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USAID Macroeconomic Project

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I. Project Management Overview

The USAID Macroeconomic Project (MEP) officially began operations in both Kazakhstan and Turkmenistan on October 01, 2011. The project was staffed and fully operational from day one, allowing for uninterrupted technical assistance from legacy USAID projects. During the first quarter of MEP implementation, October 01, 2011 – December 31, 2011, significant progress was made on two parallel fronts: (i) project start-up and (ii) delivery of technical assistance.

With regard to start-up, the project successfully negotiated work plans with counterparts in nearly all technical delivery areas, while simultaneously implementing other project start-up requirements, such as defining performance measures and monitoring systems, drafting the grant manual, hiring personnel and procuring necessary equipment, developing internal and external reporting standards, scheduling deployments, allocating resources, negotiating sub-contracts, etc.

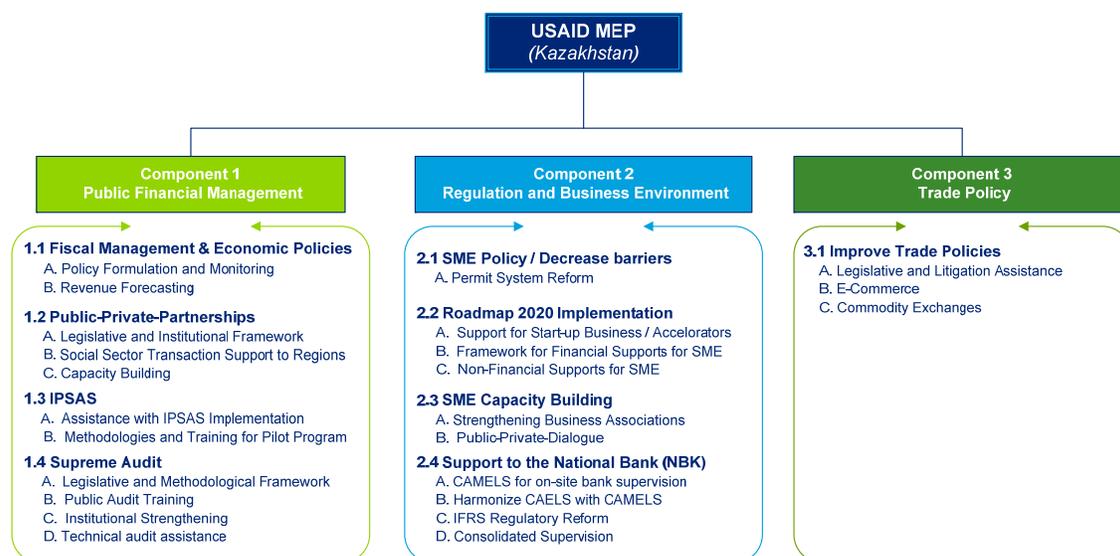
In parallel with these administrative start-up functions, MEP advisors likewise provided technical assistance in nearly all activity areas during its first quarter of operations, making significant progress against agreed work plans. These advances were made possible due to the immediate deployment of both international and local experts who were on the ground from day one of the project. Given the limited two-year time horizon for MEP, this quick start-up is critically important to the project’s ultimate success and its ability to meet counterpart needs.

II. MEP Kazakhstan

Country Overview

MEP officially began activities in both Astana and Almaty on Monday, October 03, 2011. The project was staffed and fully operational from day one, allowing for uninterrupted technical assistance from legacy USAID projects and programs. First quarter activities focused principally in two areas: (i) project start-up and (ii) delivery of technical assistance.

The management of MEP is immensely complex due to the fact that project activity areas are extremely diverse, involving a wide variety of government counterparts:



During its first quarter, MEP was required to negotiate work plans in nine subcomponent areas, with close to twenty separate counterparts and stakeholders. Communication problems complicated work planning, as many counterparts were seemingly unaware of the scope and purpose of MEP. Another complicating factor was the fact that counterparts tried to insist that the project's implementing partner formalize individual contracts for the delivery of assistance in each subcomponent area. Attempts were also made to modify both the MEP budget and delivery areas to meet with the counterpart's internal cost estimates, a breakdown not envisioned within the MEP contract. These issues created some significant challenges for the project, particularly with regard to work planning and stakeholder management; nevertheless, by the end of the first quarter, work plans had been formalized in nearly all subcomponents. Likewise, other project management activities were successfully completed, such as staffing, development of performance measures and monitoring systems, development of reporting standards, scheduling of deployments, etc.

Despite these advances, however, MEP management remains concerned about counterpart expectations which seem inconsistent with the terms and conditions set forth in the MEP contract. For instance, every counterpart is insisting that capacity building take place through one or more study tours (per subcomponent), a request which is inconsistent with the MEP budget and its technical delivery focus. This is an issue that will need to be addressed in the very near future.

In addition to project start-up, significant progress was made against work plans during the first quarter of MEP. Utilizing both international and local experts, the MEP team provided support to counterparts in virtually every subcomponent delivery area.

KZ Component 1: Public Financial Management & Economic Policy

Subcomponent 1.1: Economic Policies & Strategy

A. Progress/success against the work plan:

- Work planning in this subcomponent area was not finalized due to changing priorities within the MEDT. Originally, MEP was informed that this component would include assistance to a wide variety of departments within the MEDT, but after undertaking a needs assessment and preparing a draft work tailored to these specific needs, MEDT informed MEP that there would be a different primary beneficiary (the Tax and Budget Policy Department). This is a significant change in the scope and focus of this subcomponent, thereby requiring the development of a new work plan. It is expected that a mutually agreeable work plan will be formalized in the first quarter of 2012.

B. Issues/Obstacles

- Changing counterparts and ministerial priorities make work planning difficult and are causing the MEP project to expend resources in an inefficient manner.

C. Donor Coordination

- n/a

D. Major upcoming Activities (in next reporting period)

- Technical mission is planned for early January 2012.

Subcomponent 1.2: Public-Private-Partnerships

A. *Progress/success against the work plan:*

- MEP formalized its work plan for subcomponent 1.2 with technical counterparts, which was subsequently submitted to the MEDT Department of Investment Policy. The work plan covers assistance to the National PPP Center, as well as regional PPP centers for the duration of the project (through to September 30, 2013).
- MEP advisors have also been providing ongoing assistance to both National and Regional PPP Centers on a broad variety of issues, such as alternative dispute resolution, credit considerations for PPP projects, and public outreach/donor coordination. MEP continued to support the Karaganda Regional PPP Center on its kindergarten concession and has been working with other donors, such as the IFC, to facilitate financing for the project.

B. *Issues/Obstacles*

- Systemic weaknesses in Kazakhstan's PPP legal and institutional framework need to be addressed to ensure progress.

C. *Donor Coordination*

- MEP is working closely with the IFC, World Bank, Asian Development Bank and the European Commission on a broad variety of PPP-related issues and initiatives. MEP coordinates closely with other donors on a regular basis.

D. *Major upcoming Activities (in next reporting period)*

- 3-day regional PPP training is scheduled for March in Astana.

Subcomponent 1.3: Public Sector Accounting Standards (IPSAS)

A. *Progress/success against the work plan:*

- MEP formalized its work plan with the Ministry of Finance for the provision of assistance relating to the transition to accrual-based IPSAS.
- MEP provided methodological support on accrual-based reporting standards for the accounting software module implemented by *SAP* and *LLP Center of E-Commerce*. MEP also provided assistance in resolving methodological issues with regard to the "1:C Accounting in state institutions" software within the unified automated system E-MinFin. MEP likewise reviewed the "General Ledger" software product specifications developed by *Center of E-Commerce* and offered recommendations for its improvement.
- MEP proposed draft amendments to existing legislation on accounting in state institutions that brings them into conformity with the Accounting Rules, Chart of Accounts, accounting policies, rules for preparing consolidated financial statements for budget program administrators, and Forms and Rules for preparing and presenting financial statements. MEP likewise undertook a quality review of draft regulatory acts to reflect the amendments to the Budget Code. MEP prepared an analytical review of the draft "Rules for keeping data on accounting units and timelines for inventories, registering and revaluation of state property for its inclusion in the State Property Register".
- MEP provided Russian translations of the updated IPSAS (as amended in 2011) so that they can be published on the MoF website (2 volumes, 1872 pages total)

- MEP provided technical assistance in preparations for the pilot project on the transition of state institutions to accrual-based IPSAS and supported the development of the Draft Methodological Guidance on Transition of State institutions to the accrual-based accounting.

B. Issues/Obstacles

- Preparation for the pilot project is being undertaken without software for the “Accounting” sub-system.
- According to results of the on-going monitoring by the Ministry of Finance, more than 50% of accountants in pilot state institutions have not yet received training on IPSAS.

C. Donor Coordination

- MEP continuously coordinates its efforts with the IMF representatives and other donors.

D. Major upcoming Activities (in next reporting period)

- Major MEP and MoF training event scheduled for February, 2012.

Subcomponent 1.4: Public Audit

A. Progress/success against the work plan:

- MEP formalized its work plan for Subcomponent 1.4 with the Accounts Committee (AC).
- MEP reviewed and submitted comments and recommendations on the draft “Concept on Development of State Financial Control System in Kazakhstan until 2020”.
- MEP developed a Training Needs Assessment for Revision Commissions. Once the survey is conducted, the data will be used for analyzing training needs of Revision Commissions and developing a Regional training plan. The Assessment methodology was approved by the AC and in January, 2012 will be distributed in 14 oblasts, Astana and Almaty cities.
- MEP prepared an Overview Report about the U.S. Government Accountability Office (GAO) and submitted it to the AC. The objective of the report was to inform the AC’s staff about main activities of the GAO and highlight GAO practices that can be applied by the AC. This Overview Report is the first activity undertaken by MEP in establishing professional network and facilitating cooperation between SAIs of the US and Kazakhstan.
- MEP prepared an article entitled “Modeling and factors of success in institutional strengthening of public audit (experience of SAIs of Kazakhstan and Turkmenistan)” for publication in the “International Journal of Government Auditing” (IJGA) issued by GAO.
- MEP is finalizing proposals relating to the list of updated and new standards of state financial control (KZ national public audit standards). In line with counterpart requests, the proposals incorporate (if acceptable) materials of the Council of CIS SAIs Working Group on standards of state financial control. In addition to the proposed list of standards, MEP is developing a list of implementation guidelines, new chart and system of standards codification.

B. Issues/Obstacles

N/A

C. Donor Coordination

- MEP is coordinating with the World Bank on upcoming assistance to the AC on financial audits.

D. Major upcoming Activities (in next reporting period)

- Multiple training events scheduled for the first quarter of 2012.

KZ Component 2: Regulation and Private Sector Development**Subcomponent 2.1: SME Policy / Business Climate*****A. Progress/success against the work plan:***

- MEP formalized its work plan for Subcomponent 2.1 for 2011-2013 with the MEDT Entrepreneurial Development Department.
- In accordance with its mutually agreed work plan, MEP continued to assist the MEDT Entrepreneurial Development Department in the implementation of the Permit System Reform. To this end, MEP deployed international and local experts who developed a Gantt chart/activity plan to coordinate and plan the permit system work and ensure the timely delivery of the required Law on Permit Systems. MEP likewise continued to work with the MEDT, other donors, and stakeholders to achieve consensus on the scope of the reform. It is currently working on the Concept Paper and supporting stakeholders in developing the required control and monitoring systems.
- MEP advisors participated actively in a number of working groups and meetings regarding the permit system reform and provided advice and recommendations on implementing a sustainable permit system reform in line with international best practice.

B. Issues/Obstacles

- Lack of stakeholder consensus on the scope of the permit system reform could threaten its success.

C. Donor Coordination

- MEP is closely coordinating its Permitting System Reform work with the World Bank, which has been tasked by the MEDT to develop risk criteria to classify permits/licenses.

D. Major upcoming Activities (in next reporting period)

- Ongoing assistance to the EDD by international experts.

Subcomponent 2.2 and 2.3: Business Road Map 2020***A. Progress/success against the work plan:***

- USAID MEP agreed with the MEDT Entrepreneurial Development Committee on a work plan for Subcomponents 2.2 and 2.3 relating to the implementation of the Business Road Map 2020. It should be noted that the two subcomponents were combined into a single work plan due to the fact that all activities are contemplated under the Road Map 2020. Counterparts include MEDT EDC, business associations (i.e., Atameken), and the DAMU Fund. The work plan includes both financial and non-financial (capacity building of business development associations) support for SMEs.
- MEP advisors participated actively in the MEDT EDC donor and project coordination working groups, providing experts to exchange views on a wide variety of SME issues.

B. Issues/Obstacles

- Changing priorities in this area may impact project progress.

C. Donor Coordination

- MEP participates in the MEDT Entrepreneurial Development Committee's Donor Coordination Council for SME issues.

D. Major upcoming Activities (in next reporting period)

- MEP participation in technical working groups organized by the EDC.

Subcomponent 2.4: Assistance to the National Bank of Kazakhstan (NBK)

A. Progress/success against the work plan:

- MEP formalized its 2011-2013 work plan with the Financial Supervision Committee of the National Bank.
- MEP began to harmonize CAELS off-site rating system with the newly developed CAMELS methodology. In November 2011, MEP supported a working group to prepare instructions for CAELS and delivered a presentation on "The introduction of the Risk Based Supervision" to the management of the Financial Supervision Committee of the NBK (and heads of other departments). MEP also conducted on-the-job training in the CAELS risk based analysis of banks' financial condition for new employees assigned to the off-site unit. MEP advisor reviewed quarterly reports for 6 major and medium size banks and assisted analysts in improving their CAELS skills.
- MEP continued to support testing of the newly developed CAMELS methodology during the on-site inspections in two banks. By mid-December 2011, Liquidity, Earnings, Capital, Sensitivity and Management's components were tested and risk levels and risk management matrices were developed for all components. MEP conducted on-the-job training for inspectors regarding all qualitative and quantitative indicators for CAMELS rating methodology.
- MEP assisted the NBK in the harmonization of the IFRS requirements with the domestic rules for asset classification. MEP developed additional validations rules in order to capture the impact of new provisioning requirements on the regulatory reporting regarding interest earned but not collected and the impact on the regulatory capital calculations. MEP Advisor prepared a document clarifying treatment of the balance sheet differences resulting from the dual calculation of provisions and the calculation of the regulatory capital. MEP Advisor also assisted in quantifying impact of the harmonization process on the banking sector financials.
- MEP continued to assist Consolidated Supervision team in the analyses of the financial condition of banking conglomerates.
- MEP assisted the off-site Supervision team in the preparation of trend analyses of the interbank market and debt securities emissions by banks over the last ten years.
- MEP assisted the off-site Supervision team in the preparation of a study evaluating 13 major banks' sensitivity to the volatility in global financial markets in 2012. The study included assessment of funding and investment forecasts for 2012 as well as the evaluation of the structural maturity gaps imbedded in the balance sheets of the reviewed banks.

B. Issues/Obstacles

- NBK has requested that the MEP's international advisor be converted to resident status (full-time) to be able to better address the NBK's technical assistance needs.

C. Donor Coordination

- No other donors work in the area.

D. Major upcoming Activities (in next reporting period)

- MEP will provide assistance in the automation of the input and output reports for analyses of the financial condition of banking conglomerates.
- In January 2012 MEP plans to test Credit Component of the CAMELS rating system and to conduct first training for the Consolidated Supervision.

KZ Component 3: Trade Policy**Subcomponent 3.1: Improve Trade Policies****A. Progress/success against the work plan:**

- MEP advisors met with the Trade Policy Department, Trade Committee and the Trade Policy Development Center of the Ministry of Economic Development and Trade in order to undertake a needs assessment and develop a draft work plan for Subcomponent 3. The draft work plan is awaiting approval and formalization.
- In accordance with the draft work plan, MEP provided recommendations regarding the implementation of e-Commerce in Kazakhstan.

B. Issues/Obstacles

- Multiple counterparts within the MEDT have delayed formalization of the work plan. Failure to formalize the work plan creates a significant project risk.

C. Donor Coordination

- Donors in the field include the World Bank, European Commission, and Asian Development Bank. Donor coordination activities are ongoing.

D. Major upcoming Activities (in next reporting period)

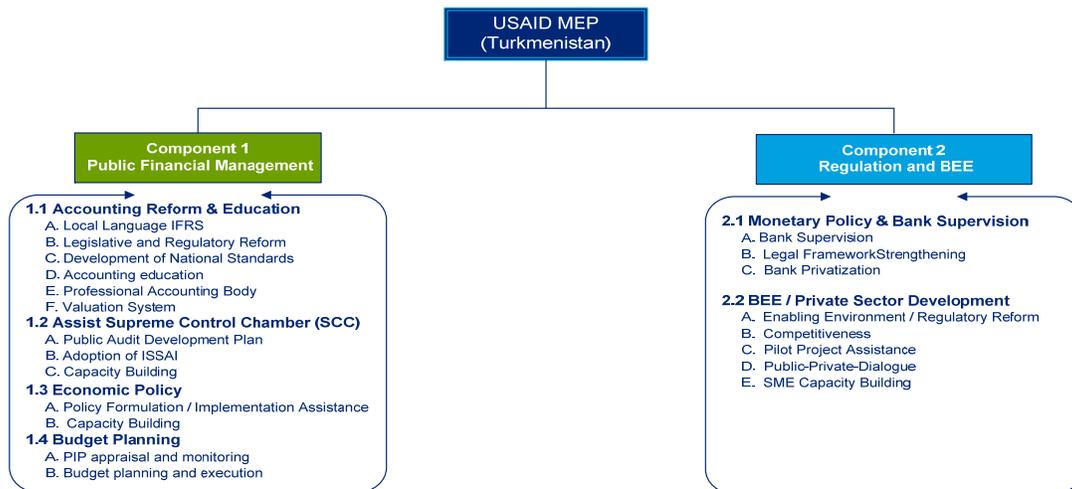
- Pending formalization of the work plan, technical mission of international is planned for February 2012.

III. MEP Turkmenistan

Country Overview

MEP officially began activities in Ashgabat on Monday, October 03, 2011. The project was staffed and fully operational from day one, allowing for uninterrupted technical assistance from legacy USAID projects. First quarter activities focused principally in two areas: (i) project start-up and (ii) delivery of technical assistance.

MEP aims to work in two basic areas, with a wide variety of government and non-government counterparts:



During its first quarter, MEP developed work plans for all subcomponent areas and submitted them formally to the Government of Turkmenistan for their approval. In certain key areas, such as accounting reform and private sector development, significant progress was also made against work plans.

TM Component 1: Public Financial Management & Economic Policy

Subcomponent 1.1: Accounting Reform and Education

A. Progress/success against the work plan:

- MEP facilitated the participation of representatives of the Union of Economists (UoE) in the London meeting of the CIS and Baltic States professional bodies/standard setters (November, 2011). The London conference provided the Turkmen delegation with the opportunity to establish contacts with other professional organizations, learn from their experience, meet with foreign experts, and learn about current trends in accounting and auditing. This is an important step in harmonizing Turkmen standards with international best practice.
- MEP Project Lead specialist attended training on the use of Trados Professional software, a tool used by the IFRS Foundation for translation of IFRS into local languages. This training will be useful in guiding UoE translators engaged in IFRS translation into the Turkmen language.
- Working through a project alliance with USAID Governance strengthening project (GSP), MEP assisted the UoE and the Ministry of Finance (MoF) in delivering the fourth round of Accounting principles/Financial Accounting-1 training courses. Eight groups of 160 accountants from state

organizations participated in the courses and sat for the CIPAEN exam in December, 2011. This is the first training series that covered all regions of Turkmenistan and Ashgabat. Some training courses were offered in the Turkmen language.

- In coordination with the School of Economy and Business of the UoIE, MEP began delivering a training course on Real Estate Valuation.
- MEP prepared a draft version of internationally benchmarked accounting qualifications for Turkmenistan.

B. Issues/Obstacles

- There is still no clarity as how the IFRS translation into the Turkmen language will be funded.

C. Donor Coordination

- MEP established an alliance with the USAID Governance Strengthening Project. GSP is assisting with the funding of certain activities, while MEP provides technical oversight and assistance.
- Ongoing coordination with the EU and UNDP.

D. Major upcoming Activities (in next reporting period)

- MEP is planning to facilitate participation of the MoF representatives, as well as local leading trainers in the IFRS for SME workshop, which will be held in Astana in March 2012.
- Ongoing assistance and training on accounting reform and education.

Subcomponent 1.2: Supreme Control Chamber (SCC)

A. Progress/success against the work plan:

- MEP prepared and presented a detailed work plan for technical assistance to the SCC. MEP is awaiting a formal response from the Government of Turkmenistan as to the proposal.
- MEP regional Supreme Audit advisors delivered international standards and best practice documents in Russian to the SCC. These activities are focused on increasing the SCC's awareness of current trends and international standards of public audit. This informal channel of communication and exchange of information is critically important to building trust with the counterpart.

B. Issues/Obstacles

- Lack of formal approval of the work plan creates a project risk.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- Possible deployment of international advisor (depending on approval of the work plan)
- MEP will continue to facilitate translations of key ISSAIs to the SCC.

Subcomponent 1.3: Economic Policy

A. Progress/success against the work plan:

- MEP prepared a detailed work plan, which was presented and discussed in formal meetings with the Minister of Finance, Minister of Economy and Development, as well as with the Chairman of the Institute of Strategic Planning and Economic Development. Based on feedback from local counterparts, the work plan was finalized and submitted to the referenced ministries and agencies. MEP is awaiting formal notification regarding the approval/amendment of the proposed work plans.

B. Issues/Obstacles

- Delays in the approval of work plans create a project risk.

C. Donor Coordination

- N/a

D. Major upcoming Activities (in next reporting period)

- Activities dependent on approval of work plan.

Subcomponent 1.4: Budget Planning

A. Progress/success against the work plan:

- MEP prepared a detailed work plan, which was presented and discussed in formal meetings with the Minister of Finance, Minister of Economy and Development, as well as with the Chairman of the Institute of Strategic Planning and Economic Development. Based on feedback from local counterparts, the work plan was finalized and submitted to the referenced ministries and agencies. MEP is awaiting formal notification regarding the approval/amendment of the proposed work plans.

B. Issues/Obstacles

- The fact that the EU Project on Economic Reforms in Turkmenistan is already operating in the budget planning area may become an obstacle for the Turkmen government to approve another donor project in this area. MEP is coordinating planned activities with the EU Project.

C. Donor Coordination

- MEP met with the Team Leader of the EU Project on Economic Reforms in Turkmenistan to coordinate the scopes of MEP and EU Project on Economic Reforms technical assistance in the budget planning area, as well as other areas.

D. Major upcoming Activities (in next reporting period)

- Activities dependent on approval of work plan.

TM Component 2: Regulation and Private Sector Development

Subcomponent 2.1: Monetary Policy and Bank Supervision

A. Progress/success against the work plan:

- MEP developed a draft work plan to provide assistance to the Central Bank of Turkmenistan. The work plan was prepared on the basis of informal conversations with the CBT and includes assistance in the areas of bank supervision, legislative reform, and bank privatization.

- MEP requested a meeting with the Chairman of the Central Bank of Turkmenistan to discuss the work plan and other privatization related issues.

B. Issues/Obstacles

- The finalization of the UNDP project in this area, as well as new CBT leadership familiar with MEP, offer a unique opportunity for USAID to engage in this area.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- MEP anticipates meeting with the CBT chairman to discuss MEP-CBT work plan for 2012-2013.

Subcomponent 2.2: Private Sector Development / Business Climate

A. Progress/success against the work plan:

- MEP prepared a detailed work plan, which was discussed with the Minister of Finance, the Minister of Economy and Development, as well as the Chairman of the Union of Industrialists and Entrepreneurs. Based on feedback from local counterparts, the work plan was finalized and submitted to the Government for their approval.
- MEP provided ongoing technical advisory services to the UoIE on a wide variety of private sector development issues, such whether obligatory membership in the UoIE is a prudent policy; the country's competitiveness strategy; financial supports for SME; legislative reforms, training programs for SME, etc.

B. Issues/Obstacles

N/A

C. Donor Coordination

- International Labor Organization (ILO), which developed SME training curricula (SYIB) proposed, was identified as a potential alliance partner for implementation of the work plan (SME training activities).

D. Major upcoming Activities (in next reporting period)

- Multiple deployments of international experts.