

cooperation; and (iii) implement new regulations on bank resolution.

**Component 3: New innovative products and institutional development.** This component will focus mainly on supporting two institutions (the Guarantee Fund and the State Development Bank) with **i)** development of new innovative products such as Portfolio Risk Sharing Facility, green guarantees, green finance, export finance and export guarantees, among others; and **ii)** institutional development and operationalization (in the case of the SDB). Provision of TA to the NBKR on regulation and supervision of credit guarantee providers including on Islamic principles of financing and of SDB will also be part of this component.

**Component 4: Debt resolution and insolvency.** Provision of TA and continued dialogue with key counterparts on the insolvency reform to provide well-suited restructuring and liquidation tools for corporates and enterprises in distress, including a hybrid corporate workout mechanism and special simplified procedure for MSMEs. Advise the Ministry of Economy and Commerce on the legal reforms on insolvency and provide training to insolvency administrators. Efficient, reliable, and transparent insolvency and creditor/debtor regimes are of key importance for the efficient reallocation of productive resources in the private sector, investor confidence, and corporate restructuring. These systems also play a crucial role in times of crisis, enabling countries to promptly respond to and resolve matters of financial distress on a systemic scale.

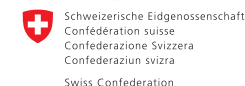
**Component 5: Secured transactions.** Support the Government to adopt a new law on secured transactions and develop implementing regulations. Modern and efficient secured transactions framework aims to increase the use of movable assets as collateral and includes establishment of a modern collateral registry for all secured creditors. Modern secured transactions system facilitates access to credit for all sectors and all types of economic players, thereby contributing to the overall economic development of the country.

**Component 6: Credit reporting.** Modernization of the credit reporting regime through amending the Law on Credit Information

Sharing and technical assistance to the NBKR on oversight of private credit information bureaus. Alternative data is one of the key enablers to improve financial inclusion of underserved segment (esp. MSMEs) and prevent over indebtedness. Alternative data tend to use enhanced internal scoring models, and automated decision-making. It also contributes to better client identification through KYC and fraud detection. It fosters business process digitization that leads to lower cost of lending.

**Component 7: Financial Market Infrastructure.** Provide advisory service on **(i)** the establishment of fast/instant payment system (FPS) and developing the system, rules, procedures, and the associated standards; **(ii)** supporting the development of a Central Bank Digital Currency (CBDC) system by the NBKR through monetary and stability analysis, the NBKR's proof of concepts and pilots, and developing the business and technical requirements; **(iii)** developing the regulations, rules, and standards aiming at establishing a framework for open finance. The standardization of financial transfers among different financial service providers will facilitates data sharing through common application programming interfaces (APIs) and encourage the engagement of fintech companies and innovative services in the country. The CBDC system aims at modernizing the services provided by the central bank and financial sector, enhancing the efficiency of the payment system, and providing a retail payment system that can enable the transfer of funds among individuals and enterprises in cases of crisis or severe emergencies. Central Bank Digital Currency (CBDC) system could enhance access to finance through providing low transaction cost, expanding access points, leveraging the existing infrastructure and integrating with current payment rails. CBDC arrangements through enabling off-line access, using economic payment forms such as pre-paid cards, and by wide adoption of government entities would expand access to finance. The implementation of such services will require legal, procedural, and technological improvements.

**F4D cross-cutting themes (gender, digital and green)** will be integrated under each component.



**F4D FINANCE FOR DEVELOPMENT**

**ENHANCING FINANCIAL STABILITY AND PROMOTING INNOVATIVE FINANCE AND INCLUSION IN THE KYRGYZ REPUBLIC**

## Background

### Financial Sector Development Program

With the generous financial support by Swiss State Secretariat for Economic Affairs (SECO), the Financial Sector Development Project (FSDP) was established in 2013 to provide technical assistance in strengthening financial stability in the aftermath of the Global Financial Crisis 2007-2009. Phase I of the FSDP was closed in 2017 and the Phase II was launched at the same time. Phase II expanded the scope by not only focusing on legal, regulatory and supervisory frameworks for banks, microfinance organizations and credit unions, but also on crisis preparedness, deposit protection and market conduct supervision. Following the COVID-19 pandemic in 2020, the scope was further expanded to broaden the objective and its activities to include an expansion of financial inclusion, including relief of and recovery from the COVID-19 crisis. More specifically, the following aspects were included under the project in late 2020 **(i)** introducing a portfolio risk sharing facility; **(ii)** enhancing the debt resolution and insolvency regime; **(iii)** expanding the secured transactions regime; and **(iv)** enhancing the credit reporting regime.

After ten years in operation, the FSDP has come to a closure on October 31, 2023. The FSDP contributed to strengthen and maintain financial stability in the Kyrgyz Republic. There has not been a financial crisis in the country over the past decade and the Kyrgyz financial sector showed resilience during the unprecedented COVID-19 crisis and subsequent ongoing intertwined crises including the War in Ukraine. The financial soundness indicators started showing improvements in 2023 but the financial sector needs to be vigilant. As to the newly added objective of expanding financial inclusion, technical assistance is supporting the modernization of financial infrastructure, creating a better environment for digital finance and innovation and introducing new products to the markets.

### Finance for Development (F4D)

The Finance for Development (F4D) Umbrella Trust Fund is now the World Bank's main vehicle for donor financing of global and regional activities to support financial systems in low- and middle-income countries become more resilient, and capable of better serving women and vulnerable groups, while supporting economic output.

#### Building resilient, inclusive, efficient and deep financial systems for all



F4D is organized around **four main thematic pillars and three cross-cutting areas:**

Four Main Thematic Pillars			
<b>Strengthening Financial Sector Resiliency</b> Supporting countries achieve resilient, stable, and transparent financial system	<b>Financing the Poor and Vulnerable</b> Expanding safe reliable and efficient market infrastructure	<b>Financing the Real Economy</b> Bridging the huge gaps for strategic sectors in emerging markets and developing economies (EMDEs)	<b>Developing Financial Markets</b> Mobilizing long term finance by crowding-in private capital

The **three cross-cutting themes** reflect the cross-cutting nature of the broader society evolution that deeply impacts the evolution of financial systems:

Three Cross-Cutting Areas		
<b>Financing Gender Gaps</b> F4D will focus on increasing women's economic participation by building knowledge and data and supporting regulatory and market infrastructure reforms that improve women's access to financial services.	<b>Digital Financial Services (DFS)</b> DFS is playing a rapidly evolving cross-cutting function that is deeply changing financial systems, and as such constitutes a key topic across all F4D pillars.	<b>Climate Change and Sustainable Finance</b> Support authorities in managing environmental risks is a key part of the FCI agenda.

### F4D in the Kyrgyz Republic

A successor to the FSDP in the Kyrgyz Republic has been approved under the associate window of the F4D financed by SECO. The project, "Enhancing Financial Stability and Promoting Innovative Finance and Inclusion in the Kyrgyz Republic" will build on the activities and outcome of the FSDP, as well as the just-in-time advisory on financial market infrastructure delivered in 2022 supported by the FIRST Initiative.

The F4D project will take the financial sector reforms to the next level by **i)** modernizing legal, regulatory and supervisory frameworks to enhance financial stability; and **ii)** supporting financial deepening and inclusion through innovative new products and expansion of existing ones to those unserved or under-served population and MSMEs at most cost effective and efficient manner. Catalyzing green and sustainable finance through promoting innovative financing is also an important angle the project will support.

#### Components of the F4D "Enhancing Financial Stability and Promoting Innovative Finance and Inclusion in the Kyrgyz Republic."

**Component 1: Regulatory and supervisory framework for banks, micro finance organizations and credit unions.** Provision of TA to the NBKR to **(i)** enable the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) requirements to be fully in force by 2024-2025; **(ii)** introduce green finance and climate risk in banking supervision; **(iii)** risk-based supervisory approach to deposit-taking MFOs/CUs; **(iv)** advance financial consumer protection supervision institutional arrangements and processes; and **(v)** strengthen financial consumer protection regulations, including to address major gaps and the range of consumer issues and risks in the Kyrgyz Republic.

**Component 2: Financial safety net, crisis preparedness, and contingency planning.** Provision of TA to the financial sector policy makers and safety net providers (NBKR, Ministry of Finance, and Deposit Protection Agency (DPA)) to **(i)** strengthen their crisis preparedness; **(ii)** enhance their