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USAID Macroeconomic Project

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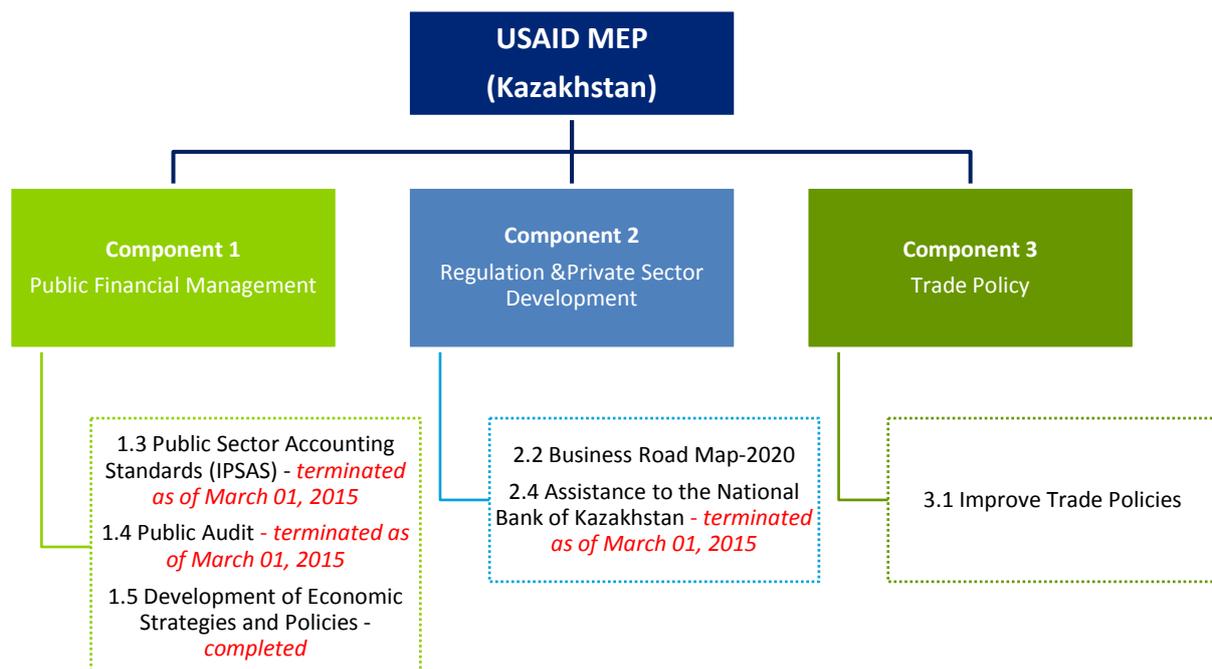
I. Project Management Overview

During this quarter, as described herein, MEP continued to provide assistance to beneficiaries in both Kazakhstan and Turkmenistan to diversify their economies and promote more inclusive and broad-based growth through macroeconomic stability, enhanced competitiveness, expanded private sector participation, and increased trade. With assistance tailored to the specific needs of the host country, core assistance areas continued to focus on areas involving Public Financial Management and Economic Policy, Regulation and Business Enabling Environment, and Trade Policy.

II. MEP Kazakhstan

Country Overview

During the second quarter of FY 2015, MEP delivered 11 policy and methodological recommendations in a diverse number of delivery areas. However, MEP planned activities in Kazakhstan were affected by the funding limitation notification from USAID and a follow-on request to revise project activities with an emphasis on Trade. In response to the COR's directive, MEP prepared a draft budget to realign costs at a lower burn rate to enable a continuous presence through the end of the contracting period. The project work plans were revised accordingly, which resulted in termination of technical assistance in three activity areas as illustrated below:



KZ Component 1: Public Financial Management & Economic Policy

Subcomponent 1.3: Public Sector Accounting Standards (IPSAS)

A. Progress/success against the work plan:

- During January-February, MEP's technical specialist continued on a daily-basis to provide technical and consultative assistance to improve the public sector accounting system in line with accrual-based IPSAS.
- MEP's technical specialist provided methodological consultations supporting further development of the draft "Rules for accounting for budget revenues in execution of the annual consolidated financial statements of the republican budget" in terms of recording tax and non-tax revenues for the purpose of forming the revenue portion of the budget in accordance with accrual-based principles.
- MEP activities under this subcomponent have been completed in accordance with notification on funding limitation and COR directive to revise MEP activities in Kazakhstan prioritizing on Trade. Counterpart meetings were held during the week of January 26, 2015, and all subcomponent deliverables documented and completed.

B. Issues/Obstacles

- Funding limitation led to an early termination of this subcomponent effective March 01.

C. Donor Coordination

- Coordination of activities with the IMF.

D. Major upcoming Activities (in next reporting period)

- N/A

Subcomponent 1.4: Public Audit

A. Progress/success against the work plan:

- The MEP technical specialist delivered the technical report "Consolidated Statement of the Financial Position of the Group". The report provides terminology, recognition criteria for the elements of financial reports and guidelines on preparation of a consolidated statement of the financial position of the group.
- In accordance with the Work Plan, MEP submitted written recommendations of Materiality in Audit that include methods of calculation and connection between materiality and audit risk. MEP likewise provided written recommendations on Audit Risk in public audit (Identification of risks: Audit Procedures regarding the assessed risks).
- MEP activities under this subcomponent have been completed in accordance with notification on funding limitation and COR directive to revise MEP activities in Kazakhstan prioritizing on Trade. Counterpart meetings were held during the week of January 26, 2015, and all deliverables documented and completed.

B. Issues/Obstacles

- N/A

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

- N/A

Subcomponent 1.5: Development of Economic Strategies and Policies**A. Progress/success against the work plan:**

- MEP continued to work closely with the Association “Eurasian Economic Club of Scientists” to facilitate the provision of financial and technical support to Astana Economic Forum (AEF) VIII scheduled to take place in May 2015. The activities supported through a fixed obligation grant, were reported as completed. A final report is expected during the next quarter.

KZ Component 2: Regulation and Private Sector Development**Subcomponent 2.2: Business Road Map 2020****A. Progress/success against the work plan:**

- Following the notification on funding limitation and COR directive to revise MEP activities in Kazakhstan prioritizing on Trade, the COP and MEP responsible technical staff met with the National Chamber of Commerce (NCE) to determine and reconfirm MEP’s ongoing plan for the period from February to the end of December, 2015. After a series of negotiations with the NCE, the new Work Plan was developed and approved by the counterpart. The new work plan takes into account the counterpart’s needs and the project’s technical resources and budget limitations. Likewise, the two WTO-related training programs originally planned for the NCE for February, 2015, were cancelled.
- In line with the new and duly approved Work Plan, MEP facilitated translation of an overview of the best international practices of price regulation of lease of commercial real estate.
- Likewise, MEP provided an overview of international best practices related to government support of business incubators as one of the most effective tool supporting the growth of SMEs.

B. Issues/Obstacles

N/A

C. Donor Coordination

N/A

D. Major upcoming Activities (in next reporting period)

- MEP will finalize a technical report on “Regulation of the Lease of Commercial Real Estate”.
- MEP will continue assistance to the NCE by maintaining and updating the electronic library with analytical materials on SME development in Kazakhstan.

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

A. Progress/success against the work plan:

- MEP Advisor assisted the preparation of on-site examination of three medium size banks, using newly designed and updated CAMELOS methodology that includes assessment of operational risk. Advisor and the examination teams met with external auditors and reviewed all off-site information on the banks including financial regulatory reports. The examination plan also included review of loan portfolios and selection of the sample to be examined in order to assess adequacy of provisions. In addition, examiners focused on the new component, operational risk evaluation and reviewed tools and methodologies for the examination of banks' readiness to manage this risk and to report losses incurred as a result of events of failure in systems, procedures or personnel leading to the increased operational risk.
- Advisor assisted in the preparation of the calculation of capital adequacy prudential norms based on the requirements of Basel III capital accords. Advisor and the staff of the Statistics Department prepared new formulas for calculation of the prudential norms including Tier I capital, additional Tier I and Tier II capital as well as new risk weighted assets and off-balance sheet items. The team tested the new formulas on the illustrative data and sent the new forms to the banks to request data be grouped in a new format. The team also prepared instructions for the new capital calculations. The banks are beginning to implement Basel III starting in January 2015.
- Advisor continued to support on-site examination of three medium size banks. Advisor met with the inspectors that are conducting on-site examination and assisted in the preparation of analyses of all CAMELOS components with special attention to the operational risk assessment carried out for the first time at two of the three banks. In addition, new methodologies for credit risk assessment were reviewed as banks are improving their IFRS based evaluation of credit risk. This effort is particularly important for retail lending institutions because the IT systems need to handle millions of records and proper assessment techniques are critical in risk identification and measurement. The reports will be issued in the second quarter and will contain important recommendations to the banks regarding risk management improvements.
- Advisor assisted Financial Markets regulators in the development of new off-site reporting forms. The new forms are customized only for brokerage and asset management firms and include details about main operations and capture all elements of income and expense and operations of the financial market participants. This new information will enable off-site analysts to identify main areas of engagement and assess profitability of the operations. It is a part of the implementation of comprehensive risk based supervision of financial market participants.
- Advisor supported analyses of eight brokerage firms using newly designed reports of financial condition for the financial market firms. The new reports focus on emerging risks and emphasize evaluation of quality of capital, assets, profitability and liquidity. They also include assessment of the effectiveness of a firms' management of their clients' assets. The support was delivered in the form of on-the-job training for off-site analysts of brokerage firms.
- In February 2015, the World Bank Mission visited the NBK in order to initiate assistance for Banking Supervision in the area of inspection planning and for Financial Markets regulators to initiate risk based supervision enhancements. At the request of the NBK, Advisor participated in

all staff meetings with the World Bank Consultants and assisted in the preparation of the evaluation report.

- On March 3, 2015, Advisor delivered a lecture to the Accounting Department staff regarding financial and regulatory reporting of banks and the harmonization of all information received from the sector by all departments of the NBK. Advisor focused on the treatment of derivatives, discounting of non-market interest rates, hedge accounting and uniform treatment of all new products and transactions controls.

B. Issues/Obstacle

- N/A

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

- Following the notification on funding limitation and COR directive to revise MEP activities in Kazakhstan prioritizing on Trade, the assistance on this subcomponent was terminated on March 5th with all deliverables fully documented and completed.

KZ Component 3: Trade Policy

Subcomponent 3.1: Improve Trade Policies

A. Progress/success against the work plan:

- In accordance with the Work Plan, on 12 January MEP submitted the WTO-related brochure and presentation on the WTO membership experience of the developed countries, with an emphasis on analyzing the economic and trade performance of developed nations. A summary of the most recent literature sources was included, with a focus on the Great Recession implications on trade and development in OECD countries,
- On 20 January MEP submitted the WTO-related brochure and presentation on the WTO membership experience of the Russian Federation (which acceded in August 2012). The brochure included a summary of the economic situation in Russia before the accession with an analysis of the negotiation process and major commitments, undertaken by the country.
- On 24 February MEP submitted the WTO-related brochure and presentation on trade negotiations, practices and approaches to explore the negotiation as the foundation of the national policy-making process. The brochure included information on setting agendas, identification of negotiation subjects, finding options and solutions, and securing needed support to ensure sustainable policies.
- On 10 March MEP submitted the WTO-related brochure and presentation on the negotiator's handbook to analyze commercial diplomacy. This is a practice area for a diverse range of professionals to include but not limited to trade and investment policy makers, trade negotiators, private sector stakeholders, industrial associations, and others.
- In order to respond to USAID notification on funding limitation and COR directive to revise MEP activities in Kazakhstan with an emphasis on Trade, the work plans were re-negotiated with the counterparts: the Center for Trade Policy Development (CTPD) and KazNexInvest. Due to funding

limitation issues, the two capacity building events - a five-day training-workshop on the WTO Dispute Settlement Mechanism (DSM), and one-day Export Promotion training for KazNexInvest and exporters, anticipated to be delivered in early February, - were cancelled. Likewise, the assistance to the KazNexInvest was terminated.

B. Issues/Obstacles

- N/A

C. Donor Coordination

- N/A

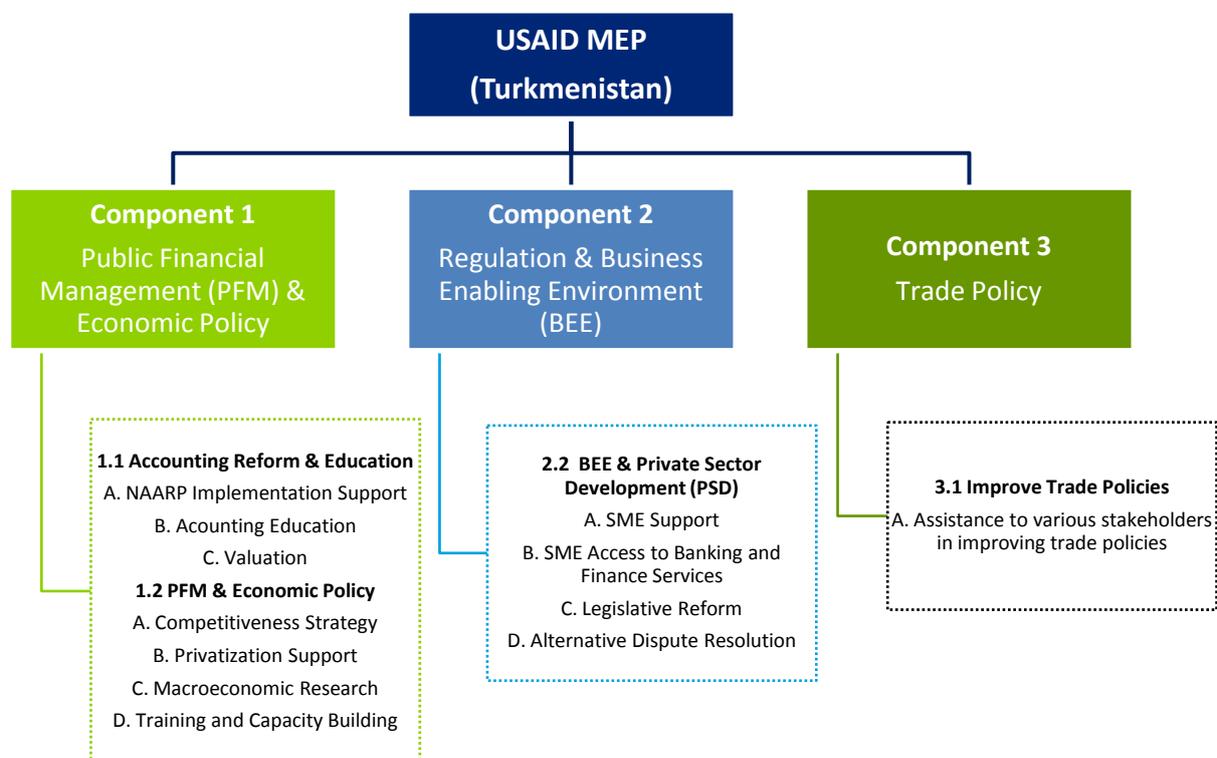
D. Major upcoming Activities (in next reporting period)

- MEP is finalizing the Market Access Negotiations brochure and presentation, which will be followed by the Services Negotiations brochure and presentation.

III. MEP Turkmenistan

Country Overview

During this quarter, MEP experienced continued delays by the Government of Turkmenistan (GOTX) in the approval process for MEP-proposed activities. When approvals commenced mid-March, MEP staff worked diligently to reschedule activities to the following quarter in order to complete all the required preparations. Nevertheless, MEP maintained active delivery of assistance throughout all components of activity as set forth below.



To address the issue of delayed MFA approvals, MEP plans to engage in more activities that do not require MFA approvals in the following two quarters. Such activities would include conducting a benchmarking analysis of export market potential of specific groups of Turkmen products, a roadmap on implementing the recently adopted Law of Turkmenistan on international commercial arbitration (to enter into force in 2016), and a concept paper on enhancing the private sector role in promoting exports and regional trade. MEP will also propose training and seminars designed to build the capacity of specific Turkmen industries, including their export potential to which the GOTX demonstrated interest. MEP plans also include a more active engagement with local professional associations that can receive technical assistance without a need for MFA approvals.

TM Component 1: Public Financial Management & Economic Policy

Subcomponent 1.1: Accounting Reform and Education

A. Progress/success against the work plan:

- During the reporting period MEP continued provision of technical assistance to the Ministry of Finance (MOF) in improving Turkmenistan's accounting and financial reporting framework through the introduction of best international accounting practices. Per MOF request, MEP assisted the counterpart in updating the MOF correspondence of accounts system to bring it in compliance with the recently adopted National Financial Reporting Standards (NFRS). The work is scheduled to complete in early April.

B. Issues/Obstacles

- The absence of GOTX approval of MEP activities under this subcomponent disrupted the delivery of technical assistance to counterparts and forced MEP into rescheduling project activities and revisiting work plans.
- The training program in the National Financial Reporting Standards for Accountants and Financial Experts from State Budget Organizations scheduled for February was rejected by the MFA. MEP is now considering removing this activity from the work plan.

C. Donor Coordination

- There is no other donor assistance in this area.

D. Major upcoming Activities (in next reporting period)

- MEP will continue its efforts to further develop the valuation sector in Turkmenistan and will undertake another attempt to obtain MFA approval to conduct a course on valuation of business entities for valuation experts representing private sector and the Ministry of Economy and Development (MOED).
- MEP is going to continue providing TA to the MOF in updating and developing methodological documents and policy papers to further strengthen Turkmenistan's accounting system.

Subcomponent 1.2: Public Financial Management and Economic Policy

A. Progress/success against the work plan:

- Due to the delayed GOTX approvals, MEP had to reschedule activities under this component to the next quarter.

B. Issues/Obstacles

- The lack of GOTX approvals became the main reason for postponing a number of activities under this component into the next quarter.
- Although an official response from the MFA has yet to be received, the following three activities were recommended for postponement until late summer:
 - Seminar on the Creation of a Stock Exchange.
 - Seminar on Economic Globalization Trends.
 - Seminar on Technology Transfer.

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

- MEP will conduct a seminar on new insurance products and services for the experts from the local insurance companies to advance their understanding of the role of the insurance sector in boosting economic activity. The seminar is scheduled on April 20-24 and has been approved by the MFA.

TMComponent2: Regulation and Private Sector Development

Subcomponent 2.2: Private Sector Development / Business Climate

A. Progress/success against the work plan:

- MEP continued providing assistance to the National Barcoding Organization (NBO) of Turkmenistan in its efforts to promote use of barcodes in Turkmenistan and achieve full membership at GS1, an international barcoding organization. MEP assisted the NBO in follow-up procedures to the NBO's application for GS1 membership, which was submitted to GS1 in early January.

B. Issues/Obstacles

- Lack of GOTX approval prevented MEP from conducting a seminar on enhancing competitiveness for local private companies.

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

- Subject to MFA approval, MEP will arrange a study tour to Croatia on international arbitration for 11 local experts on June 9-11, 2015. The participants will learn the Croatian experience of establishing an efficient arbitration system and will use that knowledge to implement the recently adopted Law of Turkmenistan on International Commercial Arbitration. As a follow-up

to the study tour, MEP will also develop a roadmap on implementing the above-mentioned law that will include, among other things, the input of Croatian and Turkmen experts.

- MEP will continue to work closely with the NBO and provide further assistance to the organizations. Likewise, the project is currently looking into possibilities of arranging a trip to GS1 General Assembly that will take place on May 18-21 in Sydney, Australia, and during which GS1 members will vote on the NBO's membership application.

TM Component 3: Trade Policy

Subcomponent 3.1: Improve Trade Policies

A. Progress/success against the work plan:

- Due to the delayed MFA approval, MEP had to reschedule its activities to the next quarter.

B. Issues/Obstacles

- Delayed MFA approvals.

C. Donor Coordination

- N/A

D. Major upcoming Activities (in next reporting period)

- MEP will conduct a seminar on international electricity trade and international electricity sale and purchase contracts for the Ministry of Power Generation and MFA on April 7-9. The seminar will focus on specificities of international electricity trade, marketing techniques, methods of benefiting from the seasonality in electricity trade, and international best practices in drafting international electricity sale and purchase agreements and contracts. MEP is looking into possibilities for conducting more training courses to equip GOTX officials with knowledge about international trade, including WTO accession and the opportunities it presents for the country's economic growth. The project will also engage in preparing policy papers on various aspects of Turkmenistan's possible WTO accession.