



**USAID** | **KAZAKHSTAN**  
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APRIL – JUNE 2009

# Quarterly Report



## ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

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### **Significant issues affecting implementation:**

- Successful implementation of the IRDS will depend on the ability of the Banking Supervision Department, Strategy and Analysis Department and IT Department of the FSA to coordinate and sequence their activities and fully cooperate with each other during the implementation process. The implementing team brought these issues several times to the attention of senior management and received promises of full cooperation. An implementation work group was set up including members of all three participating departments and channels of communications were established within the middle management structure to facilitate efficient problem solving mechanisms.

### Significant meetings with counterparts & donors:

- Kuandyk Bishimbaev, Head of Socioeconomic monitoring unit, President's Administration (PA)
- Zhanybek Iskakov, Deputy Head of Socioeconomic monitoring unit, PA
- Arystan Kabykenov, Head of Socioeconomic policy monitoring sector, Socioeconomic monitoring unit, PA
- Ildar Sagiev, consultant, Socioeconomic monitoring unit, PA
- Yerlan Turlybekov, member of the Accounts Committee
- Nataliya Kumarova, expert of the Methodology Department of the Accounts Committee
- Bolat Zhamishev, Minister of finance
- Berik Sholpankulov, Vice Minister of Finance, head of the Working group on the issues of IPSAS adoption
- Zhamilia Aitzhanova, Director, Accounting and Audit Development Department (AD), Ministry of Finance
- Zaifun Ernazarova, AD Deputy Director, MoF
- Anar Kaimoldinova, Head of Public Accounting and Financial Reporting Development Unit (PAFRU), MoF
- Bakhyt Altaeva, senior expert, PAFRU, MoF
- Laylim Kashimova, senior expert, PAFRU, MoF
- Ruslana Isshanova, Head, Accounting unit of the Treasury Committee of the Ministry of Finance
- Marina Gordina, senior expert – senior treasurer of the Accounting unit of the Treasury committee, MoF
- Kaynylkhatat Rakhaeva, senior expert, senior treasurer of the Accounting unit of the Treasury committee, MoF
- Iskander Absaliamov, President of JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies”
- Olga Naimushina, Vice president JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies”
- Dina Kalieva, Director, Methodology Department, JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies”
- Anuar Karybaev, Director, Corporate Development Department, JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies”

- Alima Bekenova, Chairman of the examination system committee, JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies”
- Assia Uskenbaeva, Head of the training and methodological unit, Department for interaction with the Ministry of Finance and other state bodies
- Dina Shazhenova, Permanent Secretary, Ministry of Economy and Budget Planning (MEBP)
- Akbota Kurmanbaeva, Head of the Department of State Management System Development, MEBP
- Svetlana Moldagulova, Division Head, Department of State Management System Development, MEBP
- Nuriya Adykanova, Director of the Department of the Social Sphere Development, MEBP
- Bolat Sadykov, Permanent Secretary, Ministry of Health
- Bolat Tokezhanov, Deputy Director of the Department of Economy and Finance, Ministry of Health
- Serik Irsaliev, Director of the Department of Development Strategy, Ministry of Education
- Gabit Shaikin, Division Head, Department of Investment Policy and Planning, MEBP
- Zere Seidimbek, Deputy Chairman, Kazakhstan Public-Private Partnership Center
- Yerlan Khassenov, Taxpayers’ Services Department Head
- Alyona Gerun, IT Department Head
- Aidar Mikibekov, Audit Department Head
- Marat Zhexembin, International Taxation Department Head
- Yerzhan Birzhanov, Tax Committee Development and Modernization Department Head
- Zhanat Kozhakhmetov, Deputy Chairman, Competition Protection Agency
- Oxana Bassalayeva, Acting Strategic Department Director, Competition Protection Agency
- Nikolay Pichkarev, Commodity Markets Monitoring and Analysis Department Head, Competition Protection Agency
- Aliya Sexembayeva, Financial Markets Monitoring and Analysis Department Head, Competition Protection Agency
- Aldash Aitzhanov, Antimonopoly Legislation Violation Detection and Prevention Department Head, Competition Protection Agency
- Dinara Ashumenova, Legal Department Head, Competition Protection Agency
- Viktor Ivanov – CPA Center on Competition Policy Development and Advocacy
- Daniyar Akishev, Deputy Governor of the National Bank of Kazakhstan (NBK)
- Gulfairus Shaikakova, Department Director, Research and Statistics Department (NBK)
- Salima Bazarova, Deputy Director of the Balance of Payments Department (NBK)
- Nurtai Shalgimbayeva, Chief Accountant, Accounting Department Director (NBK)
- Askar Abdugapirov, Deputy Director, Accounting Department (NBK)
- Yuri Martyushev, Personnel Department Director (NBK)
- Alina Aldambergen, Deputy Chairperson of the Financial Supervision Agency (FSA)
- Nurlan Abdrakhmanov, Director of Strategy and Analysis Department (FSA)
- Mukhtar Bubeyev, Director of Banking Supervision Department (FSA)
- Kanat Tusupov, IT Department Director (FSA)

- Gulnara Kirleyeva, Advisor to the Chairperson of the FSA
- Arman Beisenbinov, Director of Department for Supporting Agency Operations (FSA)

#### *A. Budget Development and Execution*

##### 1. Highlights & accomplished tasks/activities against the work plan

- EREC provided technical assistance to MEBP on public services specification and the use of service standards as a base for the introduction of results-oriented budget planning across all the sectors of Kazakhstan's economy. A comprehensive ROB implementation design framework through the use of a Model Standard of public service delivery, including the development and maintenance of a central data base for recording and tracking results of service delivery. The supporting methodological guidance for covering performance indicators and costing public services for the results-oriented budget planning were developed.
- The two ministries, Ministry of Education and Science (MOES) and Ministry of Health (MOH), chosen by MEBP as pilots for the implementation of the public services reform, were provided with intensive support in formulating their sector-specific public services and for linking them to the whole of government sector result-oriented strategic planning and budgeting concept. A number of awareness training sessions were conducted that highlighted the importance of effective management of the change process by line ministries. The training sessions involved 34 senior staff of the MOES and the MEBP.
- In line with the Public Investment Projects (PIP) Training Program agreed with MEBP's Department of Investment Policy and Planning, the first series of workshops to MEBP experts were delivered between April 16 and May 6. These workshops resulted in the increase ability of the attendees to use financial modeling and various other spreadsheet based tools to analyze standard PIP proposals. The use of the improved methodologies should result in improved recommendations being provided to the Budget Commission for funding PIPs. Several members of Kazakhstan's PPP Center, an entity under MEBP, also attended the training sessions.
- Following the PIP training held for MEBP experts, a meeting was arranged by the PPP Center's Deputy Chairman, Ms. Zere Seidimbek, to request advisory and training support both for PPP Center and other relevant state bodies. At the Center's request, the draft Concept of PPP Development in Kazakhstan was reviewed and a number of recommendations for the improvement of the Concept were provided.

##### 2. Future activities & events

- Continue supporting MEBP in implementing the reforms required under the new Budget Code and its other activities as per the agreed areas of EREC's technical assistance and their specific requests. This will include providing further practical assistance on the costing of government services and monitoring of results in the delivery of government services

- Deliver the second series of PIP workshops to strengthen appropriate line ministries capacity in practical use of the new rules for PIPs selection, monitoring and evaluation in line with the international best practice.

#### *B. IGF*

- No significant activities during the reporting period

#### *C. Tax Policy*

##### 1. Highlights & accomplished tasks/activities against the work plan

- In response to the Tax Committee's proposed initiative to launch five data processing and call-centers in Kazakhstan, EREC undertook research on international best practices on data collection and processing centers, and call-centers.
- EREC prepared a report on Audit Resource Management System (ARMS) for the Kazakhstan Tax Committee which allows selecting routine audits or sector specific audits using the activity classification code. ARMS is aimed to address the TC MOF's needs in implementing computerized audit systems.
- EREC proposed the *QMS AKIS* Queue Management System to provide satisfactory service and minimize waiting time and inconvenience for the taxpayers which is one of the main tasks of the proposed data centers to be launched by the TC MOF.

##### 2. Future activities & events

- EREC will continue its dialogue with the Tax Committee and the World Bank Tax Working Group to align activities and reach efficient collaboration within the framework of the 2010 WB Tax Modernization Project.

#### *D. Public Audit*

##### 1. Highlights & accomplished tasks/activities against the work plan

- The Accounts Committee for Control over Execution of the Republican Budget (Accounts Committee) and the EREC Project developed and signed a memorandum containing a Terms of Reference (TOR) to ensure efficient technical assistance and achieve expected results (signed by Chairman Omarkhan Oxikbaev on behalf of the Accounts Committee).
- The TOR covers a number of important activities through to April 2010. EREC will continue to provide assistance to independent external audit institutions (Accounts committee and Maslikhats' (i.e. regional) Revision Commissions to ensure capacity building through development of methodological documents and by delivering training in the most demanded audit areas for new employees of the Accounts Committee and Maslikhat Revision Commissions.

- In response to the Accounts Committee's request, EREC provided a paper containing information on World experience in establishing external audit at the local level. The summary was submitted for use at a meeting on the reform of Maslikhat Revision Commissions attended by Prime Minister Massimov.
- At the request of a Member of the Accounts Committee, Mr. Yerlan Turlybekov (a coordinator for the audit of the childhood and maternity protection program funded from the state budget), EREC prepared a compilation of materials that included: (1) international comparative statistical data, principal demographic and economic indicators, birthrate and mortality among children and mothers, morbidity and education indicators, etc.; and (2) major evaluation findings, performance audit findings and recommendations prepared by foreign SAIs that would have likely relevance to Kazakhstan from a government policy perspective.

## 2. Future activities & events

- EREC will deliver a workshop on the practical aspects of performance audit (July 20-24, 2009, Astana) to the new employees of the Accounts Committee and Maslikhats' Revision Commissions, the planned number of attendees is 30, including 15 from the regions.
- EREC will present the draft methodology for evaluation of strategic plans at the republican and local levels to the Department of Methodology and External Relations of the Accounts Committee.
- EREC will continue to provide ongoing assistance in relation to the creation of a Regional Center for Central Asian auditors, and provide information on the international practice in public audit covering specific topics, if requested by the Accounts Committee.

### *E. Parliament*

- No significant activities during the reporting period

### *F. Banking and Consolidated Supervision*

#### 1. Highlights & accomplished tasks/activities against the work plan

- On June 12, 2009 EREC team and USAID CTO, Ms. Golovatskaya met with the Deputy Chairperson of the FSA and Directors of FSA Departments to discuss the scope of new activities EREC propose to initiate with additional funding made available under PED. The activities included: replacement of BOSS system with Interactive Regulatory Data Solution (IRDS) system to enhance banking supervision in Kazakhstan, assistance in the area of accounting for financial instruments; strengthening the capacity for the regulation of the insurance Industry; building management capacity; and assistance in the area of licensing and liquidation of financial business entities. Areas for assistance were selected based on the letter from

the FSA which identified areas in which the Agency would like to receive technical assistance.

- Banking Supervision Department (BSD) requested that the project advisor continue to support the strengthening of the analytical capacity of its off-site staff through formal and on-the-job training for performing risk based analysis on the financial condition of individual banks and of the entire banking sector. The consultant delivered a three week course in intermediate CAEL risk based methodology and conducted several training sessions on Accounting Fundamentals for the Department staff.
- At the request of the BSD the EREC advisor conducted analysis of financial condition of 6 large and 2 medium size banks. The analysis provided an opportunity to deliver on-the-job training to analysts responsible for these institutions and to reinforce concepts discussed in the formal classroom training. Project advisor and the analysts met with the FSA senior management and reported on the bank's condition, emerging risks and designed supervisory strategy suitable for the current year. The project advisor also participated in several sessions of working groups responsible for consolidated supervision of banking conglomerates where analysts delivered presentation about their banks.
- The project advisor worked closely with the Department of Strategy and Analysis (DSA) responsible for validation of input reports in designing tighter controls and cross checks of incoming regulatory and prudential reports from the commercial banks. During analysis of financial condition of particular banks the project advisor identified mistakes and inconsistencies in banks' financial returns housed in the data base of the FSA. In order to improve quality of these returns and to provide the FSA with a better basis for stress testing, staff of the DSA together with the project advisor designed specific validation formulas for use in Early Warning System as well as the use of better analytical tools.
- Project advisor met with representatives of several major banks to discuss a wide range of supervisory, regulatory and accounting issues. In addition, banks' representatives requested several meetings with the project advisor to discuss provisioning for loans in foreign exchange, recognition of the revaluation of structured portion of the balance sheet, convergence of the IFRS and the FSA regulations regarding definition of base for calculating provisions and derivative accounting.
- Project advisor met regularly with senior management of the FSA to discuss legal and regulatory framework of the Kazakhstan banking industry, present and emerging risks and international best practices regarding capitalization, liquidity and risk management. The project advisor also reviewed all regulatory returns currently sent to the FSA and discussed with the management ways to eliminate duplications.
- Project advisor met with representatives of the NBK responsible for commercial banks' accounting rules to discuss treatment of derivatives, foreign exchange revaluation and its profit and loss recognition.
- EREC Team met with the NBK Chief Accountant to discuss the initiation of activities with the Accounting Department in response to the NBK request to provide advanced training in accounting for financial instruments (IAS 32 and 39).

- EREC Team met with the NBK Director of Personnel Department and four of his staff to discuss NBK particular needs with regard to the requested by the NBK leadership training.
- EREC Team met with the FSA Director of Department for Supporting Agency Operations who is in charge of HR issues at the Agency, to identify areas in which the Department would like to have assistance and discuss leadership training programs the project can deliver to the FSA staff.

## 2. Future activities & events

- The Project advisor plans to return to the FSA to test input and output reports for the IRDS during the fall of 2009.
- Banking Supervision Department has requested additional support in analysis, accounting and banking risk recognition and management for newly hired analysts and on-site inspectors. Although staff retention issues seemed to have been solved, the most recently hired employees require additional training in order to be able to assume full responsibility for complex banking institutions in time of the crisis.
- Strategy and Analysis Department has requested more extensive support in the area of consolidated supervision, and asked for a possibility to find a consultant with the relevant practical experience.
- EREC will initiate IRDS implementation to replace current BOSS system in July by bringing a team of experts to conduct requirements analysis and to produce System Requirements Specifications for IRDS to be submitted to the FSA.
- EREC will develop its high-level proposal on leadership training for the staff of the National Bank and Financial Supervision Agency, and submit it to the designated staff in both institutions for consideration. EREC's advisor will arrive in Almaty in July to discuss in more detail the content and the structure of the training program.
- EREC IFRS expert will visit the NBK Accounting Department and FSA to elaborate specific training program on accounting for financial instruments for both NBK and FSA staff.

### G. Monetary Policy

#### 1. Highlights & accomplished tasks/activities against the work plan

- On May 25 – June 05, 2009 a workshop *Applied Econometrics and Introduction to EViews* was conducted to the twenty two persons from the National Bank and three from the Financial Supervision Agency. Deputy Governor of the NBK Mr. Akishev was supportive of the on-going training. It was agreed that it is necessary to hold evaluation and examination of the participants at the conclusion of the workshop in the fall.
- In addition to the scheduled workshop project advisor met individually with four of the participants – two staff members of the NBK Research and Statistics Department, and

two from the NBK Balance of Payments Department, to discuss at length their research and econometric problems they faced.

- Deputy Governor Akishev and the Project Advisor discussed general performance of the Kazakhstan economy and new monetary policy options. Governor Marchenko asked the Research Department to examine alternatives to a hard dollar peg such as a commodity basket peg or an oil price peg as they more gradually move to a flexible exchange rate.
- At the meeting with the newly appointed Director of Research and Statistics Department the advisor discussed the training and previous work on modeling, constructing the small macroeconometric model, and forecasting challenges. The department is committed to continue these efforts.
- A meeting with the Director of Balance of Payments Department focused on estimating US dollar cash holdings of the population. Because the Kazakhstan economy is partially dollarized it is of critical importance to have an accurate measure of the amount of dollars in circulation when conducting monetary policy. The NBK has good measures of dollar deposits, but actual dollar cash in circulation is difficult to measure. Governor Marchenko asked this department to attempt to estimate dollars in cash in circulation. (He rejected the results of a previous study by the National Analytical Center). The best way to measure dollars in the hands of the public is by surveying a subset of the population. The process may be very sophisticated, e.g., stratifying the population by income, savings and/or wealth and then surveying each stratum in detail. Once a baseline measure is obtained the Department can use international currency flows to revise the estimates on a quarterly data.

## 2. Future activities & events

- In October 2009, the project advisor, Dr Kemme, will return to continue to train the current group in EViews, and to deliver another program to advanced staff of the National Bank.
- EREC may receive a request from the NBK for additional technical assistance for policy memorandum to address the issues of moving away from the hard dollar peg.
- EREC will look into possibility to address the inquiry of the Director of Balance of Payments Department to provide technical assistance in designing and implementing a project aimed at estimating dollars in cash in circulation.

### *H. Competition Policy*

#### 1. Highlights & accomplished tasks/activities against the work plan

- EREC conducted needs assessment of the Competition Protection Agency, and drafted Action plan to cover CPA training needs and competition advocacy issues (PR policy). The draft Action Plan was sent to the CPA to receive comments and feedback. The Action Plan is expected to be finalized during the July 2009 mission of EREC advisor, Mr De Leon.

- The project advisor prepared a report on delegation of competences and responsibilities between two sector regulators: CPA and the RoK Agency on Regulation of Natural Monopolies (ARNM) as per CPA's request.

## 2. Future activities & events

- The project will undertake a comparative analysis of training programs by three major donor organizations: World Bank, European Commission, and USAID in order to exclude duplication of donor efforts;
- The project advisor will conduct a series of working meetings on State Aids to assess the current situation and provide best international practice on State Aids
- The project will provide advice to the CPA on its international development perspectives in collaboration with such international competition organizations as ICN and OECD Competition Committee

### *1. Implementation of International Public Sector Accounting Standards (IPSAS)*

#### 1. Highlights & accomplished tasks/activities against the work plan

- The Project has developed a transition plan for the activities/measures required to introduce IPSAS accrual based reporting in state institutions based on IFAC guidance. In particular, a suggestion was made (later supported by Ministry senior officials) to establish a Steering Committee comprising Finance Ministry officials and representatives of EREC and Accounts committee (in order to resolve contentious issues arising in the practical implementation of international standards in state institutions). The Project assumed the role of a coordinator with regard to IPSAS implementation activities and that of a developer of training materials for the accountants of state institutions, including trainers' training.
- A schedule for the Working Group's activities, as well as a technical specification for a company to be engaged as developer of the principal documents (chart of accounts, accounting policy, financial reporting forms, etc.), was drafted and provided to the Ministry of Finance (MOF).
- A number of meetings were held with the members of the Working Group and the Heads of Units within the MOF and the training Center, with presentations on the transition to IPSAS based accrual accounting provided.
- An Action Plan was developed for the transition to IPSAS compliant accrual-based accounting. There was a clear separation of functions fulfilled by those participating in IPSAS implementation in state institutions: MOF's Accounting Department, the Training Center, Working Group (consisting of representatives of all central government bodies) and EREC. The Action plan was signed by Berik Sholpankulov, on behalf of the Finance Ministry, and Bruce Reid, COP on behalf of EREC.

According to the Action Plan EREC's key activities are: quality review of documents prepared by the Center (the new chart of accounts, accounting policies,

reporting forms, model accounting transactions, rules for financial consolidation, etc.) prior to their presentation to the MOF, delivery of a number of training courses to the MOF, as well development of materials for trainers' training, etc.

- EREC provided the MOF Accounting Department a Russian translation of IFAC Guidelines on transition to accrual accounting in governments and state institutions.
- A Round Table was held with the Finance Minister, heads of all Ministry units and representatives of all central government bodies and the Center, involving mass media. Its agenda concerned the improvement of accounting and financial reporting in state institutions. Finance Minister Bolat Zhamishev and EREC CoP Bruce Reid made opening speeches. EREC advisor Mark Fielding Pritchard (topic: Specifics of the accrual method. World experience in moving to accrual-based international standards: problems and best practices) and AD Director Zhamilia Aitzhanova (topic: Improving accounting and financial reporting in state institutions) were the main presenters. A press release on this Round table is posted on the official web-site of the Finance Ministry.
- A two day training workshop was provided to the MOF and some Working Group members (total number of attendees – 19, of which 14 are from line ministries). Module 1: Review of compliance of the existing accounting practices in state institutions with IPSAS requirements. Module 2: Introduction to the methods of asset evaluation in the context of IPSAS implementation. A press release on this training is posted on the official web-site of the Finance Ministry
- In response to a request from the representatives of the MOF the project prepared: a paper containing brief information on the principal methods of asset evaluation, a “control sheet” for Ministry officials to help them monitor and evaluate the Center’s work on the development of draft documents.

## 2. Future activities & events

- In the 3<sup>rd</sup> Q of the current year, as per the signed Action Plan on transition to accrual-based IPSAS, the following activities will be carried out:
  - Training on implementation of the new Chart of accounts
  - Quality review of the new Chart of accounts
  - Training on the transition to the new Chart of accounts
  - Training on accounting transactions
  - Training on accounting policies
  - Training on financial statements

### *J. Insurance Reform*

## 1. Highlights & accomplished tasks/activities against the work plan

- No significant activities during reporting period

## 2. Future activities & events

- In the 3<sup>rd</sup> Quarter of 2009 EREC expects to commence work with the FSA on the implementation of Solvency II insurance regulatory requirements, including regulating life insurance, investment activities, re-insurance business of insurance organizations and regulating insurance intermediaries and appraisers (insurance agents, insurance brokers, and adjusters) and regulating actuarial business and licensing.

#### *K. President's Administration*

##### 1. Highlights & accomplished tasks/activities against the work plan

- Upon request from the Socio-economic Monitoring Unit of the President's Administration EREC consultants met the head and other officers of the unit. A number of pressing issues we discussed at the meeting, including: budget management in crisis conditions, and management of the national oil fund.
- In response to requests for information on international practices in budgeting, planning and selection of public investment projects on the basis of prioritization, a compilation of materials was prepared, including the following:
  - Australian experience: New Policy Proposals
  - UK experience: Public Expenditure Planning and Control
  - New Zealand experience: Initiative phase in budget process for 2008-2009
  - As well as articles by experts: Improving Success in Public Investment Projects, Strengthening Public Investment and managing fiscal risk from Public-Private Partnerships, etc.
- EREC prepared a report containing a comparative analysis of funds similar to the National Fund of the Republic of Kazakhstan. The report included: a global review of existing Sovereign Welfare Funds; specifics of SWF creation, management, investment strategies and supervision (Norway, Alaska, Singapore, New Zealand and Australia); and a number of recommendations on ways to further increase the transparency and efficiency of Kazakhstan's SWF management. The report was sent to the Socio-economic monitoring unit of the President's Administration.