



**USAID** | **KAZAKHSTAN**  
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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.
- EREC Project completed its assistance to the Financial Supervision Agency in the area of insurance supervision, however more time and effort is required to complete the assistance in several areas: annuity mortality table (as of now EREC Project drafted requirements for data needed for the research and delivered them to the FSA), retention limits, early warning tests for life insurance companies, as well as deliver a second training course in Solvency II.

## **Significant meetings with counterparts & donors:**

- Mr. Mazhit Yessenbayev, CPA Chairman
- Mr. Boris Parsegov, CPA Deputy Chairman
- Ms. Oxana Bassalayeva, Strategic Department Director, CPA
- Ms. Marzhan Absattarova, Commodity Markets Analysis and Monitoring Department Director, CPA
- Mr. Yerbolat Ibraikhanov, Investigations Department Deputy Director, CPA
- Ms. Kulshat Ordabayeva, Revenue Forecasting and Analysis Division Head, Competition Protection Agency (CPA)
- Ms. Larissa Antonova, Revenue Forecasting and Analysis Division Senior Expert , CPA
- Ms. Saltanat Omarova, Revenue Forecasting and Analysis Division Senior Expert, CPA
- Ms. Bakytkul Saduakas, Revenue Forecasting and Analysis Division Expert, CPA
- Ms. Assel Assaubayeva, Strategic Development and International Cooperation Division Head, CPA
  
- Ms. Tolganai Botakanova, Deputy Chairperson, Tax Committee (TC) of the Ministry of Finance
- Mr. Argin Kipshakov, Deputy Chairman, Tax Committee (TC) of the Ministry of Finance
- Mr. Marat Zhexembin, International Taxation Unit Head , TC
- Mr. Zhanbolat Akhmetov, International Taxation Unit Expert, TC
- Ms. Vera Knyukh, Manager/Coordinator, National Analytical Center
- Ms. Zhanara Zhanuzakova, National Analytical Center Expert
- Ms. Aisulu Burambayeva, Tax Law Explanation and Improvement Unit Head, TC
- Mr. Daniyar Zhanalinov, Tax Services Unit Head, TC
- Ms. Gulmira Smagulova, Non-production Payments Unit Head, TC
- Mr. Oleg Reshetko, IT Unit Senior Expert, TC
- Ms. Aigul Ualiyeva, Taxpayer Service Unit Senior Expert , TC
- Ms. Mariyam Zhagparova, Legal Unit Senior Expert, TC
  
- Mr. Rakhimzhan Nurseitov, deputy Chairman of Treasury committee, MoF

- Ms. Tatyiana Kaigorodova, chief expert, Treasury committee, MoF
- Ms. Zaiffun Ernazarova, deputy director, Accounting and Audit Development Department, Ministry of Finance (hereinafter referred to as DD)
- Ms. Anar Kaimoldinova, head of state institutions' accounting and financial reporting development unit, DD (hereinafter referred to as DUDD)
- Ms. Sholpan Idrisova, senior expert, DUDD
- Ms. Gulshat Baimaganbetova, senior expert, DUDD
- Ms. Laylim Kashimova, senior expert, DUDD
- Ms. Dametken Zhaskenova, senior expert, DUDD
  
- Mr. Baurzhan Tortayev, Director, Department of Investment Policy, Ministry of Economic Development and Trade (MEDT)
- Ms. Diana Suinisheva, Head of the Division for Methodological Support of Investment Process, Projects Monitoring and Analysis at the Department of Investment Policy, MEDT
- Ms. Aimgul Batyrbekova, Deputy Chairman of the Board, Karaganda Regional PPP Center
- Ms. Sholpan Sapargali, Head of the PPP Development Department, Karaganda regional PPP Center
- Mr. Almaz Sadykov, Head of the Concessions Department, Karaganda Regional PPP Center
- Ms. Galym Akishev, Chief Exeprt, Concession Projects Department, Karaganda Regional PPP Center
- Mr. Rustam Akberdin, Deputy Chairman of the Innovation Committee, Nur Otan People's Democratic Party
- Mr. Nazhen Sarsembekov, Head of the Monitoring Department, Innovation Committee, Nur Otan People's Democratic Party
  
- Altai Zeinelgabdin, Member of the Accounts Committee (AC)
- Yelkair Syzdykov, Chief of the Apparatus of the AC
- Anuar Uskenbayev, Head of the Legal division, AC
- Yerkegali Korbozov, Chief expert for external relations, AC
  
- Alina Aldambergen, Deputy Chairperson of the Financial Supervision Agency (FSA)
- Mukhtar Bubeyev, Director of Banking Supervision Department, FSA
- Nurlan Abdrakhmanov, Director of Strategy and Analysis Department, FSA
- Gulnara Kireyeva, Deputy Director of Strategy and Analysis Department, 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

- Delivered a presentation on the Personal Income Tax (PIT) model to the Revenue Forecasting and Analysis Division (RFAD) of the Ministry of Finance on the basis of the previously submitted data. The PIT model enables the RFAD to project personal income tax collections by regions and incorporates the Social Tax (ST) simulation tools in it.

- Modified the VAT and Corporate Income Tax (CIT) models using the latest tax data received from the Tax Committee of the Ministry of Finance (2010 data) and held extensive discussions with the VAT and CIT specialist on the models and simulation techniques.
- Interacted actively with the RFAD to collect data for the National Fund (NF) model. Revenue sources to the National Fund and taxation nuances of surface users have been discussed and analyzed to enable efficient forecasting. A draft NF model was demonstrated to the National Fund specialist.

## 2. Future activities & events

- Receive the RFAD's feedback on the delivered VAT, PIT, CIT models to assist in solving issues related to use, maintenance and updating the models.
- Finalize the National Fund model on the basis of the delivered draft model. The National Fund model is the last model for submission to the RFAD, according to the EREC Project deliverables.
- The EREC Project will keep as a priority assisting the RFAD in integrating the developed models into their forecasting processes.

### *B. Public Private Partnership*

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

- EREC Project continued its assistance to the Karaganda Regional PPP Center kindergarten pilot project. An initial outline of the investor outreach strategy on the broad Program level and a draft template for developing the pilot project's Information Memorandum were provided. Suitable international e- marketing sites for the project were identified including indicative costs.
- A meeting was held with the management of the MEDT Investment Policy Department to discuss the project's current and future PPP activities. EREC Project proposed to deliver seminars for representatives of appropriate state institutions on the topics relevant to Kazakhstan at its current stage of PPP development. These topics may include international level tender process and documents development, investment promotion on a program and individual project levels, PPP projects development work flow process based on a particular successful project example.
- Reviewed the existing draft tender documentation for the kindergarten pilot project and identified potential issues with the implementation of the transaction. The *possibility* of using international practice elements of tender development/holding and the contract development, launching, and monitoring were discussed jointly with the local law firm *GRATA* engaged under EREC to support the pilot project.
- EREC Project Senior PPP advisor, participated in the roundtable devoted to PPP development issues under implementation of the Kazakh Government's industrial and innovation policy. The roundtable was organized by the 'Nur Otan' party and the MEDT/PPP Center. A presentation was delivered on international experience in the social sector/Private Finance Initiative (PFI) projects implementation and prospects of PFI development in Kazakhstan. EREC Advisor *also* participated in the preliminary discussion meeting hosted by Nur Otan party, and provided comments and answers to the issues raised by Kazakhstani participants. Additional recommendations were also provided that emphasized the need of devoting adequate resources to development of PPP projects in line with international best practice and the issue of

PPP contracts treatment in national accounts referring to the corresponding EU Statistical Office/Eurostat directive.

- Provided advice to the representatives of the Karaganda PPP Center on the future draft contract to be included into the tender documentation, which, in particular, incorporates the conditions essential for banks to provide financing for the construction. Specific ambiguous provisions of the current legislative framework that might disallow using international practice mechanisms in tender holding and contract/project implementation were also discussed.

## 2. Future activities & events

- EREC Project will work closely with the Karaganda Regional PPP Center team on preparation of the actual tender for the pilot transaction.
- EREC Project, jointly with the MEDT Investment Policy Department, will plan the future capacity building activities for the state institutions and regional subunits responsible for PPP development.

### *C. Implementation of International Public Sector Accounting Standards*

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

- EREC Project continued implementation of key activities for transition to accrual-based accounting in accordance with the IPSAS requirements, which included:
  - Providing consultations during introduction of amendments to the draft legal acts considering recommendations received from line ministries. The main goal of consultation is to ensure compliance of introduced amendments with IPSAS.
  - Providing consultations and review of draft documents on organizing accrual-based accounting in line ministries, including Instructions on Accounting in Foreign Offices of the Ministry of Foreign Affairs, which are currently being developed.
  - Providing technical assistance, examination and quality assurance of the draft *Manual on Transition of State Institutions from Cash Basis to Accrual Basis in accordance with IPSAS* (with examples and calculations) and provided recommendations on improving the format for presenting the Notes to Financial Statements.
  - Providing a review of the current legal and regulatory acts on accounting in state institutions and developing recommendations on alignment of particular legal and regulatory acts with the new Accounting policies, Chart of Accounts, Accounting Rules, Forms and Procedure for preparing and presenting financial statements, Rules for preparing consolidated financial statements for budget program administrators, including: (1) Instructions on the stocktaking of assets, stocks, cash, accounts and other balance sheet items in government institutions funded from the state budget; (2) Instructions on accounting in the foreign institutions of the Ministry of Foreign Affairs; (3) Instructions on accounting in the Ministry of Internal Affairs.
  - Developing recommendations to improve forms of accrual-based accounting statements and accounting journals applied, including the Album of forms of accounting records and journals
  - Providing technical assistance in bringing the current legal and regulatory acts on accounting in state institutions into conformity with the new Accounting policies, Chart of Accounts, Accounting Rules, Forms and Procedure for

preparing and presenting financial statements in the context of transition to the accrual-based IPSAS, Rules for preparing consolidated financial statements for budget program administrators: Order No.548 of the Director of the Treasury Department, MoF, dated December 1, 1998, "On approval of the Album of forms of accounting records for the government institutions of the Republic of Kazakhstan"

- Providing recommendations regarding preparation and presentation by state institutions and budget program administrators of accrual-based financial statements, as well as of consolidated financial statements by budget program administrators;
- Reviewing the Russian translation of the IPSAS 1-27, taking into account the latest amendments, updates and recommendations of the IPSAS implementation council;
- Providing a review of the Russian translation of the IPSAS 28-31.
- Conducted a training seminar on new IPSAS standards 28-31 for the Working group members that provided a review of IPSAS-compliant requirements for preparing financial statements on recognition, measurement and presentation of financial instruments and disclosures in the context of transition to the accrual basis.

## 2. Future activities & events

- EREC Project will complete its assistance to the Ministry of Finance under the mutually agreed Work Plan on IPSAS implementation on December 31, 2010.
- Early in 2011 EREC Project and the Ministry of Finance will initiate a discussion on the Work Plan for joint MoF and EREC activities on IPSAS implementation. The new Work Plan would cover period through to EREC Project end in September 2011.

### *D. Tax Policy*

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

- Organized and financed a study tour to the Finnish Tax Administration for eight high level officials of the Tax Committee of the Ministry of Finance of Kazakhstan and National Analytical Center in November. The objective of the study tour was to enable the participants to gain international experience in the work that is being done to mitigate the risks presented by the cash economy and through corruption. The opportunity provided by the Study Tour of face-to-face discussions and familiarization with tax administration procedures of the Finnish Tax Administration should assist the Kazakh delegation in identifying the issues that will have to be resolved in order to introduce Universal declaration in Kazakhstan, implement Risk management principles, and ensure relevant technical and IT support.
- Prepared a report on taxation of micro- and small businesses to cover advanced international practices in presumptive taxation.

## 2. Future activities & events

- EREC Project will finalize a report on the Finnish Tax Administration practices. The report's structure is based on Questions & Answers blocks, in which the Tax Committee issues are covered by relevant responses from the FTA annual reports.

## E. Public Audit

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

- Submitted to the Accounts Committee guidelines for the regulation of Maslikhat Revision Commissions following the feedback received at the last meeting with the Head of Methodology Department in September 2010.
- Prepared a training session on compliance audit, which includes practical case studies from international experience of Supreme Audit Institutions (SAI). It was prepared in accordance with further implementation of the Regional training plan for Revision Commissions of Maslikhats.
- Provided logistical support for the upcoming training program in Shymkent for Revision Commissions of Maslikhats of the southern region. Per the Accounts Committee's request the training program in Shymkent was postponed.
- Prepared a paper "External Audit on Local Levels – Revision Commissions of Maslikhats", which addressed the following issues:
  - Relationship between SAIs and local bodies of audit basing on the experience of seven countries: the US, the UK, Canada, New Zealand, France, Germany and Australia.
  - Implementation of recommendations prepared upon the results of audit.
- Prepared and submitted to the AC a concept paper on compliance audit, which covered the following issues:
  - Major aspects of compliance audit methodology that can be of practical use for Accounts Committee;
  - Key terms and their detailed definitions;
  - Strategic and annual audit planning issues;
  - Major pipeline of compliance audit in accordance with the ISSAI 4100 requirements: *preliminary discussion, audit planning, audit conduct and data gathering, assessment and conclusion, reporting*;
  - Internal control mechanisms assessment;
  - Audit results discussion and their monitoring.
- Assisted the AC in organizing and financing a study tour to the Court of Accounts of France for senior representatives of the Accounts Committee, parliamentarians, one member of Astana Maslikhat and one member of Zhambyl Maslikhat Revision Commission. The objective of the study tour was to enable the Accounts Committee to study and integrate other SAI's experience in auditing effective use of public funds and assets.
- Continued working on preparing recommendations for the draft Concept of state financial control system development in Kazakhstan. Timeframe for recommendations preparation and submission will be provided by the AC.
- Developed recommendations for future technical assistance to AC until September 2011 on the basis of implementation analysis of the measures defined in the Terms of References and technical support needs evaluation. The AC accepted the recommendations.

### 2. Future activities & events

- In response to the Accounts Committee's requests, EREC Project continues research on the issue of 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.

- EREC Project will propose to the AC dates for the remaining joint regional seminars for members and staff of Maslikhat Revision Commissions, and submit for the AC review proposals and recommendations on further implementation of Regional training plan for Revision Commissions of Maslikhats.
- EREC Project will prepare a report on implementation of measures, which are defined in the Terms of References, and additional agreement under the Terms of References framework, which will include the actions plan until September 2011.
- EREC Project will continue cooperation with the Public Audit Journal.

#### *F. Banking and Consolidated Supervision*

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

- Assisted the Consolidated Supervision Unit management in review and development of the regulation defining their role vis-à-vis functional departments of the regulated members of the banking conglomerates and outlining their own responsibilities for parent companies and non regulated members of the conglomerates.
- Supported preparation of an analysis of financial condition, intergroup transactions and all issues related to the banking conglomerate established around one of the largest banks in country.
- Provided guidance to the analyst responsible for the conglomerate in regard to interpretation and reconciliation of financial reports prepared according to several accounting standards and advised the management about issues that hamper effective appraisal and assessment of the conglomerate's financial health and risks.
- Assisted the Banking Supervision Department of the FSA in development of the Early Warning Indicators that should help regulators to detect risks in single institutions before they pose systemic risk.
- Assisted the Strategy and Analysis Department of the FSA in review of the BOSS system formulas that will adapt the off-site surveillance system to the amended chart of accounts.

##### 2. Future activities & events

- EREC Project will continue providing support to the FSA in the Consolidated Supervision Unit and the Banking Supervision Department in the areas of financial analysis and risk based supervisory approach.

#### *G. Insurance Reform*

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

- Developed and provided to the FSA with adjustment factors for the Interim Disabled Mortality Table prepared earlier. The adjustment factors reflected more sensible mortality rates for persons under professional disability. The FSA adopted the rules recommended in the Supplementary Study on Mortality Rates for Professional Disabled Population and incorporated the Interim Mortality Table into the insurance regulations, which will become effective within the next few months.
- Conducted the updated Course on Solvency II for nine FSA specialists. This program was a repeat of the course on Solvency II delivered in May 2010 with some additional topics, which covered the recent amendments to Solvency II. At the end of the

course an examination was given to the students. Five students out of nine successfully passed the examination and received appropriate certificates.

- Performed a study on retention limits for different lines of insurance business in Kazakhstan, and presented a simplified model for possible retention limits for property insurance.
- Assisted the offsite inspection group of the FSA 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).

## 2. Future activities & events

- After February 2011 EREC Project plans to:
  - Continue providing assistance to the FSA in the area of identifying and setting up the new retention limits for various lines of insurance business.
  - Deliver second training course on Solvency II for the staff of Insurance Supervision Department of the FSA.

### *H. Assistance to National Bank*

- Early in 2011 EREC Project will complete the Case Studies document and submit it to the Accounting department of the NBK.

### *I. Competition Policy*

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

- A meeting was held with the Chairman of the Competition Protection Agency (CPA) to discuss policy priorities of the Agency in light of the post-crises economic situation. An agreement was reached between the parties to elaborate a draft document to reflect best international trends in setting competition policy priorities in times of economic downturn.
- Analyzed the CPA's Strategic plans for 2009-2011 and 2011-2015 and submitted the draft document to the CPA.  
Organized and financed a study tour to the Competition Commission of Singapore (CCS) for five high level officials of the CPA of Kazakhstan in December. The study tour objective was to enable the CPA to gain international experience in successful development and implementation of efficient competition policy to further reinforce the CPA's capacity in conducting commodity markets analysis, improving its investigative techniques and enforcement practices, promote sound strategic planning and competition advocacy, and delivering consumer rights protection policy.

## 2. Future activities & events

- EREC Project is waiting for the CPA's feedback on the draft document on performance assessment standards and priorities setting to further negotiate the policy document and finalize the document with conclusions and recommendations.
- EREC Project will work with the CPA and monitor capacity building process based on the knowledge and experience obtained during the Study tour to the Competition Commission of Singapore. In particular, EREC Project will overview the Agency internal documents, which have references to the Singapore experience.