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FROM THE AMERICAN PEOPLE

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ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

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Significant issues affecting implementation:

- In February 2010, EREC Project facilitated a demonstration of the UBMatrix software to enable the FSA to assess the functional capabilities of this Interactive Regulatory Data System (IRDS) application against the agency's specific requirements contained in the draft System Requirements Specification (SRS) documentation. The FSA provided a response in March 2010 to advise that it had decided not to proceed with the replacement of the existing Banking Supervision Surveillance System (BOSS) with the demonstrated IRDS solution and would prefer that the funds be used to provide additional technical assistance to strengthen consolidated supervision.
- In respect the FSA's disability study there was no Kazakhstan data on disabled mortality rates above age 62 required for completing the interim mortality tables for disabled persons tables, therefore the mortality table to age 111 was based on US Social Security Disabled Mortality Rates.
- Applying accrual-based IPSAS into the Government Accounting Sector in Kazakhstan is a complex and long-term task requiring significant resources and high level government commitment to produce accurate, reliable and relevant financial statements. The MOF still needs to enhance its project management capacity by preparing a 4 year transition plan that includes IT, training and communication strategies and use professionally competent local accountants/firms.

Significant meetings with counterparts & donors:

- Yerlan Khassenov, Tax Committee, Taxpayers Services Unit Head
- Alyona Gerun, Tax Committee, IT Unit Head
- Aliya Ospanova, Tax Authority Development and Modernization Unit Expert, TC
- Aissulu Burambayeva, Tax Legislation Improvement and Clarification Unit Head, TC
- Botakanova Tolganai, Deputy Chairperson, TC
- Yerzhan Birzhanov, Tax Authority Development and Modernization Unit Head TC

- Vera Knyukh, Manager/Coordinator, National Analytical Center/MEBP
- Irina Domozhirskaya, Deputy Department Head, MEBP Tax Policy Department
- Kulshat Ordabayeva, Revenue Forecasting Division Head, MEBP Tax policy Department
- Larissa Antonova, Revenue Forecasting Senior Expert, MEBP Tax policy Department
- Tolkyn Baimukhanova – Department Head, MEBP Tax Policy Department

- Oxana Bassalayeva, Acting Strategic Department Director, Competition Protection Agency, CPA
- Assel Assaubayeva, Strategic Development and International Cooperation Division Head, CPA
- Mazhit Yessenbayev, Chairman, Rustam Akberdin, Deputy Chairman, CPA
- Zhanat Kozhakhmetov, Deputy Chairman, CPA
- Dinara Umarova, Strategic Development and International Cooperation Division Senior Expert, CPA

- Meirzhan Yussupov, Deputy Director, Investment Policy and Planning Department, Ministry of Economic Development and Trade (MEDT)
- Bolat Rakhimbekov, Chief Expert, Investment Policy and Planning Department, (MEDT)
- Bolat Smagulov, Chairman, Kazakhstan PPP Centre
- Zhanar Taizhanova, Advisor to Chairman, Kazakhstan PPP Centre
- Kairat Nurpeisov, Director, PPP Development Department, Kazakhstan PPP Centre
- Olzhas Sutengenov, Director, Department of Strategic Planning and Development of Transport and Communication Complex, Ministry of Transport and Communications
- Kabdol Abdrakhmanov, Head of the Automobile Roads Development Division, Department of Strategic Planning and Development of Transport and Communication Complex, Ministry of Transport and Communications
- Vissarion Kim, Chairman, PPP Regional Centre of Karagandy oblast
- Aliya Mukay, Operations Officer for Infrastructure Development projects, Sustainable Development Department, the World Bank
- Guanghui Li, Country Director, ADB Resident Mission
- Berik Sholpankulov, Vice Minister of Finance, head of the Working group on the issues of IPSAS adoption, MoF
- Tuleuov Arman, director of Accounting and Audit Development Department, MoF
- Zaifun Ernazarova, Deputy Director of the Accounting and Audit development department (hereinafter AD), MoF
- Anar Kaimoldinova, Head of Public Accounting and Financial Reporting Development Unit (hereinafter PAFRU), MoF
- Bakhyt Altaeva, senior expert, PAFRU, MoF
- Laylim Kashimova, senior expert, PAFRU, MoF
- Damekten Zhaskenova, senior expert, PAFRU, MoF
- Tatyana Kaigorodova, Chief Expert, Treasury Committee, MoF
- Alma Baitukenova, Head of Administration, Treasury Committee, MoF
- Saule Alimzhanova, Chief Expert of the Treasury Committee, MoF
- Lyazzat Zhusipalieva, Chief Expert of the Treasury Committee, MoF
- Kainylkhayat Rakhaeva, senior expert, chief treasurer, Accounting unit, Treasury committee, MoF
- Iskander Absaliyev, President of JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies” (hereinafter JSC “Center”)
- Olga Naimushina, Vice-President, JSC “Center”
- Dina Kalieva, Director of Methodology Department, JSC “Center”
- Shyrynkul Torshaeva, JSC “Center”
- Aiman Ilyasova, JSC “Center”
- Shara Adiyatova, JSC “Center”
- Zevira Toleutaeva, JSC “Center”
- Nuriya Mukhametzhanova - Centre
- Gulnur Kylyshbaeva, JSC “Center”
- Sofya Makarova, JSC “Center”
- Lyazzat Kistaubaeva, JSC “Center”
- Nurzhan Balkibaev, JSC “Center”

- Galiya Bairamova, JSC “Center”
- Altai Zeinelgabdin, Member of the Accounts Committee
- Zinaida Zagoskina, Member of the Accounts Committee
- Yelkair Syzdykov, Chief of the Apparatus
- Marat Sembekov, Head of the Legal Department
- Kamar Omarov, Head of the Consolidated and Analytical Department
- Romankul Doszhanov, Head of the Department for Methodology and External Relations
- Alexei Dunitskiy, Chief Consultants of the Department for Methodology and External Relations
- Nataliya Karabayeva, Chief Expert of the Republican State Enterprise of the Accounts Committee “Centre for Investigation of Financial Violations”
- Danna Gafyatullina, Specialist of RSE of the Accounts Committee “Centre for Financial Violations Research”
- Dina Konurbayeva, Inspector of the Accounts Committee
- Askar Abdugapirov, Deputy Director, Accounting Department, National Bank of Kazakhstan (NBK)
- Zauresh Polatbekova, Personnel Department Specialist, (NBK)
- Alina Aldambergen, Deputy Chairperson of the Financial Supervision Agency (FSA)
- Mukhtar Bubeyev, Director of Banking Supervision Department, FSA
- Dilyara Karakulova, Director of Insurance Supervision Department, FSA
- Gulnara Kirleyeva, Deputy Director of Strategy and Analysis Department, FSA
- Ainur Kosherbayeva, Head of Consolidated Supervision Unit, FSA
- Staff of Strategy and Analysis Department, Insurance supervision department, and Banking Supervision department, FSA

A. Budget Development and Execution

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

- EREC Project met with the Tax Policy Department of the Ministry of Economy and Budget Planning top management to leverage diagnostic analysis conducted by EREC in cooperation with the TPD in December 2009, identified the performance gaps with highest priority and agreed upon forecasting methodologies and model enhancements that can be implemented to meet the TPD requirements given the existing data limitations.
- EREC Project collected and analyzed the data for developing the first preliminary model on Corporate Income Tax (CIT) to be followed by separate workbooks on the largest group of CIT payers. The model demo was run at the training to the TPD. EREC also provided explanatory notes and user guides to the Tax Policy Department.
- EREC Project completed the CIT model for banks. Inclusion of other major taxpayers groups into the CIT model is currently being considered.

- EREC Project completed the VAT model – the documents package is being compiled to be sent to the TPD.

2. Future activities & events

- EREC Project will finalize and deliver the CIT and VAT models.
- EREC Project will continue assisting the TPD with integrating the developed models into their forecasting processes.
- EREC Project will update the models when taxpayers' data for 2009 is available.

B. Public Private Partnership

- Highlights & accomplished tasks/activities against the work plan
 - EREC Project held a meeting with the PPP Center to discuss their needs in technical assistance and to obtain the Center's feedback on EREC's recommendations on further development of PPP in Kazakhstan. The scope of EREC technical assistance to the Center will be determined under one-year PPP Development Action Plan to be coordinated between EREC and the Ministry of Economic Development and Trade. EREC agreed to address some of the Center's immediate needs related to their core activities provided some international PPP materials, including a standard PPP contract used in other countries for social sector projects.
 - EREC Project held a meeting with representatives of MEDT, including the Deputy Minister for Investment Policy and offered to provide the Ministry with a wide range of ongoing consulting services including analysis of legal, administrative and regulatory frameworks, developing "best practices" in PPP, adopting successful international models of PPP within the Kazakhstan context, developing and standardizing a transparent and competitive procurement process, monitoring post-contract award procedures and developing a reporting system on the financial implications of PPPs with respect to the Republican budget.
 - EREC Project met with the Executive Director for the new Regional PPP Center in Astana to discuss new organization and the 11 projects that this Center is currently implementing in Karaganda Oblast. The Regional Center management was very enthused about the possibility of working with EREC Project and for EREC to provide technical support and training to the staff.
 - EREC Project met with the Ministry of Transport and Communication and staff from their project's division. The existing and pending projects and the on-going negotiations for tendering of the Almaty-Khorgos road reconstruction were discussed. The ministry staff noted the recent lack of interest from serious bidders in the international marketplace for several of their PPP tenders for road construction and renovation projects and the possible reasons why such tenders were not particularly well received by the market. Given all of this EREC and the Ministry staff discussed the

possibility of having the EREC team provide technical support and training to the Ministry in key areas of the PPP work stream from project identification and planning to preparation of the tender documents.

- EREC Project met with the World Bank and the Asian Development Bank and discussed their positions in regard to the PPP development in Kazakhstan. The World Bank is currently not providing any assistance to the Government of Kazakhstan in PPP development, but monitoring the process and legislation changes. The ADB is enthused about PPP in Kazakhstan, and continues to show its support by financially supporting the Almaty-Khorgos road reconstruction project currently in negotiations.
- Taking into account the meetings and research conducted EREC Project prepared an Action Plan for the PPP development in Kazakhstan. EREC Project has determined four fundamental and overriding key areas where it can provide immediate and meaningful support to Kazakhstan's PPP program. These include tasks to upgrade and enhance: (1) Project Selection and Planning Procedures; (2) Program and Project Communications Policies and Procedures; (3) Business Case and Feasibility Processes and Procedures; (4) Tender Document Development Processes. Specific initiatives were proposed for the Ministry of Transport on on-going PPP road projects and to the Regional PPP Center in Karaganda on their initial schools project.

2. Future activities & events

- Continue providing technical assistance to MEDT and PPP Centre in implementing the new initiatives for PPP development in Kazakhstan, including assistance with the development of the PPP Master Plan and related policy, procedures and legislation.

C. Implementation of International Public Sector Accounting Standards

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

- EREC Project provided information to working group members and heads of units of MoF and other line ministries and the JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies” (hereinafter JSC “Center”) on international experience in developing the draft uniform Accounting policies and Accounting Rules for state institutions, consolidated financial statements for the public sector, as well as international practices of preparing IPSAS-compliant financial statements and conducting public finance reform.
- Discussions and consultations were held for working group members on the finalization of draft Chart of accounts taking into account recommendations previously provided on the development of uniform accounting policies for state institutions and accounting rules, forms of financial statements, rules for preparing consolidated statements and the review of existing accounting legislation.
- The following documents were prepared and submitted to DD MoF, DUDD and JSC Center:

- Reviews of the draft Transition Table for the new Chart of accounts, along with advice on transferring the current chart of accounts to the accounts of the draft uniform chart of accounts;
- Reviews of the draft accounting rules for state institutions;
- Reviews of the draft uniform IPSAS-compliant accounting policies for state institutions;
- Reviews of the draft IPSAS-compliant model corresponding accounts for state institutions.
- Prepared a report on the requirements for enabling the Treasury's Financial Management Information System (FMIS) to produce IPSAS compliant financial statements. The report contained strategic alternatives and important factors to be considered for successful configuration of the FMIS.

2. Future activities & events

- On February 28, 2010 EREC Project has completed its current programmed assistance to the MoF under the Action Plan on IPSAS implementation signed with the MoF in 2009. However, in response to the request from the Accounting and Audit Methodology Department of the MoF for further consulting services to finalize several late accounting policy documents prepared by the JSC Center, the EREC Project allocated additional funding in order to provide requested assistance during March-April, 2010.

D. IGF

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

- No activities during the reporting period

2. Future activities & events

- EREC Project will provide assistance in this area at the request of the MEBP.

E. Tax Policy

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

- EREC Project conducted the cross-country analysis on the Universal filing (Personal Income tax filing practices in OECD and selected non-OECD countries) and forwarded it to the MEBP/NAC and TC MOF for further negotiations on the proposed study tour and its possible location.
- EREC Project kept in touch with the National Analytical Center (NAC) regarding the status of the Universal filing Concept to be submitted to the Government of

Kazakhstan. NAC is the Coordinator of the Universal filing project within the overall Tax Modernization Project to be launched by the World Bank (2010-2014). The draft concept was submitted to the GoK on March 1, 2010.

- EREC Project communicated with the 'Paying taxes' Working Group (Tax Service Development and Modernization Unit) within the World Bank 'Doing Business' Project regarding the ongoing developments. Currently the WG activities have been postponed due to Kazakhstan's entry to the Customs Union and relevant priorities in the legislation and administration areas.

2. Future activities & events

- EREC Project will negotiate with the Tax Committee of the Ministry of Finance and the National Analytical Center the location of the proposed study tour on Universal Filing.

F. Public Audit

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

- EREC Project Regional Public Audit Advisor developed Comments and Recommendations on Draft Law of the Republic of Kazakhstan "On the Accounts Committee for Control over Execution of the Republican Budget". Comments and Recommendations were sent to the Accounts Committee. The Accounts Committee accepted some of expert's proposals.
- EREC Project continued to provide assistance in performance auditing with the following documents developed and submitted to the Accounts Committee:
 - a detailed audit plan, audit objectives and criteria;
 - a justification for collection of additional information relating to the Program for Cardiological and Cardiosurgical Aid Development was provided. The Pilot Project coordinator accepted EREC's proposal on establishing an Advisory Council. EREC will assist in selecting experts for that council based on their professional skills.
 - the LINES OF INQUIRY document: more specifically – assets (equipments) life-cycle-costing; analysis of the Ministry of health structure; information collection; accountability and transparency; approaches;
 - Logical model of results chain for application to the Ministry of Health of the Republic of Kazakhstan (re: Program for Cardiological and Cardiosurgical Aid Development): organization – activities – outputs – outcomes;
 - Possible Team Assignments: Financial, compliance with budget, proper accounting and Program reporting; Construction, procurement opening of units; Preventative measures and public awareness; Training and increasing numbers of cardiologists; Review of the actual reduced mortality caused by circulatory diseases etc.

- A meeting/workshop was held with the Accounts Committee's staff and the RSE "Centre for Financial Violations Research" on the topic "Audit of State Owned Enterprises". Parties exchanged the information on auditing practices of state owned enterprises in order to assist with developing relevant guidelines.
- A meeting was held with the Accounts Committee on measuring the committee's performance and using relevant performance indicators for SAIs.
- In response to the Accounts Committee's request, the Official discussion of the Concept on State Financial Control System Development in Kazakhstan through 2020 was organized. EREC Project provided to the Accounts Committee a Paper on External and Internal Audit with recommendations related to external and internal auditing in Kazakhstan. During last official discussion it was proposed to develop general concept without details in order to ensure common vision of further development of State Financial Control System with government's bodies.
- In response to the formal request of the Accounts Committee, EREC Project secured funding for participation the Accounts Committee's representative in the International Auditor Fellowship Program 2010 organized by the United States Government Accountability Office. The Fellowship Program objectives are to enhance participants' skills in order to strengthen the institutional capacity of their SAIs, to share knowledge and create professional relationship.
- The EREC Project developed general proposal on Quality Assurance: Main Steps in Strategic Planning; Quality Assurance Questionnaire; Illustrative Organization Chart for a Supreme Audit Institution; Introducing a Quality Assurance Function within the Accounts Committee.
- Under the request from the RSE "Centre for Financial Violations Research", articles were prepared on "Evaluation of State Bodies' Strategic Plans" and "What is the impact of financial accounting reforms on the Accounts committee?" for publication in the Public Audit Journal.
- The EREC Project provided comments on the Role of the Accounts Committee in auditing of strategic plans and prepared a presentation "Meeting the Accrual IPSAS Financial Statement Audit Challenge" for the Chairman and members of the Accounts Committee.

2. Future activities & events

- EREC Project will finalize and submit to the Accounts Committee the Methodological Recommendations on evaluation of the implementation of strategic plans of government bodies at the republican and local levels.
- EREC Project will continue assistance in conducting the performance audit of the Program for Cardiological and Cardiosurgical Aid Development, particularly the main tasks of Advisory Council will be specified, the implementation of the detailed audit plan will start, etc.

- EREC Advisor will make a presentation for the Accounts Committee management on IPSAS Introduction [accrual] related topical issues and relevant changes in the AC's activity.
- EREC Project advisors will do research of some countries' experience and prepare the information requested by the Accounts that relates to:
 - organizing and conducting control/audit of accounting and financial reporting for compliance with IFRS and IPSAS [Great Britain, USA, Canada, Japan, Malaysia, Germany, China, Austria, Singapore, Ukraine and Russia];
 - methods of classification of violations committed when using public resources;
 - methodology of audit activities and evaluation of the performance of enterprises with government's share in equity capital (quasi-public sector entities);
 - review and prevention of the conflict of interests in the system of state financial control;
 - assessment of the efficiency of use of information technologies in the activities of state bodies;
 - assessment of the implementation of strategic plans (similar program documents);
 - and also on the issues of organizing the inter-budget relations, in particular the mechanism to achieve local budgets provision/availability in the countries of the European Union, such as Czech Republic, Latvia, Lithuania, Poland, Hungary, Great Britain, France.
- EREC Project and the Accounts Committee will sign a new Terms of Reference (Action Plan) until February 2011.
- EREC Project will continue to provide information on the international practice in public audit on specific topics as requested by the Accounts Committee.

G. Parliament

1. Highlights & accomplished tasks/activities against the work plan
 - No activities during the reporting period
2. Future activities & events
 - EREC Project plans to initiate a meeting with the Parliament with regard to a possible series on seminars on public financial management reforms.

H. Banking and Consolidated Supervision

1. Highlights & accomplished tasks/activities against the work plan
 - Project advisor worked closely with the IT and the Department for Strategy and Analysis in order to provide Department of Banking Supervision (DBS) with timely and

high quality analytical reports for risk recognition and assessment of financial condition of banking sector. In January 2010, the IT processed the BOSS reports on an accelerated schedule, allowing the DBS to prepare more timely and better quality analysis of individual institutions and the entire banking sector.

- Project advisor conducted three courses on Risk-based supervisory approach and the CAEL methodology for the staff of the DBS and the staff of the Consolidated Supervision Unit. The six week course, conducted for the DBS, targeted the newly hired and junior personnel of the department and focused on basic CAEL analysis, including assessment of banks' capital, asset quality, profitability and liquidity. The course also included accounting treatment for derivatives and market risk sensitivity analysis. The second course lasted two weeks was designed for more senior DBS staff and was geared toward advanced bank financial condition analysis, including case studies and presentations by the participants. It also included some accounting treatment of basic banking products and services. The third course was delivered over several weekends for the staff of the Consolidated Supervision Unit and focused on basic CAEL methodology and other aspects of supervision of financial and mixed conglomerates. The entire staff of the DBS and of Consolidated Supervision Unit attended these courses and the presentations by the participants were attended by the management.
- Project advisor assisted the On-site Supervision Unit in the preparation of the regulation on Risk-based supervision and CAMELS methodology. Project advisor met with the DBS personnel responsible for drafting this regulation and designed a two tier approach to building the on-site risk based supervision. First stage is to incorporate into the regulation and examination process of preliminary questionnaires and procedures supplied by the project advisor and the second stage will include implementation and testing of full Examination Manual. Project advisor delivered the first 6 chapters of the Manual translated into Russian to the on-site staff.
- Project advisor assisted the DBS staff in the analysis of the financial condition of 10 largest banks in the system. Using the BOSS reports, analysts provided the management with full CAEL based assessment of banks' condition and prepared updated risk rankings for each bank. Project advisor delivered on the job training to 10 analysts in the process and met with management to discuss financial condition of each bank.
- At the request of the DBS project advisor analyzed the liquidity position of the entire system and prepared a report for the Chairman of the FSA regarding reintermediation and funding position of the system. In addition, project advisor prepared similar assessments of major banks and delivered it to the management of the FSA.
- Project advisor met with the representatives of several banks to discuss accounting and reporting issues in order to improve reliability of regulatory filings. Banks received guidance on the derivative treatment, foreign exchange reporting and interest rate risk sensitivity filings.

- The FSA management requested that Project advisor reviews several restructuring documents prepared by two large banks and supports the staff in the analysis of the the feasibility of restructuring plans for these banks. The staff and Project advisor met several times with representatives of two banks and with their external auditors to discuss several restructuring mechanisms, their accounting treatment and balance sheet and profit and loss recognition of the restructuring in banks' financial statements for 2010. Project advisor also helped to prepare the document evaluating the restructuring plans for the Chairman of the FSA.
- Project advisor reviewed the Early Warning System ratios that the DSB prepared together with Project advisor during the previous visit and provided the formulas for these ratios to the Methodology Department. Project advisor also worked with Consolidated Supervision advisor to prepare similar ratios for supervision of financial conglomerates. Project advisor participated in several working group meetings regarding condition of regulated members of conglomerates.
- In response to the FSA request, EREC Project Financial sector Legal Advisor provided a set of recommendations and amendments to the Law of the RK On banks and banking Activities. The proposed amendments focus on bank holding company issues and restrict significant ownership in and by banks and bank holding companies to financial organizations. It was deemed necessary to include provisions on corporate governance with the aim to reduce the risks in groups (not just through limiting ownership to financial institutions). Future strengthening of corporate governance, risk management and internal controls in banks as well as at the group/holding company level was recommended.

2. Future activities & events

- The FSA needs to continue to enhance its reporting and data gathering capabilities. In addition, the DBS requires to strengthen its risk based supervisory approach and to improve its on-site and off-site supervision in this respect.
- Project advisor plans to return to the FSA in June 2010 in order to continue to provide assistance in risk based supervision capacity building, to deliver a course in Accounting Fundamentals for Bankers and to continue to support supervision for financial conglomerates.

1. IRDS Implementation for Banking Sector

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

- To ensure that the most optimal regulatory software solution is offered to the FSA, within the EREC Project's available funds, a technical team in the U.S. has conducted a comparative review and risk assessment of the internally developed Bank of Jamaica

IRDS application against the latest commercial off the shelf software (COTS) regulatory software.

- In February 2010, EREC Project facilitated a demonstration of the UBMatrix software to enable the FSA to assess the functional capabilities of this IRDS application against the agency's specific requirements contained in the draft System Requirements Specification (SRS) documentation.
- The FSA provided a letter in March 2010 to advise that it had decided not to proceed with a replaced on the BOSS system with a modernized IRDS solution and would prefer that the funds be used to provide additional technical assistance to strengthen consolidated supervision.

2. Future activities & events

- This component of the project is completed given the decision of the FSA not to implement a new system at the Agency. In consultations with USAID, the funds allocated for IRDS implementation will be re-programmed for other activities under EREC Project.

J. Insurance Reform

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

- In early January 2010, EREC Project Insurance Supervision Advisor completed a draft report of the disability study, and forwarded an electronic copy of the report to the FSA, to be reviewed by the FSA and the Kazakhstan actuaries. He also finished the research on the retention model, and set up such a model ready for use by the FSA staff once their data collection and reconciliation is complete.
- The primary task for the January/February on-site mission was to help FSA build a set of mortality table for disabled persons, which is necessary for annuity calculation for Workers Compensation business. In close cooperation with the FSA staff as well as Actuarial Society of Kazakhstan (ASK) EREC Project Insurance Advisor produced the draft report on schedule, and forwarded it to the FSA to be reviewed by the FSA and the ASK.
- In response to request from the FSA, EREC Project Insurance Supervision Advisor established a method to determine maximum retention limits for motor liability insurance in Kazakhstan, and constructed a computer model for the computation. This project is important for Kazakhstan. Currently, many insurance companies are over-reinsuring their portfolios, especially with foreign reinsurers. Much of the profit has been siphoned off to foreign countries. To assist FSA in curbing such abuse, two set of retention limits will be determined for each line of business. The higher retention limit is for maximizing domestic reinsurance coverage. The lower limit is for maximizing coverage by primary insurers.

- The process was applied to motor liability insurance. EREC Project Insurance Supervision Advisor provided training to FSA staff on the process involved, and set up a computer model to facilitate the calculations. Data on motor liability exposure and claim of each insurance company was collected, for each of the last four years from 2006 to 2009. After data reconciliation, advisor computed the expected claim frequency and severity distributions. These two distributions were then combined to produce the claim distribution information from which the retention limits can be determined using a computer optimization program. The project on motor liability insurance was completed in this mission as planned.
- EREP Project Advisor worked with the FSA on the design and operation of unit-linked and participating life insurance products. The FSA will regulate both the insurance portion and the investment portion of the insurance. Managing the risk for these products is very important. Much emphasis is placed on corporate governance and statement of investment policy and procedures. Taxation issues involving the unit-linked and participating life insurance were also discussed, and issues are summarized.
- Risk based supervision and training on the use of the Insurance Regulatory Information System (IRIS) and the Financial Analysis Solvency Tools (FAST) for general (property & casualty) insurance. With assistance of the EREC Project Advisor, the offsite inspection group of the FSA set up an early warning system for general insurance companies based on the principles set in IRIS and FAST systems. This system provides a summary matrix indicating the level of supervision needed for a general insurance company, based on the degree of risk for such a company. It is expected that, after a testing period, this system will be used as an integral part of supervision of general insurance companies.

2. Future activities & events

- EREC Project Advisor will work on finalizing mortality/disability tables.
- During next on-site assignment in May, EREC Project Insurance Supervision Advisor will assist the FSA in producing an early warning test system for life insurance companies.
- Train the FSA staff in retention limits and stress test

K. Other Assistance to the Financial Supervision Agency

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

- In March 2010, EREC Project conducted a Manager's Skills Development seminar for 25 regional representatives of the Financial Supervision Agency. The program focused on basic theories and practical approaches in Communication Skills, Conflict Management, Negotiation Skills, Time Management and Stress Management.

L. Assistance to National Bank

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

- The Project's macroeconomist with the staff of Research and Statistics Department of National Bank of Kazakhstan on elaborating a curricular for the course *Applied Econometrics and Introduction to EViews* for beginners; and *Advanced Topics in Econometrics and EViews I: Introduction to Time Series Analysis* for advanced students.
- In response to request from the National Bank of Kazakhstan, in January 2010 EREC Project conducted one 5-day Leadership Skills Workshops for National Bank of Kazakhstan employees (who are included into the NBK Management Reserve) and one 5-day Leadership Skills Workshop for students of NBK-funded Master Program, who will become NBK employees in near future. Both workshops were highly rated by participants and NBK HR Department. The workshop program included leadership framework, communication, presentation and negotiation practical skills, conflict management and management of difficult conversations.
- The NBK Accounting department developed detailed Terms of Reference - "*Initiative for Developing a Technical Document for the National Bank of Kazakhstan on the Use of International Financial Reporting Standards in Respect of Transactions with Financial Instruments (Assets and Liabilities)*" that contain specific tasks and requirements for the EREC Project IFRS Banking Advisor to provide detailed solutions for identified tasks and specifying the use of International Financial Reporting Standards while complying with the existing framework in Kazakhstan.

2. Future activities & events

- In May 2010 two training sessions on econometrics will be conducted for NBK employees: a 10-day course for the beginners, and 6-day course for the advanced group.
- In cooperation with the Accounting department of the NBK develop a detailed technical document to be used as internal training material at the NBK that contains a detailed description of accounting procedures and the reporting in financial statements in respect to financial instrument transactions as per the requirements contained in the TOR document.

M. Competition Policy

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

- EREC Project held two high-level meetings with the Competition Protection Agency (CPA) top officials to discuss the achieved progress and planned activities, according to the Action Plan. The CPA management stressed the positive impact of EREC Project assistance on its institutional deliverables.
- EREC Project assisted the CPA in improving its rating in the World Economic Forum (WEF) Global Competitiveness Index (GCI) in the following indicators: (i) Effectiveness of anti-monopoly policy, (ii) Intensity of local competition, and (iii) Extent of market dominance. This was done through the WEF methodology analysis, comparing it with other international ratings and aligning the current CPA performance results with them.
- EREC Project participated in the Round Table dedicated to the “Antimonopoly policy effectiveness in developing economic processes in Kazakhstan” and presented principles underlying the World Economic Forum Global Competitiveness Index (WEF GCI) from the competition protection perspective. EREC provided recommendations for further improvement of the Antimonopoly Act enforcement and competition policy advocacy.
- EREC Project developed a report on unfair competition practices and aligned recommendations with the Kazakh Competition Act as of January 1, 2009 to enhance legislative reinforcement of powers.
- EREC Project delivered a short training program on unfair trade practices to the CPA technical specialists to introduce EU approaches and suggest ways for further extension and improvement of the Kazakh Competition Act.
- EREC Project assisted the CPA in proceeding with a proposal for a study tour to a well performing competition authority. EREC requested the ongoing courses information from the Hungarian and Korean OECD Competition Centers to analyze them and select the most appropriate for the CPA.
- EREC Project obtained from the United Nations Conference on Trade and Development (UNCTAD) information on the Peer Review Process and shared this information with the CPA to proceed with its proposal to undertake such a review in nearest future.

2. Future activities & events

- EREC Project will review the CPA's feedback on the February assignment deliverables, particularly, the analysis and appliance of advanced experience in unfair trade practices.
- EREC Project will develop a new Terms of Reference for the next consulting assignment to cover priorities in the Action plan and also respond to the CPA top management policy vision.
- EREC Project will organize an audio-conference with the WEF Global Competitiveness Index team to negotiate certain issues of the GCI methodology and will invite CPA to participate in this event.

- EREC Project will continue communicating with the UNCTAD regarding the proposed peer review of the Kazakh competition authority.
- EREC Project will further proceed with the proposed study tour to a well performing competition authority. Currently the CPA is waiting for the ongoing courses list from the Hungarian OECD Competition Center.