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**Financial Restructuring and Monetary Policy
Technical Assistance to the
Central Bank of Kyrgyzstan**

FINAL REPORT

January 1, 1999 through December 31, 1999

Contract # EPE-I-00-95-00056-00

Submitted to:

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United States Agency for International Development
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1999 Performance Report

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I. Executive Summary

The United States Agency for International Development (USAID), in support of financial sector reform in Kyrgyzstan, is providing long term technical assistance in accounting, operations and credit administration to the National Bank of the Kyrgyz Republic (NBKR) and to individual commercial banks. The program is being implemented by International Business and Technical Consultants, Inc. (IBTCI). Phases I, II and III of this project were focused on achieving improvements in the banking sector through the implementation of international accounting standards, modern accounting systems and operating methodologies, credit administration, and computer systems improvements at the NBKR. Phase IV of the task order builds upon the work completed in earlier phases of the program by placing emphasis on the transition to International Accounting Standards (IAS).

During 1999, the project has addressed all Task Order requirements. While there was some unanticipated delay in filling the MIS consultant's position, the individual hired became a valuable contributor to the team.

Accounting Reform

We have assembled a high quality team of ex-pats and local consultants. The team, and the capable support staff behind them, worked with all commercial banks and the NBKR during the year. They handled a large number of questions and issues from banks and the NBKR (accounting, auditing, and supervision). The local consultants on the team represent a nucleus of well-trained accountants, who will be capable of carrying accounting reform forward after the project is finished.

We successfully completed a major goal during 1999, the IAS Analysis Report. This effort consisted of a comprehensive review of International Accounting Standards, Kyrgyzstan Accounting (Enterprise) Standards, and Bank Accounting Standards and Policies, which is of

strategic value to the future development and implementation of accounting in the Kyrgyz Republic and the banking system, in particular. This report details all the material differences between the Kyrgyz developed accounting standards and the IAS.

We are pleased to have had the opportunity to complete this work particularly because we believe that moving to a single set of uniform accounting standards for the Republic of Kyrgyzstan is an important objective. The Report will also serve as a map for the NBKR to bring all of their policies into full compliance with IAS. Following the release of the Report, the Board of Managers of the NBKR adopted a formal proposal to use IAS as the accounting standards for the banking sector.

In a major accomplishment for financial reporting in the Kyrgyz Republic, during a ceremony on December 10, 1999, IBTCI completed and signed a Memorandum of Understanding between the State Audit Commission, IBTCI, and Carana Corporation on Support of Auditing Reform. The provisions of the Memorandum call for the adoption of all (36) International Standards on Auditing (ISA) by the State Audit Commission. IBTCI and Carana will support this effort through training and translation assistance.

Under the agreement, the State Audit Commission agrees:

- ◆ To develop and adopt the 36 Kyrgyz Audit Standards by the end of January 2000.
- ◆ That the adopted Kyrgyz Audit Standards will be in full compliance with International Standards on Auditing.
- ◆ To direct all certified auditors to participate in these training courses.
- ◆ To direct persons developing training materials and testing for the audit license and trainers of these courses to participate in the training courses provided by IBTCI and Carana.

Under the agreement IBTCI and Carana will provide:

- ◆ Assistance in developing the Kyrgyz Audit Standards.
- ◆ Assistance in developing recommendations on applications of the Kyrgyz Audit Standards.
- ◆ Training of all certified auditors for application of the new Kyrgyz Audit Standards that are in full compliance with the International Standards on Auditing.
- ◆ Assistance in developing training materials and tests for getting an audit license based on the new Kyrgyz Audit Standards.

IBTCI consultants began work on the Kyrgyz Audit Standards under this agreement, and fifteen standards were developed and transferred to the State Audit Commission. The Commission approved all of them on 27 December 1999.

Training

The IBTCI team was also responsible for development of a well-regarded training program. We addressed continuing training needs through significant modifications and additions to the Bank Accounting program, as well as specific seminars for current needs. This included an advanced

Cash Flow seminar and two presentations of the Bank Executive seminar to senior bank executives. The latter seminar used a simulation program to teach bankers the dynamics of the banking sector and how to manage them successfully. We used the simulation as an integrated element of our strategy to develop management reporting. This has proven to be an effective strategy, since many of the seminar participants subsequently implemented the concepts and reporting mechanisms utilized in the seminar.

Following the completion of the IAS Analysis Report, IBTCI put primary emphasis on completing the development of the Bank Associate Accountant course, the Bank Chief Accountant Course and the examination process leading to certification of basic level accountants and advanced level accountants.

During the year, the IBTCI team completed all of the individual modules of the Associate Accountant course and a complete review of the material for this course. A comprehensive exam covering the material included in the Bank Associate Accountant course curriculum was completed that would be a prerequisite for candidates interested in taking the Chief Accountant course.

The team of consultants also completed the initial draft of the Chief Accountant course. Under the supervision of the foreign consultants, the identification of the skills and knowledge required of a Bank Chief Accountant in the Kyrgyz banking sector was completed. A strategy for training, actual training programs, qualification testing, and a certification plan was developed. The course curriculum and training materials were developed in accordance with IEG-7 and IEG-9 issued by the International Federation of Accountants (IFAC). Much of the work completed for the IAS Analysis Report was incorporated into the curriculum to ensure that the bank chief accountants know both existing regulations in the Kyrgyz banking sector and IAS financial reporting treatment of accounting issues.

Early in the fourth quarter, IBTCI began a detailed review of the participants' and instructors' manuals for the Chief Accountant course. This comprehensive review and editing of those documents by the IBTCI consultants indicated that significant work would be required to complete this course and bring it up to our standards. During the fourth quarter, substantial progress was made on revising the following sections of the course material: Borrowing Costs, Employee Benefits, Provisions & Contingencies, Investments in Associates, Investment in Subsidiaries, Business Combinations, Intangible Assets, Land Accounting and Exchange of Assets. At year-end, additional sections were in progress: Impairment of Assets and Consolidations. Since the course by its nature is complex, we expect this review and revision to continue through January. We, therefore, arranged for the IAS expert to return after Christmas break to complete this work. The completion and delivery of this course is our first priority for the first quarter.

It should be noted that the local accounting staff, with supervision and review by IBTCI foreign consultants, developed much of the training material. The IBTCI team is in excellent shape to continue the delivery of high quality training and assistance to the Kyrgyz banking sector. The quality of the accounting team the foreign consultants have developed for the NBKR is of the

highest nature. The local consultants are professional, enthusiastic, and effective. Through a number of steps (personal training, working on the IAS Analysis Report, developing the training materials), the foreign consultants have developed the local consultants' teaching skills, as well as their accounting knowledge. As we began the fourth quarter of 1999, it was the local consultants who were assigned as instructors for the accounting certification courses, as well as developing further refinements.

We believe this approach is essential for the long-term development of accounting in developing countries. The development of the accounting expertise of our local staff, along with quality training and a testing program, is our best hope for continuing accounting reform after the project is completed.

During the fourth quarter of 1999, as one of the priorities, IBTCI local consultants, supported by the foreign consultants, presented five Bank Associate Accountant courses. Each class was intensive and took two weeks. The Bank Associate accounting course covers the following topics in a comprehensive manner:

- ◆ Financial Accounting and Accounting Standards
- ◆ Conceptual Framework Underlying Financial Accounting
- ◆ Accounting Information System
- ◆ The Accounting Cycle
- ◆ Balance Sheet, Income Statements, Statement of Cash Flows
- ◆ Deposit and Loan Accounting
- ◆ Securities Accounting
- ◆ Lease Accounting
- ◆ Capital Accounting
- ◆ Accrual Accounting
- ◆ Foreign Exchange Operations
- ◆ Systems Development Life Cycle
- ◆ Fixed Asset Accounting
- ◆ Low Value Assets Accounting

The course was designed to be the first level of a two-level program. The second level is the Chief Accountant course. The Associate level course is intended for students with one to two years practical experience in bank accounting and some educational understanding of basic Western style accounting. We require students to know basic bookkeeping (debits and credits), for example. This is a practical choice, since there is limited time for the students to be away from work, and the teaching of the accounting topics is already highly compressed.

There were approximately 100 participants in the five courses from across the banking sector. This included students from the NBKR, commercial banks, credit unions, and the Kyrgyz Agricultural Finance Corp. IBTCI also prepared and administered two Associate Accountant level comprehensive examinations during the fourth quarter. The standard examination covered all aspects of the accounting material included in the Associate Accountant course and required candidates to demonstrate their mastery of the practical application of these concepts.

Examinations were rigorous and designed to take five hours. Successful completion of this examination resulted in certification as a Bank Associate Accountant (that is having knowledge at the basic level of accounting) and the successful passing of the examination qualified the participant to sit for the advanced level accounting course entitled the Bank Chief Accountant course.

On October 15, 1999 IBTCI conducted the first Associate Accountant certification examination for 31 candidates from the NBKR and the commercial banks. Thirteen of these candidates (42 percent) were successful in their attempt. (It should be noted that because the structure of the program allows candidates to sit for the examination without having first taken the Bank Associate course, there were many participants who had not previously had class room instruction on the materials covered by the examination.) On November 29, we conducted the second Associate Accountant certification examination for 65 candidates from the NBKR and the commercial banks of Kyrgyzstan. This certification examination was open to all who wished to sit for it. Therefore, the candidates again included individuals who had taken the Bank Associate Course, as well as others who had participated in earlier IBTCI training. The majority of the candidates for the second examination were from the recent classes taught by the IBTCI consultants. Of the 65 individuals who sat for the second examination, 31 were successful (48 percent).

On December 10, 1999, IBTCI organized a Bank Accountant certification ceremony that was attended by approximately 100 people including the 31 candidates who successfully passed the second Associate Accountant examination, representatives of the Board of the NBKR, USAID representatives and other interested parties of accounting reform in Kyrgyzstan. We have now certified 44 NBKR and commercial bank accountants in the fundamentals of International Accounting Standards. There was significant media coverage and the ceremony promoted further the high standards of accounting in accordance with International Accounting Standards and the efforts of accounting reform in the commercial banking sector.

During the year, IBTCI also provided a Bank Valuation Seminar designed to provide bank executives with the tools used to value a bank and to highlight what factors enhance the value of a bank. The need for the seminar was reflected in the fact that over 40 bank executives attended the presentation. Interest was also expressed by government officials and capital market participants.

Participants should benefit from the Bank Valuation seminar in several ways. First, they assessed how to value a bank and how to increase the value of the bank (by increasing sales, dividends, and earnings) in the future. This was accomplished by using financial reports, which again demonstrated how good accounting data could be used to make management decisions. In addition, they assessed the relative value of their competitor banks. Finally, the valuation tools were used as a basis for structuring the bank mergers and acquisitions expected in the near future. The 1999 training program also included development of a Budgeting Seminar for commercial banks. The objective of this seminar was to provide the commercial banks with a well-designed process and tools to prepare proper budgets. The seminar provided a general overview of the financial planning and control function in a bank. It also provided an example of a way to

organize the budgeting process and included a budget model in Excel. The model was developed on the basis of the transactions and unified general ledger used in the Kyrgyz banking sector.

Management Information System (MIS)

The IBTCI consultant had separate introductory meetings with 17 Banks. Following that, the MIS consultants conducted extensive interview visits with sixteen banks to map out the current technical status and capabilities of the banks in order to plan assistance, which would provide the banks with maximum benefit in their current situations. Special emphasis in the interviews was placed on management reporting.

IBTCI consultants also conducted an assessment regarding the level of the NBKR General Ledger, subsystem automation, and interfaces between them.

During the year, the MIS consultants prepared a framework for the bank automation analysis. The framework covered both the quantitative classification of the banks and qualitative assessment of the various automation factors. The quantitative classification was based on the number of staff within the automation department and the number of computers within the bank. The qualitative assessment covered factors such as equipment, automation of the sub-systems, skill level of personnel, training needs of the personnel, and automation level and technology capabilities to support management reporting.

The MIS consultants completed the review of management reports the commercial banks send to the National Bank. This review included the statistical reports submitted to the Financial Market Analysis Department, the cash transaction reports submitted to the Cash Issues Department, the international transactions of a bank reports submitted to the Balance of Payment Department, and regulatory reports submitted to the Banking Supervision Department. In addition to the sample reports, the corresponding database structures were also reviewed.

In addition to management reporting support in the banks, IBTCI provided assistance to the banks related to: individual application development and design, IT organization structure and job descriptions, IT procedures and policies, computer virus detection and prevention, and Year 2000 issues.

The MIS consultants also participated in the Budgeting Seminar and discussed the structure of a budgeting model in Excel and how the model might be adjusted for the needs of each bank. An example of sensitivity analysis was demonstrated on the budgeting model using an average Kyrgyz bank as the basis, so the participants could see how bank results depend on major external and internal factors. For example, changes in foreign exchange and interest rates, loan loss reserves, fee pricing, bank funding, and changes in the structure of assets and liabilities all affect the bank's results.

To assist the banks, IBTCI began development of a Management Reporting System. The objective of this Management Reporting system is to provide the commercial banks with a tool to prepare various comparative and cumulative reports for management purposes.

The system incorporates budget data, statistical data, and the actual and average data obtained from the General Ledger. The actual data will be adjusted and reclassified for management reporting purposes.

The functional design document was completed and the detail design was begun. The design document covers input specifications, processing specifications, and output specifications. It also includes report formats for the control reports and the basic management reports. A work flow diagram identifies the programs, data files, and reports and shows the processes and the interconnection of processes and the databases. The completion and delivery of this system is the MIS consultant's first priority in 2000.

Support to the NBKR in Policy Development

As in all previous years, IBTCI consultants continued working with the NBKR Accounting Reform Division (ARD) on policy development. We are pleased that they are already using the IAS Analysis Report to frame new policies and amendments to existing ones. The team, and the capable support staff behind them, also routinely handled a large number of questions and issues from commercial banks and the NBKR (accounting, auditing, and supervision issues).

Specific issues with which the IBTCI consultants assisted the Accounting Reform Division include:

- ◆ Foreclosed assets and equity accounting,
- ◆ Valuation and impairment of securities,
- ◆ NBKR lending to their employees at zero interest rate loans and leases offered to employees of the NBKR,
- ◆ Gold accounting policy,
- ◆ Policy development on liquidation,
- ◆ Policy on Intangible Assets amended to prohibit the revaluation of intangible assets and the capitalization of internally generated assets,
- ◆ Changes to the Chart of Accounts for the commercial banks, and
- ◆ The final draft of the policy on Investments in Associates.

Of special interest this year, the IBTCI consulting team performed substantial research on the issue of appropriate accounting related to the recognition of foreclosed assets in the accounting records of a commercial bank. In the absence of adequate guidelines from the NBKR to the commercial banks on the accounting of foreclosed assets, and the unfavorable treatment banks receive under the Kyrgyz Civil code related to the procedures of handling pledged assets, our recommendations to the Accounting Reform Division on this issue included a suggestion that the NBKR review the legal processes and revise them to promote a more effective lending environment. We provided the Accounting Reform Division a formal response to their request for a review of this issue.

Any commentary on our project would be incomplete without a specific mention of the extraordinary and continuing support of the NBKR. At the end of the first quarter of the year the project was taken over by the new NBKR officials after the departure of the Deputy Chairman and the Chief Accountant. The NBKR continued consistently to push for the realization of accounting reform and for the improvement of the banking sector. We appreciate that support and the many ways it makes our job easier and more effective.

II. Project Goals

Task Order Objectives

The objectives for 1999 addressed all major benchmarks of the task order. The focus within each objective was as follows:

- A. Training for senior managers (NBKR and commercial banks) on how to use their new accounting system most efficiently and productively.

We will complete and deliver a Budget Process seminar to assist the commercial banks in improving their management capabilities. The fourth quarter is an ideal time for this seminar, since banks are in the process of creating their business plans, and this seminar shows them how to convert those plans into budget numbers that can be then used in management reporting.

We will also provide Bank Executive seminars to senior bank executives. Using a simulation model, these seminars will focus on the dynamics of the banking sector, use of bank management reporting, and effective bank management.

We will complete and deliver the Bank Chief Accountant Course materials. However, this will be given a secondary priority to the delivery of the Associate Accountant Certification program, for two reasons. First, the Associate Accountant Certification program is of interest to a much larger group of people. Second, passing the Associate Accountant Certification examination is a prerequisite for taking the Chief Accountant Course.

- B. Training for remaining accounting staff of the NBKR and commercial banks in IAS-based accounting.

A significant priority for 1999 is for IBTCI local consultants to develop the curriculum and to begin the delivery of the Bank Associate Accountant Certification and Bank Chief Accountant Certification programs. We intend to conduct a pre-qualification examination for certification of accountants at the Associate Accountant level. We will also arrange the logistics to conduct five Bank Associate Accountant courses during the fourth quarter. Each course is intensive and is two weeks in length. The course will cover the following subjects:

- ◆ Financial Accounting and Accounting Standards
- ◆ Conceptual Framework Underlying Financial Accounting
- ◆ Accounting Information System
- ◆ The Accounting Cycle
- ◆ Balance Sheet, Income Statement, Statement of Cash Flows
- ◆ Deposit and Loan Accounting
- ◆ Securities Accounting
- ◆ Lease Accounting
- ◆ Capital Accounting
- ◆ Accrual Accounting
- ◆ Foreign Exchange Operations
- ◆ Systems Development Life Cycle
- ◆ Fixed Asset Accounting
- ◆ Low Value Assets Accounting.

We will:

1. Design and develop the courses for Bank Associate Accountants and Bank Chief Accountants.
2. Conduct a pre-qualification examination for certification of accountants at the Bank Associate level.

This examination is intended to screen candidates for the higher level Chief Accountants' course. Since comprehension of the Associate Accountant materials (represented by successfully passing an examination) is a prerequisite for the Chief Accountants' course, we are creating a pre-qualification examination to allow candidates to become certified simply by passing this examination. Since many people have participated in our previous accounting courses, this examination is intended to provide them an opportunity to earn advanced placement.

3. Conduct five (two-week) Bank Associate Accountant courses.

These classes will be taught by our local accounting consultants. Class size will be limited to twenty students to facilitate learning. Students are expected to attend full-day classes and study at home.

4. Develop and conduct structured accounting qualification and testing program for Bank Associate Accountants at the NBKR and commercial banks.

This standard examination will cover all aspects of the accounting material included in the Associate Accountant course and will require candidates to demonstrate their mastery of the practical application of these concepts. Examinations will be rigorous.

- C. Assist the NBKR with ongoing technical support for full implementation of IAS (both within the NBKR and in the commercial banks).

IBTCI will continue to support the NBKR on accounting issues, policies, and the application of IAS. We will continue to provide support for the multitude of questions we receive on the correct application of the accounting standards. We anticipate a comprehensive review of all accounting policies in comparison with IAS.

In addition, IBTCI will work with the NBKR for the adoption of IAS at the national level.

- D. Further rationalization of the operational design of the NBKR and commercial banks. Development of MIS systems that are tied to the new reports generated by the IAS-based accounting systems (NBKR and commercial banks).

During 1999 we will:

1. Develop a comprehensive Management Reporting system design.
 2. Ensure full compliance to daily reporting standards to the NBKR by all commercial banks.
 3. Participate in the Foreign Exchange Working Group project to assist the NBKR in the development of the foreign exchange system. This project, which is a continuation of the design work we completed in 1998, is tied to the incorporation of IAS based system processes in the NBKR.
 4. Provide direct assistance to Commercial Banks on systems, procedures, and financial reporting, as needed.
 5. Provide organizational assistance to banks, as required.
- E. Coordination of USAID technical assistance to the NBKR in the area of payment system development.

We will continue to provide coordination with the USAID-funded payment system project.

Since in practice we have taken a broad approach in assisting and coordinating with other projects that are involved with the NBKR, we will continue to do so.

III. Tactical Concerns

1. Due to the continuing turnover and relative inexperience of the staff in the Accounting Reform Division (ARD), the IBTCI consultants made a decision to take a very active role in upgrading the division's accounting knowledge and skills. In addition, since none of the staff had commercial banking experience, IBTCI decided to provide as much instruction as possible to ARD in the application of accounting policies and commercial bank practices. This action would enable IBTCI to leverage its expertise and would have the advantage of training staff capable of introducing modern accounting methods within both the NBKR and the commercial bank sector. This action was to be accomplished in two ways: one, by encouraging ARD staff to participate in the formal training program, and second, through

extensive (daily) informal training and discussions. Regular weekly meetings were also arranged to exchange information and coordinate efforts.

2. In regards to staff turnover, we also tried to make it clear to the NBKR that they needed to reduce staff turnover and build a core group of accounting specialists capable of carrying accounting standard setting and application forward.
3. An on-going concern has been the difficulty in obtaining timely and complete information on laws and regulations (banking, supervision, tax, etc.). Clearly, timely receipt of originals and up-to-date, accurate translations are essential criteria to providing appropriate technical assistance. Building a process to accomplish that continued to be a goal of the project in 1999.
4. To facilitate the coordination of our project and to further assist the NBKR with the continued development of IAS compliant accounting policies and procedures, IBTCI continued weekly meetings with a Board Member (our direct counterpart). This was to provide not only a forum for discussion of a wide range of topics, but also to provide us the opportunity to argue our points at a high level.

IV. Accomplishments

Task Order Benchmarks

The following table shows IBTCI performance against the Task Order Benchmarks for 1999.

Task Order Benchmarks	Targeted date	Action	Date Completed
First Quarter			
Comprehensive review of International Accounting Standards	June 1999	Identified and started	
Comprehensive review of Kyrgyzstan Accounting (Enterprise) Standards	June 1999	Identified and started	
Comprehensive review of Bank Accounting Standards and Policies	June 1999	Identified and started	
Revision of Bank Accounting training program	Second Quarter 1999	Identified and started	
Cash Flow seminar	February 1999	Designed and delivered	February 1999
BankExec seminars	First Quarter 1999	Designed and delivered	March 1999
Identification of MIS requirements	First Quarter 1999	Identified	

Second Quarter			
Comprehensive review of International Accounting Standards	June 1999	Completed	June 1999
Comprehensive review of Kyrgyzstan Accounting (Enterprise) Standards	June 1999	Completed	June 1999
Comprehensive review of Bank Accounting Standards and Policies	June 1999	Completed	June 1999
Second BankExec seminar		Delivered	April 1999
Bank Valuation seminar		Created and delivered	June 1999
Mapping out current technical status and capabilities of commercial banks in management reporting	May 1999	Identified and started	June 1999
Assessment of NBKR General Ledger, subsystem automation and interfaces between them.	May 1999	Identified and started	June 1999
Third Quarter			
Comprehensive review of International Accounting Standards		Delivered to NBKR	July 1999
Comprehensive review of Kyrgyzstan Accounting (Enterprise) Standards		Delivered to NBKR	July 1999
Comprehensive review of Bank Accounting Standards and Policies		Delivered to NBKR	July 1999
Development and completion of the Bank Associate Accounting course	Third Quarter 1999	Designed and completed	September 1999
Development and completion of the Bank Chief Accountants course	Third Quarter 1999	Draft completed	September 1999
Development of Budgeting Seminar for commercial banks	Fourth Quarter 1999	Identified and started	
MIS – Review of Management reports send by commercial banks to the NBKR, statistical reports, cash transaction reports, international transactions reports, regulatory reports. Corresponding database structure review.	Third Quarter 1999	Started	
MIS – assistance in development and design of IT organization structure and job descriptions, IT procedures and policies, computer virus detection and prevention.	July 1999	Identified and started	

Fourth Quarter			
Delivery of five Bank Associate Accountant courses.		Completed	December 1999
Prepare and administer two Associate Accountant Level comprehensive examinations. Certification ceremony.	Fourth Quarter 1999	Completed	October 1999 November 1999 December 1999
Review the participants and instructors' manuals for the Chief Accountants course		Continues	
Memorandum of Understanding between the State Audit Commission, IBTCI and Carana on Support of Auditing Reform.		Completed	December 1999
Development of Kyrgyz Audit Standards		15 Standards completed	December 1999
Developing Management Reporting System – provide the commercial banks with a tool to prepare various comparative and cumulative reports for management purposes.	Fourth Quarter 1999	Functional design completed. Detail design underway	December 1999
Assistance to the NBKR on policy development and accounting reform issues		On-going	

Other Accomplishments

1. Commercial Bank Policy Development

- 4 new accounting policies
- 9 accounting policies amended
- 2 amendments to the Chart of Accounts

2. NBKR Policy Development

- 3 new accounting policies
- 6 accounting policies amended
- 5 amendments to the Chart of Accounts

3. NBKR Support

- The development of a more technically competent ARD capable of providing accounting expertise to the NBKR and commercial banking sector.

- Valuation and tax problems related to bonds issued in exchange for bad state-mandated loans
- Assistance to ARD on unmatured spot forward contracts, fixed assets and financial reporting
- Tax effects of the passage of the Law on Collateral.
- Development of trial balance reporting for the NBKR and the commercial banks.
- Recommendations on system design and discussions of financial management practices.
- Systems assistance on the NBKR multicurrency system
- Systems assistance on the NBKR Loan Subsystem
- Recommendations on Fixed Asset Capitalization of subsequent additions
- Recommendations on specific reserves for loans outstanding
- Recommendations on accounting for Leases associated with employee housing
- Recommendations on mergers and subsequent increasing of share capital of commercial banks.
- Recommendations on accounting for currency printing costs.
- Understanding of difference between revaluation and impairment of assets.
- Recommendations on accounting for Treasury Bonds acquired with accrued interest.
- Recommendations on revenue measurement according to IAS 18. The ARD is planning to review the current Accrual Accounting Policy
- Recognition of foreclosed assets
- Impairment of securities
- Zero interest rate loans
- Negative goodwill
- Foreign Exchange gains and losses

4. Technical Accounting Memoranda Issued:

- Memo on accounting for investments in *The Banking Herald*
- Memo on changes in the equity structure
- Statute on loans classification on RPLL creation, developed by Financial Company for credit unions
- Response to memo from ARD related to accounting for expenses involved in foreign exchange transactions
- Demir Bank's request for alternative method of debt Securities Accounting
- Memo on accounting for dividends
- Recommendation for Instruction on Lending Restrictions
- Memo on job descriptions (future projects)
- Recommendation on other property accounting
- Concerning advantages and disadvantages of transference of accounts of incomplete spot purchases/sales to off-balance sheet
- Concerning ARD memo "On som correspondent account"
- Accounting for other property transferred to capital lease or extended in the form of commodity loan
- On accrued interest reversing

- To Chairman of the commercial bank (concerning future projects of IBTCI)
- Loan accounting policy of the NBKR
- List of questions on commercial banks degree of automation
- List of commercial banks hardware and technique – issues for discussions
- Review of technique of commercial banks
- Correspondent accounts in soms
- Comments on Accounting policy on Restructuring of Commercial Banks
- Comments on draft of FX Accounting Policy at the NBKR
- Regarding Policy on Accounting for Intangible Assets
- Memo on accounting for RPLL
- Amendments to the Policy for NBKR licensed commercial banks and financial and credit institutions on investments accounting in subsidiary companies
- Accounting for transactions with gold
- Model procedures for a commercial bank
- Investments in Associates Accounting Policy
- Accounting for precious metals
- Clarification of Market Value vs. Fair value
- Accounting for accrued interest written off
- Accounting for Zero Interest Loans
- Comments to 3, 4 and 5 days of the base training course on accounting in banks
- Response to E.Toromurzaev regarding projects of IBTCI and comments on the other sectors of the economy
- Recognition of intangible assets acquired at companies' merger (purchase)
- Regarding Bank Associate Accounting Course
- Collateral accounting
- Regarding Bank of Asia's letter on mortgaged property accounting
- Regarding organizational structure, management and internal control of Kairat Bank
- Accounting for NBKR-owned apartments
- Accounting for employees loans/leases
- Response to letter from Ms. Imankulova, Head of Accounting and Reporting Department On Methods of Tax Accounting in Commercial Banks
- Memorandum of Understanding Between The State Commission on Audit Activities at the Government of the Kyrgyz Republic and Carana, USAID Enterprise Accounting Reform Project in the KR IBTCI, USAID NIS Monetary Restructuring Project in the KR on Support of Auditing Reform
- AKB Kyrgyzstan:
 - Regarding foreign exchange rate to be used to purchase fixed assets.
 - Regarding accounting for guarantees received in favor of a client of a bank.
 - Regarding accounting for a long-term deposit.
- Kyrgyz Financial Agricultural Corporation (KAFC):
 - Regarding recognition of income/loss from the sale of other foreclosed property.
 - Regarding the issue of covering principal amounts and accrued interest through foreclosure.
 - Regarding amount of the recovery on loans written off.

- Regarding accrued liabilities denominated in foreign currency related to KAFC payment for international audit service in US Dollars.
- Eridan bank:
 - Regarding revaluation of fixed assets and taxation issues related to such revaluation.
- DosCredo Bank:
 - On the correct method to be used in discount amortization and which account should be used.
- Bishkek Bank:
 - Regarding the accounting procedure of other property converted to a finance lease.
- Demir Bank:
 - Request for using an alternative method of Debt Securities Accounting.
- NBKR assistance requested for Internal Controls analysis, development, and implementation.
- Supporting documentation for the purpose of clarifying the terms “Market Value” and “Fair Value.”

5. Training and Knowledge Transfer

- Delivered the final session of the 1998 Bank Accounting Program – intensive week-long format - 1 Seminar, 35 participants
- Inclusion of ARD, Supervision, Accounting personnel from NBKR in formal training, and targeted informal training, resulted in significant improvements in departmental capabilities.
- Developed and delivered the Bank Associate Accounting Course – intensive two-week long format - 6 Seminars, 130 participants.
- Created and delivered specific Accounting Topics Program (Cash flow statements, Budgeting, etc.) – 3 Seminars, about 75 participants.
- Developed and delivered specific training for senior level management of commercial banks and NBKR Supervision staff: Bank Exec seminar, Bank Valuation seminar – 3 seminars, about 80 participants.
- Created and delivered a Bank Associate Accountant Examination with the following results – 2 examinations with more than 100 participants, 45 certified.
- Developed Bank Chief Accountant Course.

6. Assist the NBKR to support the adoption of IAS at the national level

- Completed a comprehensive review of Kyrgyz Accounting Standards, IAS and bank auditing standards and policies (the “IAS Review Project”).
- Established a framework with the Kyrgyz State Audit Commission and representatives of Carana for adopting the full scope of International Standards on Auditing for Kyrgyzstan.
- Participated in a meeting on Support of Auditing Reform in Kyrgyzstan which was chaired by the Head of the State Audit Commission
- Completed and signed a Memorandum of Understanding between the State Audit Commission, IBTCI, and Carana on Support of Auditing Reform. The provisions of the

Memorandum call for the adoption of all (36) International Standards on Auditing (ISA) by the State Audit Commission.

Under the agreement, the State Audit Commission agreed:

- To develop and adopt the 36 Kyrgyz Audit Standards by the end of January 2000.
- The adopted Kyrgyz Audit Standards will be in full compliance with ISA.
- To direct all certified auditors to participate in these training courses.
- To direct persons developing training materials and tests for obtaining an audit license and trainers of these courses to participate in the training courses provided by IBTCI and Carana.

Under the agreement, IBTCI and Carana will provide:

- Assistance in developing the Kyrgyz Audit Standards
 - Assistance in developing recommendations on applications of the Kyrgyz Audit Standards
 - Training of all certified auditors for application of the new Kyrgyz Audit Standards that are in full compliance with the ISA
 - Assistance in developing training materials and tests for obtaining an audit license based on new Kyrgyz Audit Standards
- Of the 36 standards, 15 standards were developed and transferred to the State Audit Commission. The Commission approved all of them on 27 December 1999.

7. Management reporting system design

- Functional Design was completed. The final document includes the following:
 - Overall Functional Design
 - Work Flow Diagram
 - Data Specifications
 - Report Specifications
- The system incorporated budget data, statistical data, and actual and average data obtained from the General Ledger.
- Flow of data from GL to Management Reporting database was defined.
- The data entry screens for the adjustment entry module were designed. The chart of accounts was prepared in database format to be included in the adjustment entry module. The intermediate database structures were defined for the adjustments reporting.
- The statistical data to be included in the system was defined. This includes:
 - Data on loans (monthly number, monthly balance, and average rate)
 - Data on deposits (monthly number, monthly balance, and average rate),
 - Data on foreign exchange transactions (monthly number, monthly amount, and average margin),
 - Data on off balance sheet transactions (monthly number, monthly amount, and average fee)
 - Data on cash flow transactions (monthly number, monthly amount, and average fee),
 - Data on employees (monthly number and monthly salary).

- The link table from General Ledger accounts to Balance Sheet and Income Statement lines was prepared based on NBKR regulations.
- The draft detail design was produced for the following functions:
 - Importing Budget data to Budget database
 - Importing General Ledger month end balances to General Ledger database
 - Entering the Adjustments to correct General Ledger actual month end balance
 - Entering the Statistical data
 - Importing Statistical data to Statistical database
 - Importing General Ledger daily balances to Average database
 - Entering the Adjustments to correct General Ledger average balance
- In detail design, the specification for each function includes the following:
 - Description of input,
 - Description of processing, and
 - Description of output
- Ensured full compliance to daily reporting standards to NBKR by all commercial banks.
 - All banks comply to the database format set by the NBKR
 - Only 13 out of 20 commercial banks provide the hard copy report to NBKR
 - Out of 13 banks who provide the report to the NBKR, only 5 follow the mandatory format

8. Foreign exchange working group support

- Participated in the Foreign Exchange Working Group project to assist in the development of the foreign exchange system.
 - Defined the status identifier of a document in different stages of the process
 - Classified of individual Foreign Exchange accounts
 - Clarified the purpose and use of certain database fields
 - Clarified the transaction numbering when there are transactions coming from two different front offices, and especially when transactions come from the Trade Information Electronic System (used for internal commercial bank market).
- The Foreign Exchange Deposit Module is in the Requirements Definition phase. Since the Foreign Exchange Deposit Module and the Loan Module share many elements in common, it was decided to merge the Loan Module into the Foreign Exchange Deposit Module development project.
 - Defining and analyzing different ways of concluding deals on gold and Foreign Exchange placement and different ways of getting income from placement.
 - Defining the Registration Module and interface between Foreign Exchange Module and Foreign Exchange Deposit Module.
 - Preliminary design of transaction flow of EBRD credit line, Asian Development bank credit line, Turkish credit line, MAR credit line, and involvement of the commercial banks in the credit lines.
 - Defining loans that are accounted for on the NBKR's balance sheet and those that are serviced by the NBKR.
- The Detail Design of the Registration Module was completed and it is waiting for the programming resources to be freed from the Foreign Exchange Module.

- IBTCI consultants assisted the NBKR programmers and Foreign Exchange accountants in solving the issues related to Foreign Exchange revaluation

9. Other IT initiatives

- IBTCI consultants advised the NBKR accountants and Securities specialists in testing of the Securities Module in the light of future adjustments required due to the planned integration of the Securities and Foreign Exchange Module.
- IBTCI consultants also advised the NBKR in year 2000 issues related to the multi-currency operating day system of the Bank.
- IBTCI consultants presented the “IT for Accountants” module as part of each Bank Associate Accountant training course held this quarter. The emphasis of the presentation was on the user’s role in the systems development.

10. Coordination with other agencies/projects

- IBTCI consultants met with Ulan Sarbanov, NBKR Acting Chairman, Janybek Omorov, NBKR Deputy Chairman, Bob Van Heest, Financial Services Volunteers Corps (FSVC) and Dorvin Stockdale, USAID to discuss FSVC plans for 1999. As a direct result of this meeting, subsequent meetings were routinely held between IBTCI representatives and representatives of ACDI/VOCA. These meetings served to coordinate efforts through briefings of the ACDI/VOCA consultants and volunteers involved in the various projects in the Kyrgyz Republic with the accounting reform project activities administered by IBTCI.
- IBTCI participated in a number of meetings with various consultants, representatives of the United States Ambassador’s office, and officials of the Ministry of Finance for the Kyrgyz Republic. The purpose of the meetings was to assess the Public Sector accounting situation in the Kyrgyz Republic and to provide guidance on how to implement changes in the government of the Kyrgyz Republic similar to the Banking Accounting Reform project currently underway. These meetings were at the request of the Ministry of Finance.
- IBTCI consultant in automation met with Mr. Taisto Tolonen, Ambassador of Finland, to discuss the cooperation with the Finnish assisted NBKR projects.
- IBTCI consultants met with Emirlan Toromurzaev, Deputy Head of the Economic Policy Department of the Kyrgyzstan President’s office and Svetlana Ny, expert economist in the same department. The purpose of the meeting was to discuss a request for comments from IBTCI addressing the successes of our project and to make recommendations for the President’s upcoming speech on strategic objectives and tasks for the economic development of the country. We were also requested to make comments or state our observations on other sectors of the economy in addition to the banking sector.
- IBTCI arranged a meeting with Mr. U. Sarbanov, NBKR Chairman, L. Tsyplakova, NBKR Board Member, L. Tatem, USAID, Almaty, and R. Ortega, Barents Group to discuss issues of beginning the USAID Bank Supervision Project.

11. Accomplishments Not in the Task Orders

(1) Kyrgyz Governmental Representatives

- The Project Manager participated, with USAID and Carana, in a meeting with the President's Economic Policy Office to propose to establish a commission to oversee the implementation of IAS-based accounting reform in the Kyrgyz Republic.
- IBTCI participated in a number of meetings with various consultants, representatives of the United States Ambassador's office, and officials of the Ministry of Finance for the Kyrgyz Republic. The purpose of the meetings was to assess the Public Sector accounting situation in the Kyrgyz Republic and to provide guidance on how to implement changes in the government of the Kyrgyz Republic similar to the Banking Accounting Reform project currently underway. These meetings were at the request of the Ministry of Finance.
- IBTCI consultants responded to the request from the Economics Department of the President of the Kyrgyz Republic by commenting on our project and provided ideas and observations related to the general economy of the Kyrgyz Republic. The purpose of our response was to assist the President of the Kyrgyz Republic with formulation of future strategies to improve the economy here in the Kyrgyz Republic. IBTCI consultants also met with Taalaibek Jumataev, Board member of the NBKR to discuss our response to the request from the Economics Department of the President of the Kyrgyz Republic. The meeting was to clarify aspects of our project and to provide ideas and observations related to the general economy of the Kyrgyz Republic.
- IBTCI met with Emirlan Toromurzaev, Deputy Head of the Economic Policy Department of the Kyrgyzstan President's office and Svetlana Ny, expert economist in the same department. The purpose of the meeting was to discuss a request for comments from IBTCI addressing the successes of our project and to make recommendations for the President's upcoming speech on strategic objectives and tasks for the economic development of the country.
- IBTCI consultants met with D. Ousenov, Chairman, Committee of Legislative Assembly of KR Parliament on banking matters.

(2) USAID

- IBTCI consultants met with a USAID Assessment team, local USAID representatives, and various USAID contractors working in Kyrgyzstan to apprise the team preparing to conduct a Public Sector needs assessment on current conditions.
- IBTCI met with Gary Linden of the USAID Almaty office, whose visit was primarily an opportunity for Gary to meet some of the contractors working here in the Bishkek area. We also discussed reporting channels or more specifically that the contractors are to report directly to Lewis Tatem in the Almaty USAID office.
- The Project Manager worked extensively with Catherine Toth, USAID Washington to assist her in her assessment of the Kyrgyz banking system and the effectiveness of the

USAID programs. The list of meetings arranged for Ms. Toth and attended by the Project Manager is as follows:

- Extended discussion with Project Manager, IBTCI on the IBTCI project, supervision, banking system, political climate, and issues.
 - L. Tsyplakova, NBKR Economic Advisor - Discussion of the IBTCI project, NBKR needs, supervision, banking system, and issues.
 - Ulan Sarbanov, Chairman, NBKR, Dorvin Stockdale, USAID OMT Bishkek, Angus Simmonds, and Kirk Smith US Embassy Bishkek.
 - Musa Jurayev, Supervision NBKR, and Azamat Abdymamunov, ARD NBKR – methodology and accounting.
 - Maria Taranchieva, Deputy Chair, NBKR, Ruslan Akmatbekov and Solto Sarymsakov, Supervision NBKR.
 - Alexander Tzibisov, Payments Systems, NBKR.
 - Lyudmila Goflin and Elena Morozova, Union of Accountants and Auditors.
 - Elena Bit-Avragim, Legal Head, NBKR.
 - A. Sulaimanov, Chairman, Settlement Savings Co., Dorvin Stockdale, USAID OMT Bishkek.
 - Dorvin Stockdale, USAID OMT Bishkek, and David Culpepper, US Treasury Advisor.
- IBTCI consultants met with Gary Linden and M. Johnson of USAID to discuss the Bank Accounting reform project in Kyrgyzstan and other banking related issues.
 - IBTCI coordinated a meeting of Lewis Tatem, USAID, Almaty, with Ms. K. Sharshekeeva, NBKR Head of Banking Supervision, regarding issues of the USAID assistance in the area of banking supervision.
 - We arranged meetings with the IMF Banking Supervision consultant and MS. Tsyplakova of the Board of Directors of the NBKR with Lewis Tatem of the USAID Almaty office.
 - The Project manager arranged a meeting with Mr. U. Sarbanov, NBKR Chairman, L. Tsyplakova, NBKR Board Member, L. Tatem, USAID, Almaty, and R. Ortega, Barents Group to discuss issues of beginning the USAID Supervision Project.

(3) U.S. Ambassador

- IBTCI consultants had a meeting with the American Ambassador and Dorvin Stockdale of USAID at the U.S. Embassy to apprise her of the work we are doing with the National Bank of Kyrgyzstan and the commercial banking sector in the Kyrgyzstan Republic.
- IBTCI consultants also participated in a follow up meeting with representatives of the Ambassador's office at the U.S. Embassy and the Ministry of Finance for the Kyrgyz Republic. The purpose of the meeting was to provide guidance to the Ambassador's representatives on approaches that are available to offer assistance to the Ministry of Finance. An outline previously developed on behalf of IBTCI that provided a general overview of the necessary actions required to undertake such a project was discussed at length.

- The Chief of Party met with the US Ambassador to discuss the economy and banking sector issues.

(4) ACDI/VOCA

- A request from the USAID OMT representative in Kyrgyzstan, Dorvin Stockdale, was received that specifically requested and authorized IBTCI to assist and support in any way possible the efforts and financial institution project of ACDI/VOCA in the Kyrgyzstan region. We were instructed that this effort has the full support and backing of the U.S. Ambassador to Kyrgyzstan.
- IBTCI consultants met with representatives from ACDI/VOCA, FINCA, and others with the goal of assisting the projects with the development of regulations and guidance for micro credit organizations in Kyrgyzstan. Various elements of the programs were discussed and a strategy for moving the projects along a list of priorities was addressed.
- IBTCI also had several meetings with representatives of ACDI/VOCA to discuss their programs in the Kyrgyz Republic and how better they could coordinate their volunteers with the accounting reform project currently administered by IBTCI. These meetings served to coordinate efforts through briefings of the ACDI/VOCA consultants and volunteers involved in the various projects in the Kyrgyz Republic with the accounting reform project activities administered by IBTCI.
- A request was received from the project director of the ACDI/VOCA Food For Progress Program and the director of the FINCA project for assistance in establishing a working committee that could address a range of issues that affect non-banking financial institutions. In line with a direct request from the USAID coordinator in Bishkek and the desires of the U.S. Ambassador to Kyrgyzstan, IBTCI agreed to provide technical advisory services to the programs.
- IBTCI consultants also met with representatives from ACDI/VOCA, FINCA, and others with the goal of assisting the projects with the development of regulations and guidance for micro credit organizations in Kyrgyzstan. Various elements of the programs were discussed and a strategy for moving the projects along a list of priorities was addressed.

(5) Bank Supervision

- Significant support was provided to NBKR Supervision during the year.
- The Project Manager had extensive meetings with Noble Franson, IMF Advisor to the NBKR on Banking Supervision, to assist in the coordination of the USAID and IMF Supervision projects.
- The Project Manager also arranged a meeting with Nobel Franson, IMF Banking Supervision project, Ron Hackett, Barents, on coordination of logistics of Ortega's arrival.
- The Project Manager arranged a meeting with Nobel Franson, IMF Banking Supervision project, Rich Ortega, Barents, Ron Hackett, Barents, to brief Ortega on NBKR and Supervision.

- We also arranged a meeting with K. Sharshkeeva, NBKR Banking Supervision, Lewis Tatem, USAID, Almaty, and Richard Ortega, Barents Group to introduce Mr. Ortega to the Deputy Chairman, Supervision.

(6) Project and/or Donor Coordination

- IBTCI Project Manager met with a number of other projects, donors and interested parties: FINIDA, D. Kaeser, Economic Advisor to the President of KR, M. Muller, Head, Swiss Coordination Unit, I. Zaidi, Resident Representative, IMF, P. Wienand, Ambassador, FRG, A. Simmons, Charge Deputy Chief of Mission, US Embassy, R. Mukhija, Ambassador, Embassy of India, N. Hadjiyski, Resident Representative, EBRD.
- Served as coordinator, facilitator, and source of information between the NBKR, the commercial banks, and other interested parties. In this role we met with representatives of the US State Department, US Treasury Department, US Congress, USAID, Ministry of Finance, State Tax Inspectorate, the French Embassy, Asian Development Bank, World Bank, and the International Monetary Fund.
- The Project Manager had a meeting with Michael Gascoyne, Financial Sector, World Bank to discuss the banking sector in the Kyrgyz Republic.
- IBTCI – Bishkek also met with Phil Smith, IBTCI Almaty Office and provided him with a full copy of the Bank Associate Accountant training course materials.

(7) Conferences

- At USAID's request, the Project Manger participated as a lecturer in a regional (Central Asian) World Bank seminar on Risk Management given on October 19-22 in Bishkek and hosted by the NBKR.
- During the year, two ex-pat members of the team attended an IBTCI/USAID Accounting Conference in Almaty. The purpose of the conference was to enable the teams from Uzbekistan, Kazakhstan, and Kyrgyzstan to learn from each other.
- The Project Manager accompanied two NBKR officials and participated at the USAID Conference on Banking Supervision in Bulgaria.

(8) Administrative

- Established a process to identify, acquire, and track important documents.
- Established a database of all relevant documents (both in Russian and English) and built a server network to ensure that all team members had appropriate access to them.

(9) Other

- The project leader taught a course in Financial Accounting to third-year students at the American University of Kyrgyzstan. Marshall Holman continued lecturing at the American University of Kyrgyzstan in Managerial Accounting.

- Our local accounting consultants participated in a seminar for instructors held by the NBKR Banking Training Center. They attended Module 1 of the seminar during which the participants learned methods of teaching classes and working with small groups. By the end of the course, each of our consultants made two presentations.

V. Functional Focus – Situational Analysis

Several factors had a significant impact on our work, in both what we had to do, and in how we had to do it.

Since we had been successful in developing the critical accounting policies with the NBKR during 1997 and 1998, the policy work needed to shift to full compliance with IAS and to provide much more depth to the accounting structure and policy framework. This led to a decision to perform a comprehensive review of all Kyrgyz accounting standards as compared to IAS. The resulting review report now serves as a framework for all the changes required in banking policies to bring them into full compliance with current IAS. It also provides the same roadmap for the extensive changes required by the existing Kyrgyz accounting standards (enterprise).

VI. Functional Focus – Action Plan

- A. To address the training needs, IBTCI began to work through a number of steps rapidly. These steps were:
1. Develop a comprehensive two-level accounting curriculum (Bank Associate and Chief Accountant)
 2. Create the coursework to meet these needs
 3. Create a training plan to provide for regional training
 4. Deliver Bank Associate accounting training first
 5. Provide for training for specific training needs outside core curriculum.
 6. Deliver specific training seminars.
- B. To address the administrative needs of obtaining and distributing timely and complete information of Laws and regulations, IBTCI began to set up the following process:
1. Responsibility was assigned for the creation of a notification process.
 2. Develop a new server based information system, network, and controls for the project team.

VII. Training and Knowledge Transfer

Background

Perhaps the most significant activity under this task order is the ongoing training in bank accounting and its practical application. During the previous years, we provided numerous formal training classes and informal sessions. This training was designed to provide commercial banks with the knowledge to operate using IAS based accounting. Put in different terms, the focus was on the institutions (the banks) having the proper, and adequate, information to operate correctly.

The primary participants of these classes were the accounting staff in the commercial banks. However, we also invited participation by automation specialists, credit officers, senior management, and operations personnel. It is our belief that a broader understanding of accounting standards by this wider audience is highly beneficial to the banking system. We also included, in particular, staff personnel from the Accounting and Supervision divisions of the NBKR.

We found that the participants needed less theoretical and more practical application. We therefore extensively added or modified the materials to include more examples, exercises, etc.

Formal Training

Core Training Program for 1999

Our task was to design our training program and to shift the focus of the teaching to address the objective of creating a group of bank accountants with a comprehensive understanding of accounting. The 1999 training therefore was designed to focus on providing *each student* with a basic working knowledge of Kyrgyz bank accounting standards and their application. Second, a higher level course with emphasis on a comprehensive understanding of IAS needed to be developed. In addition, certification testing needed to be developed and administrated. This is critical to the ongoing success (sustainability) of the accounting reform process after the project is completed.

Development of the Core Training Program for 1999

To achieve these objectives, IBTCI developed two intensive seminars, one on basic bank accounting covering the essential accounting issues relating to financial institutions. The second seminar focused on the higher level needs of the Chief Accountants. A schedule of classes was formulated which included coverage of the primary aspects of international accounting standards as they apply to financial institutions. This proposed Training Program for 1999 was finalized and discussed with L. Tsyplakova, Economic Advisor to the chairman of the NBKR.

The complete training manual with both English and Russian materials was prepared and is being maintained on site. To provide as wide an impact on accounting reform as possible, the training materials will form the basis for future training sessions.

Create a Bank Associate Accounting Course

Following the completion of the IAS Analysis Report, IBTCI put primary emphasis on completing the development of the Bank Associate Accountant course, the Bank Chief Accountant Course and the examination process leading to certification of basic level accountants and advanced level accountants.

During the year, the IBTCI team completed all of the individual modules of the Associate Accountant course and a complete review of the material for the Associate Accountant course. A comprehensive exam covering the material included in the Bank Associate Accountant course curriculum was completed that would be a prerequisite for candidates interested in taking the Chief Accountant course.

During the fourth quarter of 1999, as one of the priorities, IBTCI local consultants, supported by the foreign consultants, presented five Bank Associate Accountant courses. Each class was intensive and took two weeks. The Bank Associate accounting course covers the following topics in a comprehensive manner:

- ◆ Financial Accounting and Accounting Standards
- ◆ Conceptual Framework Underlying Financial Accounting
- ◆ Accounting Information System
- ◆ The Accounting Cycle
- ◆ Balance Sheet, Income Statements, Statement of Cash Flows
- ◆ Deposit and Loan Accounting
- ◆ Securities Accounting
- ◆ Lease Accounting
- ◆ Capital Accounting
- ◆ Accrual Accounting
- ◆ Foreign Exchange Operations
- ◆ Systems Development Life Cycle
- ◆ Fixed Asset Accounting
- ◆ Low Value Assets Accounting

The course was designed to be the first level of a two level program. The second level is the Chief Accountant course. The Associate level course is intended for students with some (1 to 2 years) practical experience in bank accounting and some educational understanding of basic Western style accounting. We require students to know basic bookkeeping (debits and credits), for example. This is a practical choice, since there is limited time for the students to be away from work, and the teaching of the accounting topics is already highly compressed.

There were approximately 100 participants in the five courses from across the banking sector. This included students from the NBKR, commercial banks, credit unions, and the Kyrgyz Agricultural Finance Corp. IBTCI also prepared and administered two Associate Accountant level comprehensive examinations during the fourth quarter. The standard examination covered all aspects of the accounting material included in the Associate Accountant course and required candidates to demonstrate their mastery of the practical application of these concepts. Examinations were rigorous and designed to take five hours. Successful completion of this examination resulted in certification as a Bank Associate Accountant (that is having knowledge at the basic level of accounting) and the successful passing of the examination qualified the participant to sit for the advanced level accounting course entitled the Bank Chief Accountant course.

On October 15, 1999 IBTCI conducted the first Associate Accountant certification examination for 31 candidates from the NBKR and the commercial banks. Thirteen of these candidates (42 percent) were successful in their attempt. (It should be noted that because the structure of the program allows candidates to sit for the examination without having first taken the Bank Associate course, there were many participants who had not previously had class room instruction on the materials covered by the examination.) On November 29, we conducted the second Associate Accountant certification examination for 65 candidates from the NBKR and the Commercial Banks of Kyrgyzstan. This certification examination was open to all that wished to sit for it. Therefore, the candidates again included individuals who had taken the Bank Associate course, as well as others who had participated in earlier IBTCI training. The majority of the candidates for the second examination were from the recent classes taught by the IBTCI consultants. Of the 65 individuals who sat for the second examination, 31 were successful (48 percent).

On December 10, 1999, IBTCI organized a Bank Accountant certification ceremony that was attended by approximately 100 people including the 31 candidates who successfully passed the second Associate Accountant examination, representatives of the Board of the NBKR, USAID representatives and other interested parties of accounting reform here in Kyrgyzstan. We have now certified 44 NBKR and commercial bank accountants in the fundamentals of International Accounting Standards. There was significant media coverage and the ceremony promoted further the high standards of accounting in accordance with International Accounting Standards and the efforts of accounting reform in the commercial banking sector.

Create a Bank Accounting Course for Chief Accountants

During the third quarter, following the completion of the IAS Analysis Report, we completed identifying the skills and knowledge required of a Chief Accountant in the Kyrgyz banking sector. We developed a strategy for training, actual training programs, qualification testing, and a certification plan. The course curriculum and training materials were developed in accordance with IEG-7 and IEG-9 issued by the International Federation of Accountants (IFAC). The work done on the IAS Analysis Report was incorporated into the curriculum to ensure that the chief accountants know both existing regulations in the Kyrgyz banking sector and IAS financial reporting treatment of accounting issues. By quarter end, the majority of the teaching modules

designed for the Bank Chief Accountant course were completed and or in the process of translation. IBTCI consultants also identified further amendments needed for the Russian manuals and some inconsistencies with local requirements. These amendments were processed.

Early in the fourth quarter, IBTCI began a detailed review of the participant and instructor manuals for the higher level course. This comprehensive review and editing of those documents by the IAS expert indicated that significant work would be required to complete this course and bring it up to our standards. During the fourth quarter, substantial progress was made on revising the following sections of the course material: Borrowing Costs, Employee Benefits, Provisions & Contingencies, Investments in Associates, Investment in Subsidiaries, Business Combinations, Intangible Assets, Land Accounting and Exchange of Assets. At year-end, additional sections were in progress: Impairment of Assets and Consolidations. Since the course by its nature is complex, we expect this review and revision to continue through January. We, therefore, arranged for the IAS expert to return after Christmas break to complete this work.

It should be noted that this material is being developed by the local accounting staff with supervision by IBTCI consultants. We believe this approach to the development of the course materials is essential for the development of the accounting expertise of our local staff, who we hope will serve as a core group to continue accounting reform after the project is completed.

It should be further noted that this approach takes significantly more time than having the foreign consultants write the course materials themselves. This is due to the fact that the writing, review, and revisions process is a teaching process of the local accounting staff. We believe this extra effort is well justified, not only because the local accounting staff represent our hope of sustaining the work we have done, but also because they are, and will be, teachers of the future bank accountants.

As a consequence of this review, we deferred arrangements to conduct the Bank Chief Accountant Course until the review and revision of course material is complete

Delivery of the Core Training Program in 1999

About 100 chief accountants and accounting specialists from commercial banks, NBKR, university faculties, and credit unions attended the intensive basic accounting seminars during the year. Beginning in March 1999, these seminars were presented five times to all commercial banks in the country. Ninety-six commercial banks and NBKR representatives were registered to sit for the Bank Associate examination and 44 of them successfully passed it.

Testing – an essential ingredient

It is our strong belief that testing is an essential component of teaching. It demonstrates that the student has comprehended and can apply the material. It also enables the teacher to measure the effectiveness of various teaching methods. Therefore, we periodically administered rigorous certification testing that demonstrated the mastery of the desired skills.

We also continually reviewed and improved the teaching materials to provide the students with best materials possible.

The Results

The results of this core-training program had two important effects on the accounting reform in the banks in the Kyrgyz Republic:

1. By focusing on providing *each student* with a basic working knowledge of Kyrgyz bank accounting standards and their application, we have raised the minimum standards of how accounting is applied in the Kyrgyz Republic.
2. By creating a substantial group of bank accountants with a comprehensive understanding of the basics of bank accounting, we will be able to successfully introduce further refinements in accounting policy and application in 2000.

NBKR Training

IBTCI actively encouraged participation by the Accounting and Supervision divisions of the NBKR in the training presented during the years 1997, 1998, and 1999. Many of the NBKR staff took advantage of the training with the result that accounting knowledge within these departments was significantly improved.

Specialized Training Program for 1999

In addition to the core training we provide in accounting, which is an on-going need, we also designed and delivered a number of other formal, training seminars to meet particular needs of the banks. These seminars may focus on a specific area of development that the banks need to continue their reform, such as management reporting, or it may focus on a new regulation approved by the National Bank. During 1999, we created and delivered the following seminars:

Statement of Cash Flows Seminars

Training for the Statement of Cash Flows was prepared by IBTCI and was provided to all commercial banks in February, based on the application of the NBKR policy. The seminar was designed to demonstrate issues of immediate concern to Kyrgyz banks (i.e. foreign exchange, foreclosure, loan charge offs, etc). During the last week in February, IBTCI conducted the Cash Flow training seminar for the chief accountants and accounting specialists of the commercial banks in the Bishkek area. The presentation included overheads and handouts of the material under discussion. The seminar was well attended with thirty participants from the various commercial banks in Bishkek and the NBKR. It appeared that the participants understood the material and gained a better understanding of the mechanics of preparing a Cash Flow statement.

Bank Executive Seminar for Chief Executives

Since the accounting conversions were completed in 1998, our major focus for 1999 was to provide training to senior managers (NBKR and commercial banks) to develop management reporting and to teach them how to use their (new) accounting data to better manage their banks.

The Bank Exec program is a bank simulation model used to teach chief executives the dynamics of the banking sector and how to manage those dynamics successfully. We planned to use the simulation as an integrated element of our strategy to develop management reporting. The model supports this strategy since participants are provided a large number of management reports each decision period to enable them to manage their “banks.” Deciphering the reports accurately becomes a critical factor in their overall success in the simulation, just as it is in real life.

Thirty-nine students representing 19 banks, the NBKR and IBTCI participated in this program. For each seminar, the format included both a lecture component and simulation exercises. Six lectures, each lasting up to one hour, were delivered. Topics covered were: SWOT analysis, Mission Statements, Gap analysis, component descriptions of items bank management should look at when evaluating their bank from a CAMELS standpoint, Credit Risk, Interest Rate Risk, Foreign Exchange Risk, Compliance Risk, Transaction Risk, Liquidity Risk, and Reputation Risk. The simulation portion of each seminar included six decision periods which simulated six calendar quarters with varying economic conditions. During the simulation sessions, participants were coached concerning their activities by the instructing team and they were prodded in the direction of safety and soundness by a “bank examiner”, and conversely by one instructor who favored strong stock prices. The seminars were very well accepted by the participants and many compliments were received. The students clearly enjoyed competing with each other and it was evident that they had learned a lot. NBKR Deputy Chairmen J. Omorov, and N. Taranchieva, participated in the final presentation by the teams.

We also performed a post review of the two Bank Exec seminars that were conducted by IBTCI for the senior executives of the commercial banks. An outline of the project was drafted and completed to provide a better work plan for future trainers and seminars. The outline includes all steps required to conduct a successful seminar and includes the lecture topics and related materials or documents necessary to carry out the training exercise.

Training for remaining accounting staff of the NBKR and commercial banks in IAS-based accounting

Perhaps the most significant activity under this task order is the ongoing training in bank accounting and its practical application. The primary target of these classes was, and is, the accounting staff in the commercial banks. However, we have also invited participation by automation specialists, credit officers, senior management, and operations personnel. It is our belief that a broader understanding of accounting standards by this wider audience is highly beneficial to the banking system.

Bank Valuation seminar

During our Bank Exec seminars, many of the participants commented on the difficulty of valuing banks in the Kyrgyz Republic. Since the NBKR continues to raise capital standards, many banks have an interest in exploring mergers with other banks. To meet this need, IBTCI arranged a workshop on the valuation of banks and a consultant was retained for this purpose.

With 20 commercial banks, there is an overabundance of banks in Kyrgyzstan. Market and political forces will cause consolidation through mergers and acquisitions in the banking industry in the near future. This process already began earlier this year as Maksat Bank was merged into Kairat Bank shortly after the problems at Maksat surfaced.

Executives in Kyrgyzstan's commercial banks have little or no experience with mergers. Moreover, they have little knowledge about what makes a bank valuable in the eyes of an investor or potential merger/acquirer/joint venture partner.

To address this problem and to answer bank executives' request for such a seminar, IBTCI sponsored a 3-day seminar called, "Valuing a Bank in an Emerging Market." The seminar was designed to provide bank executives with the practical tools used to value a bank, as well as highlight what things enhance the value of a bank.

This seminar was held June 23, 24 and 25th at the Ak-Keme Hotel. The need for the seminar was reflected in the fact that over 40 bank executives registered for the seminar. There was also interest expressed from government officials and capital markets participants as well.

Five methods of estimating the value of banks were presented. Valuation estimates through (1) price to earnings comparisons, (2) price to sales comparisons, (3) price to book value comparisons, (4) calculating the present value of future dividends, and (5) calculating the present value of future free cash flows. The seminar focused on providing participants with a hands-on, practical application of these valuation methods to banks. After being introduced to these valuation methods and applying them to a commercial bank in Kyrgyzstan and several other banks, attendees themselves calculated the value of a State-Owned African Bank and Kazakhstan's JSC Kazkommertsbank.

Executives who attended the seminar should benefit from the seminar in several ways. First, they assessed how to value a bank and how to increase the value of the bank (by increasing sales, dividends, and earnings) in the future. This was accomplished by using financial reports, which again demonstrated how good accounting data can be used to make management decisions. In addition, they assessed the relative value of their competitor banks. Finally, the valuation tools were used as a basis for structuring the bank mergers and acquisitions expected in the near future.

Another IBTCI consultant also presented a session on the practical aspects of performing due diligence required when undertaking a merger or acquisition.

After successful completion of the 3-day seminar called “Valuing Banks in an Emerging Market,” the IBTCI consultant worked on compiling and summarizing the seminar evaluations. The evaluation showed the participants were very satisfied with all aspects of the seminar. Seminar evaluations received from attendees stated both the lectures and material presented were very useful and helpful. The seminar was found to be on target in terms of total length of training, speed of training, and the amount of theory and practical examples. Finally, the quality of teaching was highly rated.

All but two participants commented that additional training on the practical aspects of merging banks in Kyrgyzstan was needed. Responding to this comment IBTCI has begun researching a second seminar called, “Bank Mergers in Kyrgyzstan – The Process, Challenges, and Hypothetical Examples”. IBTCI also began the process of gathering all relevant information (including course packages in English and Russian, all electronically stored course information, attendee lists, reference material, etc.) to store in the IBTCI files for future use. Follow-up questions from seminar participants were also answered.

Budgeting program for commercial banks

To improve the management information capability of the commercial banks, IBTCI prepared a budgeting seminar, which was of great practical interest for the commercial banks. Currently, Kyrgyz banks plan just their income and expenses. However, only fixed operating expenses are reliably budgeted figures. The banks normally do not plan their balance sheet accounts and transaction volumes. The organization of the budgeting process, budget monitoring, and evaluating process are also poorly established in the banks. The departments in the banks usually have little idea about budget targets and their performance against those targets.

In October, IBTCI presented the first session of the budgeting seminar for senior managers of commercial banks. The objective of the seminar was to provide the commercial banks with a well-designed process and tools to prepare proper budgets. The seminar provided a general overview of the financial planning and control function in a bank. It also provided an example of a way to organize the budgeting process and included a budget model created in Excel. The model was developed on the basis of the transactions and unified general ledger used in the Kyrgyz banking sector.

The seminar program covered the following areas:

- Presentation - financial planning and budgeting
- Presentation - budgeting procedure
- Presentation - budgeting model (spreadsheet)
- Demonstration - budgeting spreadsheet
- Presentation - formats of major MIS reports
- Presentation - follow-up plan/timetable.

The second session of the budgeting seminar was conducted in November. This session was more practically oriented than the seminar delivered in October, and was done for heads of

finance departments. The budgeting procedure and all budgeting work sheets were discussed in detail. The participants of the seminar were taught the structure of the budgeting model in Excel and how the model may be adjusted for the needs of each bank. An example of sensitivity analysis was demonstrated on the budgeting model using an average Kyrgyz bank as the basis, so the participants could see how bank results depend on major external and internal factors. For example, changes in foreign exchange and interest rates, loan loss reserves, fee pricing, bank funding, and changes in the structure of assets and liabilities all have effects on the bank's results.

Other

At the request of the NBKR, the project manager made a presentation to the NBKR Board on financial statement analysis. The Board had requested this presentation to gain a better understanding of Bank Supervision's capabilities to analyze the commercial banks' financial statements.

The project manager was also asked to present issues in bank mergers to the NBKR Board. Due to the increased capital requirements, it is expected that many commercial banks will merge in 2000. Since mergers have not yet occurred in the Kyrgyz Republic, the Board is naturally concerned with the issues that will arise in this process. This presentation was the first – to begin to understand the merger process and its effects.

Informal Training

It is worth mentioning that aside from the formal training discussed above, IBTCI has also put an enormous effort into informal training. About 80% of the project effort is somehow related to teaching. When one considers that we have no authority to cause the accounting reform in the banking sector to take place, it rapidly becomes apparent that a teaching mode is the most effective way for us to persuade the banks and the NBKR of the merits of IAS based accounting. It has been our good fortune that they have all been highly enthusiastic learners.

VIII. NBKR Support

Accounting Policies Development

During 1999, IBTCI addressed a broad variety of accounting and reporting issues with senior management and the ARD of the NBKR. The year saw a continued shift in the focus from development of basic policy to addressing technical issues surrounding specific products and services – building depth to the accounting structure. While assistance on policy development continued (and will continue), our efforts are gradually shifting from the prescriptive to the educational. In other words, the focus is moving away from initial setup to post-implementation issues – addressing the situations that arise as a normal aspect of operations requiring fine-tuning

and adaptation of policies and procedures. Specifically, assistance was provided on these major areas:

Business Combinations Accounting Policy

IBTCI consultants reviewed and discussed the draft policy on Business Combinations with the ARD. Our comments and concerns will be incorporated into the final version of the policy for the commercial banks to be approved by the NBKR.

Intangible Assets Accounting Policy

The accounting policy on Intangible Assets, and the Regulation on revaluation of fixed assets for the NBKR were addressed with the ARD. IBTCI consultants assisted in the preliminary working meeting of amending the Intangible Asset policy for the NBKR in line with findings developed in the IAS analysis project. The bank policy was amended to prohibit the revaluation of intangible assets and the capitalization of internally generated assets.

Investment in Subsidiaries Accounting Policy

The IBTCI consultants completed the review of a draft policy on Investment accounting for Subsidiaries and prepared a formal response.

Investment in Associates Accounting Policy

We reviewed and discussed the final draft policy on Accounting of Investments in Associates and gave it out for translation. The amendments included in the policy have been based on recommendations given in the IAS comparison project. Our comments and concerns will be incorporated into the final version of the policy for the commercial banks to be approved by the NBKR board. We prepared a formal response and presented that to the Accounting Reform Division.

Gold Accounting Policy

IBTCI performed research on issues related to the policy development on Gold and Precious Metals to assist the ARD with drafting a policy to govern the accounting activities related to these issues in the commercial banks. An IBTCI consultant prepared a draft submission to the ARD on accounting for gold. The NBKR is intending to allow commercial banks to carry out such transactions. Transactions to be permitted include the lending of gold to customers and the depositing of gold by customers. IBTCI consultants' draft submission included a comment to the effect that IBTCI finds it difficult to see how commercial banks could make profits from the proposed activity without unduly increasing their risk exposure.

A formal response to the ARD on the issues related to Gold and Precious Metals was then prepared and delivered to the head of the ARD with a qualification that the IBTCI consultants are

not comfortable with allowing the commercial banks an unrestricted ability to trade and conduct other banking activities in gold.

The last week of September we were notified by the ARD that as a result of our concerns about the gold accounting policy being developed, the policy was deferred until the NBKR Supervision Department can review the issues again and formulate a more precise strategy.

Liquidation Accounting Policy

IBTCI performed research on issues related to the policy development on Liquidation to assist the ARD with drafting a policy to govern the accounting activities related to these issues in the commercial banks. Translation of these materials continued and the first set of translated documents was delivered to the ARD.

Foreign Exchange Accounting Policy

IBTCI consultants reviewed the draft policy on Foreign Exchange Transaction Accounting in the National Bank of the Kyrgyz Republic for the ARD. Our comments and concerns will be incorporated into the final version of the policy for the NBKR to be approved by the NBKR board. We also had discussions with the ARD on problems associated with obtaining approval of the draft policy on foreign exchange transaction accounting.

Financial Instruments Accounting Policy

The IBTCI consultants notified the ARD that the existing commercial bank policies for securities and capital accounting would require work to be in accordance with IAS. A new securities policy is being drafted and we will work to ensure that this policy will be consistent with the new IAS 39. Discussions with the ARD and local consultants took place to help the ARD and local consultants better understand the new IAS 39, Financial Instruments: Recognition and Measurement.

Chart of Accounts

IBTCI also received a request to review changes being made to the Chart of Accounts for the Commercial Banks. We provided the ARD with our response including concerns we had with the various changes.

Accrual Accounting Policy

We reviewed the draft policy on accrual accounting for the commercial banks and sent a response to the Accounting Reform Division of our concerns and comments.

Recognition of foreclosed assets

The IBTCI consulting team performed substantial research on the issue of appropriate accounting for transactions related to the recognition of foreclosed assets in the accounting records of a

commercial bank. In the absence of adequate guidelines from the NBKR to the commercial banks on the accounting of foreclosed assets, and the unfavorable treatment banks receive under the Kyrgyz Civil Code related to the procedures of handling pledged assets, our recommendations to the Accounting Reform Division on this issue included one to the NBKR to review the legal processes and revise them accordingly to promote a more effective lending environment. We provided the Accounting Reform Division a formal response to their request for a review of this issue.

Impairment of securities

We discussed questions related to equity accounting with the Accounting Reform Division. The IBTCI consultants also discussed questions related to valuation and impairment of securities with the Accounting Reform Division. The question was about government securities held by the NBKR, which should be reevaluated under recommendations of PriceWaterhouseCoopers.

Zero interest rate loans

We researched and discussed the issue of zero interest rate loans and leases offered to employees of the NBKR. We accumulated our previous responses and prepared a complete package of all documents related to our understanding of the issues. In December, we presented the results of that work to the Accounting Reform Division, NBKR.

We had further discussions of appropriate accounting treatment for apartments leased by the NBKR to employees at preferential interest rates. IAS treatment creates difficulty for the NBKR, as it requires an expense to be recognized.

Negative goodwill

We received a request from the Accounting Reform Division to review some issues related to accounting for negative goodwill and we will research and respond to those issues.

Foreign Exchange gains and losses

The Project Team Leader met with Ch. Imankulova, Chief Accountant, NBKR, and Deputy Chief Accountants on issues of closing entries at the NBKR for the end of the year. He also met with L. Tsyplakova and Ch. Imankulova on Foreign Exchange gains and losses for the NBKR. A recommendation was written and presented to the NBKR.

Other Issues

IBTCI consultants responded to a request from the ARD to assist them with specific accounting treatment related to adjustments in the Reserve for Possible Loan Losses as a result of one impaired loan recovered and a separate loan subsequently classified to the same borrower.

IBTCI consultants met with the ARD group to review and discuss the appropriate accounting treatment related to interest free loans and accounting for loans extended to expedite the sale of previously foreclosed assets.

The following additional issues were discussed:

- ◆ Mergers and subsequent increasing of share capital of commercial banks.
- ◆ The accounting for currency printing costs.
- ◆ Understanding of the difference between revaluation and impairment of assets.
- ◆ Accounting for Treasury Bonds acquired with accrued interest.
- ◆ Revenue measurement according to IAS 18. The ARD is planning to review the current Accruals Accounting Policy.

IAS Analysis Report (Follow-up)

We conducted discussions with NBKR Board member Ms. Tsyplakova on the final sections of the IAS analysis project to clarify various issues and to identify those areas that will require additional research to further strengthen the banking standard and policy development process.

It should be noted that the Accounting Reform Division is actively using the materials provided to assist in their modification of various standards, policies, and procedures. We continue to elaborate on our findings and explain aspects of the IAS as issues arise.

Other Technical Issues

IBTCI also provided consultation on a wide variety of other accounting issues during the year. Our assistance involved research, discussion, documentation, and recommendations. About fifty technical memoranda were written. Subjects included:

SUBJECT

ISSUE DATE

Memo on accounting for investments in <i>The Banking Herald</i>	11 January, 1999
Memo on changes in the equity structure	23 January, 1999
Memo on Statute on loans classification and RPLL (Reserve for Possible Loan Losses) creation, developed by Financial Company for credit unions	26 January, 1999
Response to memo from ARD related to accounting for expenses involved in foreign exchange transactions	22 March, 1999
Demir Bank's request for alternative method of Debt Securities Accounting	22 March, 1999

Memo on accounting for dividends	5 April, 1999
Recommendation for Instruction on Lending Restrictions	6 April, 1999
Memo on job descriptions (future projects)	7 April, 1999
Memo on other property accounting	28 April, 1999
Head of the Working Group on Development of the Information System for Foreign Exchange Accounting	30 April, 1999
Memo concerning advantages and disadvantages of transference of accounts of incomplete spot purchases/ sales to off- balance sheet	13 May, 1999
Concerning ARD memo "On som correspondent account."	13 May, 1999
Accounting for other property transferred to capital lease or extended in the from of commodity loan	13 May, 1999
On accrued interest reversing	13 May, 1999
Letter to Deputy chairpersons of the NBKR Board (concerning future IBTCI projects)	25 May, 1999
Memo on loan accounting policy of the NBKR	28 May, 1999
List of questions on automation status of the commercial banks	25 May, 1999
List of commercial banks hardware and software – issues for discussion	27 May, 1999
Review of subsystem and interface with the General Ledger	31 May, 1999
Correspondent accounts in soms	5 June, 1999
Memo on accounting Policy on Restructuring of commercial banks	4 August, 1999
Accounting Draft Policy for Investments in Subsidiaries and Associates	4 August, 1999
Draft of FX Accounting Policy at the NBKR	5 August, 1999
Policy on Accounting for Intangible Assets	8 August, 1999
Accounting for RPLL	17 August, 1999

Amendments to the Policy for NBKR licensed commercial banks and financial and credit institutions on investments accounting in subsidiary companies	26 August, 1999
Accounting for transactions with gold	26 August, 1999
Investments in Associates Accounting Policy	30 August, 1999
Accounting for precious metals	9 September, 1999
Clarification of Market Value vs. Fair Value	10 September, 1999
Accounting for accrued interest written off	13 September, 1999
Response to Emirlan Toromurzaev, Deputy Head of the Economic Policy Department of the President's Office	13 September, 1999
Accounting for Zero interest loans	15 September, 1999
Comments to 3,4 and 5 Day of the base training course on accounting in banks	21 September, 1999
Draft changes to the Commercial Banks and Financial & Credit Institutions COA description	23 September, 1999
Draft amendments to the Chart of Accounts and Description to the Chart of Accounts for commercial banks	28 September, 1999
Recognition of Intangible Assets Acquired at Companies' Merger (Purchase)	6 October 1999
Regarding Bank Associate Accounting Course	28 October 1999
On Proposal to Subjects to be Discussed at the Seminar on Approaches to Regulation of Transactions with Derivatives	4 November 1999
Memo on Collateral Accounting	8 November 1999
Regarding Bank of Asia's letter on Mortgaged Property Accounting	12 November 1999
Letter to Ms. Taranchieva, Chairman of Kairat Bank from Michael Crossley regarding organizational structure, management and internal control of Kairat Bank	16 November 1999

Accounting for NBKR- Owned Apartments	3 December 1999
Accounting for Employees Loans/ Leases	3 December 1999
Letter from Ms. Imankulova, Head of Accounting and Reporting Department On Methods of Tax Accounting in Commercial Banks	8 December 1999
Memorandum of Understanding Between The State Commission on Audit Activities at the Government of the Kyrgyz Republic and Carana, USAID Enterprise Accounting Reform Project in the KR IBTCI, USAID NIS Monetary Restructuring Project in the KR on Support of Auditing Reform	10 December 1999

Accounting Policies Development for Commercial Banks

The following table shows the Commercial Bank Accounting Policies we worked on or created with ARD and that were approved by the NBKR during 1999.

Commercial Bank Accounting Policies in effect 31 December 1999

(Policies IBTCI drafted or assisted in during 1999 are shown in bold)

Accounting Standards for Commercial Banks	Approved as of Nov. 12, 1996, # 36/3 Amended as of Feb 25, 1997, #5/12 Amended as of July 30, 1997, #16/3 Amended as of Dec 24, 1997, #26/10 Amended as of July 3, 1998, #16/7
1. Fixed Assets Accounting Policy	Approved as of Nov. 29, 1996, # 38/6 Amended as of Oct 27, 1997, #22/7 Amended as of February 23, 2000 #8/6
2. Policy on Low Value Assets and Other Material Values Accounting	Approved as of Jan. 23, 1997, # 2/3 Amended as of July 3, 1998, #94-4/560
3. Policy on Accrual Accounting	Approved as of March 19, 1997, # 6/7 Amended as of July 30, 1997, Amended as of July 3, 1998 Amended as of November 22, 1999, #67/2
4. Loan Accounting Policy	Approved as of April 26, 1997, # 11/3 Amended as of July 3, 1998 N 16/7 Amended as of November 6, 1999, #66/7
5. Capital Accounting Policy	Approved as of April 26, 1997, # 11/5 Amended as of Oct 27, 1997, #22/7 Amended as of Dec 24, 1997, #26/10

	Amended as of July 3, 1998 #16/17
6. Securities Accounting Policy	Approved as of July 8, 1997, # 14/2
7. Foreign Exchange Accounting Policy	Approved as of July 8, 1997, # 14/3 Amended as of Nov. 10, 1997 N 23/4
8. Deposit Accounting Policy	Approved as of Sept. 11, 1997, # 18/5 Amended as of Sept. 28, 1998 N 25/2
9. Policy on Off-Balance Sheet Accounting	Approved as of Nov. 10, 1997, # 23/4
10. Procedure of Financial Statements Preparation (definition of, and requirements for Financial Statements (Balance Sheet and Income Statement) for Commercial Banks)	Approved as of March 19, 1997, # 6/8 Amended as of Dec. 24, 1997, # 26/8 Amended as of Dec. 29, 1998 N 36/10 Amended as of June 26, 1999, #47/11 Amended as of December 24, 1999, #71/7
11. Cash Flow Policy (cash flow statement and standard description)	Amended as of Dec. 24, 1997, # 26/10
12. Investments in Subsidiaries and Associated Companies	Approved as of April 4, 1998 N 5/6
13. Lease accounting policy	Approved as of Sept. 28, 1998 N 25/4
14. Trust accounting policy	Approved as of Dec. 14, 1998 N 34/10
15. Intangible assets accounting policy	Approved as of November 6, 1999
16. Accounting policy for commercial banks and other financial and credit institutions licensed by the NBKR in Business Combination.	In process. Draft as of 1999.
17. Gold and other Precious Metals Accounting Policy in commercial banks.	In process. Draft as of 1999.
18. Consolidation of Financial Statements of Subsidiaries of commercial banks.	In process. Draft as of 1999.
19. On compensation for observance of obligatory reserve requirements.	Approved January 19, 2000 #3/4
20. Instruction on dealing with State Treasury Bills for commercial banks in KR.	Approved as of August 9, 1995 # 19/6 Amended as of January 19, 2000 # 3/3
21. Instruction on the Order of Maintenance of the Open Foreign Exchange position limits in KR by commercial banks.	Approved as July 18, 1997 #15/4 Amended as of February 23, 2000
Chart of Accounts for Commercial Banks	Approved as of Dec. 17, 1996 N 39/1 Amended as of July 30, 1997, Amended as of August 5, 1997, Amended as of Nov 10, 1997, Amended as of July 3, 1998 Amended as of Sept. 28, 1998 N 25/13 Amended as of Dec. 14, 1998 N 34/14 Amended as of May 4, 1999, #37/1 Amended as of October 13, 1999, #62/6

Support for NBKR Accounting Development

To facilitate the discussion and resolution of NBKR's own accounting issues, IBTCI requested regular meetings to exchange ideas and information. This consisted of formal weekly meetings with the Chief Accountant and Head of Accounting Reform, together with informal meetings on an ad hoc basis. The latter, in particular, proved extremely effective, with ad hoc meetings taking place on a daily basis as issues arose. This system made a significant contribution to the success of the project.

Generally, the meetings with the Chief Accountant focused on issues of direct importance to the NBKR's own accounting activities, while those with ARD dealt with commercial bank issues. In both cases, the individuals were looking to increase their understanding of the accounting principles involved as well as the practical application or solution. Consequently, teaching was an important component of these meetings.

The following table shows NBKR Accounting Policies we worked on or created with ARD and which were approved or amended by the NBKR during 1999. Other accounting issues addressed are included in the discussion in Accounting Policies Development for Commercial Banks.

NBKR Accounting Policies in effect 31 December 1999

(Policies IBTCI drafted or assisted in during 1999 are shown in bold)

Accounting Standards for the NBKR	Approved as of October 24 1996 N 33/3 Amended as of January 25, 1997, N 5/12, Amended as of May 23, 1997 N 12/6, Amended as of July 30, 1997 N 16/4, Amended as of December 24, 1997 N 26/9
1. Policy of Fixed Assets Accounting of the NBKR	Approved as of October 24, 1996 N 33/4 Amended as of October 27, 1998 N 22/7 Amended as of September 8, 1999, #59/5
2. Foreign Currency Transactions Accounting Policy in the NBKR	Approved as of October 25 1996 N 34/4 Amended as of Dec. 14, 1998 No 34/11 Amended as of December 24, 1999, #71/8.
3. IMF transaction accounting policy	Approved as of December 17, 1996, N 39/2
4. Low value items accounting policy	Approved as of Nov. 29, 1996, # 385
5. Gold and other precious metals accounting policy	Approved as of February 7, 1997, N 3/6 Amended as of Sept. 28, 1998, N 25/5
6. Capital accounting policy	Approved as of February 14, 1997, N 4/1
7. Accrual accounting policy	Approved as of March 19, 1997, N 6/7 Amended as of July 30, 1997, N 16/5 Amended as of July 3, 1998, N 16/7 Amended as of November 25, 1999 #67/2
8. Loan Accounting Policy	Approved as of April 26 1997, N 11/4 ,
9. Securities accounting policy	Approved as of July 30, 1997, N 16/2

	Amended as of December 24, 1999 #71/9 Amended as of December 28, 1999 #72/2
10. Accounting Policy for Numismatic Values of the NBKR	Approved as of Sept. 11, 1997, N 18/4
11. Off Balance Sheet Accounting Policy in the NBKR	Approved as of Dec. 24, 1997, N 26/6 Amended as of Sept. 28, 1998
10. Regulation on Procedure of Financial Statements Preparation	Approved as of Dec. 24, 1997, N 26/8 Amended as of March 10, 1998, N 3/4 Amended as of April 28, 1998 N 7/7 Amended as of March 25, 1999, #20/6
12. Investments in Subsidiaries and Associated Companies	Approved as of April 8, 1998 N 5/5
13. Lease accounting policy	Approved as of Sept. 28, 1998 N 25/3
14. Intangible Assets Accounting policy for the NBKR	Approved November 6, 1999 #66/5
15. Instruction on Additional Allocation to the Reserve on Possible Loan Losses for the NBKR	Approved as of March 9, 2000 #10/4
16. Regulation on Loan Classification for Credit Unions	Approved as of March 4, 2000 # 10/14
Chart of Accounts for the NBKR	Approved as of March 19, 1997 N 6/6 Amended as of July 30, 1997, N 16/4 Amended as of Sept. 11, 1997, N 18/6 Amended as of March 10, 1998, N 3/5 Amended as of Nov. 17, 1998 N 30/7 Amended as of Dec. 14, 1998 N 34/12 Amended as of June 3, 1999, #44/4 Amended as of June 3, 1999, #44/5 Amended as of September 8, 1999, #59/7 Amended as of October 13, 1999, #62/7 Amended as of March 9, 2000 #10/10

Note: All documents and training material have been previously submitted with the Quarterly Reports.

IX. Support for NBKR Banking Issues and Supervision (Not in the Task Order)

Due to the credibility we had established with the Senior Management of the NBKR, Bank Supervision, the Accounting Reform Division and the Commercial Banks, during 1999 IBTCI was regularly consulted on a wide range of accounting, regulatory and operational topics. We assisted Bank Supervision in the following specific areas:

Bank Reviews: IBTCI participated in a number of special reviews of the Commercial Banks at the request of Senior Management.

Kyrgyz Financial Agricultural Corporation (KAFC):

- Regarding recognition of income/loss from the sale of other foreclosed property.
- Regarding the issue of covering principal amounts and accrued interest through foreclosure.
- Regarding amount of the recovery on loans written off.
- Regarding accrued liabilities denominated in foreign currency related to KAFC payment for international audit service in US dollars.
- Regarding inter-branch settlements and preparation of their Cash Flow Statement.

AKB Kyrgyzstan:

- Regarding foreign exchange rate to be used to purchase fixed assets.
- Regarding accounting for guarantees received in favor of a client of a bank.
- Regarding accounting for a long-term deposit.
- IBTCI consultants met with AKB Kyrgyzstan regarding proper accounting for the commitments of the bank.
- IBTCI consultants met with AKB Kyrgyzstan regarding revaluation issues for repossessed pledged property.

Maksat Bank:

- IBTCI provided active assistance in the resolution of Maksat Bank and the transfer of certain assets and liabilities to Kairat Bank. IBTCI took an active role in the development of a strategy for handling accounting and operational issues the NBKR needed to resolve related to the closing of the Maksat Bank.
- IBTCI had numerous meetings with Board Members Victor Chebyshev and Tatiana Aijigitova, NBKR, to discuss various issues related to the closing of the Maksat bank and the start up of the new entity. We also assisted with the procedures necessary to effect the correct accounting transactions and entries to effect the transfer. This phase of the resolution is now complete; however, additional tax, legal, and accounting issues remain. Kairat Bank is now open for business.

IBB Bank:

- Banking Supervision requested IBTCI to provide research on an issue of accounting for Nostro and Loro accounts.
- The consulting staff researched issues related to offshore banking practices of IBB Bank on behalf of the NBKR. They had requested an accounting opinion covering two specific transaction types that appear questionable.

Bishkek Bank:

- Regarding the accounting procedure of other property converted to a finance lease.

- IBTCI completed an extensive analysis of foreclosed assets and Treasury bond accounting in Bishkek Bank at the request of Banking Supervision of NBKR. The analysis included the estimation of carrying values of Treasury Bonds of different issues and a review of the income recognition on them. Our findings were presented to NBKR Bank Supervision and the management of Bishkek Bank.

NBKR - Settlement and Savings Company:

- Entries related to the Settlement and Savings Company (SSC) if SSC increases its capital.

Eridan Bank:

- Regarding revaluation of fixed assets and taxation issues related to such revaluation.

DosCredo Bank:

- On the correct method to be used in discount amortization and which account should be used.

Demir Bank:

- Request for using an alternative method of Debt Securities Accounting.

Other Assistance

IBTCI obtained a manual, in outline form, of International Accounting Standards from the World Bank. With their permission, we have distributed copies to all commercial banks and other interested parties.

These manuals have been received with great enthusiasm. It should be noted that written copies of accounting standards are very difficult for the Kyrgyz to obtain. These manuals are particularly useful because they are both English and Russian (and the translation appears to be reasonably good). From the perspective of developing sustainable accounting expertise in the Kyrgyz Republic, these manuals provide a means of effectively communicating, at a high level, the basics of IAS. We would further recommend that USAID push for a first class translation of IAS (detailed) in Russian, which could be inexpensively distributed in all NIS countries.

Training: IBTCI actively encouraged participation by the Accounting and Supervision divisions of the NBKR in the accounting and credit training presented during the year. In addition, due to the regional training we provided, NBKR branch personnel also were able to attend training. We are pleased that 27 participants took advantage of the training with the result that accounting and credit knowledge within the NBKR and these departments was significantly improved.

X. Support for Commercial Banks and NBKR Operations

Further rationalization of the operational design of the NBKR and commercial banks. Development of MIS systems that are tied to the new reports generated by the IAS-based accounting systems (NBKR and commercial banks).

The objective of the Management Reporting system is to provide the commercial banks with a tool to prepare various comparative and cumulative reports for management purposes.

The system incorporates budget data, statistical data, and actual and average data obtained from the General Ledger. The actual and average data will be adjusted and reclassified for management reporting purposes.

As part of the system design of the Management Reporting, the flow of data from GL to Management Reporting database was defined. This covers importing the data from General Ledger, through adjustments, to storing the data in the Management Reporting database.

The data entry screens for the adjustment entry module were designed. The chart of accounts was prepared in database format to be included in the adjustment entry module. The intermediate database structures were defined for the adjustments reporting.

The statistical data to be included in the system was defined. This includes:

- ◆ Data on loans (monthly number, monthly balance, and average rate),
- ◆ Data on deposits (monthly number, monthly balance, and average rate),
- ◆ Data on foreign exchange transactions (monthly number, monthly amount, and average margin),
- ◆ Data on off balance sheet transactions (monthly number, monthly amount, and average fee),
- ◆ Data on cash flow transactions (monthly number, monthly amount, and average fee), and
- ◆ Data on employees (monthly number and monthly salary).

Functional Design

The functional design document was completed. The functional design document covers input specifications, processing specifications, and output specifications. It also includes report formats for the control reports and the basic management reports. Work flow diagram identifies the programs, data files, and reports and shows the processes and the interconnection of processes and the databases. The final document includes the following:

- ◆ Overall Functional Design
- ◆ Work Flow Diagram
- ◆ Data Specifications
- ◆ Report Specifications

Overall functional design describes the objectives and major functions to be performed.

Data specifications describe each data item. This lists the system data items, look-up data items, adjustments data items, and balance data items.

Report specifications include the format for entry control reports for adjustments and reclassifications, entry balancing reports for adjustments and reclassifications, and basic management reports including comparative balance sheet and comparative income statement.

The link table from General Ledger accounts to Balance Sheet and Income Statement lines was prepared based on NBKR regulations.

Detail Design

Following completion of the functional design, the IBTCI consultants started work on the detail design of Management Reporting.

The draft detail design was produced for the following functions:

- ◆ Importing Budget data to Budget database
- ◆ Importing General Ledger month end balances to General Ledger database
- ◆ Entering the Adjustments to correct General Ledger actual month end balance
- ◆ Entering the Statistical data
- ◆ Importing Statistical data to Statistical database
- ◆ Importing General Ledger daily balances to Average database
- ◆ Entering the Adjustments to correct General Ledger average balance

In detail design, the specification for each function includes the following:

- ◆ Description of input,
- ◆ Description of processing, and
- ◆ Description of output

Ensure full compliance to daily reporting standards to NBKR by all commercial banks

Based on the review done in September of the reports the commercial banks send to the NBKR, the IBTCI consultants visited thirteen commercial banks to ensure their compliance with the mandatory requirements of Trial Balance Reporting as set by the NBKR.

Earlier detailed analysis of the Daily Trial Balance report showed that:

- ◆ All banks comply to the database format set by the NBKR
- ◆ Only 13 out of 20 commercial banks provide the hard copy report to NBKR
- ◆ Out of 13 banks which provide the report to the NBKR, only 5 follow the mandatory format

During the visits to the commercial banks it was established that:

- ◆ Some banks that did not send the report in on a daily basis but produce the report for their own management purposes.
- ◆ One bank did not produce the consolidated Som Trial Balance – they work mainly from equivalent foreign currency reports.

The IBTCI consultants advised and assisted the commercial banks and by November 1999, all 18 commercial banks were fully complying with the daily Trial Balance reporting requirements.

Participate in the Foreign Exchange Working Group project to assist in the development of the foreign exchange system

This project, is a continuation of the design work we completed in 1998, and is tied to the incorporation of IAS based system processes in the NBKR.

Foreign Exchange Module

Foreign Exchange Module is in the Programming phase. The NBKR expects the programming to be finished in April 2000.

IBTCI consultants worked together with the NBKR Foreign Exchange Module programmers in solving the design issues arising from the programming phase. This included:

- ◆ Defining the status identifier of a document in different stages of the process
- ◆ Classifying of individual Foreign Exchange accounts
- ◆ Clarifying the purpose and use of certain database fields
- ◆ Clarifying the transaction numbering when there are transactions coming from two different front offices, and especially when transactions come from the Trade Information Electronic System (used for internal commercial bank market).

The NBKR planned to start the testing of some parts of the Foreign Exchange Module in parallel to the programming.

The IBTCI consultant assisted the NBKR designers and programmers in creating the test plan and in organizing the preparation of test material. It was decided to delay the start of preliminary testing until 15 January 2000, since the users were busy with year-end activities and it was difficult to free up resources to prepare the test data.

Foreign Exchange Deposit Module

The Foreign Exchange Deposit Module is in the Requirements Definition phase. Since the Foreign Exchange Deposit Module and the Loan Module share many elements in common, it was decided to merge the Loan Module into the Foreign Exchange Deposit Module development project.

IBTCI consultants worked together with the NBKR Foreign Exchange Deposit Module Working Group in solving issues arising in the requirements definition phase. This included:

- ◆ Defining and analyzing different ways of concluding deals on gold and Foreign Exchange placement and different ways of getting income from placement.
- ◆ Defining the Registration Module and interface between the Foreign Exchange Module and Foreign Exchange Deposit Module.
- ◆ Preliminary design of transaction flow of EBRD credit line, Asian Development Bank credit line, Turkish credit line, MAR credit line, and involvement of the commercial banks in the credit lines.
- ◆ Defining loans that are accounted for on the NBKR's balance sheet and those that are serviced by the NBKR.

Registration Module

Registration Module is shared in common by both the Foreign Exchange Module and the Foreign Exchange Deposit Module. The Detail Design of the Registration Module was completed and it is waiting for the programming resources to be freed from the Foreign Exchange Module.

Other Foreign Exchange Related Activities

IBTCI consultants assisted the NBKR programmers and Foreign Exchange accountants in solving the issues related to Foreign Exchange revaluation. The old data was restored from archives and the system was thoroughly re-tested. It was confirmed that the software worked correctly. The problems were solved by clarifying the accounting procedures.

IBTCI consultants advised the NBKR accountants and securities specialists in testing of the Securities Module in the light of future adjustments required due to the planned integration of the Securities and Foreign Exchange Module.

IBTCI consultants also advised the NBKR in year 2000 issues related to the multi-currency operating day system of the Bank.

Provide direct assistance to Commercial Banks on systems, procedures, and financial reporting, as needed

Budgeting

One commercial bank was visited and three meetings were held in the IBTCI office to provide assistance in the budgeting procedures as a follow up to the Budgeting seminar.

Y2K Assistance

One commercial bank was visited to discuss management reporting and year 2000 testing. The external auditors of the bank had reviewed the year 2000 compliance of the bank and were satisfied with the work the bank had done with IBTCI's assistance.

IBTCI continued providing Year 2000 support and follow-up. All 18 commercial banks have completed their year 2000 testing. The commercial banks have a total of 1019 computers.

The NBKR requested assistance in formulating the Bank's emergency plan for possible year 2000 related problems. IBTCI consultants worked together with the IT personnel of the NBKR to review the current status of Bank's year 2000 preparedness. Both the equipment status and the software status were reviewed. The emergency plan was reviewed and recommendations were presented to the Steering Committee of the Bank.

N.B. We are pleased to note that no significant Y2K difficulties were experienced by the commercial banks in the transition to the New Year.

Systems

One commercial bank requested assistance in their current banking system evaluation and evaluation of the proposals for a new system. IBTCI consultants provided the assistance requested.

One commercial bank was visited to provide assistance in the identification of the data to produce various ratios for management reporting.

Organizational assistance to banks, as required

◆ Kairat Bank.

Kairat Bank had requested IBTCI to review and provide recommendations on bank's organizational structure, internal and management controls over the bank's risks.

The review included examining:

- ◆ Organizational structure, regulations for major departments and branches, and regulations for the committees of the bank.
- ◆ Policies of bank (credit policy, asset/liability management policy, etc.).
- ◆ Major accounting and operational procedures.
- ◆ Internal audit policies and procedures.
- ◆ Business plans and budgets.
- ◆ Management, financial and regulatory reporting cycle.
- ◆ Management reports.

IBTCI consultants met with senior management to start the review. The bank also established a Working Group for operational analysis of organizational structure, operations, and controls of the bank.

During the assignment, IBTCI consultants held several meetings with the bank's Working Group to create a work plan, requirements for documenting the operational flow and analysis, to train the Group members in documenting the operational flow, and to assist in operational analysis of selected areas of the bank.

As background, Kairat Bank was founded in April 1999 on the base of the liquidated Maksat bank. Kairat Bank is a 100% owned subsidiary of the NBKR. In November 1999, Mrs. Taranchieva, a former Deputy Chairman of the NBKR, was appointed as the Chairman of Kairat Bank. Under the Law on the National Bank, Kairat Bank should be sold to private investors by the end of 1999.

At year-end, 60% of the operational flow charts were complete and had been reviewed by the IBTCI consultants.

Other

Inter-branch Settlement

Settlement and Savings Company (SSC) had previously requested assistance in resolving issues related to the inter-branch settlement, which is an issue with all banks. SSC has 48 branch offices of which six are considered regional branches dealing as a regional interbank settlement and clearing center.

IBTCI reviewed the interbank and inter-branch transaction procedures for SSC. This review covered procedures such as interbank clearing, inter-branch settlement and international payments. The consultant completed a draft document of the review and recommendations. After internal review, these recommendations were presented to the SSC.

We received a letter from the chairman of the bank stating that they are very pleased to get the recommendations. They had studied the recommendations thoroughly and decided to adopt the recommended procedures in full for daily inter-branch transactions. The bank provided training for all operations people responsible for inter-branch settlements in each branch. The training was conducted in the head office. The recommended procedures were then implemented in each branch.

The chairman of the bank also stated that the problems with inter-branch settlements were common for the whole banking system in the Kyrgyz Republic. She believed that if all commercial banks apply the recommendations, it would have a positive impact on both the activity of financial institutions and effecting of settlements between other entities of the Kyrgyz Republic. IBTCI intends to follow-up on this idea.

Y2K Issues

USAID arranged a presentation concerning Y2K computer problems. A meeting was arranged with IBTCI and the NBKR IT representatives at the USAID office to be certain the NBKR was aware of the potential problems.

In addition, IBTCI circulated information with suggested steps to take to all commercial banks regarding the Y2K issue.

XI. Coordination with Other Agencies/Projects

Meetings were held throughout the year with Carana Corporation to discuss their efforts in training accountants in the enterprise sector and how we could coordinate our work. Both teams reviewed each other's training material and provided comments.

In bank-related issues, IBTCI had several meetings with the team at Barents Group who was advising the State Tax Inspectorate on tax issues. These meetings were to discuss the intent of several amendments to sections of the tax code that relate to the commercial banks in the country.

There was general agreement that the application of the tax code may be a result of misunderstanding or lack of knowledge of accrual accounting as it relates to commercial banks. IBTCI also reviewed and commented on several proposed tax code changes that occurred during the year.

IBTCI participated in the USAID Accounting Workshop held in Almaty to coordinate accounting reform efforts in USAID-funded accounting reform projects.

Supervision Issues

- IBTCI coordinated a meeting of Lewis Tatem, USAID, Almaty, with Ms. K. Sharshekeeva, NBKR Head of Banking Supervision, regarding issues of the USAID assistance in the area of banking supervision.
- Project Manager met with Ms. K. Sharshekeeva, NBKR Deputy Chair to discuss the upcoming USAID assistance to the NBKR Supervision area.
- Project Manager had extensive meetings with Noble Franson, IMF Advisor to the NBKR on Banking Supervision, to assist in the coordination of the USAID and IMF Supervision projects.
- The Project Manager accompanied two NBKR officials and participated at the USAID Conference on Banking Supervision in Bulgaria.

ACDI/VOCA

- IBTCI met with ACDI/VOCA throughout the year to coordinate our mutual activities in the banking sector.
- IBTCI met with representatives of ACDI/VOCA to discuss their programs in the Kyrgyz Republic and how better they could coordinate their volunteers with the accounting reform project currently administered by IBTCI. As a direct result of this meeting, subsequent meetings have been routinely held between IBTCI representatives and representatives of ACDI/VOCA. These meetings serve to coordinate efforts through briefings of the ACDI/VOCA consultants and volunteers involved in the various projects in the Kyrgyz Republic with the accounting reform project activities currently administered by IBTCI.
- IBTCI met with Newton Fuller and Bruce Robert, volunteers on assignment in Bishkek representing ACDI/VOCA, who conducted training at the Investment Bank Issyk-Kul and Settlement Savings Company, respectively. Their training consisted of assisting the bank presidents in the development of a mission statement and methods to conduct strategic planning for the bank more appropriately.
- For the purpose of coordinating project work, IBTCI met with Robert Rosengren of ACDI/VOCA - Osh as an introductory meeting to discuss his project in the Osh Farm Credit Association and how it interrelates with the NBKR. Discussions included accounting standards and the general ledger of the NBKR. There was also discussion of the IBTCI training available that might benefit the Farm Credit Association accountants, and other accounting advice that might be available to the Association.

FSVC

- IBTCI consultants met with Robert Van Heest of the Financial Services Volunteer Corps (FSVC) to discuss their involvement in the payment systems development. IBTCI discussed their work to this point and the direction they were planning.
- IBTCI consultants met with Ulan Sarbanov, NBKR Acting Chairman, Janybek Omorov, NBKR Deputy Chairman, Bob Van Heest, Financial Services Volunteers Corps (FSVC) and Dorvin Stockdale, USAID to discuss FSVC plans for 1999.
- IBTCI met with Financial Volunteer Services Corp. throughout the year to coordinate our mutual activities in the banking sector.

Miscellaneous

- IBTCI arranged for the USAID-funded Hagler Bailly energy sector project to make a presentation to the Board of the NBKR on energy sector issues.
- IBTCI also met with representatives of the Central Asian-American Enterprise Fund, EBRD SME Credit Line project, Helsinki University Knowledge Services, Barents, Pragma Corporation, FINCA, and Mercy Corps in carrying out our mission.
- In addition to providing NBKR support on policies, the team is assisting the NBKR on three tax issues, which have a significant impact on the overall banking system. First is the need to modify the tax code to include accrual accounting methods. Second, the enacted tax law regarding reserves for loan losses differs materially from the English original of the law,

which according to the Barents' tax team reflects the intent. Third is the collection of VAT on sales of repossessed collateral, which lead to excessively high collateral requirements, dampening lending activity, and resultant economic growth. IBTCI took an active role in working with other consulting teams, the NBKR, and the State Tax Inspectorate (STI) to address these issues on behalf of the commercial banking system.

- A series of meetings were held with USAID/Bishkek, Barents, IBTCI, the Ministry of Finance (MinFin), and the State Tax Inspectorate (STI). MinFin and STI conceptually agreed with an approach to compute tax liabilities which would accept financial reporting net income as the starting point, and through a series of adjustments, calculate taxable income. This has major advantages: it requires only one accounting system for all accounting entries, simplicity, and auditability. We were asked to provide recommendations to the NBKR for a commission working on changes in the tax code. Most of our proposed changes were included in the final NBKR recommendation to the commission.

USAID Almaty

- The NBKR sent a letter of request to Gary Linden, USAID for further, urgent assistance related to banking supervision. This request was also discussed with Lewis Tatem of the USAID office in Almaty.
- IBTCI met with Gary Linden of the USAID Almaty office, whose visit was primarily an opportunity for Gary to meet some of the contractors working in Bishkek. We also discussed reporting channels or more specifically that the contractors are to report directly to Lewis Tatem in the Almaty USAID office.
- IBTCI consultants met with various contractors, representatives of Congress and representatives of USAID to discuss the current financial and banking sector status in the Republic of Kyrgyzstan.
- IBTCI consultants met with Gary Linden and M. Johnson of USAID to discuss the Bank Accounting reform project in Kyrgyzstan and other banking related issues
- IBTCI consultant met with Gary Linden, OMT Director of the USAID Almaty office to discuss the status of our project and other related issues.
- A request from the USAID OMT representative in Kyrgyzstan, Dorvin Stockdale, was received that specifically requested and authorized IBTCI to assist and support in any way possible the efforts and financial institution project of ACDI/VOCA in the Kyrgyzstan region. We were instructed that this effort has the full support and backing of the U.S. Ambassador to Kyrgyzstan.
- We arranged meetings with the IMF Banking Supervision consultant and Ms. Tsyplakova of the Board of Directors of the NBKR with Lewis Tatem of the USAID Almaty office.
- Project Manger arranged a meeting with Nobel Franson, IMF Banking Supervision project, Ron Hackett, Barents, on coordination of logistics of Ortega's arrival.
- Project Manager arranged a meeting with Nobel Franson, IMF Banking Supervision project, Rich Ortega, Barents, Ron Hackett, Barents, to brief Ortega on NBKR and Supervision.
- Project manager arranged a meeting with Mr. U. Sarbanov, NBKR Chairman, L. Tsyplakova, NBKR Board Member, L. Tatem, USAID, Almaty, and R. Ortega, Barents Group to discuss issues of beginning the USAID Supervision Project.

- Project Manager arranged a meeting with K. Sharshkeeva, NBKR Banking Supervision, Lewis Tatem, USAID, Almaty, and Richard Ortega, Barents Group to introduce Mr. Ortega to the Deputy Chairman, Supervision.

US Embassy Bishkek

- IBTCI consultants had a meeting with the American Ambassador and Dorvin Stockdale of USAID at the U.S. Embassy to apprise her of the work we are doing with the National Bank of Kyrgyzstan and the commercial banking sector in the Kyrgyzstan Republic.
- The Chief of Party met with the US Ambassador to discuss the economy and banking sector issues.

USAID Washington

- The project manager worked extensively with Catherine Toth, USAID Washington to assist her in her assessment of the Kyrgyz banking system and the effectiveness of the USAID programs. The list of meetings arranged for Ms. Toth and attended by the Project Manager is as follows:
 - Extended discussion with Project Manager, IBTCI on the IBTCI project, supervision, banking system, political climate, and issues.
 - L. Tsyplakova, NBKR Economic Advisor - Discussion of the IBTCI project, NBKR needs, supervision, banking system, and issues.
 - Ulan Sarbanov, Chairman, NBKR, Dorvin Stockdale, USAID OMT Bishkek, Angus Simmons, and Kirk Smith US Embassy Bishkek.
 - Musa Jurayev, Supervision NBKR, and Azamat Abdymamunov, ARD NBKR – methodology and accounting.
 - Maria Taranchieva, Deputy Chair, NBKR, Ruslan Akmatbekov and Solto Sarymsakov, Supervision NBKR.
 - Alexander Tzibisov, Payments Systems, NBKR.
 - Lyudmila Goffin and Elena Morozova, Union of Accountants and Auditors.
 - Elena Bit-Avragim, Legal Head, NBKR.
 - A. Sulaimanov, Chairman, Settlement Savings Co., Dorvin Stockdale, USAID OMT Bishkek.
 - Dorvin Stockdale, USAID OMT Bishkek, and David Culpepper, US Treasury Advisor.

Other

- In a major organizational development, Jamilya Esenalieva, the Deputy Chairman of the NBKR and Irina Aramyan, the Chief Accountant of the NBKR, followed M. Sultanov to the Ministry of Finance to new positions.
- Public Sector Accounting

IBTCI participated in a number of meetings with various consultants, representatives of the United States Ambassador's office, and officials of the Ministry of Finance for the Kyrgyz

Republic. The purpose of the meetings was to assess the Public Sector accounting situation in the Kyrgyz Republic and to provide guidance on how to implement changes in the government of the Kyrgyz Republic similar to the Banking Accounting Reform project currently underway. These meetings were at the request of the Ministry of Finance.

For these meetings, Marshall Holman prepared an outline of primary discussion issues related to conversion and researched Public Sector accounting standards in accordance with the proposed standards as promulgated by the International Federation of Accountants (IFAC).

IBTCI consultants also participated in a follow up meeting with representatives of the Ambassador's office at the U.S. Embassy and the Ministry of Finance for the Kyrgyz Republic. The purpose of the meeting was to provide guidance to the Ambassador's representatives on approaches that are available to offer assistance to the Ministry of Finance. The outline previously developed on behalf of IBTCI that provided a general overview of the necessary actions required to undertake such a project was discussed at length.

- National Accounting Framework

The project manager participated, with USAID and Carana, in a meeting with the President's Economic Policy Office proposing to establish a commission to oversee the implementation of IAS-based accounting reform in the Kyrgyz Republic.

Other

- The office staff has completed bringing the reference library of regulatory documents up to date, which includes NBKR regulations and instructions as of 1995, 1996, 1997, and 1998.
- We have presented Russian translations of the exposure drafts of the International Federation of Accountants Public Sector Accounting Standards to the Ministry of Finance.
- Three local consultants participated in the seminar for instructors held by the NBKR Banking Training Center. They attended Module 1 of the seminar during which the participants learned methods of teaching classes and working with small groups. By the end of the course, each of our consultants made two presentations.
- One local consultant participated in the seminar for instructors held by the NBKR Banking Training Center. He attended Module 2 of the seminar. At the end of the course, our consultant made a presentation. Consequently, he was awarded a certificate of instructor.
- Marshall Holman continued lecturing at the American University of Kyrgyzstan in Managerial Accounting.
- The project leader taught a course in Financial Accounting to third-year students at the American University of Kyrgyzstan.
- IBTCI Project Manager met during the year with a number of other projects, donors and interested parties: FINIDA, D. Kaeser, Economic Advisor to the President of KR, M. Muller, Head, Swiss Coordination Unit, I. Zaidi, Resident Representative, IMF, P. Wienand, Ambassador, FRG, A. Simmons, Charge Deputy Chief of Mission, US Embassy, R. Mukhija, Ambassador, Embassy of India, N. Hadjiyski, Resident Representative, EBRD

- IBTCI consultants met with D. Ousenov, Chairman, Committee of Legislative Assembly of KR Parliament on banking matters.
- From a discussion with Ms. Tsyplakova, Board Member of the NBKR a need for assisting the commercial banks with Internal Controls analysis, development, and implementation was identified. There appears to be a need for assistance as the lack of quality internal controls at various commercial banks as noted by the Banking Supervision Department has contributed to the failure of banks in Kyrgyzstan.
- IBTCI consultant in automation also had a meeting with Mr. Taisto Tolonen, Ambassador of Finland, to discuss the cooperation with the Finnish assisted NBKR projects.
- A request was received from the project director of the ACIDI/VOCA Food For Progress Program and the director of the FINCA project for assistance in establishing a working committee that could address a range of issues that affect non-banking financial institutions. In line with a direct request from the USAID coordinator in Bishkek and the desires of the U.S. Ambassador to Kyrgyzstan, IBTCI has agreed to provide technical advisory services to the programs.
- IBTCI consultants met with representatives from ACIDI/VOCA, FINCA, and others with the goal of assisting the projects with the development of regulations and guidance for micro credit organizations in Kyrgyzstan. Various elements of the programs were discussed and a strategy for moving the projects along a list of priorities was addressed.
- IBTCI met with Robert Rosengren and Bob Fries of ACIDI/VOCA to discuss various levels of support and assistance IBTCI could provide to their “banking” project within the scope of our project.
- We received a request from the Kyrgyz Joint Stock Bank of Energy Reconstruction and Development “Kyrgyzenergo” Bank to assist them with the issue of developing employee incentive plans consisting of bank stock options.
- IBTCI consultants responded to the request from the Economics Department of the President of the Kyrgyz Republic by commenting on our project and provided ideas and observations related to the general economy of the Kyrgyz Republic. The purpose of our response was to assist the President of the Kyrgyz Republic with formulation of future strategies to improve the economy here in the Kyrgyz Republic. IBTCI consultants also met with Taalaibek Jumataev, Board member of the NBKR to discuss our response to the request from the Economics Department of the President of the Kyrgyz Republic. The meeting was to clarify aspects of our project and to provide ideas and observations related to the general economy of the Kyrgyz Republic.
- IBTCI had a meeting with Emirlan Toromurzaev, Deputy Head of the Economic Policy Department of the Kyrgyzstan President’s office and Svetlana Ny, expert economist in the same department. The purpose of the meeting was to discuss a request for comments from IBTCI addressing the successes of our project and to make recommendations for the President’s upcoming speech on strategic objectives and tasks for the economic development of the country. We were also requested to make comments or state our observations on other sectors of the economy in addition to the banking sector.
- At USAID’s request, the Project Manger participated as a lecturer in a regional (Central Asian) World Bank seminar on Risk Management given on October 19-22 in Bishkek and hosted by the NBKR.

- Our two local consultants and two interns, along with seventeen other bankers, successfully passed the Kyrgyz Accounting exam. This 66% success rate is 50% above the normal pass rate for enterprise accountants taking the exam.
- Five of the local IBTCI consultants participated in the Carana accounting courses. Two attended the financial reporting course and passed the exam. Three attended the managerial accounting course and passed the exam.
- Two of the local IBTCI consultants received certificates from the Ministry of Finance, USAID, and the Union of Auditors and Accountants of Kyrgyzstan resulting from their recent success in passing a comprehensive examination in managerial accounting.
- Project Manager had a meeting with Michael Gascoyne, Financial Sector, World Bank to discuss the banking sector in the Kyrgyz Republic.
- IBTCI – Bishkek also met with Phil Smith, IBTCI Almaty Office and provided him with a full copy of the Bank Associate Accountant training course materials.

In the course of our work here, we serve as a coordinator, facilitator, and source of information between the NBKR, the commercial banks, and other interested parties. In this role we have met with representatives of the US State Department, US Treasury Department, US Congress, USAID, Ministry of Finance, State Tax Inspectorate, the French Embassy, Asian Development Bank, World Bank, and the International Monetary Fund.

Future Needs

- Completion and delivery of the Management Information System
- Further coordination with Bank Supervision
- Sustainability of the reform program after completion of the project.

XII. Statement of Work

At the end of year, the project met or exceeded all required benchmarks with the exception of completion of the Management Information System. Work in this area began later than anticipated, and completion of the system is now on schedule for 2000.

The accounting reform must also be considered highly successful from the perspective of standard setting and accounting policy development. The NBKR has made great strides in the quality of the accounting standards and policies through their pursuit of consistent quality and dedication to compliance with IAS.

Note: All attachments to previously filed 1999 Quarterly Reports are incorporated by reference in this Annual Report.