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Quarterly Report



ECONOMIC REFORMS TO ENHANCE COMPETITIVENESS

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Significant issues affecting implementation:

- 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.
- The Financial Supervisions Authority (FSA) Banking Supervision Department continues to require ongoing assistance in the areas of input report validation, implementation of the new off-site surveillance, training for newly hired employees in the areas of risk based supervision approach and assistance to the on-site examination process. In addition, the Department expressed interest in Accounting for Bankers' training and additional strengthening of Consolidated Supervision capacity.
- In September 2010, EREC Project will repeat the course on Solvency II for the FSA staff to enhance their knowledge and understanding of the regulatory requirements outlined in this document that will come into effect in late 2012.
- EREC Project commenced technical assistance to Karaganda Regional PPP Centre (KRPPPC) in implementation of the pilot kindergartens PPP project under the terms of reference jointly agreed between the KRPPPC, MEDT and EREC. The pilot project scope covers construction and maintenance of 15 kindergartens in Karaganda and Temirtau cities of Karaganda oblast under the PPP mechanism.
- An Action Plan has been designed for the Ministry of Transport and Communications (MTC) to contribute to the further development of infrastructure public-private partnerships in Kazakhstan. The Action Plan covers the provision of technical assistance to assist with the drafting of appropriate legislative framework, improve the institutional structure and capacity to implement various types of PPP contracts, new forms of infrastructure investment. The Ministry of Economic Development and Trade (MEDT) is considering the documents necessary for the commencement of technical assistance to support the implementation of current PPP Projects.

Significant meetings with counterparts & donors:

- Mr. Kairat Tilebaldinov, Deputy Chairman, Kazakhstan PPP Center
- Mr. Aslan Bulatov, Director, Department of Concession Projects, Kazakhstan PPP Center
- Ms. Nazgul Nirkenova, Chief Expert, Department of Concession Projects, Kazakhstan PPP Center
- Ms. Zhanar Musatayeva, Expert, Department of PPP Development, Kazakhstan PPP Center;

- Mr. Gabit Shaikin, Head of the Division of Methodological Support of Investment Processes, Projects Monitoring and Analysis, Department of Investment Policy, Ministry of Economic Development and Trade;
- Ms. Zhanar Abdullayeva, Chief Expert, Department of Investment Policy, Ministry of Economic Development and Trade;

- Ms. Sholpan Sapargali, Head of the Investments and Technology Transfer Department, Regional PPP Center of Karagandy Oblast;

- Mr. Vissarion Kim, Chairman, Karaganda Regional PPP Centre;
- Ms. Aimgul Batyrbekova, Deputy Chairman, Karaganda Regional PPP Centre;
- Mr. Almaz Sadykov, Head of the Concession Projects Department, Karaganda Regional PPP Centre;
- Mr. Galym Akishev, Chief Expert, Concession Projects Department, Karaganda Regional PPP Centre;

- Mr. Olzhas Sutehgenov, Director, Department of Strategic Planning and Development of Transport and Communications Complex (DSPDTC), Ministry of Transport and Communications;
- Mr. Bakhytzhon Kokkozov, Expert, Motor Roads Development Division, DSPDTC, Ministry of Transport and Communications;
- Ms. Bibigul Aitukenova, Director, JCS “Legal Expert Kazakhstan”, an MTC’s local advisor;
- Mr. Yelkair Syzdykov, Chief of the Apparatus, Accounts Committee
- Mr. Altay Zeinelgabdin, Member of the Accounts Committee, Accounts Committee
- Ms. Zinaida Zagoskina, Member of the Accounts Committee;
- Mr. Marat Sembekov, Acting Head of Apparatus of the Accounts Committee;
- Ms. Halida Kambarova, Head of the Department for methodology and analysis; Accounts Committee
- Mr. Aleksei Dubitskiy, Head of the Unit for methodology and international relations of the Department for methodology and analysis. Accounts Committee

- Ms. Botakanova Tolganai, Deputy Chairperson, Tax Committee;
- Mr. Yerzhan Birzhanov, Tax Service Development and Modernization Unit Head, Tax Committee;
- Ms. Aissulu Burambayeva, Tax Legislation Improvement and Clarification Unit Head
- Yerlan Khasenov, Taxpayers Services Unit Head, Tax Committee;
- Ms. Alyona Gerun, IT Unit Head, Tax Committee;
- Ms. Aliya Ospanova, Tax Service Development and Modernization Unit Expert, Tax Committee;

- Ms. Vera Knyukh, Manager/Coordinator, National Analytical Center/MEBP;

- Mr. Rustam Akberdin, Deputy Chairman, Competition Protection Agency;
- Ms. Oxana Bassalayeva, Strategic Department Director, Competition Protection Agency;
- Ms. Assel Assaubayeva, Strategic Development and International Cooperation Division Head, Competition Protection Agency;
- Ms. Dinara Ashumenova, Legal Department Head, Competition Protection Agency;
- Ms. Zhanna Imagambetova, Acting Center President, CPA Center for Competition Policy and Advocacy;
- Ms. Saule Issabekova, Senior Manager, CPA, Center for Competition Policy and Advocacy;
- Mr. Nurlan Tazabekov, Strategic Department Deputy Director, Competition Protection Agency

- Ms. Kulshat Ordabayeva, Revenue Forecasting and Analysis Division Head, Tax and Customs Policy, Revenue Analysis and Forecasting Department, Ministry of Finance;
- Ms. Larissa Antonova, Revenue Forecasting and Analysis Division Senior Expert, Tax and Customs Policy, Revenue Analysis and Forecasting Department, Ministry of Finance;
- Ms. Irina Domozhirskaya, Tax and Customs Policy, Revenue Analysis and Forecasting Department Deputy Head, Ministry of Finance;

- Mr. Berik Sholpankulov, Vice Minister of Finance, head of the Working group on the issues of IPSAS adoption, Ministry of Finance (MoF)
- Ms. Zaifun Ernazarova, Deputy Director of the Accounting and Audit development department (hereinafter AD), MoF
- Ms. Anar Kaimoldinova, Head of Public Accounting and Financial Reporting Development Unit (hereinafter PAFRU), MoF
- Ms. Bakhyt Altaeva, senior expert, PAFRU, MoF
- Ms. Laylim Kashimova, senior expert, PAFRU, MoF
- Ms. Damekten Zhaskenova, senior expert, PAFRU, MoF
- Ms. Dina Kalieva, Director of Methodology Department, JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies” (hereinafter JSC “Center”)
- Ms. Galiya Bairamova, JSC “Center”
- Mr. Tuleuov Arman, director of Accounting and Audit Development Department, MoF
- Mr. Iskander Absaliyamov, President of JSC “Center for training, retraining and professional development of specialists employed in the financial system bodies” (hereinafter JSC “Center”)
- Ms. Olga Naimushina, Vice-President, JSC “Center”
- Ms. Kainylkhayat Rakhaeva, senior expert, chief treasurer, Accounting unit, Treasury committee, MoF
- Ms. Shyrynkul Torshaeva, JSC “Center”
- Ms. Aiman Ilyasova, JSC “Center”
- Ms. Shara Adiyatova, JSC “Center”
- Ms. Sofya Makarova, JSC “Center”

- Askar Abdugapirov, Deputy Director, Accounting Department, National Bank of Kazakhstan (NBK)
- Toty Kaliaskarova, Deputy Director of Research and Statistics Department, National Bank of Kazakhstan (NBK)

- Alina Aldambergen, Deputy Chairperson of the Financial Supervision Agency (FSA)
- Mukhtar Bubeyev, Director of Banking Supervision Department, FSA
- Gulnara Kireyeva, 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 finalized and delivered the Value Added Tax (VAT) forecasting model to the Revenue Forecasting and Analysis Division of the Tax and Customs Policy, Revenue Analysis and Forecasting Department of the Ministry of Finance (RFAD). Upon receiving the RFAD's feedback on the provided models EREC discussed it with RFAD's specialists.
- EREC Project continued working with the RFAD on data collection.
- EREC Project held meetings with the Tax and Customs Policy, Revenue Forecasting and Analysis Department of the Ministry of Finance (RFAD) management to outline the May 2010 Forecasting mission scope and discuss the RFAD's feedback on the models provided;
- EREC Project finalized and delivered the VAT model to the RFAD, and delivered a training program on the VAT model in May 2010. Project experts started to work on the VAT model instructions.
- EREC Project obtained 2009 data on corporate income tax (CIT) returns to adjust the CIT model; EREC also worked with the RFAD on tax data request on personal income tax (PIT) and the National Fund collections from the Tax Committee;
- EREC Project organized a meeting with the Tax Committee of the Ministry of Finance to request data clarification for 2009 tax returns.
- EREC Project received from the Tax Committee of the Ministry of Finance updated 2009 tax data on CIT, tax data on PIT and revenue data for the National Fund. Started analysis of updated 2009 tax data on CIT.
- EREC Project worked with the Revenue Forecasting and Analysis Division (RFAD) on tax return data.

2. Future activities & events

- EREC Project will continue working with the RFAD on the 2009 tax returns data collection and its integration into the CIT model.
- EREC Project will proceed with data collection on other major taxes for the corresponding models development.
- EREC Project will process the revised 2009 tax returns data, obtained from the Tax Committee;
- EREC Project will proceed with the CIT model to complete it in accordance with the revised data;
- EREC Project will keep assisting the RFAD in integrating the developed models into their forecasting processes.
- EREC Project will continue working with the Tax Committee and the Revenue Forecasting Division on revised tax data to remove all data inconsistencies and update the CIT model.
- EREC Project will start developing the PIT and the National Fund models.
- As this component priority, EREC Project will keep assisting the RFAD in integrating the developed models into their forecasting processes.

B. Public Private Partnership

- Highlights & accomplished tasks/activities against the work plan
 - EREC Project held a meeting with the PPP Center management to discuss the proposed PPP Initiatives for 2010 and future technical assistance needs to improve the

PPP framework in Kazakhstan. Also, EREC's comments on the draft PPP Concept Paper and the draft document on "the New Financing Initiative" (NFI) reform were discussed. EREC's proposed initiatives are targeted to providing technical and advisory support to pilot education sector project implemented by Karaganda Regional PPP Center and building institutional capacity of the Ministry of Transport and Communications (MTC) staff, implementing transport projects in Kazakhstan.

- In line with the agreements reached during the meeting, EREC advisors provided immediate assistance to PPP Center with refining the draft PPP Concept and NFI implementation plan by developing a set of model objectives appropriate for Kazakhstan PPP program and the corresponding model Master Plan. The Master plan incorporates all important constituents of a successful PPP program, including institutional, resourcing, risk management, quality control issues and integrating the various PPP activities in a coordinated program.
- EREC project met with the Ministry of Economic Development and Trade (MEDT) Investment Policy Department representatives to discuss EREC's proposed initiatives for PPP development in Kazakhstan. The MEDT supported both proposed initiatives:
 - Support Karaganda Regional PPP Centre in implementing a pilot kindergartens project;
 - Support the MTC in strengthening its institutional capacity to improve PPP work flow processes, such as early stage project selection and planning, project communications, development of a business case and tender documents, etc.

It was decided that assistance to the Karaganda Regional PPP Centre and the MTC will be implemented under the respective jointly agreed terms of reference. Technical support in implementing a pilot kindergartens project will allow to identify weaknesses/barriers in the current legal and institutional framework impeding broad application of the PPP mechanism to the social sector. These findings will be summarized and appropriate recommendations to eliminate those weaknesses will be provided to MEDT during the assignment.

- The management of Kazakhstan PPP Centre expressed an appreciation to EREC Project for the technical assistance provided in relation to development of Kazakhstan's PPP Concept paper and planning implementation of the PPP New Financing Initiative.
- EREC Project representatives attended a seminar *PPP in Kazakhstan: Investment Climate and Legal Regime*, organized by "Grata" legal firm. Representatives of MTC, MEDT, PPP Centre, Agency for Construction Activity and Housing and Utilities Sector, investor companies, donor community/ multilateral organizations, regional and local state structural units responsible for PPP development in Kazakhstan also took part in the event. The seminar provided an excellent opportunity for communication with all parties involved in the PPP development in the area of major infrastructure projects and regional projects.
- EREC Project commenced technical assistance to Karaganda Regional PPP Centre (KRPPPC) in implementation of the pilot kindergartens PPP project under the terms of reference jointly agreed between the KRPPPC, MEDT and EREC. The pilot project scope covers construction and maintenance of 15 kindergartens in Karaganda and Temirtau cities of Karaganda oblast under the PPP mechanism. It is also envisioned that the private operator will provide educational services, while the parental fees will be subsidized by the government. EREC and KRPPPC held an initial meeting of the long-term technical assistance with participation of the republican PPP Centre representatives. At the meeting EREC PPP advisor presented initial findings of the preliminarily conducted research on kindergartens project. Also, EREC PPP advisor

held intensive consultations with the KRPPPC team on development of the project feasibility study, kindergartens design and construction quality issues and involved tender documentation development, arrangement of tender process as a whole and project communications strategy. Specific technical support was provided in upgrading financial, institutional and risks evaluation sections of the feasibility study. Several meetings were held with the kindergartens design/construction advisors, KRPPPC management, representatives of Regional Akimat's Education Department. The goal of all those meetings was to advance the overall course of the project development.

- EREC project specialists and USAID Project Management specialist met with the Ministry of Transport and Communications representatives to discuss and plan EREC's technical assistance to enhance development of PPP in the framework of ongoing transport PPP projects. Based on the needs assessment, conducted in March, 2010, EREC PPP advisors proposed a set of initiatives aimed at advancing PPP process led by the MTC. At the meeting MTC representatives provided an update on their needs in technical assistance. Based on this information, EREC consultants developed detailed plan/terms of reference for technical assistance to be provided by EREC over the period from July 2010 through February 2011. The plan was submitted to the MTC for consideration.

2. Future activities & events

- EREC Project will coordinate with the Ministry of Economic Development and Trade the future specific technical assistance in the area of PPP development, including EREC's proposed initiatives to promote PPPs in Kazakhstan.
- EREC Project, jointly with the MEDT Investment Policy Department, Regional PPP Centre, and MTC will prepare terms of reference for the technical support in implementing a pilot kindergartens project and strengthening institutional capacity in PPP activity to enable implementation of the planned activities during the upcoming eight months.
- EREC Project will continue working with the Karaganda Regional PPP Centre on the kindergartens PPP project and preparations for the tender.
- EREC Project will finalize and agree with appropriate parties the terms of reference for EREC's technical assistance to the MTC in PPP development and commence support to the MTC in line with the agreed terms of reference.

C. Implementation of International Public Sector Accounting Standards (IPSAS)

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

- EREC Project participated in the round table held at the Ministry of Finance (MOF) and devoted to issues of applying accrual-based IPSAS in the Government Sector, including the issues of assets estimation at fair value. The MOF representatives expressed their interest in further cooperation with the Project in this area.
- 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.

- EREC Project held discussions and consultations with the Ministry of Finance representatives on the updated (according to the given recommendations) draft Chart of accounts, Model corresponding accounts for assets, liabilities, revenue and expenses of state institutions, Uniform Accounting policies, Accounting rules for state institutions, IPSAS-compliant forms of financial statements, Rules for preparing consolidated financial statements.
- EREC Project conducted quality inspection of introduced amendments and suggestions to the draft Uniform accounting policies, Model corresponding accounts for state institutions, Accounting rules, Table of transition from the old Chart of accounts to the new one, Rules for preparing consolidated financial statements at the level of budget program administrators enabling preparation and presentation of financial statements in accordance with accrual-based IPSAS.
- EREC Project provided consultations to the working group members related to designing a Workshop on accounting in state institutions according to IPSAS.
- EREC Project provided consultations during introduction of amendments to the drafted documents taking into account recommendations given by the Treasury committee and line ministries. Also, EREC Project reviewed all introduced amendments to ensure their compliance with IPSAS.
- EREC Project prepared required IPSAS materials for transition to IPSAS for heads of structural units of the Ministry of Finance and other line ministries.
- Per the Vice-Minister of Finance request, EREC Project prepared a paper on reforming internal audit in the context of state institutions' transition to accrual-based IPSAS accounting. The following recommendations were made:
 - There is a need to identify the internal audit's role and functions in line with the best international practices, including transition from *control system* to *audit system*, making a mutual decision on a gradual decentralization of the internal audit system, transition to and/or alignment of state financial control standards with international audit standards;
 - There is a need to increase the internal audit's efficiency in the context of implementation of accrual-based IPSAS. In addition to other measures, this should be done by being involved in assessment of progress in implementation of IPSAS implementation plans, reviewing the process of design and implementation of new information systems that are needed for recording and reporting information in accordance with the accrual-based IPSAS, participating in activities of the target group, which reviews strategic documents (policies) prior to their approval;
 - There is a need to include some activities in the Ministry of Finance's plan including recommendations on conducting assessment of knowledge/skills of internal auditors and implementing training programs in increasing awareness in the area of IPSAS, ISPPIA (International Standards for the Professional Practice of Internal Auditing), ISAAE (International Standards on Auditing, Assurance, and Ethics), in financial audit and also training courses accredited by the Institute of Internal Auditors (IIA).
- EREC Project signed with the MOF an Action Plan that outlines activities necessary for transitioning to accounting and financial reporting system in accordance with IPSAS for the remaining 6 months of 2010.

2. Future activities & events

- EREC Project will continue to provide limited assistance to the MOF in line with the Agreed 2010 Action Plan. The key milestones would be: finalizing 2010 revisions to IPSAS 1-27, translation of new IPSAS 28-31 as well as IFAC Code of Ethics and extracts from the IPSAS Handbook, delivery of a training program to members of the Working group on updated IPSAS 1-27.

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 received a feedback from the Tax Committee and the National Analytical Center (NAC) on the report on country experience in Universal filing, provided by EREC in February 2010. The Tax Committee identified several countries as the best potential hosting countries for the study tour. EREC Project and the Tax Committee reached an agreement on covering the following tax policy areas during the proposed study tour: (i) risk-management systems in tax; (ii) taxpayers services improvement (data collection and processing centers), and (iii) universal filing.
- EREC Project representatives attended a donor efforts coordination meeting with the World Bank SME team (small and medium business) to discuss potential donor efforts replication issues in the area of taxation and tax administration reforms. EREC Project provided the WB with reports on Risk-management practices in taxation and risk-based VAT refund systems.

2. Future activities & events

- EREC Project will start working on the Study tour proposal to one of the four well-performing tax authorities, identified by the Tax Committee on the basis of the USAID report. The Study tour will cover the following tax policy development and administration issues: (i) risk-management practices; (ii) data processing and collection centers and call-centers; and (iii) universal filing.
- EREC Project will continue participating in activities of the World Bank 'Doing Business' Working group on 'Paying taxes' indicator upon the TC MOF request.

F. Public Audit

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

- EREC Project made a presentation to the Accounts Committee Chairman, Members of the Accounts Committee (AC) and senior staff on issues of the audit of financial

statements prepared in accordance with IPSAS. Challenges that the AC will face in light of the Government's initiative to move the public sector to accrual-based IPSAS in 2013 were highlighted in the presentation. It covered the following issues:

- need to develop and implement a strategy on determining the scope of financial statement audit, specialists training, bringing Kazakh auditing standards in line with international auditing standards, and developing relevant sustainable methodological framework;
 - comparative characteristics of control which includes compliance and financial statements audit;
 - application of necessary software in conducting financial statements audit;
 - recommendations for solving the issue of recourses provision, particularly, using outsourcing practice by engaging private audit companies to provide audit services in public sector on a contract basis, etc.
- EREC Project researched the status of IPSAS accrual cash accounting adoption plans and progress made by the Accounts Committee in preparing to meet this challenge.
 - EREC Project assisted with establishing the Advisory Council under the pilot performance audit of the Program for Cardiological and Cardiosurgical Aid Development in the Republic of Kazakhstan for 2007-2009.
 - EREC Project submitted to the AC the *Methodological Guidelines for Evaluation of the Implementation of Government Bodies' Strategic Plans*. The AC Methodology Department in pursuance of the Chairman's resolution is drafting a relevant manual based on the EREC's Methodological Guidelines.
 - EREC Project and the Accounts Committee signed the new Terms of Reference, which includes all core activities planned for the period from May 2010 through February 2011. The main activities include:
 - assistance in implementing initiatives aimed to improve legislation governing Supreme Audit Institution (SAI) activity;
 - assistance in implementing initiatives aimed to improve the state financial control system;
 - assistance in developing public audit methodology;
 - assistance in professional development of state financial control bodies staff;
 - assistance in developing the Accounts Committee's audit activity practices;
 - cooperation with the "Public Audit" Journal published by the Republican state enterprise "Centre for financial violations research" of the Accounts Committee.

Press-release on the TOR signing was posted on the AC's website. The event was also covered by Kazakhstani mass media ("Kazakhstanskaya Pravda" newspaper, Interfax news, information agencies and data portals).

- EREC Project arranged a presentation for the Accounts Committee staff on application of financial statements audit methodology used by private audit companies. The presentation was delivered by Deloitte staff and attended by 30 participants from the AC. It covered the following issues:
 - working with client: collecting information, studying previous audit findings, risk assessment and drafting a Letter of Agreement;
 - audit planning: understanding the client's business environment, calculation of materiality, conducting preliminary analytical procedures, identification of significant accounts and preparation of preliminary plan for the audit of accounts, understanding of accounting processes, discussion of risks with the client, testing and preparation of the consolidated Memorandum on Planning;

- conducting tests and general audit procedures: from implementing programs related to testing accounts, risks and claims audit, etc. to development of transformational table;
- finalizing the audit and preparing the audit report: from writing the Letter of Submission, etc. to drafting the final version of the audit report.

The presentation led to an interactive discussion on issues related to adapting the private sector's approaches in financial audit to the AC's practice.

- EREC Project completed a research on audit of accounting and financial reporting in compliance with IFRS and IPSAS. Particularly, a EREC experts conducted country-specific analysis of IPSAS introduction and/or governments' intentions in using international standards. Also, EREC performed a comparative analysis of financial auditing approaches used by SAIs in such countries as: Great Britain, USA, Canada, Japan, Germany, China, Austria, Singapore, and Russia (the list of countries was defined by the AC). Final research paper was submitted to the AC.
- EREC Project completed the research on international experience related to classification of violations when using of public resources. EREC consultants performed a review and comparative analysis of SAI's approaches in defining and classifying violations that audits reveal. The review covered such countries as Great Britain, USA, Canada, Japan, Germany, China, Austria, Singapore, and Russia. Based on the research, consultants prepared a summary report with recommendations for the Accounts Committee to apply in their day-to-day work.
- Per the AC's request EREC Project continues research on:
 - Audit methodology and performance evaluation of enterprises with government's share in equity capital;
 - review and prevention of conflicts of interests in the system of state financial control;
 - assessing efficiency of information technologies use in state bodies activities;
 - organization of inter-budget relations, in particular, the mechanism for achieving local budgets provision/availability in EU countries, such as Czech Republic, Latvia, Lithuania, Poland, Hungary, Great Britain, France.
- Per the AC Chairman's request EREC Project continues research on:
 - needs assessment of AC's resources to audit 100%, 50% and 30% of the Government financial statements;
 - software usage, based on the comparative analysis of various software products.
- EREC Project advisors wrote two articles - *Impact of financial accounting reforms on the Accounts Committee* and *Evaluation of state bodies' strategic plans*, that were published in the "Public Audit" Journal and posted on the website of the Centre for Investigation of Financial Violations (Republican State Enterprise under the AC).
- EREC Project held a high-level meeting with participation of USAID/CAR representatives, Apparatus of the Accounts Committee and Accounts Committee members. The meeting participants discussed the issues of USAID technical assistance in building institutional capacity of the Kazakhstan's SAI and progress in implementing activities included in the USAID EREC Project Terms of Reference.

2. Future activities & events

- EREC Project will continue assisting the AC in conducting performance audit of the Program for Cardiological and Cardiosurgical Aid Development in the Republic of Kazakhstan for 2007-2009.

- EREC Project will continue research and prepare research papers on:
 - methodology of audit activities and performance evaluation of enterprises with government's share in equity capital;
 - review and prevention of conflicts of interests in the system of state financial control;
 - assessing efficiency of information technologies use in state bodies activities;
 - organization of inter-budget relations, in particular, the mechanism for achieving local budgets provision/availability in EU countries, such as Czech Republic, Latvia, Lithuania, Poland, Hungary, Great Britain, France.
 - to audit 100%, 50% and 30% of the Government financial statements;
 - software usage, based on the comparative analysis of various software products.

Based on the results/findings of the research the EREC will prepare relevant papers for submission to the AC.
- Within the new TOR implementation EREC Project will:
 - start developing proposals for the draft law on local self-governance in regard to building capacity of the local external audit bodies;
 - start developing proposals for the draft Concept of the State Financial Control System Development.
- EREC Project will make a brief overview of SAIs' activities in regard to taxation audit and customs administration audit and prepare relevant proposals for inclusion into the Tax and Customs Codes. These proposals will take into account information received from the RTLC Project;
- EREC Project will develop a plan of regional training programs;
- EREC Project will continue cooperation with the Public Audit Journal;
- EREC Project will prepare grounds for the study tour to the Court of Accounts of France with a summary of alternative choices.
- EREC Project will continue providing information on specific topics of international practice in public audit as requested by the AC.

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

- In response to the FSA request, EREC Project Consultant conducted an expert assessment of the issues related to offshore zones.
- EREC Project delivered a training course on Accounting Fundamentals for Banking Supervisors. The course covered all aspects of bank accounting including the most

recent changes in the treatment of financial assets as well as presentation of financial results. The course was run in interactive manner and the participants were expected to work out practical accounting assignments. The course will be continued in July 2010 and will culminate with an exam testing participants' ability to grasp main accounting and reporting concepts.

- EREC Project provided on-the-job training to the newly hired employees and on-site inspectors in risk based analytical approach. Participants used BOSS off-site surveillance system as a basis for learning how to analyze financial condition of a bank. The training will continue in July 2010.
- EREC Project assisted the Department of Strategy and Analysis in programming BOSS segments, including Off-Balance Sheet items, and helped to complete the liquidity analysis section. EREC also assisted in designing additional controls in input reports in order to improve integrity of regulatory filings.
- EREC Project participated in preparations for two on-site inspections and assisted examiners in solving issues related to analysis of earnings, capital quality and stratification of credit portfolios.
- EREC Project supported development of instructions for CAMELS banks rating and incorporating this technique into the examination results. The working group prepared a matrix and a component rating for Credit quality of the CAMELS. These activities will continue in July 2010.
- EREC Project assisted the FSA with preparing a package of amendments for the Law on Banks, to be submitted to the Government in July 2010. It is expected that the final package will be submitted to the Parliament in September. EREC provided the FSA with a number of specific suggestions on the amendments and drafted some chapters. The major topics for the amendments package included:
 - Restructuring of bank holding companies and banking conglomerates
 - Legal authority of banks to establish or acquire subsidiaries
 - Risk Management Function in banks

2. Future activities & events

- Upon a request, EREC Project will assist the FSA with providing explanations to parliamentarians on the proposed package of amendments to the Banking Law, when they are discussed at the Parliament (which is planned for September 2010). The explanations will include examples from international practice.
- Once the package of amendments is approved by the Parliament, EREC Project will assist the FSA with amending their regulations or writing the new regulations, in order to implement the new legislative provisions.
- EREC Project will assist in ensuring functionality and enhancing performance of the existing Off-site Surveillance System BOSS.
- EREC Project will continue conducting on-the-job training for the off-site unit staff in the remaining sections of the CAEL analysis (intermediate and advanced for experienced staff and basic level for new hires).
- EREC Project will support the on-site examination process to provide assistance with implementation of the CAMELS rating and providing guidance in the risk based supervisory approach.
- EREC Project will continue delivering Accounting Fundamentals Course for Banking Supervisors.

- EREC Project will provide support to the FSA and Bank Supervision Department in their efforts to restructure major banks.
- EREC Project will provide support to the FSA management in regard to ad hoc requests and emerging supervisory and regulatory issues.
EREC Project will provide training to Consolidated Supervision Unit in banking risk recognition and incorporating it into the Supervisory Strategy for Conglomerates.

1. Insurance Reform

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

- EREC Project finalized the Interim Disabled Mortality Tables for disabled persons, based on a feedback received from the FSA and government ministries. The Tables are necessary for annuity calculation for Worker Compensation business. EREC, jointly with the FSA, held public hearings on the subject. Over 30 professionals, including representatives from the Ministry of Labor, the Social Insurance Fund, the FSA, the insurance companies, and the actuaries, attended the hearings. After a detailed discussion the Interim Disabled Mortality Table was adopted unanimously. It was also agreed that EREC would publish adjustment factors to reflect more healthy mortality rates for persons under professional disability. EREC Project started working on developing these adjustment factors.
- Per the FSA's request, EREC Project built a model for determining maximum retention limits for general insurance in Kazakhstan. The model was applied to motor liability insurance. The conducted study showed that the retention limit to cover 90% chance of possible claims is only 310,000 tenge for 1000 insured persons, which is significantly less than the premium charged, which is approximately 15,000,000 tenge. This means that the current premium rate is too high, and there is little need for reinsurance, other than catastrophe reinsurance. The FSA intends to extend the study to all lines of business, starting with compulsory lines of business. Data is being collected for this purpose.
- EREC Project developed an approach for working on Methodology for determining retention limits for Kazakhstan insurance companies and provided the relevant document to the FSA staff for their review. EREC Project requested the FSA to collect the data needed for further analysis and study and to be used in the Methodology. The aggregate data on reinsurance premium in Kazakhstan beginning from 2005 was obtained and provided to EREC. However, it was determined that disaggregated data for individual insurance companies was needed as well, so the FSA would provide it to facilitate further work on the Methodology.
- EREC Project worked with the FSA on design and operation of unit-linked and participating life insurance products. EREC trained the involved FSA officers on various issues, and they should be able to regulate such products. FSA also requested EREC to review the "Instruction on the Requirements towards the Availability of Risk Management and Internal Control Systems at Insurance Organizations", recently prepared by the FSA staff.
- EREC Project assisted the FSA offsite inspection group set up an early warning system for general insurance companies based on the principles set in Insurance Regulatory Information System (IRIS) and Financial Analysis Solvency Tools (FAST) systems. The system provides a summary matrix indicating the level of supervision needed for a general (property & casualty) 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 general insurance companies' supervision. EREC reviewed the final document for general insurance and provided final comments. Also, EREC helped the involved FSA staff to extend this methodology for producing an early warning test system for life insurance companies. EREC provided recommendations on the relevant factors for use and on the methodology of constructing the supervision matrix. The FSA staff is attempting to collect data and test the factors used.

- Per the FSA's request, EREC Project conducted "The First Course on Solvency II". The training course consists of eight lectures, followed by tutorials and exercises. An examination was given at the end of the course. Students, who passed the examination tests, received certificates signed by the Actuarial Society of Kazakhstan (ASK), and the FSA. Totally 24 students attended the course.

2. Future activities & events

- EREC Project will prepare retention limits for various lines of compulsory insurance.
- EREC Project will prepare comments and recommendations on proposed new regulations on reserve calculation and also recommendations on reserve calculations for unit linked and participating insurance products.
- EREC Project will finalize the draft report on disabled mortality tables and will send it for review to the FSA, Ministry of Labor, the actuaries and other professionals for their comments and input.
- In September 2010, EREC Project advisor will conduct more detailed follow-up analysis of the obtained data on-site.
- In September 2010, EREC Project will repeat the course on Solvency II for the FSA staff to enhance their knowledge and understanding of the regulatory requirements outlined in this document that will come into effect in late 2012.

J. Assistance to National Bank

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

- EREC Project successfully conducted two training sessions on econometrics for NBK employees: a 10-day course for the beginners, and 6-day course for the advanced group. Both training courses were highly appraised by the NBK specialists.
- EREC Project advisor conducted a high level review of 15 out of the 25 cases from banking practice, presented by the National Bank for review, resolution and providing consultations. Once there are completed preliminary responses to all 25 cases, EREC will arrange a meeting with the NBK representatives to present the reviewed cases and discuss them further.

2. Future activities & events

- In cooperation with the Accounting department of the NBK EREC Project will develop a detailed technical document to be used as internal training material at the NBK that contains a detailed description of accounting procedures and reporting in financial statements in respect to financial instrument transactions as per the requirements contained in the TOR document.
- EREC Project Macroeconomist is working on instructor's guide/training manual, based on the *Introduction to Applied Econometrics and EViews* workshop delivered at the

NBK in May 2010. It is expected that the NBK will use this manual for future internal training programs.

K. Competition Policy

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

- EREC Project organized an audio-conference with the WEF Global Competitiveness Index team to negotiate certain issues of the GCI methodology. Competition Protection Agency (CPA) officials and EREC Competition Advisor took part in the audio-conference with WEF and had a chance to discuss the methodological issues in details. EREC Project sent the audio-conference minutes and the WEF Global Competitiveness Report 2009-2010 to the CPA.
- EREC Project participated in the CPA Conference dedicated to the 1-year anniversary of the Competition Act. EREC Project advisor made a presentation on international best practices in institutional capacity building among young competition authorities. EREC Project, along with other international organizations and foreign competition authorities, Kazakhstan business community and state agencies, also took part in additional sessions “Cartels” and “Competition Advocacy”. At these sessions participants exchanged views on the specified issues and shared best practices used abroad.
- EREC Project delivered a report on issues, specified by the CPA Legal Department, concerning dominance to reflect best practices worldwide in competition policy enforcement.
- EREC Project held meetings with the CPA Strategic Department and discussed strategic planning issues. EREC provided recommendations on how to improve the CPA Strategic Department performance indicators and ensure their measurability and accuracy. EREC also provided consultations to the CPA Strategic Department on the UNCTAD peer review application: the application procedure, incurred costs and expected outcomes.
- EREC Project PPP and Competition Policy advisors held a meeting with the CPA Deputy Chairman to discuss issues of interconnection and interaction of competition policy and PPP to reinforce each other. Based on the meeting results, EREC Project submitted PPP-related materials to the CPA.
- EREC Project met with the CPA Competition Policy Development and Advocacy Center and received a request to provide some technical assistance in assessing the postal market re-regulation implications.
- Per the CPA request, EREC Project translated materials from the 9th ICN Conference in Istanbul and submitted them to the CPA.

2. Future activities & events

- EREC Project will assist the CPA in writing an application for the peer review to the UNCTAD and monitor the process in future.
- EREC Project will translate the June 2010 competition advisor mission reports and submit them to the CPA for their feedback.
- EREC Project will review the CPA center’s request for technical assistance.
- EREC Project will further proceed with the proposed study tour to a well performing competition authority.