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USAID Macroeconomic Project

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Kazakhstan and Turkmenistan

Quarterly Report

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USAID MEP is implemented
by Deloitte Consulting, LLP.

Table of Contents

I.	Project Management Overview.....	3
II.	MEP Kazakhstan.....	3
	Country Overview.....	3
	KZ Component 1: Public Financial Management & Economic Policy.....	4
	Subcomponent 1.3: Public Sector Accounting Standards (IPSAS).....	4
	Subcomponent 1.4: Public Audit.....	5
	KZ Component 2: Regulation and Private Sector Development.....	5
	Subcomponent 2.2: Business Road Map 2020.....	5
	Subcomponent 2.4: Assistance to the National Bank of Kazakhstan (NBK).....	6
	KZ Component 3: Trade Policy.....	7
	Subcomponent 3.1: Improve Trade Policies.....	7
III.	MEP Turkmenistan.....	9
	Country Overview.....	9
	TM Component 1: Public Financial Management & Economic Policy.....	9
	Subcomponent 1.1: Accounting Reform and Education.....	9
	Subcomponent 1.2: Public Financial Management and Economic.....	10
	TM Component 2: Regulation and Private Sector Development.....	11
	Subcomponent 2.2: Private Sector Development / Business Climate.....	11
	TM Component 3: Trade Policy.....	12
	Subcomponent 3.1: Improve Trade Policies.....	12

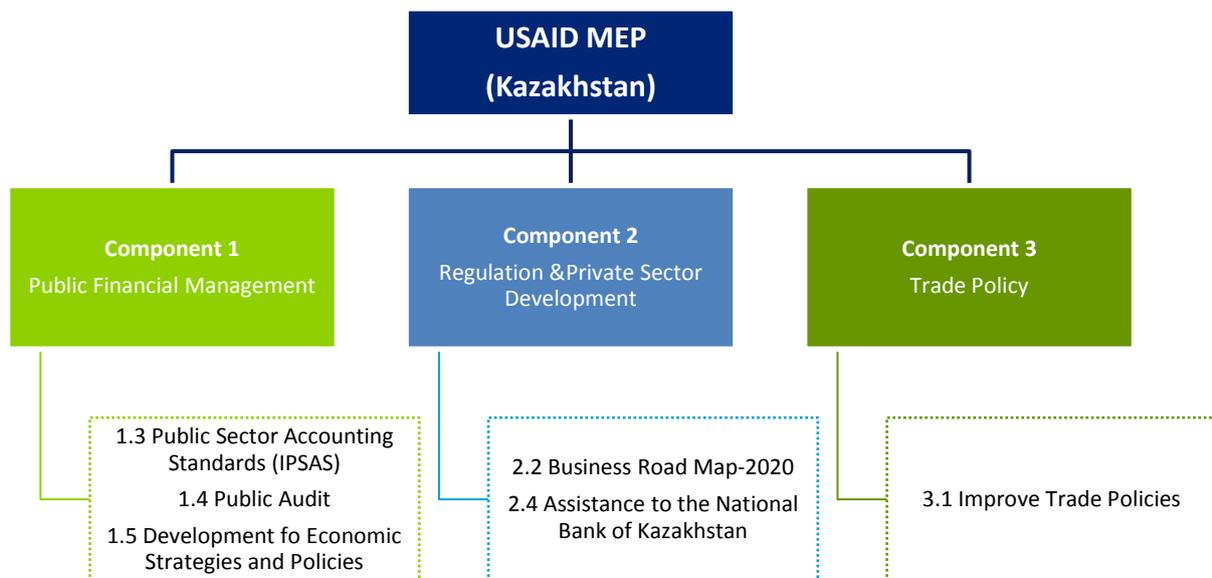
I. Project Management Overview

At the end of January 2014, MEP contract was extended for another 24 months in Kazakhstan, increasing the total contract ceiling from \$12 million to \$16.3 million. Contract extension prompted extensive planning activities with beneficiaries of technical assistance in Kazakhstan. The National Bank of Kazakhstan receives ongoing technical support from MEP resident advisor. Local project experts in both Kazakhstan and Turkmenistan also provided ongoing assistance to public and private sector counterparts. Capacity building efforts demonstrated good results, with technical training programs being imparted to 12 public sector officials in Kazakhstan and nearly 300 public sector accountants and financial experts in Turkmenistan.

II. MEP Kazakhstan

Country Overview

After finalizing contract modification, in Kazakhstan MEP was extended through December 31, 2015 and its funding ceiling was brought up by US \$4.27 million. Lack of traction with counterparts led to removal of Subcomponent 1.2: Public-Private Partnership from the contract.



During the first quarter of 2014, MEP was active in planning activities in Kazakhstan, that among other things include mass training of public accountants. However, delay in response from the Kazakhstan authorities regarding the work plan as well as extended negotiation phase for MEP contract extension has caused delays in providing technical assistance. Despite these problems, however, MEP was able to make progress in delivering on-site assistance to the Ministry of Finance (MOF) in public sector accounting and to the National Bank of Kazakhstan (NBK). In terms of impact, MEP provided 576 person-hours of training to 12 NBK analysts.

KZ Component 1: Public Financial Management & Economic Policy

Subcomponent 1.3: Public Sector Accounting Standards (IPSAS)

A. Progress/success against the work plan:

- As part of the work to bring the public sector accounting and financial reporting methodology in line with the updated IPSASs, the MEP consultant provides every day technical assistance and advice to improve the accounting system;
- MEP consultant continuously supports and participates in the work on amending the existing accounting regulations to bring them into conformity with IPSAS, as well as in the development of relevant application guidelines. Thus, in January-March 2014 the consultant helped develop guidelines on accounting for income in accordance with IPSAS 23, " Revenue from non-exchange transactions ".

B. Issues/Obstacles

- The lack of knowledge in applying the accrual basis in accordance with IPSAS, as well as the lack of experience and skills in applying new accounting rules may cause difficulties in the daily work of accounting units in government agencies, as well as during the preparation of accrual-based financial statements.
- Lack of experience in the training of accountants for government institutions during the transition to a new methodological basis for public sector accrual-based accounting in accordance with IPSAS.

C. Donor Coordination

The project continues to coordinate its activities with IMF representatives.

D. Major upcoming Activities (in next reporting period)

- In the third quarter of fiscal 2014, the project will continue to provide technical assistance and advice on updating the public sector accounting and financial reporting methodology, as well as to improve the accounting system in accordance with the updated IPSAS.
- The consultant will assist in the development of guidelines on IPSAS 23 "Revenue from non-exchange transactions".
- As part of the harmonization of financial accounting and budgetary accounting, consulting assistance will be provided to help with the integration of financial reporting and budget accounts with the budget classification codes and correspondences established within the unified chart of accounts.
- In the period from April to June 2014 the project will translate and review the following sections of the Conceptual frameworks for the preparation and presentation of financial statements:
 - Preface;
 - Elements and recognition;
 - Evaluation;
 - Presentation.

Subcomponent 1.4: Public Audit

A. Progress/success against the work plan:

- On January 14, 2014, MEP Regional Public Audit Advisor, in accordance with item 2.2 of MEP Work plan for 2011-2013, presented The Exit Report on Performance Evaluation of the Revision Commission on Astana city (hereinafter, RC) and the Action Plan on realization of the performance evaluation results/recommendations for 2014-2018 (hereinafter, Action Plan for 2014-2018) at RC's official meeting. Chairmen, Members, and other representatives of Revision Commissions on Akmolinskaya, Karagandinskaya, Severo-Kazakhstanskaya, and Pavlodarskaya oblasts took part the meeting. RC has started the implementation of the Action Plan for 2014-2018.
- In January-February 2014, negotiations related to priority areas of MEP's technical assistance for 2014-2015 were conducted with the Accounts Committee and Revision Commission on Astana city. The draft MEP Work plan for 2014-2015 was accepted by the Accounts Committee and Revision Commission on Astana city.
- In accordance with the request of the Chairman of Revision Commission on Almaty city, MEP Regional Public Audit Advisor developed and submitted general comments on draft law of the Republic of Kazakhstan on state financial control and public audit in terms of the regulation of local public auditing.

B. Issues/Obstacles

- See D. below..

C. Donor Coordination

- MEP coordinates the areas of assistance to the counterpart with the World Bank project in order to avoid duplication.

D. Major upcoming Activities (in next reporting period)

- Due to resignation of MEP Regional Public Advisor, the work plan requires complete revision and further negotiation with the counterpart.

KZ Component 2: Regulation and Private Sector Development

Subcomponent 2.2: Business Road Map 2020

A. Progress/success against the work plan:

- In early 2014, after a series of negotiations during the 1st quarter of 2014 between MEP and National Chamber of Entrepreneurs (NCE), the new Work Plan was discussed and agreed. The Work Plan is based on beneficiary's current technical assistance needs and includes a series of capacity building events on WTO-related subjects for NCE employees and private sector companies.
- In line with the duly approved Work Plan (paragraph 1.1.1), MEP submitted 60 WTO-related deliverables to include brochures, presentations, and infographics on basic WTO topics such as settling trade disputes, transparency and notifications requirements, protection of Kazakh entrepreneurs' rights within the WTO accession, experience of the CIS countries in WTO accession, WTO accession impact on investments and the agricultural sector, WTO impact the goods and services market, technical regulation (TBT), sanitary and phytosanitary measures (SPS), regional trade agreements (RTAs), trade-related intellectual property rights (TRIPS), etc.

Furthermore, the submission package also included the WTO basic agreements and appendices in the Russian languages for the ease of reference.

- For the assessment of export capacity of hive products (honey) in terms of WTO accession, MEP undertook industry research to develop an export model which could be replicated to other industries.

B. Issues/Obstacles

N/A

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- Finalize assessment of the potential for the selected hive product on the basis of active honey producers and regional industry associations in East Kazakhstan oblast and Almaty.
- MEP plans to initiate a discussion with other major business associations about needs in technical assistance under this subcomponent.
- MEP intends to expand activities and technical assistance to NCE and its regional subdivisions in accordance with the partner's strategic plan of development. MEP expects to sign additional Work Plan on 2.2 subcomponent to expand Project's influence and impact in SME development areas.

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

A. Progress/success against the work plan:

- MEP Advisor continued to assist the NBK's teams in on-site examinations of commercial banks. During the first quarter 2014, Advisor assisted in the preparation of one final report for bank examined during the fourth quarter 2013, including new metrics designed to communicate to the banks requirements for prompt corrective action resulting from the examination findings.
- MEP Advisor continued to support on-site examination of two additional medium size banks. The work included all CAMELS components, with the main efforts focused on the review of loan portfolios and liquidity indicators at the banks. The inspectors reviewed regulatory reporting, correcting the disclosure of maturity buckets and past due loans. Examination included risks' identification, measurement, monitoring and control for all CAMELS components. Banks are encouraged to prepare for the implementation of the new Instruction on Risk Management by strengthening their internal controls, operational risk measurement tools and IT systems' capabilities. Advisor continued to train examiners in the newly developed methodologies for risks' management, planning and reporting.
- MEP Advisor assisted in the preparation of three on-site examinations to be conducted in the second quarter of 2014. Advisor participated in the preparatory meetings with banks' external auditors, conducted the review of banks' financial condition identifying emerging supervisory issues and disclosure concerns. In addition, Advisor began to support examiners in the utilization of newly developed tool to capture bank's credit portfolio in order to stratify the assets and to prepare portfolio samples for further review during the on-site examination.
- MEP Advisor conducted 12 training sessions for off-site staff in the Advanced CAELS Risks Based Supervisory Methodology. 12 analysts (3 men and 9 women) participated in the training focusing on accounting and disclosure issues in banks' regulatory reporting, on recognition of supervisory concerns and issues and on preparation of supervisory strategy and action plan. The training will continue including report writing and advanced analyses of bank's financial condition.

- MEP Advisor supported the Statistics Department in the design and automation of reports facilitating transfer from the national standards to the IFRS. Advisor assisted in the review of reports capturing new information on past due loans and classified assets sent to the NBK by commercial banks in a new format implemented in December 2013. The new information is included in the BOSS regulatory report prepared monthly to serve as basis for off-site and on site analyses of banks' financial condition.
- MEP Advisor continued to assist in the harmonization of the CAMELS qualitative segments with the newly developed Instruction #359 on Risk Management. The review will also include lessons learned from the previous examinations supporting the fine tuning of scoring of individual questions. The qualitative segment will be organized into four sections corresponding to the risk management system components of Instruction #359. First section will evaluate quality of written policies, procedures and processes; the second will assess their implementation; the third will test the qualifications of the personnel; and the fourth will appraise the effectiveness of internal controls and internal audit responsible for ensuring the implementation of all policies, procedures and processes.

B. Issues/Obstacles

- N/A

C. Donor Coordination

- MEP Advisor met several times with the members of the IMF Mission (Mr. Pierpaolo Grippa, Ms. Sonia Munoz) conducting the review of the 25 Basel Core Principles' implementation by the Committee for Banking Supervision. Discussions included all aspects of on-site and off-site supervision and policy matters.

D. Major upcoming Activities (in next reporting period)

- Advisor was required to travel to Bishkek between March 9 and March 18, 2014. Therefore, the Accounting course for newly hired personnel of the off-site department was postponed and will commence in April 2014.

KZ Component 3: Trade Policy

Subcomponent 3.1: Improve Trade Policies

A. Progress/success against the work plan:

- In line with agreements reached between National Export and Investment Promotion Agency "KazNexInvest" and USAID Macroeconomic Project (USAID MEP), on March 3, 2014 a Work Plan has been discussed and duly signed to include a series of capacity building events on basic WTO disciplines and regulations and dissemination of WTO-related materials for the KazNexInvest employees and exporters;
- In line with the Work Plan on Trade Policy, specifically, Clause 1.1.1 (Technical assistance in capacity building through the explanation of the WTO basic disciplines and regulations), on March 6, 2014 MEP submitted 60 WTO-related deliverables to include brochures, presentations, and infographics on basic WTO topics such as settling trade disputes, transparency and notifications requirements, protection of Kazakh entrepreneurs' rights within the WTO accession, experience of the CIS countries in WTO accession, WTO accession impact on investments and the agricultural sector, WTO impact the goods and services market, technical regulation (TBT), sanitary and phytosanitary measures (SPS), regional trade agreements (RTAs), trade-related intellectual property rights (TRIPS), etc. Furthermore, the submission package also included the WTO basic agreements and appendices in the Russian languages for the ease of reference;

- MEP undertook a series of negotiations with KazNetInvest concerning the proposed dates for the capacity building events: preliminarily the trainings will take place in summer 2014.

B. Issues/Obstacles

- Due to substantial internal workload, KazNexInvest proposed to combine and shift the WTO trainings to summer 2014 thus making the MEP schedule uneven and threatening the anticipated results in awareness raising campaign as trainings are complex and devoted to various WTO topics;

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

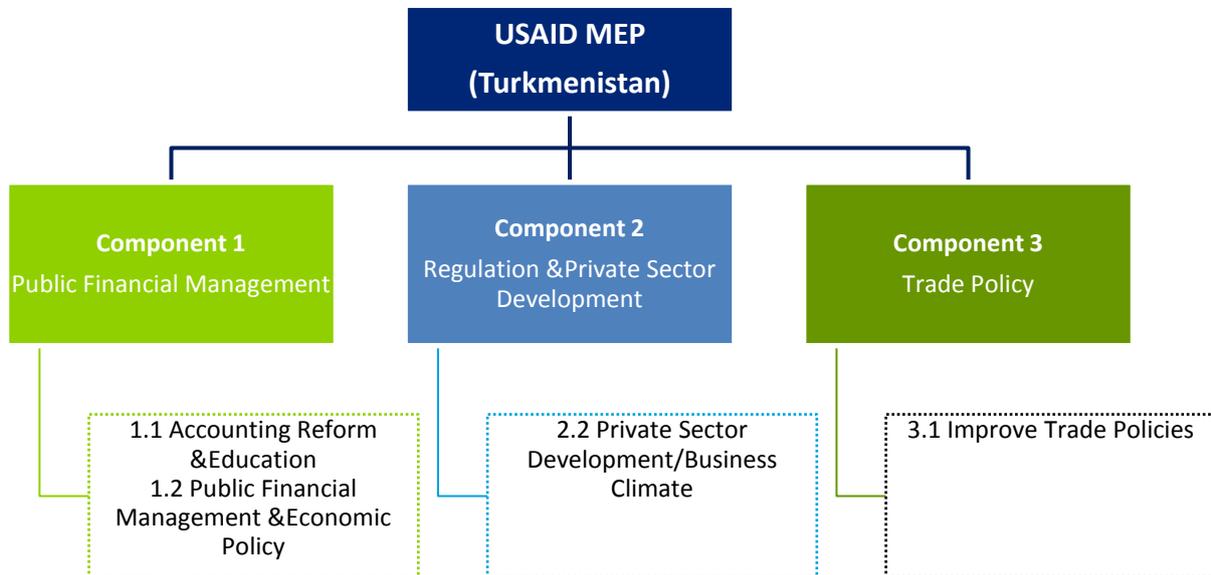
- In line with the KazNexInvest request to launch the capacity building events in summer 2014, MEP will start logistical preparations at a later stage;
- MEP remains open to any further request for technical assistance on behalf of the KazNexInvest;
- MEP received a new request on behalf of the Center for Trade Policy Development of the Ministry of Economy and Budget Planning (CTPD) to develop a new set of WTO-related brochures, presentations and infographics to raise awareness of the government agencies, business community, and the public at large on the WTO disciplines and regulations: MEP is anticipated to officially formalize the new Work Plan with the CTPD for 2014-2015.

III. MEP Turkmenistan

Country Overview

During the first quarter of FY 2014, continued slow response from the Turkmen authorities regarding approvals for work plan activities caused delays in the provision of some technical assistance in the accounting reform and education. Nevertheless, MEP maintained active delivery of assistance in these areas, including among other things the mass training of public accountants on IFRS and NFRS. In addition, MEP continued off-site support for the conversion of several Russian-language, WTO documents to the Turkmen context and made proposals, via USAID and the U.S. Embassy, for additional assistance to support next steps in Turkmenistan’s continued effort in reaching a decision to accede to the WTO.

During the quarter, MEP provided technical assistance to counterparts in the technical areas in the components and sub-components illustrated below:



During this quarter, MEP provided over 11,700 total person-hours of training to 314 public sector representatives, including 271 public sector accountants and financial experts that were trained using a MEP-developed module as the primary training material.

TM Component 1: Public Financial Management & Economic Policy

Subcomponent 1.1: Accounting Reform and Education

A. Progress/success against the work plan:

- During the period of February 10 – 21, 2014, MEP conducted a mass training in National Financial Reporting Standards (NFRS) for commercial enterprises for about 300 public sector accountants held in all major cities of Turkmenistan. The purpose of this training was to support the Government of Turkmenistan in transitioning to the NFRS.
- In mid-February, at the request of the Ministry of Finance (MOF), MEP completed development of draft National Financial Reporting Standard for Insurance Contracts in Turkmenistan. The

Government of Turkmenistan (GOTX) is in the process of reviewing the draft standard and is expected to adopt same in the beginning of April.

- In the beginning of March, MEP completed development of the training manual on National Financial Reporting Standards (NFRS) for state budget organizations and handed it over to the MOF. After reviewing the training manual, the MOF recommended it for use in mass NFRS trainings, which are to be conducted nationwide as part of the country's accounting system reform. Following the MOF's positive feedback, to create capacity for conducting the mass trainings which are scheduled during April – June 2014, MEP organized training for 19 local trainers on using the training manual on March 11, 2014. MEP has also started developing the training manual on NFRS for small and medium enterprises. This manual is expected to be instrumental in conducting trainings for private sector accountants later this year.
- Another document that we started working this quarter is the "Notes to Accounts" guideline in accordance with the NFRS, the completion of which is expected by the beginning of April.

B. Issues/Obstacles

- Delayed GOTX approval for MEP activities is the major issue creating difficulties in planning and conducting mass trainings. In this reporting period, Government approval came with a month-long delay which forced MEP to reschedule some planned activities, including technical assistance in the valuation area for the next quarter.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- MEP is going to continue the development of the NFRS for SMEs training manual and to complete it in May 2014, whereas the "Notes to Accounts" will be completed in the beginning of April.
- We also are planning on continuing mass NFRS training and are going to conduct a ToT session on the NFRS for SMEs training manual.
- Other trainings planned for the next quarter include training in NFRS for insurance contracts for the MOF and the State Insurance Company, and a training course on valuation of transport, machinery, and equipment for Ministry of Economy and Development (MOED) officials.

Subcomponent 1.2: Public Financial Management and Economic

A. Progress/success against the work plan:

- MEP conducted training courses in econometrics and quantitative economic analysis (CGE modeling) for 12 economists from the MOF, MOED, Central Bank, State Statistics Committee, and Institute for Strategic Planning and Development in February. The training courses provided a thorough introduction to various methods of quantitative economic analysis by covering mathematical aspects and methods in micro- and macroeconomics, econometric modeling, computable general equilibrium (CGE) modeling, partial equilibrium modeling, and input-output tables, among other subjects.

B. Issues/Obstacles

No major issues to report.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- MEP is going to conduct a training course on sectoral and subsectoral economic analysis on March 31 – April 4, which will be a logical continuation of the quantitative economic analysis course held in February and will attract the same group of participants.
- Subject to GOTX approval, MEP plans to conduct a training course on Economic Analysis Methods and Tools for Supreme Control Chamber officials and a training in Strategic Management of State-owned Enterprises and Creation of Effective Joint Ventures for public sector managers.
- MEP's work plan also includes a training for Turkmen banks and the MOF on investment banking and its role for effective privatization and capital markets development.

TMComponent2: Regulation and Private Sector Development**Subcomponent 2.2: Private Sector Development / Business Climate****A. Progress/success against the work plan:**

- MEP continued developing the Directory of Advice and Assistance (**DAA**), which will provide step-by-step guidelines on starting up a business in Turkmenistan covering issues related to business registration, taxation, licensing, and day-to-day operations, which directory is being developed jointly with the International Labor Organization (ILO) and the UoIE. A MEP-contracted regional ILO-certified consultant has obtained the necessary formal approvals from the ILO regional headquarter and has provided methodology to design the DAA in accordance with ILO standards, whereas a local law firm has started providing information related to Turkmenistan's legislation and regulations. Certain difficulties with processing large amounts of information caused delays in DAA development, which forced MEP to move the target completion date for this activity to the next quarter.
- The UoIE approached MEP in the middle of March requesting assistance in facilitating the UoIE's efforts to join GS1, a global barcoding organization. MEP stepped in and is currently providing facilitation assistance using internal capacity. Further work in this area is likely to develop in more technical activities like putting together a roadmap for introducing the barcoding system in Turkmenistan, which will require the engagement of an international consultant.

B. Issues/Obstacles

- Lack of GOTX approvals prevented MEP from conducting activities for Rysgal bank initially planned for the two previous quarters. MEP is working on solving this issue. In particular, MEP will approach the UoIE to renew the Memorandum of Cooperation (MoC) since 2014 onwards which is hoped to increase the MEP's chances for future technical assistance.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

In the next reporting period, MEP plans to complete the DAA and provide significant technical assistance to the UoIE in introducing the barcoding system to Turkmenistan.

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

MEP adjusted the four brochures on various aspects of potential WTO accession, which were previously developed for Kazakhstan, to match Turkmenistan's situation and is currently in the process of translating the adjusted parts of the brochures into Russian for further delivery to GOTX. The brochures cover such issues as technical barriers to trade, trade defense, sanitary and phytosanitary measures, and investment.

B. Issues/Obstacles

No major obstacles to report.

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

MEP is planning on the following activities in the next reporting period:

- Practical pilot exercise with specialists of ISPED, MOED, MOF, CBT and Statistics Body on modeling the economic impact of market access scenarios of WTO accession;
- Legal Review of Measures Affecting Trade in Services;
- Senior Policy Seminar/Roundtable on Critical Practical Issues of WTO Accession for department heads and deputy ministers of a wide range of Turkmen government ministries;
- Conducting a professional development training course for professors of the Turkmen State Institute of International Relations and/or the Turkmen State Institute of Economics and Management on developing/improving their course materials on International Trade Policy (to also cover WTO-related issues).