



Fintech and Capital Markets Development and Integration in the CAREC Region

(Output 1c)

February 2024

Hee-Yul Chai & and Yeongseop Rhee

Contents

- I. Introduction
- II. Capital markets development in CAREC: Issues and perspectives
- III. Role of fintech on capital markets development
- IV. Regional cooperation for capital markets and fintech development**
- V. Conclusion**
- Appendix: Roadmap of CAREC Capital markets development through fintech and regional cooperation**



IV. Regional cooperation for capital markets and fintech development

Focus of Ch.IV

- Two main purposes of the whole study
 - Capital markets development through fintech innovations
 - Previous chapters suggested various ideas to promote capital markets development through fintech and examined the relevant roles of policymakers
 - Capital markets development and integration through regional fintech cooperation
 - This chapter will more focus on how those ideas can be applied at the regional level, and suggest strategies to promote regional fintech cooperation for capital markets development and integration

Summary of policy suggestions

Domestic policies	Regional cooperation policies
<ul style="list-style-type: none">• P2P lending / ECF• Mobile trading• STOs• Compliance automation,• Customer relationship management• Fintech innovation hub• Regulatory sandbox• Regulatory principles• Development of fintech-relevant technologies• Enacting or revising existing regulations• Enhancing institutional investors base• Financial opening	<ul style="list-style-type: none">• Fintech passport• Regional innovation hub• Regional fintech sandbox• CAREC fintech policy forum• DLT cross-border payments• Digital ID and financial profile• Coordination on fintech regulations• CAREC fintech policy institution• CAREC FTA• Regional common trading platform• CAREC infra fund• Regional CBDC

Appendix

Roadmap of CAREC capital markets development through fintech and regional cooperation

A-1. Background

- To make policy suggestions better implemented and attain the intended results, it is necessary to prepare a well-structured roadmap
- Reasons for introducing a roadmap of CAREC capital Markets development through Fintech
 - To consider a low level of fintech and capital markets development on average and significant gap in the development of fintech and capital markets among member countries in the region
 - To improve the level of development of fintech and capital markets in the entire region while simultaneously mitigating the intra-regional gap
 - To consider that intra-regional cooperation is not yet ripe
 - To pursue simultaneously capital market development and regional integration through fintech

A-2. Outline of Roadmap (1/2)

- Basic Structure: three-stage approach
 - Stage of institutional and technological improvement
 - Stage of fintech promotion
 - Stage of fintech expansion
- Development target:
 - 70% level of the Advanced Markets' capital market development
- Time required to achieve the target:
 - 10 to 20 years depending on the present level of fintech and capital market development

A-2. Outline of Roadmap (2/2)

- The present level and the target level of capital market development can be based on the IMF's financial market development index system
 - In 2021, the FM index for the Advanced Markets is 0.53, so 70% of it is 0.37.
 - The same indices for CAREC countries are much lower than 0.37 except China
 - The target level may be ambitious, but still worth trying

A-3. Grouping of countries

- There is a significant gap in the fintech progress among member countries of CAREC
 - So, it looks reasonable to differentiate significantly the time required to achieve the target among member countries
 - Grouping of countries
 - Composite index based on four pillars: IMF's FM index, Technology/Infrastructure, Capability, and Regional Cooperation
 - Three groups (excluding China): leading, middle, and lagging groups

Country ranking of capital markets development and fintech

Country	FM		TECH		CAPA		REGCO		SUM	RANK
		SC		SC		SC		SC		
Azerbaijan	0.21	0.35	55.9	0.40	81.8	1.70	33.3	-0.65	1.81	3
China	0.64	2.70	68.8	0.72	78.5	1.41	100	1.94	6.77	1
Georgia	0.03	-0.63	39.2	-0.01	59.5	-0.31	44.4	-0.22	-1.16	7
Kazakhstan	0.24	0.52	50.6	0.27	71.2	0.75	66.7	0.65	2.18	2
Kyrgyz Republic	0.01	-0.74	24.9	-0.37	54.9	-0.72	66.7	0.65	-1.18	8
Mongolia	0.11	-0.19	54.3	0.36	54.5	-0.76	44.4	-0.22	-0.80	5
Pakistan	0.14	-0.03	36.2	-0.09	58.5	-0.40	44.4	-0.22	-0.73	4
Tajikistan	0.00	-0.79	21.5	-0.46	53.4	-0.86	66.7	0.65	-1.46	9
Turkmenistan	0.02	-0.68	0.04	-0.99	50	-1.16	11.1	-1.51	-4.34	10
Uzbekistan	0.05	-0.52	46.3	0.16	66.7	0.34	22.2	-1.08	-1.09	6

Grouping of countries

Group	Note
<ul style="list-style-type: none">Leading group: Kazakhstan, Azerbaijan, Pakistan	<ul style="list-style-type: none">They already attained most domestic policies of the first stage and can start from the second stage and move to the third stageAlso, they may initiate proposals of regional cooperation for fintech and capital market development
<ul style="list-style-type: none">Middle group: Mongolia, Uzbekistan, Georgia	<ul style="list-style-type: none">They have relatively weak traditional capital markets and need to take more focus on improving stock and bond markets structure at the beginning
<ul style="list-style-type: none">Lagging group: Kyrgyz Republic, Tajikistan, Turkmenistan	<ul style="list-style-type: none">They are weak in all criteria except the regional cooperation pillarThey should focus on enhancing the basic infrastructure of fintech and capital markets in the first and second stages before expanding fintech adoption

A-4. Policy implementation at each stage

- Description of each stage
 - Basic direction of policy promotion at each stage
 - Possible policies at each stage
 - For domestic market development
 - For regional integration

First stage: Institutional and technological improvement

Basic direction	Policies
<ul style="list-style-type: none">• Set up regulatory principles on fintech applications.• Develop basic technological infrastructure for fintech applications.• Adopt fintech applications for basic financial services.• Expand cross-border financial transactions.• Fintech cooperation among countries with above average fintech development levels	<ul style="list-style-type: none">• For domestic market<ul style="list-style-type: none">➤ Direction of fintech development for capital markets development➤ Regulatory principles➤ Basic technological infrastructures• For regional integration<ul style="list-style-type: none">➤ Fintech passport➤ Innovation hub➤ Fintech sandbox➤ CAREC fintech policy forum

Second stage: Fintech promotion

Basic direction	Policies
<ul style="list-style-type: none">• Adopt fintech applications aggressively to encourage capital market development.• Start regional fintech cooperation with policies easy to implement.• Expand regional fintech cooperation to most member countries.	<ul style="list-style-type: none">• For domestic market<ul style="list-style-type: none">➤ Development of fintech-relevant technologies➤ Enacting or revising existing regulations➤ Launching pilot projects• For regional integration<ul style="list-style-type: none">➤ DLT cross-border payments➤ Digital ID➤ Coordination on fintech regulations➤ CAREC fintech policy institution➤ CAREC FTA

Third stage: Fintech expansion

Basic direction	Policies
<ul style="list-style-type: none">• Expand fintech adoption to the entire capital market and financial services.• Develop the capital market to the target level (70% of the benchmark countries).• Establish concrete regional fintech arrangement.	<ul style="list-style-type: none">• For domestic market<ul style="list-style-type: none">➤ Enhancing institutional investors base➤ Financial opening• For regional integration<ul style="list-style-type: none">➤ Digital financial profile➤ Regional common trading platform➤ CAREC infra fund➤ Regional CBDC

A-5. Promotion strategy (1/2)

- Need to set the priority, intensity and duration of the policies according to the following principles
 - Feasibility at each stage
 - E.g.) Fintech sandbox is relatively easy to implement in many CAREC countries even under current conditions, and is recommended at the first stage
 - Earlier introduction of a policy with a long-run ripple effect
 - E.g.) In some CAREC countries, basic infrastructure may be hard to build at an early stage. Since it is so much needed to induce and promote further reforms, it would be desirable to introduce the policy as early as possible and to maintain it for a long time
 - Ease of implementation
 - E.g.) The central banks of some CAREC countries may have the capacity and interest to introduce CBDC at the second stage relatively earlier than other members. But still, it would be difficult for CBDC at the regional level, and regional CBDC is recommended to promote at the last stage

Policy intensity and duration by stage

Policies	1st Stage	2nd Stage	3rd Stage
Direction of fintech development	strong	middle	weak
Basic technological infrastructures	strong	strong	middle
Regulatory principles	strong	middle	weak
Fintech passport	strong	middle	weak
Innovation hub	strong	middle	weak
CAREC fintech policy forum	strong	weak	weak
Fintech sandbox	strong	weak	weak
Enacting or revising existing regulations	middle	strong	strong
Coordination on fintech-enabling regulation	middle	strong	strong
CAREC free trade area	middle	strong	strong
Fintech-relevant technologies	middle	strong	strong
DLT cross-border payments	weak	strong	strong
CBDC	weak	strong	strong
Digital ID	weak	strong	strong
Digital financial profile	weak	middle	strong
Regional platform for trading system	weak	middle	strong
Regional CBDC	weak	middle	strong
CAREC infra fund	weak	middle	strong

Note : Colour of intensity



A-5. Promotion strategy (2/2)

- Need to follow a practical approach
- Gradual expansion
 - Once a pilot case proceeds with success, the scope of harmonized regulatory and supervisory requirements for fintech activities within the CAREC region can be gradually expanded
- Package deal
 - (Regarding regional integration) It would be better and more desirable to promote several ideas of strengthening regional integration simultaneously rather than separately in the CAREC
 - For example, the CAREC Payment and Settlement System, Fintech sandbox, and Fintech passport can be included as part of the deal for the CAREC Free Trade Area