

The Pragma Corporation
USAID Development of the Securities Market/Kazakhstan
Project
Monthly Report
(For the period ending June 30, 2000)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	David Lucterhand
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

The Pragma Corporation
USAID Securities Market Development Project
Monthly Report
(For the period ending June 30, 2000)

I. EXECUTIVE SUMMARY

This report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Securities Market Development Project, as implemented by consultants for the Pragma Corporation ("the Pragma Team" or "Team"), for the month of May 2000.

- RECORD NUMBER OF CORPORATE BONDS TRADED ON KASE
- HONG KONG SHANGHAI BANKING CORPORATION DECLINES TO ACT AS GUARANTOR FOR LARIBA MORTGAGE BACKED BOND
- CENTRAL ASIAN-AMERICAN ENTERPRISE FUND (CAAEF) INVESTMENT COMMITTEE AGREES TO GUARANTEE LARIBA MORTGAGE BACKED BOND
- PRESENTATION ON SOB MADE TO OIL AND GAS WORKING GROUP
- ATYRAU AKIMAT BRIEFED ON SOB
- SEMINAR ON FIXED-INCOME AND LISTING OF SME'S DELIVERED IN ATYRAU
- DEPUTY HEAD OF THE STATE INVESTMENT AGENCY RESIGNS
- COORDINATED INITIATIVE (WITH FISCAL REFORM PROJECT) ON SUBVENTIONS AND WITHDRAWALS MADE IN ASTANA TO MINISTRY OF FINANCE AND PARLIAMENT

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), broker-dealers and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team works under a recently signed MOU between USAID and the NSC. Pragma also works with KASE under the auspices of a 1998 Memorandum of Understanding which established the precedent and rules of engagement. While these MOUs have expired, Pragma and NSC continue to cooperate in accordance with the pre-existing agreements.

In November 1998, recognizing the changes in circumstances since the Task Order was written, Rick Gurley, the COTR for the AID Mission, signed off on an Action Plan that set forth the priorities of the Project through its completion date. The priorities of the Project for this period are noted in the boxes below in section III. PROJECT UPDATE AND PROGRESS VERSUS ACTIVITIES IN THE ACTION PLAN

The project update for this monthly report will correspond to the activities set forth in the action plan described above.

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Because of the short time (two and half months) remaining in the Securities Market Development Project, the Corporate Finance team's activities necessarily began tailing off in June. The team cannot undertake new consulting projects with the promise of seeing them through to the end; therefore, team members have virtually stopped recruitment efforts and are concentrating only on existing corporate clients.

The team did meet with one potential new client, Yuzhnaya Stolitsa, a brewery in Almaty who is contemplating a bond issue in the fall, and had preliminary discussion with Atyraubalyk in Atyrau, a fish processor, concern the company's proposed shares issue.

The team also learned that AO Vita, the first corporate bond issuer in Kazakhstan, was in loan negotiations with ABN AMRO Bank. The loan negotiations are important in two respects. First, they indicate the willingness of banks to reenter the industrial corporate market. Banks may fear being disintermediated by the bond market and losing market. Second, that ABN AMRO is interested in making a loan to Vita illustrates that former bond issuers who redeem their issues make good bank clients.

Meanwhile, bond issuance on the KASE continued apace. The two major issues registered in June were KEGOC's \$2.5 million 90-day bill and Temir Zholi's \$15.0 million one-year issue. The latter is the largest non-bank issue to-date in Kazakhstan. And Kazakhstan's fourth municipal issue appeared: Atyrau oblast registered issuance of a 650 million tenge, one year security.

Regarding the Social Obligation Bond (SOB), David Lucterhand and Steve Moody traveled to Atyrau for meetings with officials of the akimat and local representatives of TCO and OKIOC, to make a Powerpoint presentation on the Social Obligations Bond, and to participate in a day-long seminar on bond issuance for akimat officials and local corporation management. Mr. Lucterhand and Mr. Moody also made short speeches to economists of the graduating class of Atyrau University. Earlier in the month, a presentation was made to the Oil and Gas working group hosted by the U.S. Embassy and chaired by DCM Purnell. The presentation was well received and industry understanding increased by on the Q&A which followed.

In the akimat, the Pragma team met Deputy Akim for Economic Affairs Palymbetov as well as Yerkhat Iskaliev, the chief of the akimat Economics Department. In addition to the SOB, Mr. Iskaliev has shown a great deal of interest in developing a mortgage program in Atyrau.

About twenty-five oil company representatives and members of the akimat attended the

SOB presentation, which Mr. Moody had delivered in May in Astana. There were many questions after the presentation - primarily questions concerning the legality of the structure of the bond, the issue of whether or not the proceeds would count under the limitations imposed on local borrowing by current law, and the legality of akimats paying a portion of the interest to bondholders.

After the meeting, Mr. Moody met with Matthew Bateson of OKIOC. Mr. Bateson expressed some skepticism about the SOB, but asked to be kept informed of developments.

Later, Mr. Lucterhand and Mr. Moody met with Maria Karazhigitova, Manager of Government and Public Relations at Tengizchevroil (TCO). Mrs. Karazhigitova show great

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enthusiasm for the SOB, and agreed to put us in contract with the new General Manager, Tom Waterton, upon his return to Atyrau from vacation.

Regarding the mortgage-backed security for the Lariba Bank issue, structuring activities continued throughout the month. For virtually the entire month of June, Pragma waited for Hong Kong Shanghai Bank's London credit committee to make a decision on the proposed \$1.0 million three-year guarantee of the Lariba Bank mortgage-backed security. In the end, HSBC declined.

Pragma, meanwhile, investigated alternative mechanisms to that of guarantor, including the use of a Special Purpose Vehicle. Pragma has considered the eventuality that none of the international banks in Almaty is willing to act as guarantor, and prepared alternative strategies. One of those strategies is to have CAAEF act as guarantor. In connection with a \$2.0 million, seven year credit facility, CAAEF has already performed due diligence at Lariba; the loan facility has been approved by CAAEF's credit committee and board. The outstanding question is whether USAID will issue authority to CAAEF to undertake a three year commitment since the DCA guarantee and CAAEF are both funded by USAID.

Our information technology (IT) group continued its work in designing reports for the NSC on the pension fund activity in coordination with IMCC Pension Reform Project. Work also continued in developing user friendly technical manuals for persons needing to use the eight data bases at the NSC and the KASE designed by the IT group in preparation for NSC review.

Lastly, the head of the State Property and Privatization Committee Maksutbek Rakhanov stated that privatization, especially blue chip, has precipitously slowed since the Government was looking for strategic investors. Moreover, the committee was saddled with not knowing what the Government actually owned. Until that could be determined, privatization would be delayed.

Task 1 - Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	All of the following are being reviewed by the NSC for possible implementation or amendment to existing regulations: <ul style="list-style-type: none">1) <i>Licensing Regulation</i>2) <i>Draft Rule on Ratings for Pension-Eligible Securities</i>3) <i>Draft Share prospectus</i>4) <i>Draft Law on Bonds</i>5) <i>Municipal Bond Eligibility Criteria</i> To date, we have received no further requests or comments regarding what was submitted. Meetings held with Scott Newton (Drafting Institute) to determine next steps in adoption of a comprehensive bond law to remedy deficiencies in the civil code impeding the use of trusts in bond issuance. (Steve, something about Mirgul's efforts here)

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Defined Activity	Progress Made During the Month
2. Assist in establishing enforcement power of NSC.	No new developments. Pragma has submitted its plan to the NSC for an enforcement division. The plan mainly involves re-arranging existing NSC employees with the main cost being the recruitment of an outside experienced prosecutor. This plan is under consideration by the NSC.
3. Assist NSC in moving off-exchange trading to KASE.	Illegal (off-exchange trading done through a broker-dealer for more than fifty shares) continues to be minimal. To date, we have informal information that approximately \$320 million in share registrations took place in 1999. However, the NSC has stated that it is categorically opposed to requiring all shares traded to be done through the KASE. Therefore, we continue to emphasize price discovery by increasing the number of displayed bids and asks and not just using the KASE for price reporting of previously negotiated trades. An accurate picture of legal off-exchange trading would be greatly enhanced through the use of a central registrar.
4. Establish NSC Data Warehouse/Trade Reporting System.	<p>The Technological Support Group continued its ongoing work with the NSC. During the month the Group:</p> <p><i>Continued working with the reporting system of pension asset managers by:</i></p> <ul style="list-style-type: none"> • Problems regarding the transmission of pricing information to custodian banks provided by the mark to market committee organized by the NSC were resolved. • Collaborated with members of the pension reform project to determine the most efficacious way to create a Joint Information Center that would consolidate all pension fund reporting to the NSC. Made recommendations re: the software and platform to be used - subject to price review. <p><i>Other Activities included:</i></p> <ul style="list-style-type: none"> • Continuing efforts to elaborate technical documentation for all software databases and products designed by Pragma. This is being done to allow the systems to be self-sustaining when used by NSC upon the expiration of our project. • Four data bases were created for the NSC external web site to display in real time non-confidential NSC information: normative and legal documents, registration of issues, licenses, and certificates of qualification.

Task 2 - Blue Chip Privatization

Defined Activity	Progress Made During the Month
1. Assist and monitor the privatization of state owned shares.	<ul style="list-style-type: none"> • Privatization has stopped according to statements made by State Property and Privatization Committee head, Maksutbek Rakhonov. This is caused by the Government not knowing what it, in fact, owns. Any further blue chip privatization is likely to occur through strategic investment not portfolio investors.
2. Assist and involve Broker/Dealers in working w/GOK	<ul style="list-style-type: none"> • The role of the Exchange and BDs in implementing privatization continues to remain limited at this juncture.

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Defined Activity	Progress Made During the Month
privatization.	
3. Advocate share listings of blue chip companies w/KASE.	<ul style="list-style-type: none"> This initiative needs to be resolved at the inter-governmental level based on statements made by committee head for privatization Rakhanov.

Task 3 - Development of the Markets

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	<p>The team continued to advise regionally-based companies and Almaty-based companies for listing on the Exchange:</p> <ul style="list-style-type: none"> Protocol of Intention signed with Atyrau Riba. Pragma continued its work with Too Randi D.C., AO PRG Bottlers, Too Renata, and Temir Bank all of which plan issues before the end of the year.
	<ul style="list-style-type: none"> Pragma continued its work with VITA Company for the issue of bonds in the amount of \$350,000 with a circulation term of four months. Work continues on completing the investment memorandum. Vita selected KPMG and we are monitoring this audit relationship closely as the audit must first be completed before bonds can be issued. The audit was completed in June and preparations are underway for issuance Kazakhstan Temir Zholy listed 'A' KEGOC listed 'A'. Halak Savings Bank bonds listed 'A'. Borley de-listed 'B'.* Ural-Poliplast de-listed 'B'.* As of 30 June, 2000, 48 issuers were listed on the Exchange, with 68 issues. 13 "A" listings with 18 issues. 8 "B" listings with 17 issues 27 OTC I & II with 25 issues (2 OTC I issuers with 2 issues) and 25 OTC-II issuers with 31 issues.) 48 issuers in total with 68 issues. Nine new issuers listed for the month; one "A", one "B" and seven OTC II.** <p>(ASK VLADIMIR)</p> <p>* De-listing occurs when there are no bids and/or asks within the preceding ninety days.</p> <p>** These numbers exclude companies placed by the CSPP.</p>

Task 4 – Continued Assistance to KASE and the Central Depository

Defined Activity	Discussion of Progress Made During the Month
1.Support KASE in	<ul style="list-style-type: none"> Adoption of SRO normative documents postponed pending transfer of oversight

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Defined Activity	Discussion of Progress Made During the Month
accepting the SRO responsibilities of the Association of Broker/Dealers (ABD)	authority from the NSC. This is in response to discussions with NSC Chairman Joldasbekov.
2. Assist KASE to finalize rules for market-makers/work in conjunction with Broker-Dealers.	<ul style="list-style-type: none"> • Pragma continues to focus the attention of the KASE on the need for market-makers in order to increase trade volumes. As of June 23, all 'A' listed issues had market-makers. • Current Market-Makers include: KazKommertz Securities for Almaty Kus bonds and common stock; KazKommerts Securities for KKB Bonds; Turan Alem Securities for Turan Alem Bank stock, KIB Asset Management for Bank CenterCredit, Taskaba Asset Management for Komir Bank, (ASK VLADIMIR)
3 . Improve broker-dealers operational efficiency and transparency.	<ul style="list-style-type: none"> • Last March, Pragma submitted recommendations to the NSC for increasing quoting and trading on the KASE. As of June, there are 13 bids and asks regularly displayed.
4. Provide assistance to the Central Depository (CD).	<ul style="list-style-type: none"> • A manual describing how to use the Romanian software developed by Pragma for clearing and registrars was translated into Russian and delivered to the CD. It is currently being reviewed by CD staff after which a decision is expected as to whether the CD would like to use the software. The Central Depository continues to be silent regarding its interest in using this software.

Task 5 - Other Activities: Creation of New Financial Products

Defined Activity	Progress Made During the Month
<p>Develop alternative product for Pension Funds (and other institutional investors)</p>	<p><i>Securitization of Social Obligations name changed to Social Obligation Bond (SOB)</i></p> <ul style="list-style-type: none"> • Working group formed by State Investment Agency to select pilot project in Mangystau for SOB. Preparation is underway for a tentative meeting date set for the last week in June. • Comments received from ministries on impediments to execution of SOB are being studied in response to the issues raised. • Completed preparations and power point presentation in Russian for a briefing of Atyrau akimat officials on the SOB. Other meetings are planned with relevant oil companies including OKIOC and Chevron (TCO). • Preparations are underway to prepare a presentation on SOB's for the Oil and Gas Working Group, June 8. <p><i>Mortgage Backed Bond-Lariba Bank</i></p> <ul style="list-style-type: none"> • Search for guarantor continues after Citibank declines to guarantee Lariba bank's issue. • CAAEF board approves guaranteeing mortgage bond issue (subject to USAID approval). We are waiting for the results of HSBC credit committee decisions. The main issue for HSBC is the length of the guarantee (three years). • Draft bond indenture now comports with Kazakh law. The Russian version is much shorter as Kazakh legal language is much less colorful than American legal language. The draft is now waiting for commentary from a potential guarantor. • A one year guarantee with an annual renewable option is one possible structure under development if a three year guarantee proves impossible. • The use of a Special Purpose Vehicle (SPV) is another. Discussions are underway to determine the strengths and weaknesses of this approach.



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Task 6- Miscellaneous

Misc. Topics	<ul style="list-style-type: none">Continued Assistance to Morgan Stanley Dean Witter (MDSW) by reviewing correspondence between MDSW and the National Bank as it applies to a long dated gold hedge product-tasked by Ambassador Richard Jones.

IV. ADMINISTRATIVE ISSUES

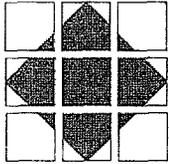
NONE

V. PROJECT STAFFING

The following personnel were engaged in project activities this month:

David Lucterhand, Chief of Party

Steve Moody, Senior Capital Markets Advisor (Absent June 13 - 26)



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Project
July/August Monthly and Final Report
(For the period ending August 21, 2000)

For the
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

GENERAL INFORMATION

PROJECT MANAGER	Mohammad Fatoorechie
TEAM LEADER	David Lucterhand
COTR USAID/CAR	Rick Gurley

ALMATY, KAZAKHSTAN

The Pragma Corporation
USAID Securities Market Development Project
July/August Monthly and Final Report
(For the period ending August 21, 2000)

I. EXECUTIVE SUMMARY

This report provides details on the events and activities summarized below, as well as other events and activities regarding the USAID Securities Market Development Project, as implemented by consultants for the Pragma Corporation ("the Pragma Team" or "Team"), for the months of July through August 21, 2000.

CITIBANK OF KAZAKHSTAN AGREES TO ACT AS GUARANTOR FOR 50% OF FACE VALUE OF LARIBA MORTGAGE BACKED BOND CONDITIONED ON DCA GUARANTEE

PRESENTATION ON SOB MADE TO KAZAKHSTAN PETROLEUM ASSOCIATION

ATYRAU AKIMAT SELECTS POTENTIAL PILOT PROJECTS FOR SOB

PRAGMA/USAID PREPARES ARTICLE ON FIXED-INCOME ACTIVITY IN KAZAKHSTAN FOR PUBLICATION

PRAGMA AND AGENCY FOR INVESTMENTS PLAN AUGUST MEETING OF SOB WORKING GROUP

August

DCA GURANTEE DOCUMENTS SUBMITTED TO CREDIT REVIEW COMMITTEE

SOB WORKING GROUP MEETS IN ASTANA AND COMPLETED SELECXTION OF SOCIAL PROJECTS

PAPER ON DEVELOPMENT OF A FIXED-INCOME MARKET IN KAZAKHSTAN SUBMITTED FOR PUBLICATION AND DISTRIBUTION AT OECD SPONSORED CONFERENCE IN KYRGYSTAN

DEVELOPMENT OF SECURITIES MARKET/KAZAKHSTAN PROJECT IS COMPLETED

II. PROJECT DESCRIPTION

The Pragma Team works with the National Securities Commission ("NSC"), the Kazakhstan Stock Exchange ("KASE"), broker-dealers and the Central Depository in developing Kazakhstan's securities market. To further these goals, the Pragma Team works under a recently signed MOU between USAID and the NSC. Pragma also works with KASE under the auspices of a 1998 Memorandum of Understanding which established the precedent and rules of engagement. While these MOUs have expired, Pragma and NSC continue to cooperate in accordance with the pre-existing agreements.

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In November 1998, recognizing the changes in circumstances since the Task Order was written, Rick Gurley, the COTR for the AID Mission, signed off on an Action Plan that set forth the priorities of the Project through its completion date. The priorities of the Project for this period are noted in the boxes below in section III. PROJECT UPDATE AND PROGRESS VERSUS ACTIVITIES IN THE ACTION PLAN

The project update for this monthly report will correspond to the activities set forth in the action plan described above.

Because of the short time remaining in the Securities Market Development Project, the team has not undertaken any new consulting projects; therefore, team members have are only concentrating only on existing corporate clients and outstanding issues.

Meanwhile, bond issuance on the KASE continued apace. Temir Zholi's \$15.0 million one-year issue was placed on the KASE on July 23. And Atyrau Oblast' issued its first municipal bond: A \$4.5 million one year issue.

Regarding the mortgage-backed security for the Lariba Bank issue, after declining to guarantee the full one million dollar face value of the issue for the full three-year term, Citibank of Kazakhstan did agree early July to guarantee fifty percent of the issue, provided the proposed DCA guarantee would inure to Citibank, so that the bank itself would effectively take no risk at all. While Citibank's proposal is not an ideal arrangement, it nonetheless provides a platform for further development and still fulfils the requirements of the KASE and the National Securities Commission that the bond be guaranteed by a major financial institution. Most important, given the deficiencies in pledge law, having a guarantor allows the bondholders to have a privileged position in the event of bankruptcy.

Mr. Lucterhand and Mr. Moody prepared a new term sheet for the proposed deal and met with the Chairman of Citibank of Kazakhstan to review the details. In August, while waiting for the Citibank response, review of the draft memorandum for consideration by DCA credit review board was finalized and submitted. Their decision is expected on or about September 1.

In connection with the Social Obligations Bond, Mr. Moody traveled again to Atyrau for meetings with Mr. Isakiev, Head of the Economics Department of Atyrau Akimat, to select two potential social infrastructure projects. After lengthy meetings in the akimat, during which some twenty-seven different projects were review, Mr. Moody and Mr. Isakiev decided on two potential projects: 1) a \$4.5 million project to install 37 water purification units through the oblast; and 2) a \$6.0 million project to repair and repave sections of a major highway running through the Tengiz region of the oblast. The two projects will be presented at the proposed meeting of the SOB Working Group in August in Astana.

While in Atyrau, Mr. Moody also met with the new General Director of Tengizchevroil, Mr. Tom Winterton. The meeting was cordial, and Mr. Winterton showed a great deal of interest in the SOB project. While he could not commit to the SOB project at its current stage of development, he agreed to cooperate in its development.

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Returning to Almaty, Mr. Moody also met with Mr. Matt Bateson, representative of OKIOK charged with following development of the SOB project. Mr. Bateson show a great deal more enthusiasm for the project than he had in earlier meetings in Atyrau, and asked to be kept informed of its development. On July 22, Mr. Moody made a presentation of the SOB project at the Kazakhstan Petroleum Association's monthly lunch. Some twenty-five oil company representatives attended.

Mr. Moody also flew to Astana for a meeting with the Agency for Investments. The purpose of the meeting was to organize the first meeting of the SOB Working Group. Mr. Erken Shardarbekov, with whom Mr. Moody met, is new to the project, and much of the meeting involved a review of the concepts behind the SOB and some the financial mechanisms involved. Mr. Shardarbekov and Mr. Moody tentatively agreed that the date for the Working Group meeting would be August 10.

During the August 10 Working Group meeting, which was attended by representatives of interested ministries and by representatives from the akimats of Atyrau and Aqtau, agreement was reached on the social projects which would be funded from the proceeds of a SOB issue. Drafting of an agreement between the oil companies and the akimats detailing the terms of the issue, administration of the proceeds and description of the duties of relevant parties to the transaction is underway.

Lastly, a paper was written by the Chief of Party, David Lucterhand and Senior Advisor Stephen Moody that describes the development of a debt securities market in Kazakhstan. The paper was completed for inclusion in a publication that would be distributed mid-September at a financial conference sponsored by the OECD in Kyrgyzstan.

During a period of twenty months, The Development of Securities Market/Kazakhstan project completed its activities by leaving in place a securities market infrastructure fully capable of supporting continued growth; and a functioning bond market characterized by increasing volume, lengthening maturities, and declining rates. Further, the project began development several new products: a mortgage-backed security and social obligation bond, in addition to corporate securities, to meet the need of institutional investors (mainly pension funds) for investment diversification.

Task 1 - Continued Assistance to the NSC

Defined Activity	Progress Made During the Month
1. Draft regulations.	All of the following were submitted to the NSC for possible implementation or amendment to existing regulations: <ol style="list-style-type: none">1) <i>Licensing Regulation</i>2) <i>Draft Rule on Ratings for Pension-Eligible Securities</i>3) <i>Draft Share prospectus</i>4) <i>Draft Law on Bonds</i>5) <i>Municipal Bond Eligibility Criteria</i> To date, we have received no further requests or comments regarding what was submitted.

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Defined Activity	Progress Made During the Month
(continued)	Prior to the conclusion of the project, a second copy of the draft bond law was submitted to the NSC for consideration.
2. Assist in establishing enforcement power of NSC.	No new developments. Pragma has submitted its plan to the NSC for an enforcement division. The plan mainly involves re-arranging existing NSC employees with the main cost being the recruitment of an outside experienced prosecutor. At the conclusion of the project, no further action had been taken.
3. Assist NSC in moving off-exchange trading to KASE.	<p>Illegal (off-exchange trading done through a broker-dealer for more than fifty shares) continues to be minimal. To date, we have informal information that approximately \$320 million in share registrations took place in 1999. However, the NSC has stated that it is categorically opposed to requiring all shares traded to be done through the KASE.</p> <p>Therefore, we continued to emphasize price discovery by increasing the number of displayed bids and asks and not just using the KASE for price reporting of previously negotiated trades. An accurate picture of legal off-exchange trading would be greatly enhanced through the use of a central registrar. We did succeed in getting the KASE to require that all "A" listed securities require a market maker.</p>
4. Establish NSC Data Warehouse/Trade Reporting System.	<p>The Technological Support Group continued its ongoing work with the NSC. During the month the Group:</p> <p><i>Continued working with the reporting system of pension asset managers by:</i></p> <ul style="list-style-type: none"> • Collaborated with members of the pension reform project to determine the most efficacious way to create a Joint Information Center that would consolidate all pension fund reporting to the NSC and continued work in this area. <p><i>Other Activities included:</i></p> <ul style="list-style-type: none"> • Concluded efforts to elaborate technical documentation for all software databases and products designed by Pragma. This was done to allow the systems to be self-sustaining when used by NSC upon the expiration of our project.

Task 2 - Blue Chip Privatization

Defined Activity	Progress Made During the Month
1. Assist and monitor the privatization of state owned shares.	<ul style="list-style-type: none"> • Privatization has stopped according to statements made by State Property and Privatization Committee head, Maksutbek Rakhanov. This is caused by the Government not knowing what it, in fact, owns. Any further blue chip privatization is likely to occur through strategic investment not portfolio investors. The status remained the same at the end of the project.
2. Assist and involve Broker/Dealers in working w/GOK	<ul style="list-style-type: none"> • The role of the Exchange and BDs in implementing privatization remained marginal.

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Defined Activity	Progress Made During the Month
privatization.	
3. Advocate share listings of blue chip companies w/KASE.	<ul style="list-style-type: none"> This initiative needs to be resolved at the inter-governmental level based on statements made by committee head for privatization Rakhanov. At the conclusion of the Project, status was unchanged.

Task 3 - Development of the Markets

Defined Activity	Progress Made During the Month
1. Encourage companies to list on KASE.	<p>The team continued to advise regionally-based companies and Almaty-based companies for listing on the Exchange:</p> <ul style="list-style-type: none"> Pragma continued its work with Too Randi D.C., AO PRG Bottlers, Too Renata, Temir Bank, and Vita Corporation all, of which, plan issues before the end of the year. All issuers were aware that assistance would be limited due to expiration of the project.
	<ul style="list-style-type: none"> Temir Bank Bond issue listed 'A' As of mid-August, 2000, 49 issuers were listed on the Exchange, with 70 issues. 13 "A" listings with 22 issues. 8 "B" listings with 13 issues 28 OTC I & II with 35 issues (1 OTC I issuers with 1 issue) and 27 OTC-II issuers with 34 issues.) 49 issuers in total with 70 issues. One new issue listed "A" for the month.

Task 4 – Continued Assistance to KASE and the Central Depository

Defined Activity	Discussion of Progress Made During the Month
1. Support KASE in accepting the SRO responsibilities of the Association of Broker/Dealers (ABD)	<ul style="list-style-type: none"> Adoption of SRO normative documents postponed pending transfer of oversight authority from the NSC. This is in response to discussions with NSC Chairman Joldasbekov. No further action had occurred by the close of the project.
2. Assist KASE to finalize rules for market-makers/work in conjunction with Broker-Dealers.	<ul style="list-style-type: none"> Pragma continues to focus the attention of the KASE on the need for market makers in order to increase trade volumes. As of August 21, 19 'A' listed issues had market makers. Current Market-Makers include: KazKommertz Securities for ten issues; KazKommertz Bank for one issue; Turan Alem Securities for Turan Alem Bank for two issues, KIB Asset Management for one issue, Taskaba Asset Management for one

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Defined Activity	Discussion of Progress Made During the Month
	issue, Fondovy Service for two issues, and KBS securities for two issues.
3. Improve broker-dealers operational efficiency and transparency.	<ul style="list-style-type: none"> At the end of the project, seven market-makers were making markets in 19 issues.
4. Provide assistance to the Central Depository (CD).	<ul style="list-style-type: none"> A manual describing how to use the Romanian software developed by Pragma for clearing and registrars was translated into Russian and delivered to the CD and USAID/CAR. By the end of the project, no further action had been taken by the CD.

Task 5 - Other Activities: Creation of New Financial Products

Defined Activity	Progress Made During the Month
Develop alternative product for Pension Funds (and other institutional investors)	<p><i>Social Obligation Bond (SOB)</i></p> <ul style="list-style-type: none"> Presentation made to members of the Kazakhstan Petroleum Association about the SOB and the financial benefits which inure to oil companies operating in Kazakhstan. SOB working group met in Astana with participation from Atyrau and Aqtau oblasts to select appropriate social projects to be funded from SOB proceeds. <p><i>Mortgage Backed Bond-Lariba Bank</i></p> <ul style="list-style-type: none"> Citibank agrees to act as guarantor subject to USAID guaranteeing their 50% exposure. HSBC, Kazakhstan, declines to provide a three year guarantee for MBS citing London risk restraints. Draft mortgage bond indenture completed. At the end of the project, a draft of the indenture was ready for commentary from a potential guarantor. DCA credit review Committee is expected to render a decision by the end of August on issuing a 50% guarantee for the Lariba Bank mortgage-backed issue.

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Task 6- Miscellaneous

Misc. Topics	<ul style="list-style-type: none">Continued Assistance to Morgan Stanley Dean Witter (MDSW) by reviewing correspondence between MDSW and the National Bank as it applies to a long dated gold hedge product-tasked by Ambassador Richard Jones. This action continued through August until the project's close.
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IV. ADMINISTRATIVE ISSUES

Final Disposition Plan

V. PROJECT STAFFING

The following personnel were engaged in project activities this month:

David Lucterhand, Chief of Party (Absent July 8-July 25)

Steve Moody, Senior Capital Markets Advisor