);</p> <p>7. Limit the maximum number of annual enterprise inspections (WB).</p> <p>8. Review the charter of the Economic Development Fund in view to consolidate its loan recovery operations with DEBRA (WB).</p>	<p>1. Introduce IAS 2001 for all enterprises listed on the KES by January 2004 (ADB);</p> <p>2. Introduce IAS 2001 for all commercial banks by January 2004 (ADB);</p> <p>3. Train inspectors on IAS 2001 and only accept 2002 financial statements from KES listed enterprises based on IAS 2001 (ADB);</p> <p>4. Approve new law on national standards for asset valuation (ADB);</p> <p>5. Complete a re-evaluation by SPF of physical and financial assets of three large SOEs (ADB);</p> <p>6. Amend relevant regulations on pledges as recommended by the ADB;</p>	<p>1. Reform the development agenda of the Ministry of Justice following the recent functional review by end-March 2003 (WB).</p> <p>2. Issue implementation regulations for extra-judicial arbitration of commercial disputes by end-March 2003 (ADB);</p> <p>3. Require that all decisions be justified in writing and published (IMF);</p> <p>4. Establish an independent anti-corruption unit appointed by the President and approved by Parliament by end-June 2003 (IMF);</p> <p>5. Streamline significantly court proceedings on banking issues starting March 1, 2003 (ADB);</p> <p>6. Improve legal tools to ensure value of collateral by end-March 2003 (ADB);</p> <p>7. Review the court fee system with a view to reduce fees to 3 percent of par value of collateral by end-January 2003 (IMF);</p> <p>8. Streamline significantly appeal system by end-June 2003 (ADB);</p>

Box 3. Prior Action, Structural Performance Criteria, and Benchmarks

Prior Action

Adoption by Parliament of the 2003 State and Social Fund Budgets as discussed with the Fund staff;

Structural performance criteria

By end-March 2003

- Approval by the Economic Policy Council and publishing of the 2004-2006 Medium-Term Fiscal Framework designed to achieve real GDP growth of 5 percent and inflation of not more than 4 percent a year;

By end-June 2003

- Raise minimum own capital requirement for commercial banks to som 30 million.

Structural benchmarks

By end-January 2003

- Submit to Parliament draft AML/CFT¹ legislation.
- Publish the list of the 50 largest delinquent tax payers;
- Eliminate the specialized bank status.

By end-March 2003

- Reduce arrears on VAT refunds as specified in paragraph 16 of the SMEP.
- Issue implementation regulations for extra-judicial arbitration of commercial disputes.
- Develop a commitment control and arrears tracking system on a manual basis.
- Issue a privatization tender for KAIRAT bank.

¹ Anti-Money Laundering and Combating Financing Terrorism.

Table 1. Kyrgyz Republic: Quantitative Program Targets 1/
(In millions of soms, unless otherwise indicated; eop)

	2001		2002						2003				
	December	March	March	June	June	September		September	December	March	June	September	December
	Actual	Performance Criteria Adjusted	Actual	Benchmarks Adjusted	Actual	Program	Adjusted	Actual	Benchmarks	Performance Criteria	Indicative targets	Indicative targets	Benchmarks
I. Performance criteria													
1. Floor on net international reserves of the NBKR in convertible currencies (eop stock, in millions of U.S. dollars) 2/	39.3	30.6	53.6	43.7	58.4	57.6	48.4	79.9	96.1	104.2	104.6	113.8	119.9
2. Ceiling on net domestic assets of the NBKR (eop stock) 3/	1,257	1,090	893	2,566	2,438	1,987	2,436	2,007	1,920	1,804	1,883	1,560	1,308
3. Ceiling on cumulative fiscal deficit of the state government 4/	1,290 5/	n.a.	2,276	n.a.	3,301	4,948	n.a.	4,047	1,548	2,713	3,705	4,396	1,130
4. Cumulative floor on state government tax collections in cash 6/	2,929	n.a.	5,008	n.a.	7,508	10,316	n.a.	10,359	3,025	5,303	8,240	11,619	3,876
5. Ceiling on the stock of central government budget arrears 7/	0	n.a.	0	n.a.	30	0	n.a.	0	0	0	0	0	0
6. Ceiling on the stock of Social Fund pension arrears	12	n.a.	0	n.a.	92	0	n.a.	0	0	0	0	0	0
7. Floor on payroll collections in cash of the Social Fund 8/	...	...	...	...	...	...	...	...	975	1,715	2,515	3,389	1,102
8. Ceiling on the stock of Social Fund arrears to the Medical Insurance Fund	...	...	...	...	...	...	...	77.1	50	40	20	10	0
9. Ceiling on contracting or guaranteeing by the state government or NBKR of new external debt of less than one year (in millions of U.S. dollars) 9/ 10/	0	n.a.	0	n.a.	0	0	n.a.	0	0	0	0	0	0
10. Ceiling on contracting or guaranteeing by the state government or NBKR of new nonconcessional external debt (cumulative, in millions of U.S. dollars) 11/	0	n.a.	0	n.a.	0	0	n.a.	0	0	0	0	0	0
11. Ceiling on new external payment arrears (in millions of U.S. dollars) 10/	0	n.a.	0	n.a.	0	0	n.a.	1.5	1.5	0	0	0	0
II. Indicative targets													
1. Ceiling on reserve money (NBKR liabilities)	5,359	4,853	5,626	5,602	6,164	5,700	5,700	6,786	7,432	7,677	7,784	7,874	7,916

Sources: Data provided by the Kyrgyz authorities; and Fund staff estimates and projections.

1/ Until September 2002, foreign exchange components valued at the exchange rate US\$1 = som 49, gold holdings valued at US\$265 per ounce, SDR valued at SDR 1 = US\$1.259. Starting December 2002, foreign exchange components valued at the exchange rate US\$1 = som 47, gold holdings valued at US\$322.4 per ounce, SDR valued at SDR 1 = US\$1.3186. Targets exclude claims and liabilities to BRO countries.

2/ As defined in the Technical Memorandum of Understanding (TMU), excludes, among others, swaps and international reserves of the NBKR that are pledged or blocked.

3/ As defined in the TMU, excludes, among others, counterpart of the loan by the Eximbank of Turkey and the EBRD/IDA enterprise loan which are channeled through the NBKR.

4/ As defined in the TMU, state government comprises central government and local governments. For March 2003, cumulative begins on October 1, 2002. For December 2003, cumulative begins on October 1, 2003.

5/ The deficit for the fourth quarter of 2001 is adjusted for interest payments rescheduled by the Paris Club (som 172 million).

6/ As defined in the TMU, includes, among others, collection of tax arrears but excludes, among others, tax offsets. For March 2003, cumulative begins on October 1, 2002. For December 2003, cumulative begins on October 1, 2003.

7/ As defined in the TMU, central government budget arrears comprise, among others, wages, payroll contributions and mandatory transfers to the Social Fund, categorical grants, payments to KyrgyzEnergO, and allowances to poor families from September 2002 onwards.

8/ For March 2003, cumulative begins on October 1, 2002. For December 2003, cumulative begins on October 1, 2003.

9/ External debt is defined in the TMU as in Executive Board's Decision no. 12274 (00/85) of August 24, 2000. Includes loans, leases, suppliers' credits and other instruments giving rise to external debt.

10/ On a continuous basis.

11/ As defined in the TMU, a debt is classified as concessional if its grant element is at least 45 percent, calculated using a discount rate based on the 10-year average of OECD commercial interest reference rates (CIRR), for debts of maturity greater than 15 years; for debts of maturity 15 years or less, the discount rate should be based on the six month average of the OECD CIRR. The ceilings include loans, leases, supplier's credits and other instruments giving rise to external debt on nonconcessional terms. IMF lending is excluded from the ceiling on new nonconcessional borrowing.

Adjustors

1. The floor on net international reserves of the NBKR will be adjusted: (i) upward/downward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state government budget and cash grants; (ii) upward/downward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate. In the case of a release of the NBKR's pledged foreign reserves, the NIR floor will be adjusted upward by 100 percent of the net effect of the releases and related amortization payments.

2. The ceiling on net domestic assets of the NBKR will be adjusted: (i) downward/upward by 100 percent for excesses/shortfalls of the use of net foreign financing of the state government budget and cash grants; (ii) downward/upward by 100 percent for excess/shortfall of cash privatization receipts. The adjustment for shortfalls in adjustors (i) and (ii) is limited to US\$ 15 million each, valued at the program exchange rate, excluding the amortization payments for the release of the NBKR's pledged foreign reserves.

Schedule of Basic Actions on Stepwise Establishment of the Large Taxpayer Unit

Activity	Begin	End
Establishment of the headquarters of the LTU; selection and appointment of full-time department head and staff	01/11/02	30/12/02
Selection of taxpayers to be controlled	01/01/03	30/01/03
Decision on organizational structure	01/02/03	28/02/03
Preparation and implementation of regulations to support LTU operations	01/02/03	30/03/03
Design of a manual ledger card system for revenue accounting purposes	15/03/03	30/04/03
Notification to the large taxpayers of the new arrangements for filing and paying their taxes with effect from 01/08/03	01/04/03	30/04/03
Decision on the computerized information systems requirements for the LTU	01/05/03	30/06/03
Preparation of procedural manuals for the LTU based on new procedures and use of a new, manual, revenue accounting system	01/05/03	30/06/03
Creation of a special bank account for the deposit of tax payments by large taxpayers	01/06/03	30/07/03
Training of LTU staff on new procedures	01/07/03	30/10/03
Seminars to explain the new system to large taxpayers	01/07/03	30/07/03
Review/update information on name, address, economic activity, tax obligations, settlement accounts, etc., from large taxpayers	01/08/03	30/09/03
Collection by LTU from large taxpayers becomes operational 1/	01/08/03	
Design and implementation of the computerized LTU information system	01/08/03	30/07/04

1/ This timetable envisages that effective control of the large taxpayers will be transferred to the LTU starting August 1, 2003, although the implementation of the self-assessment system may only be possible after the preparation of the manuals, the training of LTU staff, and the seminars for taxpayers have been completed.

2/ This timetable also assumes that by August 1, 2003 only the large taxpayers in the Bishkek area will have been transferred to the LTU. Large taxpayers in the Chui region will be transferred in the 3rd quarter of 2003, and the rest in the 1st quarter of 2004.

3/ This is a tentative timetable that will be revised upon the completion of a comprehensive assessment by an IMF fiscal expert in the first quarter of 2004.

Schedule of the Restructuring of the Ministry of Finance

Actions	Date
Approval of the framework for the reorganization of the office and management of the Ministry of Finance: reduction of its employment by 10 percent, development and approval of the required statutory acts that regulate the activity of the Ministry according to the Concept and the new Staff Organizational Framework Chart	August 1, 2002
Functional reorganization of jurisdictional units of the Ministry of Finance. Elaboration and implementation of basic measures under the Fiscal Reform Strategy observing the dates as set up in the Decree of the President of the Kyrgyz Republic of July 16, 2002, No. 191	October 1, 2002
Improving its analytical and forecasting work, a regulatory legal framework that regulates a budget process, administration and revenue collection.	January 1, 2003