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STAFF APPRAISAL REPORT

REPUBLIC OF KAZAKHSTAN

TECHNICAL ASSISTANCE PROJECT

JUNE 12, 1993

MICROGRAPHICS

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**Country Operations Division I
Russia and Central Asia Department
Europe and Central Asia Region**

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REPUBLIC OF KAZAKHSTAN
TECHNICAL ASSISTANCE PROJECT

CURRENCY EQUIVALENTS

Currency Unit = ruble
 1 ruble = 100 kopecks

1 SDR = US\$ 1.36855
 US\$ 1 = SDR 0.7307

Rubles per US Dollar

Official Exchange Rate
 (average)

1987	0.6238
1988	0.6080
1989	0.6274
1990	0.5856
1991	0.5819

.....

.....

MIFCE Rate (average)

Almaty Auction Rate (average)

January 1992	110	n.a.
February 1992	103	n.a.
March 1992	93	n.a.
April 1992	100	n.a.
May 1992	94	n.a.
June 1992	90	138
July 1992	143	155
August 1992	168	164
September 1992	220	254
October 1992	354	365
November 1992	426	441
December 1992	415	480
January 1993	484	545
February 1993	572	704
March 1993	665	785
April 1993	767	870
May 1993	949	949

WEIGHTS AND MEASURES

Metric System

GOVERNMENT FISCAL YEAR

January 1 - December 31

REPUBLIC OF KAZAKHSTAN**TECHNICAL ASSISTANCE PROJECT****ABBREVIATIONS AND ACRONYMS**

AMC	Anti-Monopoly Committee
BAC	Bank Advisory Committee
CBR	Central Bank of Russia
CEM	Country Economic Memorandum
CG	Consultative Group
CIF	Cost, Insurance and Freight
CWA	Country Water Assessment
EBRD	European Bank for Reconstruction and Development
EC	European Community
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GDP	Gross Domestic Product
GOK	Government of Kazakhstan
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IFC	International Finance Corporation
IMF	International Monetary Fund
IPLR	Integrated Program for the Development of Land Reclamation
LC	Letter of Credit
MEB	Ministry of Ecology and Bioresources
MIFCE	Moscow Interbank Foreign Currency Exchange
MIGA	Multilateral Investment Guarantee Agency
MOC	Ministry of Communications
MOE	Ministry of Economy
MOH	Ministry of Health
MOI	Ministry of Industry
MOL	Ministry of Labor
MSP	Ministry of Social Protection
NAFI	National Agency for Foreign Investment
NBRK	National Bank of the Republic of Kazakhstan
OECD	Organization for Economic Cooperation and Development
PIU	Project Implementation Unit
PPF	Project Preparation Facility
SCSP	State Committee on State Property
SOE	State Owned Enterprise
TCA	Technical Cooperation Agreement
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VPF	Voluntary Pension Fund
WB	World Bank
WDR	World Development Report

REPUBLIC OF KAZAKHSTAN
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This report is based on the findings of the World Bank missions which visited Kazakhstan in April 1992, June 1992, October 1992 and February 1993, assisted the Government in identification and preparation of the project, and concurrently appraised it. Mission members included: Messrs./Mmes. Toureille (Task Manager); Chu (Deputy Task Manager); Guerrero, Lloyd, and Holsen (Economists); Andrews (Mining); Somel, Voegele, and Russell (Agriculture); Subbarao (Social Sector); Linder and Yuksel (Procurement); Prefontaine and Renkewitz (Disbursement); and Lauridsen (Health Sector). Mr. Eduardo Abbott has served as counsel for Kazakhstan since June 1992. Additional contributors include: Messrs./Mmes. Mock and Garcia-Garcia (Agriculture); Ikramullah (Payments Systems); Engelhard (Procurement); Mills (Social Sector); Lorch (Privatization and Private Sector Development); Saba (Private Sector Development); Polizzato (Financial Sector); Garvey (Environment); and Le Vourc'h (Accounting). Mr. Kadir T. Yürükoğlu and Mr. Russell J. Cheetham are the managing Division Chief and Department Director, respectively, for the operation.

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REPUBLIC OF KAZAKHSTAN
TECHNICAL ASSISTANCE PROJECT

Loan and Project Summary

- Borrower:** Republic of Kazakhstan
- Beneficiary:** The Government of Kazakhstan
- Amount:** US\$38 million equivalent
- Terms:** 17 years, including 5 years of grace period, at the Bank's standard variable interest rate
- Objectives:** The objectives of the Loan are to: (i) provide assistance in the design and development of the Government's reform policies and programs; (ii) help build the institutional capacity and skills base to carry out these reforms; and (iii) initiate policy work for the development of key sectors.
- Description:** The proposed Loan would finance technical assistance for:
- A. Privatization and Private Sector Development.* Technical assistance would be provided to: (i) continue development of the Government's privatization program and assist in its implementation, with a particular emphasis on mass privatization; (ii) encourage competition through improvement of antimonopoly policies; and (iii) improve the policy and fiscal regime for foreign investment.
- B. Financial Sector Modernization.* Technical assistance would be provided to: (i) modernize the country's payments system; (ii) continue development of banking and related legislation; (iii) modernize bank accounting and auditing; and (iv) study the reorganization of the banking system, particularly as related to specialized financial service needs.
- C. Social Sector and Human Resources Development.* Technical assistance would be provided to: (i) design and implement policies and programs to provide unemployment relief; introduce social protection policies targeted to the most vulnerable groups of society; and develop mechanisms for poverty

monitoring; (ii) develop new policies and programs in health care reform; and (iii) provide training in areas where serious skills gaps exist.

D. Institutional Support and Development. Technical assistance would be provided to: (i) support the introduction of broadly based legal and regulatory reforms; and (ii) improve strategies for environmental issues.

In addition, this loan would finance the establishment of a Project Implementation Unit (PIU) to support the implementation of this Loan and future loans.

Benefits:

The proposed Loan would provide critical support to the development and implementation of the Government's reform program at a crucial time. Over the last eighteen months, the Government of Kazakhstan has embarked on an extensive program of reforms, affecting all sectors of the economy. However, the Government currently has limited institutional capacity and necessary human resource skills to further design and implement these reforms. It is imperative that the momentum of the reform program be continued, particularly during this difficult period of transition when dissatisfaction and frustration with the deteriorating economic and social situation is growing.

Risks:

The main risks include: (i) the risk that some of the technical assistance may not be fully used or used to best advantage by the ministries which are slow in carrying out economic reform; and (ii) Kazakhstan's limited administrative capacity and lack of familiarity with Bank procurement and disbursement procedures, which could limit absorptive capacity and lead to significant delays. The provision of technical assistance to critical ministries and agencies is aimed at assisting in the preparation of their respective reform programs, and is in direct support of the Government's priorities. Close supervision during implementation will assure that inefficiencies are addressed as needed. Procurement and disbursement risks will be reduced through close attention to procurement and other implementation constraints and the financing of technical assistance to the PIU during project supervision.

Cofinancing:

Cofinancing not envisaged. However, substantial parallel financing from the EC, EBRD, and USAID has been pledged, and has been taken into account in the design of this project.

<u>Project Costs:</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign as % of Total</u>
	------(US\$ 000 equivalent)-----			
Privatization and Private Sector Development	1,555	12,270	13,825	88.8
Financial Sector Modernization	1,015	10,720	11,735	91.4
Social Sector and Human Resources Development	1,255	4,735	5,990	79.0
Institutional Support	515	2,660	3,175	83.7
 Project Implementation	 <u>395</u>	 <u>2,830</u>	 <u>3,225</u>	 <u>87.8</u>
Base Cost	4,735	33,215	37,950	87.7
Contingencies	<u>150</u>	<u>1,400</u>	<u>1,550</u>	<u>90.3</u>
Total Cost	<u>4,885</u>	<u>34,615</u>	<u>39,500</u>	<u>87.6</u>

<u>Financing Plan</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign as % of Total</u>
	------(US\$ 000 equivalent)-----			
IBRD	3,385	34,615	38,000	91.1
Government	<u>1,500</u>	---	<u>1,500</u>	---
	<u>4,885</u>	<u>34,615</u>	<u>39,500</u>	<u>87.6</u>

<u>Estimated IBRD Disbursements:</u>	<u>FY 94</u>	<u>FY 95</u>	<u>FY 96</u>
	------(US\$ millions equivalent)-----		
Annual	12	14	12
Cumulative	12	26	38

Economic Rate of Return: Not applicable.

Map: IBRD 23700R

REPUBLIC OF KAZAKHSTAN
TECHNICAL ASSISTANCE PROJECT
STAFF APPRAISAL REPORT

I. INTRODUCTION

1.1 The Government of Kazakhstan is in the process of developing an ambitious reform program to transform its economy, and already some important actions have been initiated. There has been considerable progress on systemic reforms, particularly as regards the adoption of a far-reaching privatization program and the abolition of multiple exchange rates. Prices have been largely liberalized, and most state orders have been abolished. Critical steps have been taken on the reform of the financial system, with the drafting of new banking legislation and the emergence of new commercial banks. A new constitution was adopted in January 1993, which allows for an appropriate regulatory framework in private sector activity. Important steps have also been taken at the sectoral level to assure the prompt transformation and growth of economic production.

1.2 The design of the reform program has generated a fruitful dialogue with the IMF and the Bank, and important measures are being discussed to foster monetary and fiscal discipline and stabilize the economy. The IMF is currently working on an arrangement with the Government to support the reform program, and the Bank is also planning to support a program of systemic and structural reforms through a series of loans, of which this will be the first.

1.3 In the meantime, the Bank is concerned that public support and hence continued implementation of Kazakhstan's economic reform program is threatened by growing dissatisfaction and frustration. It is important that efforts aimed at providing sustained support to the reform program, particularly those which will contribute directly to economic output and well-being, be undertaken as soon as possible in order to alleviate this frustration. It is therefore recommended that technical assistance be initiated immediately in a number of key areas to assist in the design of the reform program and build up the institutional capacities and skills needed in a market environment. This technical assistance will be financed under the proposed Loan. Further Bank support could be provided in the form of investment loans in selected sectors, and a Rehabilitation Loan could be processed once full agreement has been reached on the macroeconomic framework. The Government reform program and the Bank's strategy in Kazakhstan is discussed extensively in the accompanying President Report.

II. LESSONS OF EXPERIENCE

2.1 The success of Bank technical assistance projects has been mixed. Although the individual circumstances and conditions within countries have varied greatly, there are nevertheless a number of lessons which can be drawn from past experience.

2.2 In general, the most successful technical assistance projects have been those which have been linked with specific investment projects. These technical assistance projects have usually been very focussed, and have been fully identified as part of an investment project. The second most successful category of technical assistance projects are stand-alone institution-building loans which are designed to support reform programs. The least successful technical assistance projects are loosely defined projects that are tied in with structural adjustment projects.¹

2.3 This project falls into the second category of technical assistance projects. With the proper planning and attention to other experiences, this type of loan has the potential to be fully successful. Reviews of past multisectoral technical assistance loans with a focus on institutional building suggest that such projects are most successful if they are developed in the context of the Government's own institutional development objectives, and with Government commitment and involvement in the specification of the program and project administration. The success of the project also depends on careful project preparation including (i) development of detailed terms of reference for expert assistance and training; (ii) provision of training prior to the initiation of the program, (iii) coordination with other donors/lenders, and (iv) consideration of the absorptive capacity of the Government. Finally, successful technical assistance projects require intensive supervision of the operation by the Bank once implementation has begun.

2.4 The design of the proposed operation reflects the concern for learning from past experience. The proposed program has been developed through close collaboration with the Kazakh authorities, at the level of the lead authority (Ministry of Economy), as well as at the level of the concerned sectoral ministries and other entities which will be involved in the implementation of the program. To support the project, the Ministry of Economy has established a Project Implementation Unit (PIU), which will be responsible for keeping track of the design and implementation of the reform program, as well as providing support to project implementation, particularly with regard to procurement, disbursement, and project accounting (see Annex V for additional information on the PIU). In terms of project preparation, detailed terms of reference for proposed expert assistance have already been drafted and largely discussed, and are annexed to the Staff Appraisal Report. A number of Government officials, including the senior staff of the PIU, have been attending training programs organized by the Bank. Procurement advisers to the PIU will begin work by July 1, 1993. As far as supervision is concerned, significant amounts of Bank resources will be devoted to project supervision and in addition, the PIU will be staffed in order to perform day-to-day supervision.

1/ Among other reasons, these TA projects may be less successful because the borrowing governments often accept the TA in order to receive the SAL/SECAL funds, rather than through any genuine commitment to the TA components. The TA components of these loans are often less well defined.

2.5 The Government has a limited number of skilled counterparts to implement reforms and projects. This project is designed to improve the absorptive capacity of the Government, *inter alia* through skills transfer: a significant amount of the resources will be devoted to training, not only through formal training programs and study tours, but also through on-the-job training provided by resident specialists who will closely work with their counterparts. The early establishment of a strong PIU, assisted by a number of advisers in key positions, would also address this problem.

2.6 The proposed project is complex, covers several sectors, and will therefore involve a number of implementing agencies. Project arrangements have been carefully designed, so that the PIU operates as a general coordinator and facilitator of project implementation, while the sectoral ministries and agencies are responsible for executing the components concerning their respective sectors.

2.7 Finally, the Bank has played an important role in fostering donor coordination, both through CG meetings and through support to the establishment, within the Ministry of Economy, of the National Agency for Foreign Investment (NAFI), which will serve as a coordinator for all external assistance. The PIU has been established under NAFI for monitoring, and assisting in project implementation.

III. THE TECHNICAL ASSISTANCE PROJECT

A. Project Rationale and Objectives

3.1 The Government of Kazakhstan has embarked on an extensive program of reforms. However, the capacity of the Government to design and implement reform programs is quite limited. In addition to its need for assistance and advice in policy development to promote economic growth, the Government lacks the institutional capability and the human resource skills needed for these programs. Further, dissatisfaction is growing as a result of the deterioration of the social and economic environment. While economic reform will be a long-term process, it is critical for the momentum to be maintained and for steps to be taken now in key areas.

3.2 In this context, the objectives of the Loan are to: (i) provide assistance in the design and development of the Government's reform policies and programs; (ii) help build the institutional capacity and skills base to carry out these reforms; and (iii) initiate policy work for the development of key sectors.

3.3 The Bank has been assisting the Government in identifying sources of financing and has been working directly with other donor agencies to coordinate technical assistance. In December 1992, the Bank chaired a Consultative Group meeting at which a broad program of technical assistance needs was discussed. The donor response was favorable, and a substantial amount of technical assistance funding was pledged. For example, USAID is sponsoring a US\$3.3 million program on small-scale privatization, including transport; the EC is sending resident advisers to assist in the overall privatization program; and the IMF and a number of central banks from donor countries have been providing extensive technical assistance to the Central Bank. Additional grant financing is expected to be available over the medium-term from a number of donors to finance technical assistance. However, commitments from other sources for the critical technical assistance identified for this loan will not be forthcoming in the immediate future. The urgent need for technical assistance in these key sectors compels the Government to seek Bank financing, so that work can begin immediately.

B. Project Components

3.4 The proposed Loan would finance technical assistance primarily in the key sectors of (i) Privatization and Private Sector Development (US\$13,825,000); (ii) the Financial Sector (US\$11,735,000); and (iii) the Social Sector (US\$5,990,000). In addition, this Loan would provide financing for Sectoral Programs and Institutional Support (US\$3,175,000) and for Project Implementation (US\$3,225,000). A summary of the technical assistance program is listed in Table 1; details are discussed in Annexes I-V.

Table 1
Summary of the Technical Assistance Program

Technical Assistance
<p>1. <u>Privatization and Private Sector Development</u></p> <p>a) Continuation of planning and policy work for Kazakhstan's privatization and corporatization program, as well as development of detailed implementation plans.</p> <p>b) Formulation and enforcement of policies to enhance competition, in particular anti-monopoly, fair trade, and consumer protection.</p> <p>c) Development of policy, legal, institutional and skills base for the regulation and promotion of foreign investment, both at the national policy level and in the mining sector.</p>
<p>2. <u>Financial Sector</u></p> <p>a) Development of a payments system in Kazakhstan, including the financing and installation of supporting computer and telecommunications equipment, and required software.</p> <p>b) Bank accounting and auditing, and diagnostic studies.</p> <p>c) Study for reorganization of specialized financial services.</p> <p>d) Strengthening of bank supervision and banking skills.</p>
<p>3. <u>Social Sector and Human Resources Development</u></p> <p>a) Social safety net: Design and implementation of policies and programs to handle the immediate problems of unemployment relief. In addition, the current general social protection programs will be restructured into a well-targeted, fiscally sustainable program designed to protect the most vulnerable groups of society.</p> <p>b) Health: Development of new policies and programs for health care reform.</p> <p>c) Provide training in critical areas, including the financial sector, the civil service, and enterprise management.</p>
<p>4. <u>Institutional Support and Development</u></p> <p>a) Development of a legal framework for reform.</p> <p>b) Design and development of environmental policies and strategy.</p>
<p>5. <u>Project Implementation</u></p> <p>Provide support for the Project Implementation unit. This would include providing basic office equipment; training in financial, procurement, and disbursement issues; and financing a procurement adviser.</p>

1. Privatization and Private Sector Development (US\$13,825,000)

3.5 The Government is committed to a reform program of extensive privatization, enterprise restructuring, and private sector development. Technical assistance has already been provided to assist the Government in preparing the program adopted in March 1993. To maintain the momentum of reform, additional technical assistance will be needed immediately. Kazakhstan has a large and complex industrial sector, which requires an elaborate privatization program, and the Government would like to carry out privatization as quickly as possible, since this would have major effects on the overall reform program.

a. Privatization and Enterprise Reform (US\$10,165,000)

3.6 The Government's privatization program consists primarily of three components: (i) small-scale privatization, which would entail the sale of small businesses, restaurants, retail outlets, etc; (ii) mass privatization that would allow the rapid sale of most medium-size and large enterprises; and (iii) case-by-case privatization for very large or special enterprises. The bulk of Bank support to

privatization under this Loan will concern mass privatization. In addition, the Bank will assist in the case-by-case privatization, the environmental aspects, and supplementary components for the program. Outside the context of this project, USAID is expected to provide US\$3.3 million to finance technical assistance for small-scale privatization, and will work closely with the Bank's Cofinancing Financial Advisory Services Department.

3.7 Mass Privatization. Under this component, technical assistance will be provided to the SCSP (State Committee on State Property) for (i) further detailed planning of the mass privatization program; (ii) the rapid corporatization into joint stock companies of thousands of medium and large firms; (iii) the development and production of a substantial public information program; (iv) support of investment funds; (v) the detailed preparation for the distribution of privatization investment coupons and the mechanism for allocating them to investment funds, and for auctioning enterprise shares to investment funds; (vi) the strengthening of the Government's capacity to carry out reforms through training for the SCSP staff; and (vii) the purchase of equipment for office use by SCSP staff and for supporting the infrastructure of coupon allocation, share registration, and other processes under the mass privatization component to include printing and computer equipment. This component will be supplemented with assistance from the EC, which will finance long-term advisers and occasional short-term missions. The Bank has worked closely with the EC in developing the technical assistance program, and will continue to coordinate at headquarters and in the field to ensure complementary assistance. Annex I-A provides a detailed description of this component.

3.8 Case-by-case Privatization. The Bank's involvement in case-by-case privatization, which concerns very large enterprises, will be limited; it is expected that other donors, including the EBRD, will provide support. The Bank program will focus on the preparatory phase of this program, which includes: (i) the classification and prioritization of firms; (ii) the elaboration of guidelines on pre-privatization segmentation and financial restructuring; and (iii) the development of procedures and regulations to prepare and carry out large privatization transactions, and to deal with environmental issues (para 3.39). This component is described in Annex I-B.

3.9 Corporate Governance and Restructuring. During the transition to a market economy, rapid changes in prices, disruptions in supply, loss of former markets, delays in the receipt of accounts receivable, etc., have put a severe strain on the financial status and liquidity of most enterprises, even those which could be economically viable. Technical assistance would be provided to develop concepts for the financial restructuring of and support for very large enterprises that are economically viable but financially insolvent or illiquid. This component will build on the initial overview of those firms under the above Loan component on case-by-case privatization and will cover: first, assistance in the rapid review of ten major enterprises that appear highly inefficient, with a view to supporting the state's decisions on the potential need for pre-privatization restructuring, and second, on transfer of the enterprises' bank loans to a special restructuring bank or fund. These reviews would follow the experience gained through the similar review of four major mining enterprises in April-May, 1993, with Bank assistance (see Annex I-C). The second component would be assistance to holding companies under the SCSP in the elaboration of pilot restructuring/liquidation plans. One plan will be established for a very large enterprise that is likely to require mainly liquidation, and another for a major firm that is likely to warrant restructuring to promote efficient operation and privatization. This would involve a strategic assessment of strengths and weaknesses as well as development problems and opportunities of these firms, and the development of plans involving partial or full liquidation; financial, managerial, corporate, etc., restructuring; and the planning of new activities (see Annex I-D).

3.10 The governance of state enterprises that will not be privatized in the immediate future, would be strengthened, first, through corporatization and second, through taking specific measures for developing effective governance. This latter assistance would include (i) a study on the status and future strategy of state enterprise governance in Kazakhstan; (ii) the detailed design and implementation of a financial performance monitoring system; (iii) seminars on performance contracts; (iv) the development of training materials and user manuals on effective governance; and (v) training in the interpretation of financial statements and audits.

b. Competition Policy (US\$510,000)

3.11 Currently, most industries are dominated by a few large enterprises or enterprise groups. This degree of market concentration is a cause for great concern, particularly when geographical and market segmentation are considered. Technical assistance is required to support the authorities, mainly the Anti-Monopoly Committee (AMC), through enhancing capabilities in formulating and enforcing policies to foster competition, in particular anti-monopoly, fair trade, and consumer protection policies, and through the encouragement of domestic and foreign trade. The assistance would focus on strengthening the institutional capacity to prepare and implement policies with regard to de-monopolization, merger control, prohibition of cartels and vertical agreements, prevention of the misuse of dominant market positions, and enforcement of fair competition provisions -- mainly through extensive local and overseas training, funds for participation in international meetings on competition policies, and enhancement of the AMC's information system. This will be conducted by a small expert team, that would carefully assess the problem, scope, policies, implementation practice, and constraints, as well as tailoring the training to the specific needs of AMC officials. Competition Policy is discussed in Annex I-E.

c. Foreign Investment Promotion and Regulation (US\$3,150,000)

3.12 **National Policies.** Attracting foreign investment would greatly advance economic growth. The Bank has already begun to assist the Government of Kazakhstan in such work, by providing assistance under the TCA in drafting a new foreign investment law, which will be discussed by Parliament at its next session. However, much more work remains to be done to help develop the policy, legal, institutional, and skills basis for the regulation and promotion of foreign investment. Specifically, assistance would be given in three main areas: (i) foreign investment regime -- policy formulation; legislation; international and bilateral investment protection agreements; options to attract portfolio investment including tax policies; and an assessment of financing and insurance facilities available for foreign investments; (ii) foreign investment negotiations and monitoring; and (iii) foreign investment promotion -- promotion strategy, events, materials, media campaigns, etc. Annex I-F provides further details on this component.

3.13 **Mining.** 1992 mining exports are estimated to have been in excess of US\$1 billion, and account for about 50 percent of Kazakhstan's industrial exports outside the FSU. The mining sector is a key source of foreign exchange and Government revenues, and has the potential to become an even greater source of revenue and foreign exchange earnings should, therefore, receive particular attention under the Government's reform program. Furthermore, foreign investment will be essential to fulfill this potential, which in turn requires the development of clear and consistent laws and tax policies governing investment in the sector. Technical assistance will be provided to help draft enabling legislation to complete the current laws on land and natural resources, prepare model contracts, and advise on mineral taxation policies. In addition, technical assistance is being proposed

to help the Ministry of Geology organize existing data in a way that will help potential investors collect needed information. This component is further explained in Annex I-G.

2. Financial Sector (US\$11,735,000)

3.14 As was discussed in Chapter II, the Government has begun reforms in the financial sector, aimed at developing a system responsive to market demands. However, far-reaching action programs must be implemented to further transform the sector. The most pressing technical assistance needs relate to the modernization of the payments system, the introduction of internationally accepted accounting and auditing standards, the strengthening of bank supervision, and the transformation of the commercial banking system.

a. Payments System (US\$6,050,000)

3.15 One of the major problems faced by enterprises is delays in settlements. When enterprises are not paid on time by their customers, they must in turn delay payments to their suppliers, which leads to a cascading problem of liquidity throughout the system. Although much of the delay is caused by the inability of enterprises to make payments because of financial difficulties or market conditions, the most significant factor appears to be the inefficiency of the payments system. Currently, payments take weeks to clear, which leads to increasing amounts of float, which in turn decreases already scarce financial resources. Risks of fraud are also greatly increased by the inefficiency of the system. Moreover, the current payments system does not generate adequate information for the liquidity management of banks.

3.16 The IMF and the World Bank, assisted by the Bank of Japan, have outlined a comprehensive program to modernize the country's payments system. It is estimated that this program would cost approximately US\$40 million, and would be implemented over several years. A number of immediate steps and improvements have been identified, which could improve payment settlement to some extent and could greatly improve the information available to the banks to manage their liquidity. In addition to this first phase, the Loan would fund studies to prepare the second phase of improvements, which would take some three years to implement and to make fully operational. Specifically the component financed under this loan would support: (i) the national payments association in developing standards, coordination arrangements, etc.; (ii) the installation of microcomputers at the 270 district-level Cash Centers for improved recording of transactions, maintenance of accounts, and data transfer; (iii) the procurement of microcomputers, telecommunications equipment, and related software, mainly to improve data communication at the 19 regional Clearing Centers; (iv) the computerization of NBRK's internal accounting after the introduction of its new accounting system; (v) some software for computerized off-site bank supervision; and (vi) strategy, feasibility, and design studies for the longer-term improvement to the payment system, including development of a bank service bureau network that would enhance the interface of banks with the new payments system. The implementation of the second phase as well as the service bureau network could be financed under the proposed future Financial and Enterprise Sectors Development Loan. Details of the program to modernize Kazakhstan's payments system are given in Annex II-A.

b. Accounting and Bank Diagnostic Studies (US\$3,600,000)

3.17 The Bank has begun working with the NBRK and the commercial banks to develop new standards of bank accounting. Under the TCA program, technical assistance was provided to

help introduce financial statements which have been broadly adapted from internationally accepted statements, and which represent the first step toward meeting international accounting standards. These financial statements have been tested in several Kazakh banks, and by the end of 1993 all Kazakh banks will be required to use them. In addition, new charts of accounts are being developed for banks and other commercial entities with the goal of having them in use by January 1994.

3.18 While these are important first steps in bringing the commercial banks in line with international standards, the authorities will need to: (i) develop additional systems and procedures for both auditing and accounting; (ii) strengthen the accounting and auditing professions; and (iii) foster the development of human resource skills through training. This loan will finance technical assistance to the NBRK for (i) additional work on the modernization of bank accounting, and (ii) the development of bank auditing procedures.

3.19 The Loan component will also include financial and operational diagnostic studies of the ten largest banks in Kazakhstan. These studies would provide an in-depth assessment of the operational capabilities and the financial condition of these banks. For the Agroprom Bank and the Savings Bank, the studies would also include detailed analyses of their sectors (i.e., financial services for households and agriculture). For each of the ten banks, the consultants would also propose a strategy and detailed action plan for strengthening and potentially restructuring. Implementation of agreed plans could then be supported in part under the planned Financial and Enterprise Sectors Development Loan through bank twinning arrangements and other forms of assistance. Details on financial and operational diagnostic studies are discussed in Annex II-B, and accounting reform is described in Annex II-C.

c. Specialized Financial Services (US\$1,025,000)

3.20 Two issues are becoming increasingly critical in the relationship between the banks and the enterprise sector: the arrears of illiquid or insolvent enterprises, and the provision of term credit to enterprises for restructuring and new investments. Although outstanding enterprise debt has generally been losing its real value owing to inflation, many enterprises face liquidity problems in repaying their bank debt. Once remaining subsidies are reduced and budget constraints hardened, many more enterprises are likely to become unprofitable and eventually insolvent. This Loan component would therefore include a study on the problem of bad bank debt, encompassing, inter alia, an assessment of the magnitude of the problem (in part by building on the results of the above diagnostic bank studies); a detailed outline and evaluation of a potential debt recovery fund or bank for the 30 to 40 most important loss-making enterprises, making debt relief and additional liquidity conditional upon specific restructuring and privatization, or liquidation actions; and a potential strategy for the problems of existing debt and new financing of under-performing enterprises. The second part of this Loan component would address the need for and provision of term financing for restructuring and new investments. Primarily, it would include an assessment and potential design of a special fund, or alternative institutional mechanisms, for lending to post-privatization restructuring. It would in particular also look into the options of involving commercial banks in channeling or on-lending such monies. A more extensive description of this component can be found in Annex II-D.

d. Banking Supervision (US\$1,060,000)

3.21 The development of a strong banking system will depend in part on the capacity for prudential supervision over the banking system. Since prudential supervision is in its formative

stages, it is beset by a number of problems. These include: inadequate staffing; salaries that are not competitive with those in the private sector; weaknesses in the banking law; unclear powers to effectively deal with the large former specialized banks; supervisory procedures that were designed to ensure compliance with economic regulations and which are now outdated; and a financial system that is heavily distorted by massive amounts of subsidies, refinance credits, and lending to loss-making state enterprises.

3.22 The NBRK has now started reorganizing its supervision function, recruiting many more staff, improving prudential regulations, and reforming its practices. The IMF and USAID are providing assistance on bank licensing, off-site supervision, and issues involving foreign exchange. The Bank Loan, through this component, would supplement this effort by assisting the development of on-site supervision capability. The assistance would be heavily geared toward institutions building and skills development. In particular, two resident advisers experienced in bank examination will, for up to two years, lead teams of examiners into banks to be trained through a mix of classroom instruction and on-the-job application. In the process, such pilot examinations would be carried out on some 16 to 20 banks per year. In addition, the advisers would provide examination manuals, advice on the computerization of on-site supervision, and further related services. In the medium term, under the planned Financial and Enterprise Sectors Development Loan, the two advisers would be supplemented and then replaced by more specialized examination experts with special focus on, for example, problem banks and specialized financial services. Annex II-E provides an extensive discussion of this component.

3. Social Sector and Human Resources Development (US\$5,990,000)

3.23 During this period of economic reform, the economy is undergoing a very difficult transition. Among other difficulties, the restructuring of industry has drastically increased unemployment; also price liberalization has resulted in inflation which has not been matched by wage and benefit increases, resulting in a serious drop in living standards.

a. Social Safety Net (US\$1,570,000)

3.24 **Employment.** During the transition period, employment will almost certainly deteriorate drastically. The number of unemployed increased from about 4,000 in January 1992 to over 70,000 by the end of 1992 (i.e., 1 percent of the total labor force). A high proportion of those currently unemployed have been laid off by material production units and by service (especially military complexes) units, and the rate of unemployment is expected to continue accelerating rapidly.

3.25 Alleviating the unemployment situation is critical during the transition, not only to prevent a decline in living standards, but more important, to maintain the morale of the population. The Ministry of Labor has limited experience in providing employment services on a mass scale, and its staff are not equipped technically and lack the practical experience to handle the deteriorating employment situation in the short run. Technical assistance, therefore, is imperative to strengthen the Ministry of Labor so that it can cope with the challenge of transitional unemployment.

3.26 Technical assistance would be provided to (i) help design and implement policies and programs in the immediate short run in the area of unemployment relief; (ii) train staff in labor market policies conducive to a market economy and manpower demand forecasting; (iii) help modify

the structure of employment services to make them relevant to the changing economic, social, and political environments. The proposed program is described in Annex III-A.

3.27 Social Protection. During the transition period, the design and implementation of programs to protect the most vulnerable groups is critical. The Government has rightly identified the vulnerable groups as pensioners, the disabled, families with many children, and single mothers. To prevent a decline in their living standards, the prevailing open-ended program of assistance must be restructured into a well-targeted and fiscally sustainable program. While the country has long experience in serving the above groups, the present budgetary strains as well as inflationary conditions call for additional measures. Technical assistance is considered essential to achieve this goal quickly.

3.28 The main purpose of this technical assistance is to (i) train personnel of the Ministry of Social Protection, (ii) provide specialist advice in the design and implementation of income security schemes and a voluntary pension fund, and (iii) provide technical equipment (microcomputers). Technical advice in this area will focus on the mechanisms for targeting benefits toward vulnerable groups, on the design and operation of the voluntary pension fund, and on the needed modifications to the overall institutional framework to make it more viable during the period of fiscal contraction. Annex III-C gives more details.

3.29 Poverty Monitoring. Poverty and the protection of vulnerable groups is a new issue for the Government. The growth of a private sector may initially lead to a widening distribution of income, and thus to the possibility that some groups will not be able to make the transition to the market economy with the same ease as others. Whereas income growth is a positive development in the long run, the immediate concern is the growing number of poor and of vulnerable groups in the country, and the need to protect them from falling further into poverty. An essential part of this strategy is to identify the poor and to implement policies to protect them by establishing a comprehensive and realistic poverty line, and by designing a monitoring system, including a reliable family budget survey. This component is further discussed in Annex III-B.

b. Health Care Reform (US\$620,000).

3.30 The major issue is the size of the health care system (infrastructure and staff) and its curative bias. The past system was not able to improve the health status of the population and the health status is now declining. This is due not only to a declining budget, but even more to the lack of a health policy or program strategy and to the failure to adopt modern preventive methods, as well as to inadequate training of staff. The newly approved health law and the country's strong motivation for reform are useful starting points for restructuring the health system, including privatizing some services and introducing medical insurance. Currently, senior health managers lack the experience and capability to operate a modern health care system. Without changes in organizational structure, improvements in operating systems, and training in management, it is unlikely that the new health law (and policy) can be successfully implemented. The proper technical assistance would make it possible to improve the training of senior staff and produce the necessary instruments for implementation. On the financial side, the health care program has historically relied on Government financing. Given the strain on the budget, it is unrealistic to assume that the Government can continue to sustain health care through direct budget transfers. Alternative forms of financing and cost recovery will be needed. The Ministry of Health, however, has little experience and capability in planning and operating a complex health insurance scheme and the health system has no system of cost accounting on which to

base reimbursement from insurance companies. The ministry also lacks access to information and experience with other forms of cost recovery in the health sector.

3.31 Technical assistance would be provided to the Ministry of Health to advise and train personnel to: (i) develop a comprehensive national health policy, strategy, and accompanying guidelines on integration of preventive and promoting health care programs; (ii) streamline organizational structure; (iii) devise clear policy, law, and guidelines on private health care, including the pharmaceutical sector; (iv) devise capital and operational budgeting procedures; (v) introduce cost, accounting and reimbursement systems; and (vi) devise alternative strategies for cost recovery and savings. An extensive description of the health care reform program is given in Annex III-D.

c. Training (US\$3,800,000).

3.32 The radical change from a command economy to a market-oriented economy has resulted in a sharp mismatch in the job skills needed in the new economy and those currently available, and training will be needed in almost every sector. In addition, the Government's limited capacity to: (i) design new tax, trade, social and legislative programs; (ii) absorb foreign aid and encourage foreign investment; and (iii) improve the governance of state-owned enterprises are all indications of the need to retrain civil servants. Under this Loan, training would be provided in (i) the financial sector, (ii) enterprise management, and (iii) the civil service. The proposed program including detailed scope and costing, is further described in Annex III-E.

3.33 **Financial Sector Training.** Training in the financial sector would be provided for bankers and bank accountants. Currently, training in these areas consists largely of courses of short duration which are more akin to exposure than to training. While the exposure undoubtedly builds awareness of banking techniques, it cannot provide the skills needed for modern commercial banking activities. Increasingly, training will need greater consistency and depth. The proposed subcomponent for training bankers aims to build a sound and consistent foundation that can be further developed in future projects. While the program should first address the most pressing needs, a process should be put in place to ensure that evolving needs are met. The strategy to achieve the main objectives will be to invite an established banking training institution with international experience to provide assistance in the selection and preparation of curriculum and materials and to supply administrative expertise and experienced trainers to initiate training in key areas (including the selection of outside training providers when available), to train national trainers, and to assist the NBRK with the permanent training institute to be established. The assisting institution's staff would work closely with NBRK staff on all aspects. Proposals from qualified banking training institutions will be invited immediately following Board approval; consultant field work will start in the summer of 1993, and the subcomponent will be completed within a year

3.34 Considerable efforts are required to train, retrain, and upgrade bank accountants (and auditors). Their previous training was essentially along the lines of bookkeeping. A modernized banking system will require many accountants with different qualifications (such as financial accounting, management/cost accounting, auditing, information systems) for the new needs of a market-oriented economy. The training strategy for this subcomponent, to be implemented by the NBRK, would comprise: (i) sending practitioners, bank accountants, and teaching faculty members abroad for short or long periods; (ii) bringing in expatriate practice-oriented bank accountants to help upgrade existing accounting professionals and help revamp the accounting methods and procedures in use, or to be installed; (iii) developing in-house courses and courses outside the respective banks to upgrade existing accounting staff, using expatriate instructors; (iv) developing training materials of

various kinds of an elementary and a more advanced nature to assist in the revamping; (v) translating and adapting foreign training materials and tests, and developing local text materials for training and education; (vi) developing auditing guidelines and procedures for banking, and training and materials for these areas; and (vii) preparing recommendations on relevant accounting programs and curricula of universities and other institutions. The aim would be to implement this subcomponent at the earliest possible date, which would require inviting proposals from qualified training institutions immediately following Board approval, starting consultant field work in the late summer of 1993, and completing the subcomponent within a year.

3.35 Enterprise Management Training. Enterprises that have already incorporated and those likely to remain in the public sector in the short or medium term are facing the adjustment to a market system virtually without experience of free markets and, in many cases, without the necessary understanding of basic economics and management principles. As a result, in addition to the inevitable hardships imposed by the loss of markets and the scarcity of parts and raw materials, large inefficiencies and losses result simply from inadequate decision making owing to a lack of insight in basic matters such as costing and pricing of products, efficiency and productivity monitoring, marketing, and worker motivation and personnel management (and also from traditions of disregard for product quality and finish, and of non-delegation of decision making *per se*). Under those circumstances, management training is a clear priority and expenditures in this area should have high returns.

3.36 While solid commitment on the part of the Government would be critical to the long run success of this subcomponent, the strategy for this first phase of assistance to enterprise management training is to start rapidly, on the basis of the experience and ability of foreign agencies, and to use this initial period to establish close links with the Kazakh Government as well as with local training institutions, both public and private. To achieve the above objectives, a six-pronged strategy would be employed, consisting of: (i) training of management trainers; (ii) an internship program for Kazakhstan managers; (iii) preparation of Kazakhstan-based training materials; (iv) on-the-job training of management consultants; (v) action learning; and (vi) creating of links with local training institutions.

3.37 Public Sector Management Training. As Kazakhstan moves from a command economy to a market economy, the role of the Government will change fundamentally. As a consequence, the attitudes, knowledge, and skills of civil servants will also need to change radically. As the new functions and processes of the Government emerge, it will need to develop methods of identifying these new requirements, and to develop a strategy and a permanent but flexible program to help train and retrain civil servants to meet them. For a maximum impact, training should start as early as possible and at high levels of authority in the service, and should include the training of trainers. The purposes of this subcomponent are to: (i) help the Government redefine the role of the civil service and support its restructuring for its key functions in a market economy (in synergy with other technical assistance provided under the Project); (ii) identify the attitudes, knowledge, and skills needed by civil servants to meet new job requirements; (iii) develop a strategy and programs for the necessary training, (iv) initiate training of selected civil servants, including trainers, through seminars, study tours, and follow-up training programs to be carried out by graduates of the programs; and (v) develop capacity in selected training institutions in Kazakhstan to provide future training for the public service. The strategy for this component would be process-oriented. The core of the program would be a series of three diagnostic seminars, each with about 100 participants, organized with the help of consultants and held at regular four- to six-month intervals in Almaty. Between the

seminars, study tours would be arranged for selected seminar participants with the assistance of the consultants, and participants would also prepare and carry out local training programs.

4. Institutional Support and Development (US\$3,175,000)

a. Legal Framework (US\$2,135,000)

3.38 To support the reform program, extensive new legislation in all sectors of the economy is being prepared. Parliament has approved a new Central Banking Law and Commercial Banking Law, prepared with IMF and Bank assistance. The Bank has also provided assistance, *inter alia*, on foreign direct investment, privatization, bankruptcy, and energy legislation. Under this project, assistance would be given to the Government, not only in the drafting of new legislation and regulations, but in the development of an overall legal framework. This would include: (i) coordination to ensure consistency among the new laws being drafted; (ii) development of information and document sources; and (iii) strengthening of implementation and enforcement through providing advice on institutions, including agencies, regulatory bodies, the courts and other settlement mechanisms, and in training of staff. A subcomponent will address banking sector legislation, especially to help develop legislation on financial instruments, the payments system, and the implementation of the Law on Banking. Further details on this component can be found in Annex IV-A.

b. Environment (US\$1,040,000)

3.39 Environmental issues are particularly important in Kazakhstan. Numerous sectors, including mining, energy, industry, and agriculture, need extensive environmental work. Technical assistance will be provided to: (i) assess and upgrade the institutional capacity of MEB and related organizations for environmental management; (ii) develop interim guidelines and regulations for high priority sectors related to privatization and restructuring in industry and agriculture, particularly in the areas of environmental review, environmental audit, and environmental liability; and (iii) assess information resources and monitoring systems and enhance the capacity for priority setting. The proposed assistance is further detailed in Annex IV-B.

5. Project Implementation (US\$3,225,000)

3.40 To support the implementation of this Loan, the Government has established the Project Implementation Unit (PIU). Responsibilities of the PIU are detailed in Annex V. This component of the Loan will be used to finance procurement and disbursement advisers as well as two program coordinators to assist in the implementation of the project; provide training in financial, procurement, and disbursement issues; and finance basic office equipment.

C. Project Costs and Financing

3.41 The total project cost is estimated at US\$39,500,000 equivalent. Project costs are summarized in Table 2 below, and detailed estimates have been included in Annex VII.

Table 2
Estimated Project Costs
(US\$ 000 equivalent)

Component	Local	Foreign	Total	Foreign Costs as a Percentage of Total Cost	Component Cost as % of Total Cost
1. Privatization and Private Sector					
Development					
a. Privatization and Enterprise Reform	1185	8,980	10,165	88	25.7
b. Competition Policy	60	450	510	88	1.3
c. Foreign Investment Promotion and Regulation	310	2,840	3,150	90	8.0
2. Financial Sector					
a. Payments System	350	5,700	6,050	94	15.3
b. Accounting & Bank Diagnostic Studies	450	3,150	3,600	88	9.1
c. Specialized Financial Services	75	950	1,025	93	2.6
d. Bank Supervision	140	920	1,060	87	2.7
3. Social Sector and Human Resources					
Development					
a. Social Safety Net	315	1,255	1,570	80	4.0
b. Health	115	505	620	88	1.6
c. Training	825	2,975	3,800	78	9.6
4. Institutional Support and Development	515	2,660	3,175	84	8.0
5. Project Implementation	395	2,830	3,225	88	8.2
Base Cost	4,735	33,215	37,950	88	96.0
6. Contingencies	150	1,400	1,550	90	4.0
Total Cost	4,885	34,615	39,500	88	100.0

3.42 A summary of the Project Financing Plan, which was reviewed and agreed at Negotiations, is shown in Table 3, below, and detailed in Annex VIII. The foreign exchange cost requirements are estimated at US\$34,615,000 and local currency requirements are estimated at US\$4,885,000 equivalent. The Bank will finance 100 percent of the foreign exchange costs, and 69 percent of the local currency costs. The latter would principally be used for the financing of local consultants.

Table 3
Financing Plan¹
(US\$ 000 equivalent)

Component	Local		Foreign	Total		Total Project Cost	IBRD Financing as % of Cost
	GOK	IBRD	IBRD	GOK	IBRD		
1. Privatization and Private Sector Development							
a. Privatization and Enterprise Reform	265	920	8,980	265	9,900	10,165	97
b. Competition Policy	10	50	450	10	500	510	98
c. Foreign Investment Promotion and Regulation	150	160	2,840	150	3,000	3,150	95
2. Financial Sector							
a. Payments System	50	300	5,700	50	6,000	6,050	99
b. Accounting & Bank Diagnostic Studies	100	350	3,150	100	3,500	3,600	97
c. Specialized Financial Services	25	50	950	25	1,000	1,025	98
d. Bank Supervision	60	80	920	60	1,000	1,060	94
3. Social Sector and Human Resources Development							
a. Social Safety Net	70	245	1,255	70	1,500	1,570	96
b. Health	20	95	505	20	600	620	97
c. Training	300	525	2,975	300	3,500	3,800	92
4. Institutional Support and Development	175	340	2,660	175	3,000	3,175	95
5. Project Implementation	225	170	2,830	225	3,000	3,225	93
6. Contingencies	50	100	1,400	50	1,500	1,550	97
Total Costs	<u>1,500</u>	<u>3,385</u>	<u>34,615</u>	<u>1,500</u>	<u>38,000</u>	<u>39,500</u>	<u>96</u>

¹ PFF refinancing is included in the individual components. It concerns privatization and enterprise reform, the payments system, mining, and project implementation.

D. The Borrower and Loan Implementation

3.43 The Government has appointed the Ministry of Economy to serve as the Lead Authority for the management of the Loan and the coordination of its implementation. The Lead Authority would represent the Borrower and would be the focal point for relations between the Government and the Bank.

3.44 The PIU has been established under NAFI, which is within the Ministry of Economy. Responsibilities of the PIU include the monitoring of the progress under the reform program, overall Project implementation, coordination among the various participating ministries and procurement agencies to ensure a consistent approach in the implementation of the project, the monitoring and control of the proposed use of Bank funds through commercial banks, the administration of a Special Account, overall accounting and auditing of project accounts, and preparation of the consolidated progress reports and the Project Completion Report. Specifically, while the counterpart ministries will be responsible for the development of the terms of reference, short lists, bidding process and negotiating, signing, and executing contracts, the PIU will oversee the work of the counterpart agencies in these areas, endorse the contracts, and approve disbursements.

3.45 A General Manager was appointed in June 1992, reporting to the Minister of Economy. A procurement manager and an accounting officer have also been appointed. The recruitment of the two procurement advisers is well advanced. An international firm has been selected through ICB, and the two advisers are expected to be in place by August 15, 1993. The recruitment of a disbursement adviser will be initiated shortly.

3.46 The coordination of technical assistance among the technical staff in the line ministries, the consultants providing the technical assistance, and the policymakers will require management and organization skills not readily available in Kazakhstan. Therefore, two consultants (program coordinators) will be recruited (initially for one year) and attached to the PIU to assist the Government in managing and coordinating the technical assistance program. These consultants will focus on the administration and organization of technical assistance as well as related financial matters, and ensure that the scheduling of technical assistance allows timely availability of results that can be used in the development and implementation of the reform programs and processes. The consultants will work with the counterpart agencies, coordinate with other technical assistance consultants, monitor the progress of the technical assistance programs, and ensure the communication of results to the Government and the Bank as well as provide on-the-job training to the PIU staff.

3.47 To ensure effective project implementation, after Loan approval the Bank will send a team including the task manager and procurement, disbursement, and component specialists, who will hold a project launch workshop to ensure that all counterparts understand proper procedures for implementation. This will include Bank approval of the terms of reference of studies and programs financed under the Loan, the criteria for the selection of trainees, and the short list of consultants. The Bank will subsequently conduct a midterm review of all components, as well as interim reviews as needed. The Borrower and the Bank will jointly review the findings of studies and the results of training programs.

3.48 Loan preparation costs, including start-up costs for the PIU, have been financed under a Project Preparation Facility (PPF) aimed at, *inter alia*: (i) contributing to the establishment of the PIU; (ii) developing the payments system; (iii) providing advice on privatization and the financial sector reform; and (iv) developing the legal and fiscal regime for mining. As was mentioned above, the PIU subcomponent is already under implementation, and work has also been carried out for the payments system. Terms of reference have been prepared and consultants identified for privatization and mining, and activities in these areas are expected to commence in the coming weeks.

E. Procurement

3.49 As briefly outlined below, and as set forth in the Loan Agreement, procurement of goods and consulting services for technical assistance would be according to Bank Guidelines for Procurement of Goods and Services. A large part of procurement deals with consulting assignments, and a limited amount of goods and services, including hardware and software, primarily for the payments system, will be procured under this Loan. In addition, this loan is meant to put in place the institutional capacity to support subsequent Bank operations. The details of procurement packages and consulting assignments are provided in Annex VI; a summary of proposed procurement arrangements is given in Table 4.

Table 4
Summary of Proposed Procurement Arrangements
(US\$ 000)

Project Element	Procurement Method			% of Total
	ICB	Other	Total	
Goods				
Computers and other equipment	5,500 (5,500)	1,575 ¹ (1,575)	7,075 (7,075)	17.9
Printing and related equipment	1,500 (1,500)		1,500 (1,500)	3.8
Consultancies and other technical assistance				
Expert Assistance		24,525 ² (23,525)	24,525 (23,525)	62.1
Training		5,900 ^{2,3} (5,400)	5,900 (5,400)	14.9
PPF		500 (500)	500 (500)	1.3
Total	7,000 (7,000)	32,500 (31,000)	39,500 (38,000)	100.0

Note: Numbers in parentheses are amounts to be financed by IBRD.

¹International shopping.

²Consultant Services, according to the World Bank Consultant Guidelines (1981).

³Training figures include costs of training subcomponents as well as the figures included under the Human Resources Development training component.

3.50 In order to rapidly strengthen the PIU's procurement capacity, and to assist in the preparation and processing of the large number of contracts to finance under this project, two procurement advisers will be posted within the PIU. They will contribute to the building up of institutional capacity within the relevant ministries and will organize seminars on the Bank's procurement policies and standard bidding documents. The advisers will assist in all aspects of the selection of suppliers, awarding of contracts, and monitoring and maintaining of records of procurement activities. The procurement advisers will train their Kazakhstan counterparts in Bank procedures and policies, to make them self-sufficient regarding procurement under subsequent Bank loans.

3.51 With respect to the procurement of goods (which would concern principally the purchase of processing and telecommunications equipment for the payments system and printing and related equipment), all contracts over US\$300,000 would be awarded through International Competitive Bidding (ICB) following the Bank's guidelines and the use of the Bank's standard bidding documents. These contracts are expected in aggregate to amount to US\$7,000,000. Kazakhstan manufacturers competing under ICB would receive a preference in bid evaluation of 15 percent of the CIF price or the prevailing customs duty applicable to non-exempt importers, whichever is less, provided that the value added to the product in Kazakhstan exceeds 20 percent of the ex-factory bid price. Since the local electronics and software industries are not well developed, local bidders for these major contracts are not expected to be competitive. For goods below a contract value of \$300,000, with an expected aggregate amount of US\$1,575,000, procurement will be undertaken through International Shopping (IS) with at least three bids from three member countries. To ensure compliance with the Bank procurement guidelines, all contracts awarded through ICB, will be subject to the prior Bank review.

3.52 The selection of the consulting firms for the provision of services will be carried out following the "Guidelines: Use of Consultants by World Bank Borrowers and the World Bank as Executing Agency," published by the Bank in August 1981. The terms of reference for all consultant assignments and all contracts for consultant services valued at greater than US\$50,000 will be subject to the Bank's prior review and approval. Other contracts will be subject to the Bank's ex-post review including where appropriate complete ex-post review on a selective basis.

F. Disbursement

3.53 The Loan will finance: (i) 100 percent of the foreign expenditures of imported goods, up to 100 percent of the local expenditures (ex-factory costs), and up to 75 percent of the expenditures for other items procured locally; (ii) 100 percent of expenditures² of consultants' services, and training; and (iii) the refinancing of the PPF. It is projected that US\$12 million would be disbursed in FY94, US\$14 million in FY95, and US\$12 million in FY96. Disbursement schedules are found in Annex IX and an Implementation Plan is detailed in Annex X. The project is expected to be completed by December 31, 1995, and the Loan closing date would be June 30, 1996. Withdrawal applications will be fully documented, except for expenditures against contracts valued at less than US\$50,000 equivalent, which will be made on the basis of certified statements of expenditures detailing the individual transactions. The documentation to support these expenditures will be retained by the PIU for at least one year after receipt by the Bank of the audit report for the year in which the last disbursement is made. This documentation will be made available for review by the auditors (see sections below on Financial Reporting and Auditing) and the Bank upon request.

3.54 To facilitate the disbursement of funds, a Special Account will be established in a foreign commercial bank acceptable to the Bank. The authorized allocation to the Special Account will be US\$4 million, representing about four months of average expenditures under the Loan. The account will be opened in the name of the Borrower and will be administered by the authorized representatives of the PIU on behalf of the Borrower. The PIU will send on a monthly basis or more frequently, if necessary, to the Bank requests for replenishment of the Special Account for the amounts transferred. In addition, monthly bank statements of the special account which have been

2/ All expenditures to be financed are net of taxes.

reconciled by the Borrower should accompany all replenishment requests. The loan provides for retroactive financing up to 10 percent of the loan amount in respect of expenditures incurred since May 15, 1993 for goods and services procured in accordance with the Bank's procurement practices. Retroactive financing is needed for early project startup and efficient implementation.

G. Project Accounting, Financial Reporting, and Auditing

3.55 Accounting. The Borrower will have the responsibility for the appropriate accounting of the funds provided by the Bank under the Loan, for reporting on the use of these funds, and for ensuring that audits of the financial statements or reports are submitted to the Bank.

3.56 The PIU (on behalf of the Borrower) will establish an appropriate accounting system to enable information on the proper receipt and use of funds provided in accordance with the Loan Agreement. The system should ensure timely and accurate accounting of all transactions under the Loan and clear presentation of the financial information. The staffing of the PIU with a financial adviser will enable the PIU to maintain all project accounts in accordance with internationally accepted accounting procedures.

3.57 The Special Account which will be established under the Loan is intended to assist the Borrower with cash flow and to enable early and more effective project implementation and disbursements. The Borrower will ensure that all the necessary arrangements for proper accounting of receipts and payments (and replenishment) are complete before the start of the Special Account's operations.

3.58 Financial Reporting. Financial reporting for the Loan would closely reflect the specific requirements of the Loan. It would comprise a statement of receipts and payments for the reporting period since the beginning of the program. The reporting would be in accordance with the disbursements classified and reported by the expenditure categories agreed with the Borrower and spelled out in the legal documents. Quarterly progress reports would be submitted by the PIU, including a separate report in respect of the Special Account. A Project Completion Report will be submitted to the Bank by the PIU promptly after the completion of the program, and in any event not later than six months after the Loan closing date.

3.59 Auditing. A condition of the Loan will be that the financial statements and reports on the Loan (including the Special Account) should be audited in accordance with generally accepted auditing standards by independent auditors (preferably an international accounting/and auditing firm) acceptable to the Bank.

3.60 The criteria for selecting auditors will be as follows: (i) impartial and independent from the entity to be audited; (ii) well established and reputable; (iii) experienced in the type of assignment to be undertaken; and (iv) able to fulfil the terms of reference required within the specified timetable.

3.61 The audit report is to be submitted to the Bank by the Government within six months of the end of the reporting period--i.e., the fiscal year end. The audit would cover a review of the supporting documentation including customs documentation.

H. Environmental Assessment

3.62 The project would be consistent with Bank policy and would follow accepted Bank procedures. In conformity with Bank policies for technical assistance operations, no environmental rating has been assigned. Nevertheless, in developing procurement procedures for financing imports, specific provision will be made to ensure that the inclusion of any toxic or hazardous substances would be under conditions acceptable to the Bank. Also, the question of environmental liability for past pollution will become important during the privatization process. Lack of clarity on this issue could result in unnecessary delays in concluding privatization contracts. Therefore, it is essential to establish clear guidelines on the sharing of the known and potential costs of remedying problems of past pollution between the state and the prospective new owners. This will require the development of a coherent strategy and the completion of a thorough inventory and an estimate of the least-cost measures for mitigation.

I. Benefits and Risks

3.63 **Benefits.** The Government of Kazakhstan has embarked on an extensive reform program, affecting all sectors of the economy. However, the Government currently has limited institutional capacity and limited human resource skills to further design and implement these reforms. It is imperative that the momentum of the reform program be continued, particularly during this difficult period of transition, when dissatisfaction and frustration with the deteriorating economic and social situation is growing. The proposed Loan would provide critically needed technical assistance to directly develop and implement key components in the Government's reform program, including the privatization program, financial sector restructuring, and social sector reform, which will be essential to the development of a market economy. In addition, it will finance technical assistance to help support sensitive areas of the reform program during this difficult transition period, such as unemployment relief and social protection. This Loan will also finance technical assistance which will support the pace of economic reform and the rate of economic growth through, *inter alia*, encouraging competition, attracting foreign investment, improving the payments system, training workers in skills needed in a market-based economy, and preparing for future technical assistance and sector work.

3.64 **Risks.** The main risks include: (i) the risk that some of the technical assistance may not be fully used or used to best advantage by the ministries which are slow in carrying economic reforms; (ii) Kazakhstan's limited administrative capacity and lack of familiarity with Bank procurement and disbursement procedures, which could limit absorptive capacity and lead to significant delays; and (iii) the risk that delays in the enactment of new legislation may hinder the overall implementation of the reform program. The provision of technical assistance to critical ministries and agencies is aimed at assisting in the preparation of their respective reform programs,

and is in direct support of Government's priorities. Close supervision during implementation will assure that inefficiencies are addressed as needed. Procurement and disbursement risks will be reduced through close attention to procurement and other implementation constraints and financing of technical assistance to the PIU during project supervision. Substantial preparatory work has already been carried out to reform the legal framework, and a number of new or revised laws are in the process of being presented to Parliament. Close monitoring and selective assistance under the legal subcomponent would be aimed at avoiding unnecessary delays in the introduction of forthcoming legislation.

IV. AGREEMENTS AND RECOMMENDATION

4.1 The agreements reached at Negotiations are on: (i) the program of technical assistance to be financed under the Loan; (ii) project costs and the financing plan; (iii) the project arrangements, in particular as regards the establishment of the PIU, including the appointment of critical staff and the introduction of accounting and reporting systems, and procurement arrangements; (iv) arrangements for the appointment of auditors for the Loan; (v) arrangements for the Government to provide the Bank with a statement showing all its foreign debt obligations and maintaining a system of debt reporting; and (vi) that prior agreement will be sought with the Bank on (a) the content of training programs and criteria for the selection of trainees; (b) short lists for consultants; and (c) the terms of reference of studies. The findings of these studies will be discussed with the Bank. The recruitment of two procurement advisers acceptable to the Bank for the PIU is a condition of effectiveness.

Recommendation

4.2 Having reached satisfactory agreement on the above, the project is considered suitable for a Bank loan of US\$38 million equivalent, for a period of 17 years, including a five year grace period, at the Bank's standard variable interest rate.

TECHNICAL ASSISTANCE LOAN

TERMS OF REFERENCE

SUPPORT FOR IMPLEMENTATION OF MASS COPORATIZATION AND MASS PRIVATIZATION

A. BACKGROUND

1. The Republic of Kazakhstan embarked in late 1991 on an ambitious privatization program. It used a variety of privatization methods, was meant to involve enterprises of all sizes, and was executed by a newly created State Property Committee (SPC) as well as committees under local authority. By end 1992, about 7,000 productive units, accounting for about 6 percent of fixed enterprise assets, had been transformed.

2. However, the speed of the program fell short of the Government's expectations, and would have taken a very large number of years to complete. Only very few of the 7,000 transformed enterprises were of medium or large size, and even the small ones were often merely fragments spun off from larger units. Moreover, the medium and large enterprises were commonly only corporatized, with the majority of shares still held by the state. Transactions did not follow unified streamlined procedures for different categories of enterprises but always involved time consuming case-by-case decisions.

3. Moreover, the Government recognized that there was much scope for improving the impact of privatization on enterprise governance, income distribution, and capital markets development. Most of the new private owners of privatized objects or shares were the worker collectives or managers of the respective enterprises, raising serious doubts about the expected positive impact on effective post-privatization governance. Even where the buyers were outsiders, the transfers often did not follow competitive procedures but rather direct uncontested negotiation. At the same time, the sales prices were commonly based on historical book values that became increasingly unrealistic due to accelerating inflation, thus fostering public concerns about fairness. The population at large had little opportunity to participate in the privatization process, for lack of vouchers or similar mechanisms. The SPC lacked the clear authority and status in Government to reject inappropriate privatization proposals developed by worker collectives, branch ministries, or local authorities.

4. The State Property Committee, with support of the Bank, has therefore developed a comprehensive new National Privatization Program.¹ This Program was approved by the President in early March 1993 and widely published in the country. Amendments to pertinent legislation were submitted to parliament in April, as part of a broader package of economic reform legislation, to ensure consistency with the Program. At the same time, the role of SPC was strengthened through its

1/ A copy of this Program will be attached to the terms of reference upon invitation to bid for the consultant contract.

transfer into the Council of Ministers, its Chairman obtaining Deputy Prime Minister status, and the submission of all local property committees under its authority.

5. The National Privatization Program for 1993-95 pursues privatization on three tracks:
- (i) Small-scale privatization through the use of unutilized housing vouchers and systematic pre-sale liquidation, with concurrent privatization of wholesale and trucking structures;
 - (ii) mass corporatization of the vast majority of medium and large enterprises (between 200 and 5,000 employees) while still maintaining 100 percent state ownership; subsequent mass privatization of these companies with the help of non-material vouchers that citizens can use, exclusively through investment funds in central auctions, to acquire 51 percent and more of shares of the enterprises;
 - (iii) temporary control of special or very large corporations through holding companies with competing portfolios, and the privatization of many of these enterprises through a variety of methods on a case-by-case basis.

6. The small-scale privatization component covers first of all every enterprise with up to 200 employees in the non-agricultural productive sectors, except a small number of units that the Government wishes to retain for the provision of subsidized basic foodstuffs or the supply in remote areas. To ensure that privatized units do not face monopolistic supply structures the wholesale and trucking sectors will be privatized concurrently, both through the auctioning of individual trucks and warehouses and through the segmentation and sale of trade and cargo transport enterprises. Most small enterprises, namely, those engaged in retail, catering, and consumer services, shall be formally liquidated before sale so that the new operators can start without old liabilities and contractual obligations, and with staff of their choice. The sale of the assets would take place through auction or tender in the larger municipalities. To enhance the capacity of ordinary citizens to actively participate in the process and enter into business, the sale will be against vouchers and cash, in a fixed 50:50 ratio. The vouchers used in small-scale privatization will be the housing vouchers that most citizens have not or not yet used for buying their housing. These vouchers are denominated in rubles, are mere account entries rather than physical securities, but can be transferred between citizens.

7. The small-scale privatization component will start initially in six large pilot cities, but shall be extended to the entire country a few months later. The preparation of implementation arrangements; the actual implementation in the pilot cities; the privatization of parts of the trucking and wholesale sectors; a minimum post-privatization assistance; and the initial efforts to extend the program to other regions will be supported by a major Bank executed and largely USAID funded project (close to US\$ 4 million over a 15 months period) that is planned to start in June 1993. This small-scale privatization project and this mass privatization project will be closely coordinated by SPC and the Bank.

8. The case-by-case privatization component would address very large enterprises (more than 5,000 employees) and enterprises of special nature (natural monopolies, agriculture, enterprises with a mainly social function, and potentially most mining and energy enterprises). Many of these enterprises would be segmented and reorganized, and in a few cases also further restructured, prior to

sale. For the purpose of effectively supervising such enterprises and, where appropriate, their restructuring, SPC is in the process of establishing several temporary holding companies under itself; enterprises of a sector would be assigned to different holdings to foster competition. (Some of the medium and large enterprises subject to mass privatization may temporarily be subordinated to the holding company structures as well.). The Government envisages awarding management contracts with foreign parties in several of these holdings, especially those active in restructuring. Privatization would then follow a variety of methods such as auction, commercial tenders, investment tenders, according to standardized procedures. Only a short list of enterprises of particular state or social interest will be excluded from sale. The EBRD is planning to provide substantial technical assistance to the privatization transactions of such very large and special enterprises. A limited amount of assistance to the establishment of holding companies, and to the improvement of the governance of corporatized state enterprises, will be provided under the Bank's Technical Assistance Loan that finances also this contract for mass corporatization and privatization.

9. The mass privatization component deals with all state enterprises not included in the small-scale and case-by-case privatization components. It has been estimated that there were about 8,000 medium and large enterprises (except those in above mentioned special sectors) in Kazakhstan at the end of 1991. The National Program envisages the rapid privatization of this category of enterprises over a three to four year period. The mass privatization shall directly benefit wide layers of the population, follow transparent and competitive procedures, and create ownership structures that are conducive to effective governance.

10. All citizens would obtain, presumably through the Savings Bank network, "privatization investment coupons" that are actually non-material account entries, denominated not in a currency but in abstract "points". The coupons will not be transferable, and can be used only to invest in licensed privatization investment funds. These funds would be in the private sector, and subject to stringent licensing and supervision. More than 50 percent of the shares of each enterprise to be privatized would be offered for sale against coupons; a further 10 percent of shares could be purchased by the labor collectives for free in the form of preference shares. The shares would be sold in central and, perhaps, regional auctions conducted by a State Privatization Fund under SPC, and taking place in several waves. Only the licensed privatization investment fund would be allowed to participate in these auctions. The individual citizens would participate in the mass privatization not through direct purchase of state enterprise shares but through purchase of privatization investment fund shares. Each privatization investment funds would be allowed to buy no more than 10 percent of the shares of any enterprise in the auctions, but it can sell and buy enterprise shares after the auctions to or from other investment funds, local investors, or foreign buyers. Active public information efforts would educate and inform the citizens, and encourage their participation.

11. Prior to their privatization, all enterprises except those subject to the small-scale privatization component shall be corporatized. The objective of this mass corporatization exercise include the improvement of enterprise governance and the facilitation of subsequent privatization; this would be achieved mainly through the introduction of supervisory boards and proper statutes of the enterprises, and the clarification of the legal status and property rights of the firms. While some corporatization would proceed with preliminary procedures so as not to delay the start of mass privatization, the infrastructure for corporatization, especially the company registry, would be established. In order to simplify the corporatization process, the corporatization itself would not involve the transfer of shares from the state to non-state entities; i.e., corporatization would precede any privatization. Moreover, for further streamlining the firms could be incorporated at their existing book value.

12. Decrees on holding companies and corporatization were issued concurrently. Further basic decrees on investment funds, vouchers, share auctions and further issues are expected to be issued before Project commencement. Laws or law amendments to underpin the privatization program (regarding ownership, enterprises, joint stock companies and partnerships, privatization, lease, pledge, foreign investment, bankruptcy, etc.) have been submitted to the parliamentary session in April 1993; most of these laws and law amendments, with the notable exception of the foreign investment law, have been adopted.

13. The mass privatization component (including the corporatization and public information elements) will be supported mainly by this Project, which is funded under the Bank Technical Assistance Loan to Kazakhstan. It will also be supported by a grant-funded TA Project of EC TACIS that will dedicate about US\$2.1 million to mass privatization beginning in July of 1993 for approximately one year, with potential follow-up funding a year later. The EC consultants are expected to provide policy, legal, and technical advice on the overall mass privatization components, investment funds, and various other mass privatization matters, including also some 17 man months assistance for public relations. Other donor agencies are not currently expected to provide substantial support to the mass privatization component.

B. OBJECTIVES

14. The objectives of the Project are to assist SPC in:

- * continuing the detailed implementation planning of the mass privatization component (including corporatization) of the National Privatization Program, including the preparation of necessary legal texts;
- * enhancing the institutional capacity for this component, including the establishment of new infrastructure (such as company registry, State Privatization Fund, and investment fund supervisory structures) and the development of human skills;
- * implementing the mass privatization component (including corporatization) of the Program for a substantial percentage of the enterprises meant to be subject to this component; and
- * monitoring the success of the Program component, and proposing on this basis further improvements in the implementation arrangements of the National Privatization Program.

15. All this work shall be carried out in a manner contributing to the overall objectives of the National Privatization Program, and ensuring close coordination with other assistance program covering mass privatization and related fields. In particular, the support shall ensure that the program components (i) leads to effective enterprise governance and a competitive business environment; (ii) transfer ownership rapidly; (iii) distribute state property fairly, transparently, and in an orderly and controlled manner; and (iv) ensure the support of the population for the privatization program and the overall economic reform policy.

C. ASSISTANCE STRATEGY

16. The assistance will extend over a 18 months period starting in July/August 1993. At least half the inputs of the Consultants are expected to be provided in the first 6 months of the Project.

17. The contract for the Project will be awarded to one general contractor. The general contractor is encouraged to subcontract subcomponents of the contract to other consultants. It is suggested that the contract thus be divided into five main subcomponents:

- (i) project and team coordination, and overall policy and legal advice;
- (ii) corporatization;
- (iii) investment funds and privatization investment coupons;
- (iv) preparation of firms for sale, share auctions, and post-privatization activities;
- (v) public information.

18. The Consultants will liaise closely with other consultants and consultant teams that support enterprise and financial sector reform under the Bank funding. In particular they will coordinate very closely with the resident Legal Reform Coordinator in all matters of legislation.

19. The consultant team under the smaller EC-TACIS contract will provide assistance to some of the mass privatization sub-components, such as legal advice, public information, and the preparation of share auctions. The volume of this assistance is insufficient to cover but a few of the sub-components to adequate extent to ensure the quality, speed, and sustainability of the mass privatization component. The Bank funded Contract will therefore complement this EC assistance in important areas. Continued close coordination between the Bank and EC head offices, and close coordination between the two teams in the field, shall aim at distributing tasks and ensuring the efficiency of the interface.²

20. Training will form an important element of each subcomponent of the assistance. Most of this training will most effectively take place on-the-job through the close collaboration between advisors and local counterpart staff. Furthermore, each subcomponent will include various formal training events, such as workshops, regular presentations or group discussions, and ad hoc instructions on current topics. Almost all this training would be undertaken by those team members that provide technical assistance; additional trainers should be included only where particular lessons from other countries shall be emphasized, or where standard topics shall be taught directly in Russian language that the relevant technical advisor may not speak. Moreover, the activities include the organization and accompanying of 4 study tours for an average 4 local staff to formerly socialist countries or other suitable locations, on mass privatization policy in general (for senior officials); company registration; investment funds and securities market regulation; and voucher-based share auctions.

^{2/} The detailed version of the TOR will show more clearly which specific tasks will be executed by the Bank and the EC teams.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

21. The coordinating agency for this Project, as part of the Bank's Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

22. The main counterpart agency for the Project is SPC. SPC consists of a republican committee and twenty-one oblast-level committees with branch status. SPC plans to delegate some of its responsibilities in mass corporatization and privatization to a new State Privatization Fund under its supervision; holding companies under its ownership; and agents that it authorizes. Accordingly, the consultants if requested by SPC shall assist also the State Privatization Fund and SPC's holding companies, and in exceptional cases authorized agents.

23. In certain subcomponents of the Project, the consultants will need to coordinate and collaborate with further institutions, such as the State Committee for Price Policy and Anti-Monopoly Policy; the National Agency for Foreign Investment; the Departments of Securities at the Ministry of Finance and the National Bank of the Republic of Kazakhstan; the offices of the President, Prime Minister, and First Deputy Prime Minister; the two existing stock exchanges; the media; and others.

E. ACTIVITIES AND OUTPUTS

24. The Consultants will provide assistance to SPC and, in some cases, other agencies as appropriate and agreed with SPC and NAFI, on the following elements of the mass privatization component, including related public relations and corporatization, of Kazakhstan's National Privatization Program:

Subcomponent: Team Coordination, General Policy Advice, and Legal Advice

1. Advice to the leadership of SPC on policy and institutional issues related to the mass privatization component and corporatization areas directly assisted by the Consultants;
2. refinement of the Consultants' action program for inclusion in the Inception Report, and elaboration of further refinements or adjustments for proposal to SPC, NAFI, and the Bank;
3. at end of months 15 of the assignment, submission of a detailed action plan for the short-term steps and longer-term measures to complete the mass privatization component, and of proposals for supplementary measures to enhance the longer-term efficiency gains of the privatized enterprises;
4. general advice on legal issues influencing the implementation of the mass privatization and corporatization areas directly assisted by the Consultants;
5. supervision of, and input to, the drafting of legal texts directly related to the activities of the Consultants;
6. close liaison on all legal issues with the resident Legal Reform Coordinator who will be employed under another technical assistance component of the Bank's Technical Assistance Loan;
7. coordination of the activities of all sub-teams and team members under this Contract;

8. continuous coordination with SPC, and on contractual matters and matters relating to other technical assistance programs also with NAFI; official representation of the team towards the Government; also representation of the team in meetings of the Mass Privatization Working Group; and continuous liaison with the Bank on matter of privatization policy, Consultant actions under this Contract, and on logistical or other operational matters.
9. continuous liaison and coordination with other assistance teams supporting privatization in Kazakhstan, especially the EC-TACIS funded team.

Subcomponent: Corporatization

1. Establishment of Central Company Registry:

- a. Assess the possibility of combining the Company Registry with the existing business registration offices, and/or with a share depository; and the need for regional registry offices;
- b. develop the normative documents, organizational structure, staffing, internal procedures, increasingly fee-based funding arrangements, and specifications for needed software and hardware for the Registry;
- c. develop reporting and registration requirements; the related forms (for application, notification of share transfer, registration of charges, etc); explanatory brochures and other materials; and the internal forms and books for use by companies (such as register of directors, minutes of shareholder and supervisor meetings, etc.);
- d. train Registry staff formally and on-the-job in the start-up phase.

2. Legal Bases for Corporatization:

- a. draft normative founding documents for the Central Company Registry;
- b. draft decrees and administrative orders on various registration matters;
- c. development of a policy and mandatory guidelines on the appointment and background of members of Supervisory Councils of companies.

(The EC-TACIS team is supposed to review and amend laws on enterprises and joint stock companies, and prepare a comprehensive standard company charter for different legal forms of companies.)

3. Actual Incorporation of Companies:

- a. Initial incorporation of the state enterprises earmarked for privatization in the first auction wave(s), following interim procedures used during the time until the final procedures and institutional arrangements are in place;
- b. determination of the training requirements, and design and conduct of training courses for corporate lawyers, company secretaries, enterprise chief executives, and central and local SPC personnel;
- c. development, initial conduct, and guidance for training program for members of Supervisory Boards of incorporated state enterprises;

- d. pilot incorporation of 100 state enterprises following the new procedures, and revisions to the program to account for this experience;
- e. review of status of enterprises that have been corporatized already, and determine steps needed for them to conform with new procedures;
- f. establishment of local facilities, probably within local SPC offices, to assist enterprises with incorporation procedures; clarify and strengthen arrangement for the settlement of disputes between state enterprises, other physical or legal persons, and the authorities over the assignment of assets to the enterprises;
- g. plan and start of full implementation of incorporating about 8-10,000 state enterprises.

Subcomponent: Investment Funds and Privatization Investment Coupons

1. Regulation and Supervision of Investment Funds:

- a. development of the institutional structures and capabilities for the evaluation, licensing, monitoring, and regulation enforcement of privatization investment funds;
- b. advice, upon special request, on the evaluation of investment funds or of recommended actions to enforce regulations;
- c. determination of training and technical assistance needs of investment fund managers, design of according training or assistance activities; conduct of selected training activities; provision of selected technical assistance to investment funds under condition that the results be made available to the other licensed funds as well.

(All these activities need to be closely coordinated with the EC-TACIS team, which will presumably also be responsible for assistance to investment fund and securities market regulations, and to the development of missing standard company documents of investment funds.)

2. Distribution of Privatization Investment Coupons (PICs):

- a. Development of the infrastructure and capabilities within the Savings bank network for the distribution of PICs;
- b. development of the systems software for the distribution and allocation of PICs;
- c. development of a policy, and according procedures and normative acts, for the charging of fee for the distribution and/or allocation of PICs;
- d. establishment of a data file containing all local residents and their PIC accounts;
- e. crediting of PIC accounts with PIC allocations;
- f. documentation of PIC accounts through savings books or certificates.

3. Allocation of PICs to Privatization Investment Funds:

- a. recording of the PIC allocation by the PIC holder, and transfer to the investment funds;
- b. oversight over mandatory information of citizens by investment funds about the results of the share auction waves and their portfolio and financial performance/structure;
- c. further activities as may be necessary. (the EC-TACIS is planning to take care of the announcement of imminent share auction waves, and of regulation, minimum information on investment funds eligible to the auction wave.)

Subcomponent: Enterprise Preparation, Share Sale, and Post-Privatization Actions

1. Selection of state companies for each auction wave:

The EC-TACIS team is supposed to assist SPC in the development of a sequencing strategy and of criteria for firms to be selected at each stage; and development of a policy and clear criteria for deciding on the retention of minority shares in state ownership, and on the nature of these shares (normal, preference, or "golden" shares); and on this basis decision for each company on the share percentage to be auctioned. The Consultants under this Contract will closely coordinate with the EC-TACIS team on these activities of the latter team. The Consultants under this Contract will support the EC-TACIS team with respect to organization, pilot expertise, and subsequent oversight regarding brief reviews of firms for selecting the firms subject to an auction wave.

2. Preparation of state companies for share auctions:

- a. Clarification of accounting standards and formats to be applied;
- b. preparation of guidelines and materials for local SPCs and enterprises to assemble standard information packages about the firms;
- c. organization of an enterprise database consisting of these information packages;
- d. establishment of structures at the central and local SPCs for assisting enterprises in preparation of the standards information packages;
- e. development and conduct of training seminars for central and local SPC staff in the preparation of privatization documents;

3. Conduct of share sales:

- a. Establishment of infrastructure, procedures, and legal foundations for share auctions;
- b. announcement of auctions and enterprises, and dispatch of information packages;
- c. guidelines, and monitoring of their implementation, for enterprises to received and inform potential investors;

- d. on-site monitoring, advice, and pilot execution of the conduct of share auctions;
 - e. guidelines, standard documents, etc. for the transfer of up to 10 percent of enterprise shares to employees;
 - f. publication of auctions and information about the company to be auctioned in a privatization newsletter and in national newspapers.
4. Post-auction activities:
- a. Procedures and computer programs for registration, transfer, and custody of shares, and cancellation of PICs;
 - b. advice on disputes arising from share auctions;
 - c. advice on the the inspection of share auctions;
 - d. monitoring of post-auction resale of shares (to foreign investors).

Sub-Component: Public Information

Public information on mass privatization will be assisted mainly by the EC-TACIS team.

1. The consultants on this sub-component will coordinate their work very closely with the EC-TACIS team, with the operational and planning sections of SPC, and with the other members of the Consultant team, in order to prepare public information actions timely and appropriately. Different from the EC-TACIS team, the Consultants will concentrate on specific public information actions to support individual activities under above sub-components.

F. REPORTING

25. The consultants will submit a series of regular Project reports, as well as special studies. The special studies are listed above under Activities and Outputs. All reports shall be submitted to the Government (NAFI, SPC, First Deputy Prime Minister, and other agencies as may be requested by the Government) in a total of at least eight Russian language and two English language copies; to the Bank in two English copies; and to EC-TACIS in one English copy and to the EC TACIS project team in the field in another English copy. Bimonthly or quarterly progress reports shall be briefs in informal style. All regular Project reports will enumerate and briefly describe the inputs, activities and outputs of the last period; the contribution to the project objectives; the problems encountered, remedies sought, and further remedies proposed; the detailed plans for the coming period; potentially suggested changes to the plans for subsequent periods; and miscellaneous further issues. The regular reports will annex all the completed outputs, and significant pieces of work in progress.

26. The regular Project reports shall include:

- (i) an inception report at end of month 2;
- (ii) bimonthly progress reports at the end of months 4 and 6;
- (iii) a mid-term report at the end of month 9;
- (iv) quarterly progress reports at the end of months 12 and 15;
- (v) a final report at the end of month 18.

G. CONSULTANT QUALIFICATIONS

27. The Consultant team including the various subcontractors will likely include the following specialties, among others: Privatization policy, mass privatization, investment banking, investment funds, securities markets, share depository, company registry, management training, accounting, business valuation, financial analysis, economic legislation, business contract legal advice, media planning and purchasing, public relations strategy, public relations creative development, public relations production planning, etc.

28. For almost all team members, substantial experience in developing countries, and especially in socialist or transforming economies, will be important. For many positions within the consultant team, practical experience in the same fields in transforming economies in Central and Eastern Europe will be particularly useful.

29. Russian language capability of individual team members will greatly enhance their effectiveness, and will therefore play an important role in selection of the consultant. Kazakh or Turkish language capability would also be appreciated, although it is for the time being less useful in written communication than Russian.

30. Inclusion of local subcontractors, sub-subcontractors, or individual team members will be much appreciated as it may not only enhance the effectiveness and cost reduction of the team but also contribute to building relevant skills in the country.

H. INPUTS

31. The consultant contract will cover:

- * consultant fees including overhead;
- * consultant travel, accommodation, and living expenses;
- * project-related communication, report distribution, and office supplies;
- * translations, interpreter services, and English-language secretarial support up to a total US\$190,000 for direct Project use by the Consultants, to be passed to the Government at the time of Project completion
- * a contingency of up to US\$700,000.

32. The Government will make available to the Consultants also

- * Assistance in the arrangement of housing, hotel rooms, visas, and travel;
- * Russian-language secretarial support;
- * data and legal texts as requested by the Consultant and required for carrying out their assignment.

33. The contract includes a US\$700,000 contingency in the Consultant Contract, and further a US\$500,000 contingency outside the Consultant Contract. Together, this amounts to some 19percent of this Project Component. This is considered necessary due to the high likelihood that significant assistance needs will emerge that cannot be foreseen for the entire 18 months contract period. This is due to the high complexity of a mass privatization and corporatization program, and its susceptibility to changes in its economic and political environment. The program involves the vast majority of the country's medium and large enterprises, all citizens, and a range of financial institutions. A whole new infrastructure has to be created for coupon use, investment fund regulation, company registration, share auctions, secondary share trading, and so forth. Experience with similar programs in other transition economies shows that it would be highly advantageous for the Government to have the necessary resources at its disposal -- with Bank approval -- to rapidly deploy external specialists for unexpectedly arising problems in program implementation, and to overcome unforeseen bottlenecks in equipment infrastructure.

I. BUDGET AND FUNDING

34. The Project will be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. The total Loan is proposed to amount to US\$ 38 million equivalent. It is designed to support privatization, enterprise reform, and private sector development, financial sector reform, improvements in the social safety net, and various training activities.

35. The Consultant will be selected primarily according to the quality of its proposal. The total funding of the Consultant contract must not exceed US\$5.8 million. The Contract shall include a contingency of approximately US\$700,000 that could be used flexibly with prior approval of the Government and the Bank.

36. Indicative budget estimate:

(in US\$ equivalent)	GOK Local Cost	Local Cost	IBRD Foreign Cost
Consultant Contract:			
Fees of Consultant			
(with indication of foreign experts personmonths)			
Sub-Component 1 (12-14 person months)	-	-	390,000
Sub-Component 2 (53-57 person months)	-	29,000	1,506,000
Sub-Component 3 (20-23 person months)	-	-	660,000
Sub-Component 4 (46-48 person months)	-	36,000	1,256,000
Sub-Component 5 (3-5 person months)	-	18,000	121,000
Travel Costs and Subsistence	-	372,000	200,000
Cost of Study Tours Abroad	-	-	80,000
Local Transportation	-	22,000	-
Interpreters, Translators, Secretaries	-	168,000	-
Equipment (for Consultant Use; personal computers printers, small copiers, fax machines, 5 vehicles)	-	10,000	180,000
Business Expenses (Communication, Report Distribution, Office Supplies, etc.)	-	15,000	37,000
Contingency I	-	-	700,000
Subtotal: Consultant Contract	-	670,000	5,130,000
<u>Not included in Consultant Contract³:</u>			
Local Staff and Russian-language Secretaries for Consultants	30,000	-	-
Furnished Office Space for Consultant Use	20,000	-	-
Use of Local Media for Public Information	80,000	-	-
Contingency II	40,000	-	500,000
Subtotal: Not included in Consultant Contract	170,000	-	500,000
Total	170,000	670,000	5,630,000

^{3/} Counterpart staff are regular staff of SPC, territorial state property committees, the State Privatization Fund and other institutions who will not be recruited for the specific purpose of this project but will be employed in these institutions anyway for the preparation and implementation of the mass corporatization and mass privatization component.

37. Cost include an estimated US\$3,933,000 for 140 staffmonths at an estimated average cost of US\$ 28,000 per staff month. In addition, an estimated US\$1,197,000 additional foreign currency will be needed to cover travel costs, subsistence, study tours abroad, equipment for use by consultants and a US\$700,000 contingency. Local costs are estimated at US\$840,000 equivalent, of which it is expected that the IBRD will finance US\$670,000 equivalent and the GOK will finance US\$170,000 equivalent. In addition, US\$1.5 million for the purchase of a high-quality printing and related equipment and US\$200,000 to purchase computers and other equipment to strengthen the SCSP will be provided. Total costs are therefore estimated at US\$8,170,000 equivalent.

TECHNICAL ASSISTANCE PROJECT

PREPARING THE FOUNDATIONS FOR CASE-BY-CASE PRIVATIZATION

1. According to the Government's Privatization Program, very large and special enterprises shall be privatized on a case-by-case basis, rather than through mass privatization. Very large enterprises are enterprises -- not enterprise groups -- with more than 5,000 employees. Their complexity will likely require the spinning-off of non-core operations and major social assets, and perhaps the segmentation even of the core activities into more coherent entities, or into entities that ensure some competition in the local market. Special enterprises are enterprises that require an adequate regulatory framework prior to their privatization, or the stipulation of detailed regulatory provisions in the privatization contracts or other documents. This would apply to firms that are natural monopolies, provide largely non-commercial functions, exploit non-renewable natural resources, or are engaged in certain agri-processing activities.
2. Case-by-case privatization will supposedly follow rather traditional methods of privatization. Sometimes, a sectoral approach could be applied to achieve economies of scale in the preparatory work. International commercial tender is foreseen as the main method of sale, although investment tenders and other competitive methods are also provided for. Some of the firms may require significant pre-privatization restructuring, although major physical investments should be left to the new private owners to undertake.
3. Often, the following steps may require the assistance of external experts: (i) Review of selected special firms or subsectors; (ii) review, recommendations, and implementation of strengthening the subsector regulatory policies and institutions; (iii) pre-privatization segmentation, financial restructuring, environmental audit, and minor physical fixing up of the enterprises, as may be advisable; (iv) preparation of sale through valuation, enterprise documentation, tender package, etc.; (v) conduct of tender or other methods of active buyer search, mainly abroad; (vi) contract negotiations; (vii) monitoring and enforcement of contract terms.
4. So far, perhaps a dozen very large firms have undergone ownership transformations of some sort or other, including the dilution of the state's shares through external private investment, or transfer of share packages to worker collectives. A first truly international tender for a major firm has recently been announced to be a tobacco processing company of considerable value. Other very large or special firms have entered into various enterprise groupings (associations, holdings, conglomerations, etc.) that often replicate former branch ministry structures, involve non-transparent cross-holdings of shares, and consider themselves "destatized" commercial structures although the ultimate shareholder is still the state. SPC, by contrast, seeks to form temporary holding companies under its ownership, as a vehicle for indirect but more business-oriented financial supervision of the enterprises.
5. The case-by-case privatization component of the National Privatization Program will take many years to complete. Yet its start with a number of the enterprises should not be delayed so that these important firms enjoy better governance, obtain foreign management and market access, undertake major restructuring under private ownership, start to compete more against remaining state enterprises, and generate divestiture revenue for the state. Various donor agencies including EBRD

and IFC plan to support individual large case-by-case transactions as merchant banking operations. Further transactions may be assisted by private merchant banks, sometimes on a success fee basis paid out of divestiture revenue. Donor agencies will in future also provide financing for expert assistance, especially for subsector and enterprise studies -- as will soon be done by the European Community --, and for the difficult partial restructuring in preparation for sale.

6. The Bank assistance under this Project is limited to help for laying the conceptual, institutional, and legal basis for case-by-case privatization. This Project component would include:

Sub-Component (i): Classification and prioritization of firms

Consultants would help review the notion of special enterprise; establish a comprehensive file of all very large and special enterprises; determine the legal status and group affiliations of these enterprises; obtain a debt profile of all the enterprises; determine whether some of the very large or special enterprises could be subjected to mass privatization after all; and determine a tentative privatization timetable for the next five years (taking into account the initial need for highly visible success cases, and the urgency for privatization given the restructuring and investments needs of enterprises).

Sub-Component (ii): Elaboration of guidelines on pre-privatization restructuring

This assistance would concentrate on the disinvestment of social assets, the segmentation of commercial operations, financial restructuring, and the treatment of environmental liabilities.

Sub-Component (iii): Development of guidelines for very large privatizations

This sub-components would address in particular the development of standard legal documents, valuation methods, tender procedures, and similar materials.

7. Each sub-component will involve substantial informal and formal training of local staff.

8. The activities under this Loan component would be closely coordinated with other donor agencies, especially the EBRD, EC-TACIS, and USAID, and with the consultants funded by them. Moreover, on all activities of legal nature the consultants working under this Loan component would closely coordinate with the resident advisor under the legal reform component of this Loan.

9. The final terms of reference of the consultant contract under this Loan component should retain a certain flexibility for the Government to utilize the assistance for specific urgent requirements that are not yet covered by other donor agencies. The consultant contract would therefore emphasize the team composition and the individual field time of the team members, rather than a very detailed, fixed list of activities. Moreover, this Loan component would include a significant contingency.

10. The consultants should commence their assignment in about August or September 1993.

11. Costs include an estimated US\$ 250,000 for some 10-13 staffmonths of consultants. In addition, an estimated US\$ 50,000 in foreign currency are needed to cover transportation, subsistence, and other miscellaneous expenses. US\$ 50,000 would be a contingency. Local costs are estimated at US\$ 75,000 equivalent, of which it is expected that the IBRD will finance US\$ 50,000 equivalent and the GOK will finance US\$ 25,000 equivalent. Total costs are therefore estimated at US\$ 425,000 equivalent.

TECHNICAL ASSISTANCE LOAN

SUMMARY TERMS OF REFERENCE

SUPPORT FOR THE DEVELOPMENT OF EFFECTIVE GOVERNANCE OF STATE ENTERPRISES

A. BACKGROUND

1. To improve their efficiency, enterprises need not only competitive markets, an adequate legal framework, an appropriate capital structure and management capability, but also effective corporate governance. The owners of enterprises need to set objectives focused on profitability and the value of their investments, to hold managers accountable for the financial performance of their enterprises and to give those managers broad operational autonomy.

2. Privatization is the Government's main policy mechanism for strengthening corporate governance. It aims, over the next few years, to give private core owners control over the large majority of enterprises. However, even the rapid mass privatization program, supported by this Loan, is expected to take three years to complete; which leaves an interim period during which the State will remain the sole or majority owner of a large, albeit rapidly declining, number of enterprises. Moreover, very large enterprises and a small number of enterprises in special categories will undergo slower case-by-case privatization; while a few will be excluded from privatization for the time being. Effective governance of state enterprises therefore remains a critical issue. At the same time, given the infancy of the Kazakhstan's market economy, the changes in the corporate governance of the state enterprises should provide a clear example also to the way in which private companies are expected to be run.

3. At present, state enterprises in Kazakhstan are not subject to effective governance. The State does not effectively exercise its role as owner but intervenes instead in its enterprises in a somewhat haphazard manner. The major weaknesses of the present corporate governance regime may be summarized as follows:

- a. The objectives that the State appears to impose on its own enterprises are principally:
(i) achievement of production volumes; (ii) preservation of employment; (iii) provision of social services; and (iv) the fulfillment of trade agreements. Enterprises managers are not required -- and therefore feel little obligation -- to generate profits and to maximize the potential value of their firms.
- b. Whilst there is a financial reporting system in place, enterprises managers are, in reality, not held accountable for the financial performance of their enterprises. This problem arises firstly from the outdated and inadequate accounting policies, systems and financial reporting formats. Reported financial results do not therefore reflect the real financial performance. Inspection of financial results is aimed at deterring and detecting fraud rather than identifying reasons for and ways to rectify under-performance. Secondly,

indirect subsidies and price controls further blur the results of enterprises. Thirdly, the concept of a rate of return on the capital invested is not widely understood.

- c. **Managers do not have sufficient operational autonomy. They are constantly subjected to interference from their branch (sector ministry) and local authorities. In return, managers turn to those authorities for assistance in resolving financial and other operational problems, many of which they should solve on their own.**
- d. **The lines of authority above the enterprises are unclear. The director (chief executive) of an enterprise is appointed by the branch ministry. There were formerly many branch ministries but the majority of these have been converted into "concerns". Today most enterprise managers are responsible to their concerns, rather than directly to Government ministries. Branch organ responsibilities conflict with property committees and local with central agencies. For example, branch ministries are effectively exercising the state's ownership rights except that SPC has the exclusive right to dispose of state property. This latter right relates not only to the state enterprise itself (through privatization) but also to the disposal of individual assets. This is the cause of some confusion and erodes enterprise managers autonomy, but is important for SPC to prevent asset stripping. Moreover, the respective roles of the Ministry of Finance, SPC, other ministries, and enterprise organs are unclear with regard to dividend policy. For example, the state as shareholder is supposed to decide on "net profit" rather than on "dividends", and the dividend policy is not meant to be proposed to the shareholders by the organ responsible for the enterprise (the supervisory council) as is the case in market economies. In some regions the situation regarding incorporation of state enterprises as joint stock companies is unclear. This reflects that fact that property committees at central and local levels have not yet established proper structures and systems to effectively exercise SPC's ownership role.**
- e. **In a market economy, owners receive profit-related dividends, use them to reinvest in enterprises where such capital investment promises the highest returns. In Kazakhstan, by contrast, the State, as owner, does not receive dividends. Hence enterprises use any profits they make without regard to returns on investment, using such profits for employee benefits, social or private uses. The system of taxes and subsidies is not an adequate proxy for dividends and capital increases and is not organized in a sufficiently rational manner to approximate to it.**

4. A program to improve corporate governance of SOEs will have to include the following elements:

- a. **Corporatization of state enterprises as State-owned joint stock companies. This is addressed by the Mass Corporatization and Mass Privatization Component of this loan. Corporatization will clarify the property rights, legal status and authority of the enterprises and will introduce supervisory councils (in Western terms: the Board of Directors) into enterprises to represent the interests of the owners (in this case, the State).**
- b. **A system of performance monitoring with emphasis on financial results. This will involve improvement in management information, accounting policies and practices;**

appropriate financial reporting formats; verification of reports through professional independent external audits; the systematic collection and recording of key management information by the State's ownership agency (SPC); the routine assessment of operational and financial performance on the basis mainly of that data; and guidelines on incentives to be provided to managers to enhance financial performance. This system will help the members of the enterprise supervisory councils to perform their function and allow the Ministry of Finance, SPC and holding companies under SPC to decide on dividends and capital injections.

- c. A rational system for planning dividends and (re-)investment whereby decisions on the reallocation of capital between firms with different prospects, levels of uncertainty and capital needs will have to be taken at holding company level and, possibly in a few cases, at a higher level. Such decisions will also have to be taken within the context of the Government's overall public investment program and budget. This will require commercial business planning concepts to be introduced with emphasis on realistic assessments of cash flows, the adequacy of returns on investments and selection of priorities when there are competing demands for limited capital resources.
- d. Contractual obligations between State and enterprises. State demands for production of unprofitable items, sale of production at below market price and/or provision of non-commercial services as well as requirements to comply with special regulatory legislation should be explicitly formulated; agreed with the management of the enterprise, possibly on a contractual basis; assessed as to the financial impact of such demands on the firm; and compensated by Government through explicit payments (subsidies) on a predetermined basis. For the most important SOEs (such as the utilities, communications and railroad companies) this might take the form of so-called "performance contracts" on an annual or multi-year basis. Similar contractual arrangements could also be used after the privatization of such firms.
- e. Enhancement of authority and capability of ownership representatives. The roles of the branch, property and financial agencies, on the republican and local level, need to be clarified. The SPC, as designated representative of State ownership interests, will have to organize and train staff adequately to fulfil its role. To further improve its role in view of the large number of SOEs involved, SPC is to begin establishing temporary holding companies under itself which will be designed to be profit-orientated and more business-like than a State agency and which will pay competitive salaries to attract highly skilled local and foreign financial specialists. The members of the supervisory councils of these holding companies will need appropriate training and guidelines to carry out their new duties.

B. ASSISTANCE UNDER THIS LOAN COMPONENT

5. Corporatization, including related infrastructural improvements (company register, share transfer registration, etc), is addressed by the Mass Corporatization and Mass Privatization Component of this Loan. Steps to improve the accounting framework, standards and reporting formats are already under way but require massive training and technical assistance that would exceed

the scope of this Component. Financial and technical support to award management contracts to holding companies under SPC is envisaged under a future Financial and Enterprise Sectors Development Project of the Bank. Initial training for members of the supervisory councils of the holding companies will be provided under the Training Component of this Technical Assistance Loan and needs to be broadened by support from further donors.

6. Consultants will be engaged to provide technical assistance to support the development of effective governance of state enterprises. The Consultants shall perform the following tasks:

a. Study on the status and future strategy of state enterprise governance in Kazakhstan.

This study shall address all the issues raised above (section A) except the corporatization of firms. Particular emphasis shall be placed on institutional issues and the development of a comprehensive framework which can be presented, with convincing supporting arguments, to all parties concerned. The study shall include preparation of a comprehensive draft program including detailed recommendations and a proposed action plan with implementation targets. The specific context of Kazakhstan shall be carefully taken into account; but so shall potentially useful strategy elements that are already being developed in other CIS countries and which could be usefully adapted to local circumstances. The program will also take account of recommendations and outputs from (ii)-(v) below. This task shall start as soon as possible and be carried out by a team of experts, with the draft report to be submitted within ten (10) weeks after mobilization. The Consultants shall then help review and refine the program in discussion with the counterpart agencies and the Bank. This component will require approximately 10 person-months by foreign experts.

b. The detailed design and implementation of a financial performance monitoring system.

This task shall involve the design of institutional arrangements in Government and the State holding companies; information flows; specific reporting formats; data recording and storage; a performance assessment indicator system; and the structure of a communication of results to supervisory councils. The Consultants shall also outline the software and hardware requirements, and make available and/or help to develop the necessary software. The Consultants shall also provide initial formal training through seminars and on-the-job teaching to SPC and holding company staff. This component will require approximately 10 person-months by foreign experts.

c. Two seminars on the nature, drafting and application of performance contracts.

The Consultants shall provide a standard model - adapted to local circumstances - for use during the seminars. In developing the standard model the Consultants shall take account of existing arrangements for the provision of social services by major commercial enterprises. The consultants should ensure that the emphasis of the seminars is on the institutional framework required for performance contracts to be effective. The outputs of the seminars should be clear recommendations on: who the parties to such contracts should be; the preparation and negotiation processes; monitoring and evaluation; arbitration; incentive arrangements; contract compliance and reporting. This component will require approximately 4 person-months by foreign experts .

d. Capability development for effective governance.

The Consultants shall develop a set of detailed training material and user manuals for the staff of SPC, state holding companies and their supervisory councils, and state enterprise supervisory councils regarding their role in exercising corporate governance and the use of the above financial monitoring system, performance contracts and external audits. This component will require approximately 4 person-months by foreign experts.

e. Introduction to interpreting financial statements and the nature and use of independent external audits.

The Consultants shall prepare and conduct a series of four training courses to introduce SPC staff and a total of at least 120 persons (who are or will become members of supervisory councils) to: annual financial statements and how to interpret results and financial positions; different types of audits (financial and operational audits); different audit approaches and techniques; understanding the nature and contents of different types of audit reports; responsibilities of the auditors; and the selection and appointment of auditors. This component will require approximately 4 person-months by foreign experts.

7. Costs include an estimated US\$698,000 for 32 staffmonths at an estimated US\$20,000-22,000 per staff month. In addition, an estimated US\$ 152,000 in additional foreign currency costs are needed to cover travel, subsistence, training materials, and other miscellaneous costs. Local costs are estimated at US\$ 200,000 equivalent, of which it is expected that the IBRD will finance US\$ 150,000 equivalent and the GOK will finance US\$ 50,000 equivalent. Total project costs are therefore estimated at US\$ 1,050,000 equivalent of which IBRD will finance a total of US\$1,000,000.

**TECHNICAL ASSISTANCE LOAN
SUMMARY TERMS OF REFERENCE**

CAPACITY BUILDING FOR ENTERPRISE RESTRUCTURING

A. BACKGROUND

1. **Kazakhstan's economy is undergoing a rapid transition from central planning, state ownership, and high specialization within the integrated USSR market to decentral market mechanisms, private ownership, and normal international trade relations. In the course of this transition enterprises have to adjust in many profound ways to entirely different relative prices; new sets of competitors, suppliers, and clients; new ownership structures and governance mechanisms; new labor relations and management styles; a different legal framework and fundamentally different kinds of relations between enterprises, and between enterprises and the Government.**

2. **This transformation in their environment will, in turn, eventually require enterprises to undertake major changes in many of their own structural features: Ownership, financing, internal organization, management, staffing, target markets, product mix, distribution arrangements, technologies, production facilities, and so forth. The restructuring of these configurations differs in nature, with implications for their timing and feasibility:**

- (i) **Some of these structures (e.g., the internal organization and the management team) can be changed at relatively little financial cost.**
- (ii) **Other structural changes involve the resolution or transfer of certain liabilities such as financial debts, severance payments to excess labor, or clean-up cost and contingent liabilities of past environmental pollution.**
- (iii) **The third category of structural changes involves investments in new assets, especially equipment but also distribution channels, technologies, human skills, market reputation, and so forth.**

3. **The need for some major adjustments is by now felt strongly by most enterprises; in Kazakhstan. The financial status and the viability of SOEs are actually not well known, due to weaknesses in accounting and statistics, high inflation, long delays in inter-republican payments, enormous implicit subsidies in the price of credit and energy and rapid changes in the economic environment. Until end 1992, most state-owned enterprises (SOEs) reported profits, but a substantial portion of all SOEs were illiquid, and many started to appear economically non-viable. By mid 1993, an increasing number is now allegedly incurring losses; the liquidity problems have severely aggravated; and a large number of SOEs can be expected to become insolvent once energy prices reach international levels and interest rates become positive in real terms.**

4. **Yet, so far only limited restructuring has taken place. In particular, few non-viable facilities and operations have been weeded out or turned around. Significant restructuring to succeed requires several conditions to be in place:**

- (i) Strong price signals reasonably reliable expectations about the future environment and a minimum stability in the macro-economic environment;
- (ii) an adequate incentive structure for the enterprises and their managers, through profit-oriented owners, effective governance mechanisms, capable and rigorous creditors, and hard budget constraints imposed by the Government;
- (iii) adequate information, know how and skills to plan and implement restructuring especially on the part of managers, possibly enhanced by training, technical advice, and sub sector studies; and (iv) availability of, and -- where justified -- access to, the necessary financial and other resources to implement the restructuring, and to remain liquid until it brings results.

5. The creation of these conditions will remain a key task of the authorities, and warrant strong support of foreign donors. So far, the efforts of the Kazakh Government have focused on preparing improvement on conditions (i) and (ii), and implementation of these improvements has started. In the coming months, increasing attention will need to be given to conditions (iii) and (iv).

6. A more pre-active role of the state in restructuring on the enterprise level is in most cases not justified. In view of the need for adequate incentives for restructuring, substantial restructuring of enterprises is in principle better left to the new owners after privatization.¹ It should also be driven by their creators, especially banks, provided they themselves are non-political, profit oriented entities. Even enterprises that are already insolvent or illiquid would best first put for sale under the privatization program.

7. Still, at least two instances can be identified where the state may need to play a more active role in restructuring.

- (i) In some medium or large enterprise most shares may not be taken up in the privatization auctions even at a symbolic price of one ruble or, rather, one investment privatization coupon, because the investment funds (and other investors) believe that these enterprises have a positive net present value neither as a going concern nor in liquidation. Some of these enterprises may warrant financial restructuring and perhaps also the relief from excess staff, environmental liabilities unfavorable long-term contracts, or particularly unattractive businesses before they are again put on sale. Alternatively, if they have very poor prospects indeed, they may need to be closed down and the assets liquidated.

1/ The share majority of up to 7,000 medium and large scale state enterprises (200-5,000 employees) are supposed to be included in the mass privatization program. These shares will be held directly by the State Property Committee until such time as those shares are transferred to the investment funds that participate in the share auctions (with privatization investment coupons that they mobilize from the citizens). Very large commercial SOEs (more than 5,00 employees) and SOEs in certain special sectors like energy will not be included in the mass privatization program but eventually be privatized on a case-by-case basis as soon as the investor climate permits.

- (ii) Similarly, for a few highly complex and very large enterprises (with more than 5,000 employees) some active restructuring may be warranted prior to privatization. In particular, they may need to be segmented into smaller units, and spin off or close social facilities and non-core businesses. Some pre-privatization restructuring may also be needed in some enterprises in special sectors where privatization has to await strengthening of the regulatory framework, but where some restructuring measures can not be delayed accordingly. In either case, major new physical investment should still in general be tied to prior implementation of above defensive restructuring measures as well as to the implementation of a concrete privatization plan.

B. OBJECTIVES

8. This project in conjunction with other components of the Bank's Technical Assistance Loan, will help prepare the ground for specific restructuring activities in the medium term, some of which may be supported with further Bank loans.
9. This project would mainly help develop experience in two critical steps: (i) The analysis of major under-performing enterprises with a view to deciding on the need or restructuring (in conjunction with privatization) and/or liquidation and (ii) the elaboration of detailed restructuring and privatization plans for such very large enterprises. Both components would deal with a small sample of firms, respectively, on a pilot basis. The local learning experience should be multiplied by conducting the work jointly with substantial numbers of counterpart staff; disseminating the results widely in Kazakhstan, regarding the methodology and other lessons learned as they emerge from the pilot exercises; and conducting training seminars on the methods and issues of their particular work, as well as of restructuring activities in general.

C. ASSISTANCE STRATEGY

10. The contract will be awarded to one company ("the Consultants"). The Consultants may decide to carry out both sub-components in parallel, or on different time schedules as agreed with the Government and the Bank. Although there should be one person with overall responsibility for the entire contract, the two sub components may be led by different team leaders.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

11. The State Property Committee ("SPC") represents the State as owner of all state-owned enterprises and will, directly or indirectly, be the shareholder of all shares of SOEs incorporated as joint stock companies until their privatization. For those enterprises that are not earmarked for privatization in the near future, SPC has started establishing temporary holding companies, owned fully or, in some case, in majority by SPC. This aims at facilitating the exercise of the state's ownership role on a commercial basis with maximum operational autonomy and financial accountability, in view of SPC's limited institutional capacity to effectively exercise this role directly in several hundred enterprises. Some holding companies are envisaged to be diversified and

other more specialized in particular sectors. SPC will be the main counterpart agency of this project [– to be confirmed prior to issuance of invitations to bid on this contract –]. For sub component (ii) the consultants will likely work directly with one or two holding companies established under SPC, but SPC remains their official counterpart.

12. The Ministry of Finance and the Ministry of Economy are responsible for providing financial support to state enterprises in certain circumstances. They will likely also play important roles in the establishment, funding, and supervision of special institutions such as a debt recovery fund or bank, and a post-privatization restructuring fund. The consultants will therefore liaise closely with these two agencies throughout their assignment.

13. The National Agency for Foreign Investment (NAFI) at the Ministry of Economy is the coordinating agency for this project as part of the Bank's Technical Assistance Loan. The Project Implementation Unit (PIU) for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

E. ACTIVITIES AND OUTPUTS

14. The project will consist of two main sub-components.

Sub-Component (i): Review of the Restructuring Needs of 10-14 Very Large Enterprises.

The Consultants will assist the rapid review of 10-14 very large enterprises (more than 5,000 employees) that appear to be substantially inefficient. This review shall assess which parts of these enterprises are economically and financially viable (or can become viable through restructuring that are economically efficient); what major restructuring activities appear necessary and warranted, with special attention to financial restructuring; and to which extent such restructuring could be deferred until after privatization. These assessments would thus also support the decisions of the state about the potential transfer of the bank loans of these enterprises to a special debt recovery fund or bank.

Sub-Component (ii): Elaboration of Pilot Restructuring Plan for 2 Large Enterprises

The Consultants would assist SPC, or holding companies owned by SPC, in the elaboration of pilot restructuring and privatization plans; for 2 very large enterprises. One plan will be established for an enterprise that will likely require mainly liquidation of a large part of its businesses and facilities. The second plan will deal with an enterprise that will likely warrant substantial restructuring to reach efficiency. This restructuring plan would take into account the possibility to combine restructuring with privatization; the plan would thus serve as part of the preparation of the firm for privatization.

15. Each of two sub-assignments (i and ii) would be conducted by groups consisting of Consultant team members and staff from the main Government institutions and SPC-owned holding companies as mentioned above. The methodology used, key issues that emerge during the pilot exercises, and some case examples would be laid down in reports and other materials for dissemination among relevant government agencies and SPC-owned holding companies. The Consultants on each of the two sub-components would also conduct brief informal workshops for their

counterpart institutions, and one final seminar (which can combine both sub-components) for a large audience towards the end of their assignments.

F. REPORTING

16. The Consultants will first submit a draft inception report on the two contract sub components, respectively, in draft form to the main counterpart agency and to the Bank within one month after the agreed starting date of the respective assistance component. After clearing and potential revisions, the final inception report shall be distributed as outlined below. The two inception reports can of course be combined into one report if timing permits. The inception reports would, inter alia, refine the proposed methodology; propose the samples of enterprises subject to the assistance; clarify information requirements that the authorities and the enterprises can be reasonably expected to fulfill in anticipation of and during the assistance; and propose a much refined timetable of activities.

17. In case a contract sub component extends over more than 5 months of elapsed time, the Consultants will submit a mid-term progress reports in brief informal style, concentrating mainly on past and planned activities and inputs, contributions to the project objectives, and problem encountered and remedies introduced or proposed.

18. Within no more than six weeks after completing the field work on the respective sub component, the Consultants will submit a draft final report on their findings and recommendations relating to this contract sub component. The final version will be provided no later than three weeks after receiving comments from the Government and the Bank. Detailed enterprise-specific information shall be presented in a separate annex to safeguard confidentiality. The reports shall be submitted to SPC, NAFI, Ministry of Economy, Ministry of Finance, and – as appropriate in view of the enterprises analyzed – branch ministries in each case in 2 Russian and 1 English copy, as well as to the Bank (1 Russian 2 English copies) .

19. The Consultants will be selected on the basis of their proposal, the qualifications of the firm, the qualification of the Project Manager and potential further leaders of sub components, and the other team members. The team members should have extensive proven expertise in enterprise restructuring, with a substantial exposure to restructuring in formerly socialist economies, especially Eastern Europe and the CIS. Familiarity with the Russian, Kazakh, and/or Turkish languages would be very useful for the assignment.

H. INPUTS

20. The consultant contract will cover:

- * fees including overhead;travel, accommodation, and living expenses;
- * project-related communication, report distribution, and office supplies; and
- * translation, interpretation, and English-language secretarial support.

Given the lack of resident advisors under this project; and instead the reliance on shorter-term expert visits to Kazakhstan, the contract does not envisage the purchase of office equipment for consultant use.

21. The Government will make available to the consultants:

- * assistance in the arrangement of housing, hotel rooms, visas, and travel;**
- * Russian-language secretarial support;**
- * data and legal texts as requested by the consultants and required for carrying out their assignment;**
- * adequately furnished office space with telephone facilities, as well as easy access to photocopy and facsimile services.**

22. The contract with the consultants will amount to no more than US\$ 450,000. Also included in the Loan component, but not in the consultant contract, is a contingency of US\$ 50,000 that can be used flexibly by the Counterpart agencies in agreement with NAFI/PIU, subject to agreement by the Bank.

23. Indicative budget estimate:

(in US\$ equivalent) Foreign	GOK	IBRD	
	Cost	Local	Local
	Cost	Cost	Cost
<u>Consultant Contract:</u>			
Fees of Foreign Consultants	-	-	350,000
Component (i) (8-10 person months)			
Component (ii) (8-10 person months)			
Travel Costs	-	2,000	44,000
Subsistence	-	40,000	-
Translation, Secretarial Services	-	5,000	-
Others	-	3,000	6,000
(supplies, communication, etc.)			
Subtotal: Consultant Contract	-	50,000	400,000
<u>Other Cost of the Loan Component:</u>			
Russian Language Secretaries for Consultants	6,000	-	-
Furnished Offices Space for Consultants Use	6,000	-	-
Counterpart Staff (Incremental)	8,000	-	-
Contingency			50,000
Subtotal: Not included in Consultant Contract	20,000	50,000	450,000
Total Costs	20,000	50,000	450,000

TECHNICAL ASSISTANCE LOAN

TERMS OF REFERENCE

ANTIMONOPOLY AND COMPETITION POLICIES

A. BACKGROUND

1. The economy of the Republic of Kazakhstan has inherited an industrial structure characterized by specialization and concentration in production and trade, with often only one domestic supplier or buyer in a market. Large state-owned enterprises employing over 500 people, though constituting only one-fifth of the total number of industrial enterprises, account for 83 percent of production volume and 89 percent of fixed asset values. In addition to large single enterprises, group structures often based on former subsector ministries, initially referred to as industrial "concerns" and subsequently referred to as joint stock companies and holding companies, create the potential for cartel-like market agreements and threaten the development of increased market competition. As state-owned assets are privatized, it will be important that public monopolies do not merely become private monopolies. Absent sufficient competition, prices will neither play their critical informational role for resource allocation nor provide incentives for cost reduction and innovation.
2. In an effort to control abuses of monopoly power and promote competition, the Republic of Kazakhstan enacted its first competition law, "Law on the Promotion of Competition and Restrictions on Monopolistic Activity" in June 1991. The law is intended to break-up monopoly enterprises with a dominating position if feasible, to regulate remaining monopolies, and to support training and the creation of new enterprises. To permit the authorities responsible for implementing the law to focus resources on the primary goal of creating and maintaining competition, the original functions associated with training and the promotion of new economic structures were removed in January 1993. In line with these changes, the enforcement authorities were renamed "State Committee on Anti-Monopoly Policy" (SCAMP).
3. Since the adoption of the price liberalization decree at the beginning of 1992, prices of many products have increased dramatically; through 1992 and the first quarter of 1993, price indices of some goods have increased by 2,200 percent. In response, SCAMP has spent a considerable amount of time and resources compiling a formal Register of monopoly enterprises, both at the republican (central, nationwide) and territorial (oblast) levels. According to the law, all enterprises that produce more than 35 percent of "like goods" are included on the Register; though there is an awareness that sales would be the appropriate variable, lack of detailed information on imports and exports has led to a focus on production. The Register of monopoly enterprises compiled by SCAMP is then used by the price committee (under the Ministry of Economy) to control profit levels. In addition, a recent decree of the Council of Ministers has reintroduced the requirement for enterprises to fulfill state orders, this time limited to enterprises on the Register. From a public relations point of view, SCAMP receives any bad publicity associated with the Register.

4. It is critical, in the current environment, that SCAMP change strategic direction and focus on the enhancement of competitive market forces, rather than the selection of "dominant" enterprises to be subject for government price regulation. SCAMP, both at the republican and territorial levels, has already taken a number of positive actions in this direction, in particular in overturning decisions of other governmental bodies that restrict competition. However, the enhancement of competitive market forces also requires more attention to collusive arrangements between competing firms, more active participation in deconcentration opportunities during privatization, and the development of guidelines governing both the behavior of dominant firms and the control of mergers. Policy priorities and transparent procedures to implement these priorities need to be developed, together with a number of visible prosecutions with substantial penalties, to create an environment where undesirable conduct is deterred.

5. As with many of Kazakhstan's new institutions, SCAMP remains understaffed. While there are 80 full-time staff positions at the central office and staff positions for the 21 territorial offices have been increased from 90 to 200, there are only about 60 people currently employed in the central office and less than 100 throughout the territorial offices. The staff, as well as the supporting legal institutions, lack much of the technical know-how needed to take all the actions mandated by the law. SCAMP needs to increase its economic expertise in the area of market analysis and competition policy. The offices themselves also function under severe resource constraints, with only six computers in the central office and another six throughout all the territorial offices; the entire central and territorial office network together only has one fax machine. It will be important to create a more stimulating environment to attract the most competent staff possible, and to dissuade the most able existing staff from leaving.

6. In addition to inadequate working conditions, SCAMP also lacks the support and understanding of many high-ranking government and parliamentary officials. Desirable revisions to the original law, for example, have not yet been passed by Parliament. Tensions also exist between the territorial SCAMP offices and the respective heads of territorial or local administrations. In all such areas, it will be easier for SCAMP to focus actively on the enhancement of competitive market forces if counterpart officials and all citizens understand why implementation of the antimonopoly law is in the interest of all consumers in Kazakhstan.

B. OBJECTIVES

7. The objectives of this Project are to assist SCAMP, both at the republican and territorial levels, by:

- * creation of a transparent institutional framework to enforce actively the existing antimonopoly legislation, through the setting up of clear policy priorities and guidelines;
- * increasing the analytical capabilities of SCAMP officials, and providing them with practical methodologies that are appropriate for the special conditions of Kazakhstan;
- * upgrading the office equipment available to SCAMP officials, to increase communication between central and republican offices, to allow available information

to be used to implement the provisions of the antimonopoly law more effectively, and to facilitate self-training throughout all SCAMP offices;

- * enhancing the awareness of high-ranking government and parliamentary officials of the benefits of a well-enforced, effective competition law.

8. This work shall be carried out in a manner contributing to the overall general objectives of competition policy, namely the enhancement of competitive market forces in the Kazakhstan economy in order to promote economic efficiency and to increase consumer wellbeing.

C. ASSISTANCE STRATEGY

9. The assistance will extend over an 18 months period starting in August 1993. The inputs of the consultants are expected to be provided over the duration of loan effectiveness.

10. It is suggested that the contract for this component be subdivided into three interrelated subcomponents:

- (i) advice on office automation;
- (ii) extensive training in the Republic of Kazakhstan, focused on the specific current and longer-term issues of competition policy in Kazakhstan;
- (iii) some training outside the territory of the Republic of Kazakhstan.

The contract will be awarded to one general contractor. Not included in the contract but also funded under the Bank's Technical Assistance Loan, with disbursement directly through the Project Implementation Unit, are travel expenses related to attendance of some foreign seminars, and the procurement of office equipment.

11. Training will be the most important element of the assistance and, wherever possible, will be provided with the objective of making the most effective use of office automation equipment (including hardware and software).

12. It is envisaged that training on the territory of the Republic of Kazakhstan would involve the arrival in Kazakhstan of two foreign experts for an in-depth three-week assessment of the existing and desired future competition policy framework and the specific program that SCAMP is likely to pursue to meet its policy priorities, including the visit of selected monopoly enterprises and three territorial antimonopoly offices. On the basis of an agreed desirable policy framework and specific program, the experts would evaluate office automation equipment needs and training needs, to ensure that the specific equipment and training provided are responsive to the practical operational requirements of SCAMP. Initial on-site preparation for the first training cluster would also take place during the first three-week visit, to ensure that subsequent training is tailored to local conditions. Two experts would subsequently return periodically to deliver five separate four-week training "clusters". Each training cluster would involve two repeated one-week seminars to SCAMP officials on a selected thematic topic (each for roughly 25 officials, including one representative from each of

the territorial offices and the remainder from the central office), a number of short presentations to high government officials, and identification and preparation of the next cluster. Each training cluster ideally should be geared to identified priority areas for antimonopoly law implementation, with the objective of leading to subsequent specific actions by SCAMP in these areas. The total consultant time for this training component is expected to be 46 person-weeks (2 experts at 3 person-weeks each for the initial assessment, followed by 2 experts at 20 person-weeks each for the five thematic training clusters).

13. It is envisaged that training outside the territory of the Republic of Kazakhstan would include the placement of six SCAMP officials in competition law enforcement offices in western industrialized countries for a period of eight weeks. Trainers would be responsible for selecting interns among the best or most advanced SCAMP "trainees". It is suggested that these interns be placed in pairs in receptive host country competition offices (such as 2 in Canada or U.S.A., 2 in Germany, 2 in U.K.). It will be essential that selected interns speak the language of the host country where they will be placed, to be confirmed on the basis of a language exam such as TOEFL for English. Training outside Kazakhstan would also include attendance of three people at OECD and EC competition policy training seminars (3 times a year for a 2-year period for the Vienna seminar series, 2 times a year for a 2-year period for the Brussels seminars, if available). The costs related to this travel to Vienna and Brussels are not part of this Consultant Contract.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

14. The coordinating agency for this Project, as part of the Bank's Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy of the Republic of Kazakhstan. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

E. ACTIVITIES AND OUTPUTS

15. The consultants will provide assistance to SCAMP on the following elements of the antimonopoly and competition policy component:

Subcomponent (i): Advice on office automation

This subcomponent of the Bank's Technical Assistance Loan will fund up to US\$100,000 of office equipment for the central and territorial SCAMP offices (such as personal computers, printers, modems, scanners, copying machines, fax machines, overhead projectors for training), subject to an assessment of equipment needs in line with the competition policy program to be pursued by SCAMP. This assessment is to be conducted by the Consultants during their first visit to Kazakhstan. Purchase of equipment will not be part of the consultant contract, and will follow strictly competitive Bank procurement procedures.

Subcomponent (ii): Training on the territory of the Republic of Kazakhstan

Training of SCAMP officials:

- a. prepare and deliver five training clusters, each consisting of two sets of very

- practical-oriented, "hands-on" week-long seminars given to a total of 50 SCAMP officials (roughly 25 trainees per week-long seminar), on a variety of identified thematic topics critical for effective antimonopoly law implementation (such as demonopolization, enforcement of prohibitions against horizontal and vertical agreements, merger control enforcement, control of abuse of dominant position, enforcement of unfair competition/consumer protection provisions);
- b. coordinate the delivery of seminars with training on the effective use of office equipment and available market databases;
 - c. provide materials/manuals on "how to" conduct analysis in the identified thematic areas, that are tailored to the conditions and information available in Kazakhstan (initially, provision of one very relevant textbook or a compilation of relevant articles covering basic principles of competition theory and policy, translated into Russian, may be desirable).

Training of other high-ranking government officials:

- a. prepare and deliver a series of short (possibly half-day or one-day) presentations on a variety of identified topics related to antimonopoly law implementation, in areas where government or parliamentary understanding and support is desirable.

Subcomponent (iii): Training outside the territory of the Republic of Kazakhstan

Internships in foreign competition offices:

- a. select most competent officials from various SCAMP offices, based on performance in seminars and other announced criteria;
- b. identify willing host western industrialized country competition enforcement offices and arrange for internships;
- c. coordinate selected SCAMP officials' travel and accommodation itineraries.

Attendance at OECD/EC-sponsored foreign seminars:

Funding will be provided through the Project Implementation Unit, and not as part of this consultant contract, for travel expenses to permit SCAMP officials to attend the OECD competition law and policy seminar series held in Vienna, and the possible EC-sponsored competition law and policy seminar series that may be held in Brussels.

F. REPORTING

16. The consultants will submit a series of Project reports, following each visit to Kazakhstan. All reports shall be submitted to the Government (NAFI, SCAMP, and other agencies as may be requested by the Government) in a total of at least four Russian language and two English language copies; and to the Bank in two English copies. These reports shall be briefs in informal style. All such reports will enumerate and describe briefly the inputs, activities and outputs of the last period; the contribution to the project objectives; the problems encountered, remedies sought, and

further remedies proposed; the detailed plans for the coming period; any suggested changes to the plans for subsequent periods; and miscellaneous further issues. The reports will annex all distributed seminar materials.

17. The Project reports shall include: (i) an inception report following the first three-week assessment of training needs and specific office equipment needs; (ii) separate reports following delivery of the first four training clusters; (iii) a final report following delivery of the fifth training cluster.

G. CONSULTANT QUALIFICATIONS

18. The consultant team ideally will be composed of a small number of experts to provide training in the territory of the Republic of Kazakhstan (perhaps only two "training experts"). To ensure continuity and familiarity with the conditions within the Republic of Kazakhstan, it would be desirable for the same training experts to be involved in the delivery of subsequent training clusters.

19. It is essential that training experts have demonstrable first-hand familiarity with the workings of an antimonopoly/competition law enforcement office in a well-functioning market economy, accumulated over a number of years (not less than five years). At least one, and preferably all training experts should be fluent in Russian and be knowledgeable in some industrial structure and conduct characteristics of economies of the former Soviet Union. Ideally, one of the training experts should be familiar with the setting up of an antimonopoly/competition law enforcement office and be qualified to assess all relevant equipment needs.

H. INPUTS

20. The Consultant contract will cover:

- * consultant fees including overhead;
- * consultant travel, accommodation, and living expenses;
- * preparation and distribution of training materials in English and Russian;
- * internship-related set-up, travel, accommodation, and living expenses.

21. The Government will make available to the Consultants:

- * assistance in the arrangement of visa, travel, and hotel rooms;
- * data and legal texts as requested by the consultants and required to carry out their assignment;
- * Russian language secretarial support;
- * adequately furnished office space and telephone facilities during their visits to Kazakhstan;
- * adequate training facilities.

I. BUDGET AND FUNDING

22. This Project will be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. The total Loan is proposed to amount to US\$ 38 million. It is designed to support privatization, private sector reform, financial sector reform, improvement in the social safety net, and various training activities.

23. The Consultants will be selected primarily according to the qualifications of the experts. The total funding of the consultant contract must not exceed US\$ 370,000. The contract shall include a contingency of approximately 5 percent that could be used flexibly but only with prior approval of the Government and the Bank.

24. Indicative budget estimate:

(in US\$ equivalent)	GOK Local	Local	IBRD Foreign
Consultant Contract:			
Fees of Foreign Consultants	-	-	211,000
Subcomponent (i) (10-12 personmonths)			
Subcomponent (ii)(1/4 personmonth)			
Travel Costs	-	4,000	36,000
Subsistence and Accomodation	-	38,000	-
Translation and Secretarial Services	-	6,000	-
Costs of Internships in Foreign	-	-	56,000
Competition Offices			
Others (Supplies, Communication, etc.)	-	2,000	2,000
Contingency	-	-	18,000
Subtotal: Consultant Contract	-	50,000	323,000
Other Costs of the Project Compoent:			
Russian Language Secretarial Support	4,000		-
Furnished Office Space	3,000		-
Office Equipment for SCAMP Use (computers, scanners, copiers, faxes, overhead projectors, etc.)	-	-	100,000
Travel to Foreign Seminars	2,000	-	30,000
Subtotal: Not included in Contract	-		130,000
Total Costs	9,000	50,000	453,000

TECHNICAL ASSISTANCE LOAN

TERMS OF REFERENCE

INSTITUTIONAL DEVELOPMENT OF THE NATIONAL AGENCY FOR FOREIGN INVESTMENT IN FOREIGN INVESTMENT POLICY AND PROMOTION

A. BACKGROUND

1. Kazakhstan wishes to attract foreign direct investment (FDI) as part of an overall macro-economic policy aimed at private sector led economic growth. While foreign investors have so far shown most interest in Kazakhstan's hydrocarbons and minerals sectors, the Government envisages a substantial role of FDI also in sectors such as agro-processing, export-oriented manufacturing, and communications. FDI has been invited to all sectors of the economy, except for those involving the manufacture of weapons. Kazakhstan's general policy attitude to FDI can be said to be generally open and encouraging.

2. An initial legislative program of investment protection and incentives has been introduced over the last two years. Exemptions from customs duties and export/import licenses, tax holidays, liberal visa requirements and other benefits are provided. Bilateral investment treaties have been signed with countries like France, Germany, and the United States. General economic legislation regarding property, companies, banking, etc. has been developed at rapid pace as well. Still, substantial further improvements in the specific and general legal framework for foreign investment are envisaged. A new foreign investment law has been developed and shall be submitted to the autumn session of parliament.

3. To promote and regulate FDI, the National Agency for Foreign Investment (NAFI) has been created in late 1992. It is part of the Ministry of Economy. The NAFI Chairman is the First Vice Minister of said ministry. NAFI has currently 14 staff engaged in two units (foreign investment in the energy sector, and in other sectors), under one of three NAFI Deputy Chairmen. In addition to foreign investment, NAFI is in charge of coordinating foreign aid and debt. Most staff of NAFI has been recruited only within the last months. The detailed organization, policies, and procedures of NAFI are still being developed, as do the specific relevant skills of its staff.

B. OBJECTIVES

4. The objectives of this technical assistance project are to develop the institutional capabilities of NAFI's foreign investment units through various forms of formal and on-the-job training and through practical assistance, particularly in the following areas:

- * further development of the foreign investment regime, including policy formulation, development and implementation of specific legislation, and investment protection arrangements. This would include also an analysis of options to mobilize foreign portfolio investment for Kazakhstan's economy, and an analysis of potential sources of financing and insurance accessible to foreign investments in Kazakhstan;

- * the handling of individual foreign investment cases through negotiations (mainly where natural resources or other state property are involved), and through the monitoring of their compliance with regulations and agreements;
- * promotion of foreign investment through formulation and initial implementation of a FDI promotion strategy and campaigns, and through development of adequate materials.

C. ASSISTANCE STRATEGY

5. The assistance will extend over a period of fifteen months, starting in August 1993. The contract will be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. This Loan has been appraised and technically negotiated, and is scheduled for Board presentation on August 5. The total Loan is proposed to amount to US\$38 million equivalent. It is designed to support a wide range of policies and institutions, including privatization, private sector development, financial sector reform, improvements in the social safety net, and various training activities.

6. The contract shall be awarded to one contractor (the Consultant). It is suggested that the consultant team consist of one permanent resident advisor and team leader, two further long-term advisors (on foreign investment promotion and negotiation, respectively), and various experts for shorter assignments.

7. The project can be seen as consisting of three main components, with the timing and person-months suggested as follows:

- (i) foreign investment regime: about 10-12 personmonths starting August 1993;
- (ii) foreign investment negotiations and monitoring: about 6-8 personmonths starting September 1993; and
- (iii) foreign investment promotion: about 8-10 personmonths, with initial activities starting in October/November 1993.

8. Under the same Bank Loan, a range of related TA activities will be carried out concurrently. For example, assistance will be provided to NAFI and specific branch ministries in the particular area of foreign investment negotiations and taxation in the mining sector; to the State Property Committee in privatization; to the Anti-Monopoly Committee in competition policy; and to legal institutions in legal drafting and the organization of the legal system. Moreover, the Bank is preparing a Loan in the energy branch that is envisaged to include further specific assistance to foreign investment negotiations and taxation in the energy sector. Obviously the assistance provided by the Consultants needs to be well coordinated with these activities. In particular, any legal matters under this assignment shall be closely coordinated with the TA component on legal reform under the same Bank Technical Assistance Loan.

D. COUNTERPART AND IMPLEMENTATION ARRANGEMENTS

9. The coordinating agency for this project, as part of the Bank's Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

10. The technical main counterpart agency for this project will also be the NAFI, which will be responsible for the execution of all the component under this project, in accordance with Bank procedures.

E. ACTIVITIES AND OUTPUTS

11. The Consultants will provide assistance to NAFI on the following specific tasks:

Component (i): Foreign Investment Regime

12. A resident advisor, who would preferably also be the team leader for the project, and brief interventions by additional specialists, will provide training and advice on:

- * foreign investment policy formulation,
- * foreign investment legislation,
- * international and bilateral investment protection arrangements,
- * an analysis of options to attract portfolio investment,
- * a brief analysis of potential sources of financing and insurance available to foreign investments in Kazakhstan.

13. In the course of working in these areas, the Consultants will also undertake, among various other things, to:

- a. advice on the continuous development of Kazakhstan's foreign investment policy and foreign-investment specific legal framework, as well as general advice to NAFI staff on other legislation that impacts on foreign investment in Kazakhstan;
- b. provide the counterparts with an adequate review of the existing foreign investment legislation in other CIS countries, compare it to the situation in Kazakhstan, and draw policy conclusions on relative the "openness" of the country towards foreign investment and its competitiveness in attracting foreign investors;
- c. help develop policies and procedures to give access to investors to the exercise of arbitrage, and other protection mechanisms to warrant investment returns;
- d. help further develop the organizational structure and procedures of NAFI's foreign investment units, and develop a staff development plan;
- e. coordinate and arrange the participation of NAFI staff in seminars abroad on foreign investment policy and legislation;
- f. provide policy advice upon request of the NAFI Chairman and Vice Chairman (in charge of foreign investment) on issues related to foreign investment policy and legislation;

- g. conduct of formal training on foreign investment policy and legislation, totalling at least 6 days.**

Component (ii): Foreign Investment Negotiation and Monitoring Capabilities

14. A part-time resident advisor, potentially supplemented by brief assignments of further experts, will perform the following tasks under this component:

- a. help NAFI introduce a framework for the assessment and negotiation of FDI projects, with a special focus on the natural resources and other state property involved;**
- b. assist the development and implementation of a system to monitor the adherence of foreign investments to their agreements and to foreign investment legislation;**
- c. conduct seminars on negotiation techniques and foreign investment negotiations, totalling at least two weeks, for NAFI staff and potentially additional relevant participants;**
- d. on NAFI's request support the analysis of specific FDI applications and the formulation of the respective negotiation strategy;**
- e. arrange and coordinate the attendance of NAFI staff to seminars abroad focused on foreign investment negotiations.**

Component (iii): Foreign Investment Promotion

12. A resident advisor and short-term visits of specialized experts, shall: help develop a general strategy to promote foreign investment, based on the specific conditions of foreign investment and related legislation in Kazakhstan; strengthen NAFI's capabilities in this area; and assist the initial implementation of the promotion strategy through various promotion activities.

Specific tasks of the advisor will include, inter alia:

- a. assistance to the development the foreign investment promotion strategy, including also the identification of countries and investor groups at which the strategy could be targeted, and an image building strategy including its general theme and messages to be conveyed;**
- b. coordination and advice on the design and preparation of promotion materials such as brochures, fact sheets, investment videos, etc., and a special focus on the preparation of materials that provide an overview of the main areas of investment opportunities in Kazakhstan;**
- c. advice on the planning and arrangements of a media campaign using local and international media;**
- d. advice on the planning and arrangement of specific promotion events such as conference;**
- e. coordination, arrangement and leading of a study tour for a small group of leading NAFI staff and potential relevant participants of other agencies to two or three East and/or South East Asian countries with particular success in foreign investment promotion;**
- f. conduct of formal training on investment promotion, totalling at least 6 days.**

F. REPORTING

15. The Consultants will submit an inception report within two months after commencing their assignment. Thereafter, they will submit quarterly a progress report, in brief informal style, on past and planned activities and inputs (in detail), contributions to the project objectives, and on problems encountered and remedies introduced or proposed. Moreover, they will submit reports, of appropriate scope and depth, on (i) proposed measures to strengthen the specific legal framework for foreign investment in Kazakhstan, (ii) a proposed foreign investment promotion strategy for Kazakhstan, (iii) possibilities to attract portfolio investment into Kazakhstan, and (iv) an outline of the financing sources and insurance available to foreign investments in Kazakhstan. All reports shall be submitted in four copies submitted to NAFI (in Russian and English), and two to the Bank (in English). The various reports will annex all written materials provided by the consultants to NAFI.

G. CONSULTANTS QUALIFICATIONS

16. The Consultants will be selected on the basis of their proposal (25 percent), and the qualifications of the firm (15 percent), the team leader (25 percent), and the other team members (35 percent), respectively. The team members should have extensive proven expertise in foreign investment agency operation, and familiarity with foreign investment legislation, policy, negotiation, and promotion, as appropriate, in other countries. Strong capabilities and experience in training is another important factor. Familiarity with the Russian, Kazakh, and/or Turkish languages would be very useful for the assignment.

H. INPUTS

17. The consultant's contract will cover:

- * fees including overhead;
- * travel, accommodation, and living expenses;
- * project-related communication, report distribution, and office supplies;
- * translation, interpretation, and English-language secretarial support;
- * office equipment up to US\$ 20,000 (computers, printers, facsimile machines, copiers, etc) for the direct project-related use by the consultants, to be turned over to NAFI upon project completion.

18. NAFI will make available to the consultants:

- * assistance in the arrangement of housing, hotel rooms, visas, and travel;
- * Russian-language secretarial support;
- * data and legal texts as requested by the consultants and required for carrying out their assignment;
- * adequately furnished office space with telephone facilities.

I. BUDGET AND FUNDING

19. The Project will be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. The total Loan will amount US\$ 38 million equivalent. It is designed to support privatization, enterprise reform, and private sector development, financial sector reform, improvements in the social safety net and various training activities.

20. The contract with the consultants will amount to no more than US\$ 700,000.

21. Also included in the foreign investment component of the Technical Assistance Loan, but not under the Consultant Contract, is an amount of up to US\$ 120,000 for NAFI staff and potentially further policy-makers on foreign investment to attend relevant seminars on foreign investment policy/legislation and on foreign investment negotiations, to undertake a study tour on foreign investment promotion to South-East/East Asia, and to attend foreign investment promotion conferences of Kazakhstan abroad; up to US\$100,000 for the utilization of foreign media in investment promotion; US\$30,000 for contingencies that could be used flexibly by NAFI with prior approval of the Project Implementation Unit and the Bank; and up to US\$50,000 for office equipment to be used by NAFI. The latter comes in addition to the up to US\$20,000 included in the consultant contract for equipment that the Consultants shall procure and utilize for their own assignment.

22. Indicative budget estimate:

(in US\$ equivalent)	GOK Local Cost	Local Cost	IBRD Foreign Cost
Consultant Contract:			
Fees of Foreign Consultants	-	-	563,000
Component (i) (10-12 person months)			
Component (ii) (6-8 person months)			
Component (iii)(8-10 person months)			
Travel Costs	-	2,000	40,000
Subsistence	-	43,000	-
Translation, Secretarial etc. Services	-	12,000	-
Equipment for Consultant Use	-	-	20,000
Others (supplies, communication, etc.)	-	3,000	17,000
Subtotal: Consultant Contract	-	60,000	640,000
Other Cost of the Loan Component^{1/}:			
Foreign Seminars, Study Tour, and Participation in Conferences	-	120,000	-
Russian Language Secretaries for Consultants	15,000	-	-
Furnished Offices Space for Consultant Use	12,000	-	-
Project-related Office Equipment for NAFI	8,000	-	50,000
Use of Media for Project-Related Promotion	15,000	-	100,000
Contingency	-	-	30,000
Subtotal: Not included in Consultant Contract	50,000	-	300,000
Total Costs	50,000	60,000	940,000

^{1/} Counterpart staff are regular NAFI personnel who are not recruited for the specific purpose of this project. Their salaries are hence not included in the table.

TECHNICAL ASSISTANCE PROJECT
PRIVATE SECTOR DEVELOPMENT IN
MINING AND METALLURGY SECTOR

1. The technical assistance provided by the loan for the mining and metallurgy sector is intended to assist the government in establishing an internationally competitive legal, regulatory, and fiscal environment necessary to promote private sector development of the sector. In addition, it is designed to provide assistance in strengthening government institutions responsible for supervising the sector as well as training government officials in administering the regulations.

2. The technical assistance project is sub-divided into four distinct sub-components. Preferably, overall implementation of the technical assistance for this sector should be given to a single consulting organization (or consortium of organizations) in order to simplify administration. Alternatively, separate consulting groups may be selected to implement each sub-component (or combination thereof) but this would be more difficult to administer.

	Cost Estimate			
	Foreign		Local	
	Man Months	Cost	Man Months	Cost
Sub-Component I (Policy Dialogue)	6	90,000	36	18,000
Sub-Component II (Legal Mine Code)	5	120,000	30	15,000
Sub-Component III (Fiscal Reform)	18	300,000	42	21,000
Sub-Component IV (Institutions)	36	618,000	96	48,000
Sub-Total	<u>59</u>	<u>1,128,000</u>	<u>204</u>	<u>102,000</u>
Travel		180,000		
Per Diem		390,000		
Equipment/Software costs		200,000		
Other Local Costs				<u>100,000</u>
TOTAL		1,898,000		<u>202,000</u>
GRAND TOTAL				<u>2,100,000</u>

Sub-Component I: Dialogue on Mineral Policies Required to Attract Foreign Investment

3. Project Objectives

- a. Prepare a clear statement of government policies and objectives in respect of minerals sector development, including measures to attract foreign investment;
- b. Devise a consistent Strategy to implement the policies and achieve the objectives and an Action Plan (short and long term) for the government to follow, including the programming of further technical assistance to the sector;
- c. Sensitize and educate key government officials in the dynamics and operations of the sector under conditions of the market economy.

4. Project Rationale. Attracting investment to the minerals sector, especially from foreign sources, is very difficult given the keen competition for the available sources of funding. The government is well aware that it must provide for an internationally competitive investment environment and foster the development of the sector according to the principles of the market economy. But, before it can draft laws and regulations, and fiscal mechanisms for the sector it must decide upon the overall policies and objectives that will guide mining and metallurgical operations. Because past management practices in respect of the sector reflected the command and control philosophy of the previous system it is necessary for government and enterprise managers to study and learn the principles of market economy practices in respect of mining and metallurgy, understand the operations of the international metals industry against which Kazakhstan's production must compete on world markets, and be aware of the concerns of foreign investors as they evaluate investment opportunities. Therefore, a clear and complete statement of these policies together with a coherent strategy to achieve them is an essential pre-requisite to attracting and retaining private sector investment. This is particularly the case with foreign investors who have remarked that the lack of clear policies and objectives makes investing in the sector significantly more risky than in other countries.

5. Project Description. A "Working Group" will be established under the chairmanship of the National Agency for Foreign Investment which will conduct the dialogue. The Group will be composed of representatives from the Ministries of Industry, Geology, Ecology, State Committee on Privatization, Academy of Sciences, enterprises and production associations, and others designated by the National Institute. The Working Group will be responsible for the drafting of the Statement of Policies, the Sector Strategy, and the Action Plan. A series of workshops and/or seminars may be conducted under the auspices of the Working Group for government and enterprise officials responsible for supervision of the sector. These workshops will be organized to provide a forum for discussion as well as to provide training to the officials in the principles of sector management in accordance with the precepts of the market economy. Particular attention will be paid to examining the types of policies which have been adopted by other countries with whom Kazakhstan must compete on international markets; the Consultants will lay out and examine with the Working Group the various policy options that have been adopted elsewhere and which may provide guidance to the Kazakhstan authorities.

6. **The dialogue on policies and objectives will focus on:**
- (i) **the nature of the international mining industry: large and small companies, commodities markets, economic and financial evaluation of projects and ore-bodies;**
 - (ii) **position and competitiveness of Kazakhstan mining and metallurgical sector with respect to the local economy, inter-republican economy, international economy;**
 - (iii) **mining rights: policies, instruments, institutional implications;**
 - (iv) **role of the state institutions to promote, regulate and monitor developments in the sector;**
 - (v) **national, regional, and municipal jurisdiction over natural resources;**
 - (vi) **private and foreign ownership of producing facilities and access to mining titles;**
 - (vii) **lay-out of legislation and limits to government discretionary authority;**
 - (viii) **spin-off effects of mining and metallurgy to other economic sectors, including employment, tax and export revenues;**
 - (ix) **internationally competitive taxation arrangements and attracting foreign investment;**
 - (x) **environmental protection, effects on industry and the environment;**
 - (xi) **inter-institutional arrangements and jurisdiction between government supervisory institutions;**

7. **Following the discussions and dialogue, an initial statement of policies will be prepared and circulated among relevant government departments. During the government review period the Consultants will make themselves available for consultation. After a period of internal discussion, the Consultants will work with the Working Group to draft and prepare statement of policies is prepared the objectives for sector development can be defined. These are then integrated into a medium and long term strategy and an action plan to program further technical assistance and investment activities in the sector.**

8. **Project Staff. The principal specialties required for the policy dialogue are as follows:**

- a. **Policy/Institutions Specialist (2 man months)**

The Consultant will participate with the Working Group and lead the discussion on:

- i. **the existing status of the sector, its constraints, structure, and development potential;**

- ii. **key mineral sector policies , such as land tenure, jurisdiction of resources, central and oblast responsibilities, administrative procedures, licensing, incentives, and other issues, explaining how these issues are treated in other countries; and**
- iii. **government oversight institutions, their functions and roles, new institutions to be created to administer mining and exploration permits, produce and store geological information, promote investment in the sector, manage the State's interests (if any) in mining ventures, provision of technical advice and services to the sector, enforcement of environmental, health and safety standards; small and medium-scale miners, ensure as well as the functions and roles of each.**

The Consultant will have an advanced degree in public administration with a base engineering background; he will extensive experience (15-20 years) at a senior level of a government organization in charge of preparing and enforcing mineral policies; be thoroughly conversant with the institutions required to supervise activities in the sector and familiar with the solutions to key issues that have been adopted in other countries; and have participated in similar policy exercises in countries in Central Asia making the transition from command economies to market economy.

b. Mineral Economist/Project Evaluation/Foreign Investment Specialist (2 man months)

The Consultant will participate with the Working Group and will:

- i. **review the principles of competitive analysis, provide an initial assessment of the comparative advantage of Kazakhstan producers with respect to major international competitors;**
- ii. **explain to the Working Group the nature of the international mining industry, typical corporate organizations, types of companies, contractual forms for investment, functioning of international commodities markets, perceptions and requirements of foreign investors;**
- iii. **explain to the Group and conduct educational briefings on the principles of financial analysis, deposit and project evaluation, notions of cut-off grades and dilution factors, elements of discounted cash flow/return on investment analysis, cash flow, profit and loss, asset/liability evaluation, and other economic parameters used by companies to assess investment opportunities;**
- iv. **typical requirements of the foreign investor, the types of parameters used in assessing investment projects, concept of project risk;**
- v. **explain measures that have proved successful in other countries to attract foreign investment.**

The Consultant will have a base degree in engineering with advanced degree in business administration or economics; he will have 15-20 years experience working with one or more major international diversified mining companies; he will be experienced in project evaluation, financial analysis, and business development with projects in several countries under different legal and fiscal systems; he will be thoroughly conversant with the major issues and trends in the international minerals industry and have an extensive range of professional contacts.

c. Sector/Legal/Fiscal Specialist (2 man-months)

The sector/legal/fiscal specialist should be a senior consultant with broad industry and public management experience in the sector. He will lead the discussion on:

- i. sector issues: integration with rest of the economy, contribution to export earnings, tax revenues, employment, spin-off industries and linkages;
- ii. legal issues, such as permit application procedures, security of tenure, limits to government discretionary authority, land management, cadastral, forms of contracts and joint ventures, business organization structures, dispute resolution, and other matters;
- iii. fiscal issues, including basic tax rates on income, dividends, royalties, export taxes, assessment and payment procedures, calculation methods, and other techniques; emphasis will be placed on comparing fiscal arrangements in Kazakhstan to other countries producing the same.

The specialist will have at least 15 years experience in the mining industry both in the private and public sectors; he will have substantial background in economics and be familiar with the economics of mineral industries in developed and developing countries; he will be thoroughly conversant with mineral legislation and regulatory regimes world wide as well as current best practices in respect of mining taxation, finance, accounting standards, and other specialties. He will most probably be a graduate economist or financier, with a strong background in law and legal issues.

9. Coordinating Agencies. National Agency for Foreign Investment, with the participation of the Ministries of Economy, Industry, Geology, Ecology, and Academy of Sciences, enterprises, and others at the invitation of NAFI.

10. Duration. 4 months (includes time for reflection in government)

Sub-Component II: Mining Code, Regulations, and Model Investment Agreement

11. Project Objectives.

- (i) Design, draft, and promulgate basic mineral development legislation (Mine Code);
- (ii) Design, draft, and promulgate enabling regulations to implement the Mine Code;

- (iii) **Design and draft a "model investment agreement" which may be used by the government in negotiations with private investors.**

12. **Project Rationale.** The Mine Code in market economies is used to provide an orderly system whereby mineral assets, which are the property of the state, can be granted on a concessionary basis to commercial (and, in some instances, state) entities which desire to explore for and exploit them. Security of tenure is cited by international mining companies as the single greatest risk to be considered when investing outside of their home countries. Mine codes normally provide for security of tenure by leasing exploration and exploitation rights to companies for specified periods of time. The company is then able to work the deposit and, in some cases, use the mining lease as collateral for financing project development. Kazakhstan has taken some steps in the direction of leasing mineral deposits to enterprises. However, in some respects the recently passed law on sub-soil resource does not provide sufficient clarity or security of tenure for the investor. In addition, the law needs to be completed by complete mining regulations as well as a model investment agreements.

13. **Project Description.** The project will provide internationally recognized legal and regulatory experts to design and draft basic mineral development legislation, regulations, and model investment agreements. This legislation will be based upon the statement of policies and provide the legal basis to attain the objectives and set forth in the sector strategy. The mine code will address fundamental matters such as jurisdiction over resources, ownership of mineral assets, exploration and exploitation rights, obligations of the mine title holder to conduct works within specified time frames, small scale mining, access to land, processing of minerals, storage and transport of commodities, environmental protection measures, dispute resolution, offenses and penalties, and other matters. The enabling regulations will further detail the administrative procedures to be followed in implementing the mine code. Investment agreements will be designed to address issues of pertinence not addressed in the code or regulations and which may be of specific interest to investors such as the provisions relating to foreign exchange, off-shore retention of sales proceeds, accounting procedures and standards, depreciation and depletion allowances, and others.

14. It is proposed that the Consultants spend an initial 3-5 weeks in Kazakhstan to familiarize themselves with existing legislation and to participate in the dialogue on policies and strategies. At the end of this initial visit a preliminary report of findings will be submitted to the government for review. Subsequently, the consultants will return to home base to prepare drafts of the laws, regulations and model investment agreements and submit them to the Government and the Bank for review. A second visit to Kazakhstan will be made to follow up on the recommendations and discuss the draft legislation with government authorities.

15. **Consultant Qualifications.**

- (i) **Licensed Attorney (2 man months) with an international reputation for work in mineral law and negotiations gained through at least 15-20 years experience with private mining companies, public administrative agencies for the sector, or private law practice. He will be thoroughly cognizant of the currently applicable and proposed laws and regulations in Kazakhstan which may have a bearing on mineral development including, but not limited to, the laws on foreign investment, the concessions law, regulations for health, safety and environment, laws on privatization, taxation, labor laws, and existing mineral investment agreements, if**

any. In addition, the attorney will be experienced in the "best practices" employed internationally and thoroughly familiar with the minerals legislation in countries producing similar mineral commodities as Kazakhstan.

- (ii) **Regulatory Expert (3 man months), lawyer or legal specialist, with at least 15 years experience with a mines ministry or similar bureau in a mineral producing country; experienced in permit administration, regulatory procedures, internal operations, fees and rents assessment/collection, and land management.**

16. **Coordinating Agencies.** National Agency for Foreign Investment, with the participation of the Ministries of Geology/Industry, Ministry of Economy

17. **Duration.** 3 months preparation time; 6 months for passage and promulgation

Sub-Component III: Mining, Fiscal and Tax Policies

18. **Project Objectives.**

- (i) **Devise and develop internationally competitive mineral "rents" system (royalty, surface rental, permit fees);**
- (ii) **Develop, in coordination with other government agencies, standard deductions and methods of determining net income for mining enterprises;**
- (iii) **Train tax personnel in administration of tax policies and system.**

19. **Project Rationale.** The rates and methods of calculation of tax liabilities pertaining to mining/metallurgy operations is a critical variable considered by investors. While mining should be subject to the same general tax regime as applies to other industrial sectors, there are mining specific taxes as well as methods of calculating income from mining operations that must be devised. Generally, taxation of mineral enterprises entails a "resource rent" in the form of a royalty on production, fees for permit issuance and rental of surface areas, tax on profits, and tax on dividends. In Kazakhstan at present these forms of taxation are relatively unknown and what taxes do exist are highly detrimental (the export tax, for instance) to attracting investment. Administration of the tax system is very undeveloped as well. Therefore, the rationale for this project is to develop a competitive tax regime and to strengthen the government institutions in charge of assessing and collecting the taxes due.

20. **Project Description.** The project will provide both short term and resident technical assistance by experts in mining taxation and resource rents. These experts will work primarily with the Ministries having overall responsibility for supervision of the sector (Ministries of Geology and/or Industry. Emphasis will be given at all stages to designing a tax regime that is competitive by international standards. The Consultants will assist, on both a short-term and resident periods, these ministries to:

- (i) **devise an appropriate royalty structure for minerals and establish the basis upon which the royalty is to be calculated;**
- (ii) **determine the fees to be charged for permit issuance and surface rentals;**
- (iii) **establish the methods and procedures of assessment and payment of fees, rents, and royalties; and**

- (iv) advise and train ministry staff for a period of 12 months in the procedures to assess and collect the fees and royalties.

The consultants will also work, secondarily, with the Ministry of Finance or other government agency in charge of general taxation matters. Consultancy services will assist the Ministry to:

- (i) devise appropriate rates for assessment of income and dividend taxes;
- (ii) provide advice on international standards for depreciation rates for capital equipment, depletion allowances, customs and entry duties, and incentives to be offered (if any); and
- (iii) provide training in mine accounting and financial reporting requirements and standards.

21. Consultant Qualifications.

- (i) Senior Mine Taxation Expert (3 man months), will have at least 15-20 years experience with the administration of mineral taxation regimes, gained through an internationally accountancy recognized firm, tax department of a large multi-national minerals company, or senior official with the tax assessment department of a mines department. He will be thoroughly conversant with the design and implementation of royalties, surface rents, licensing fees, and other levies which may be due by mineral producers. Moreover, he will possess extensive knowledge of "best practices" in respect of these topics in other countries around the world. Finally, he will be thoroughly conversant with accounting and financial reporting practices for the international mineral industry.
- (ii) Senior Mine Accountant (3 man months) will have 10-15 years experience with an internationally recognized accountancy firm or the tax department of a large multi-national minerals company. He will be intimately familiar with mine accounting and financial reporting standards as practiced internationally. He will have also had experience in mineral audit procedures and practices.
- (iii) The resident tax advisor/trainer (12 man months) will have 10 years experience with a major internationally recognized accounting firm. He will be conversant with the principals and operation of mineral industry accounting and financial reporting systems as well as experienced in training staff in the implementation of the systems and accounting and auditing procedures.

22. Coordinating Agencies. National Agency for Foreign Investment, with the participation of the Ministries of Geology, Industry, Finance (taxation directorate).

23. Duration. 12 months

Sub-Component IV: Strengthening of Government Supervisory Institutions

24. Project Objectives.

- (i) Create appropriate government supervisory institutions;
- (ii) Design roles and functions of each, delineating jurisdictions and responsibilities;

- (iii) Establish operating procedures, staffing and recruitment requirements, tasks and functions schedules;
- (iv) Provide training to personnel in these institutions; and
- (v) Upgrade ability of Ministries to organize and deliver information, geology data, and maps.

25. **Project Rationale.** Proper mineral legislation and competitive tax regimes will be of value to attracting investors only if they are administered in a professional and transparent manner by appropriate government supervisory institutions. Most market economy countries find that the interests of the sector are best served if the government institutions serve as: (i) policy maker for the sector, (ii) evaluator of mineral potential and wealth, (iii) regulator of minerals development, and (iv) representative of the government (or advisor to other government bodies) in certain investment (foreign) negotiations. The absence of government institutions to fulfill these functions, which is presently the case in Kazakhstan, means that potential investors do not know with whom to deal. The creation and strengthening of these institutions is thus essential if the government is to exert effective control over the country's substantial mineral resources.

26. **Project Description.** The project will provide expertise by consultants having international experience with institutions in charge of supervising mining sectors. These institutions are typically contained in a central ministry responsible for the sector (Ministry of Mines) which has distinct departments for specific functions:

- (i) a mines department to issue licenses and permits, maintain the cadastre registry, monitor compliance with health, safety, and environmental standards;
- (ii) a geological survey to conduct regional geology reconnaissance and mapping, basic research into the earth sciences, etc.;
- (iii) one or more laboratories and research facilities;
- (iv) a department of environmental standards and protection; and
- (v) a mineral deposit promotion office to attract investment.

The project will identify and delineate the functions and responsibilities of each department, recommend subdivisions within each agency, suggest staffing and recruitment schedules, set-up administrative and operating procedures, and train local personnel in these functions.

In particular, the resident consultant will:

- (i) assist the mines department to set up title registry procedures and information recording system. For this purpose, \$100,000 is allocated for purchase of computer equipment and software; and
- (ii) provide technical expertise and training to the geological survey so that local staff may re-calibrate existing geology data using internationally accepted economic parameters, digitize data and maps, and install a Geographic Information System. Primary emphasis of this system will be on geology and land use data though it may serve as the basis for other applications. For this purpose, \$100,000 is allocated for the purchase of computer equipment and software.

27. Consultant Qualifications

- (i) **Senior Institutions Expert (6 man months)** will have at least 15-20 years experience at very senior levels of a mines ministry, department of mines, or geological survey of a country having substantial minerals production. He will thus be thoroughly conversant with the functions and roles of such institutions, the staffing and expertise requirements, internal operating procedures, relationships with other government ministries, and overall policy issues pertaining to the sector and its relationship to economic development. The specialist will have worked on institutional strengthening programs in other countries, preferably in Central Asia.
- (ii) **The Resident Expert (12 man months)** will have 10-15 years experience in a mines ministry, department of mines, or geological survey. In addition to a thorough understanding of the roles, functions, internal procedures, and staffing requirements of such organizations he will have extensive experience in the conception and operation of GIS systems and mine cadastral registries.
- (iii) **The Mining Information Systems Expert (6 man months)** will have a degree in geology, geo-statistics or other geo-science with 10-15 years experience with geological information and mine reporting systems. He will, in addition, be conversant with standard basic economic parameters used to evaluate ore-bodies, including cut-off grades, dilution, and other principles.
- (iv) **The Mineral Economist (6 man months)** will have at least 15 years experience and hold an advanced degree in mineral economics and/or related discipline. He will have worked in a private mining company or consultancy firm at a senior level for mine and deposit evaluation, commodity studies, and investment decision analysis. In addition, he will be thoroughly familiar with the techniques of geology modelling, computer and geostatistical applications.
- (v) **Short Term Consultants (6 man months)** will be required to specify equipment and software purchases, design the GIS and cadastre systems, install them, and train local personnel in their operation, use, and maintenance.

28. Coordinating Agency. Ministry of Geology/Industry, Ministry of Economy

29. Duration. 18 months

30. Costs include an estimated US\$ 1,130,000 for 59 staffmonths at an estimated average cost of US\$ 19,150 per staff month. In addition, an estimated US\$ 770,000 equivalent in additional foreign currency costs are needed to cover travel, subsistence, and equipment costs. Local costs are estimated at US\$ 200,000 equivalent, of which it is expected that the IBRD will finance US\$ 100,000 equivalent and the GOK will finance US\$ 100,000 equivalent. Total costs are therefore estimated at US\$ 2,100,000 equivalent.

TECHNICAL ASSISTANCE PROJECT

PAYMENTS SYSTEM, PHASE I

1. An efficient payments system is vital to fostering competition and cooperation between financial institutions as well as ensuring reliable and timely customer services. In this regard, the definition of settlement standards and regulations has proven to be an effective mechanism in facilitating foreign investments to develop the industrial infrastructure and support economic activities. Some key operational objectives can be realized through short term improvements to the payments system. These include:

- (i) informed liquidity management on part of the commercial banks. This could be accomplished through account consolidations at the global level for each bank and would minimize the high costs of refinancing and overdrafts on correspondent accounts at NBRK;
- (ii) redefinition of the reserve requirements to include the cash in vaults and to integrate the blocked reserves with the banks' correspondent accounts at NBRK. The high reserve ratio of 18 percent erodes incentive for deposit mobilization; the consolidation of these balances would allow banks with a larger branch network (and consequently more cash in vaults) to compete more equitably with smaller branch networks;
- (iii) enhanced competition between banks through the establishment of settlement regulations and time frames and, again, consolidation of correspondent account balances. This would allow smaller banks more leverage in their decisions on obtaining credits, and in the long term would support the establishment of an interbank market;
- (iv) continued encouragement and support for the banks' in-house automation programs. At a minimum, the larger banks should plan to forward netted positions to the NBRK Clearing Centers and offer bilateral clearing facilities to the other banks which are not as advanced in their automation programs. This would reduce the current strains on the NBRK payments system network.

2. Transaction delays are due in part to an inadequate telecommunications infrastructure. In addition, of nineteen clearing centers, only fifteen have installed mainframes, while the remaining four use microcomputers. In addition to the clearing centers, there are 270 Cash Centers at the District level. The Cash Centers lack an adequate automated processing capacity, and the need to use courier/postal/teletype services for transmission of data to the clearing centers contribute to the system delays. Presently, branch accounts are netted and cleared at the regional level. If there is insufficient cover in an account, all debits on that account are frozen pending provision of funds or registration of credits. There may be sufficient liquidity/reserve balances at other branches of the same bank, but the present system does not consolidate settlement balances across regions and at the aggregated bank level. This situation exacerbates financial risk management. The NBRK is addressing some of these issues by consolidating settlement balances at least for the three regions in the Alma Ata area. This is operational since early 1993 through electronic linkage of the three large centers. The Data

Processing Department of NBRK also plans to develop application software to consolidate balances and perform account netting at the regional levels.

3. NBRK pursues a two-phased approach in its strategy to improve the operations of the payments system. The first phase (to be financed under this Loan), would include short term improvements which could be implemented in the near future. Simultaneously, work could commence on the planning for, and design of, the long-term solution, which could be funded by the proposed Financial and Enterprise Sector Development Loan.

4. This Technical Assistance Loan would include the following sub-components:

Sub-Component (i) Implementation of the Interim Solution for the Payments System (approximately US\$4,200,000):

- (a) Assistance to the Kazakhstan Association of Banks on Information Systems and NBRK in identifying standards for payments instruments, transaction/identification numbering schematics, indicative time frames for clearings/settlements at various processing levels, feasibility of bilateral clearing arrangements, etc., and in coordinating the interim and long-term solutions of the payments system.
- (b) The installation of two microcomputers at each Cash Center. Accounting software is being developed to assist in recording transactions, maintaining accounts, and data entry for transmission of information to the regional centers. Where electronic linkages are not feasible, data could be transmitted on diskettes to reduce the data entry efforts at the regional offices.
- (c) The installation of two microcomputers at each of the regional clearing Centers, together with high speed error correcting modems to facilitate electronic connections on "noisy" telephone lines. The Data Processing department of NBRK and/or the Kazakhstan Association of Banks on Information Systems should develop, as a high priority, software to aggregate individual branch reserves/clearing balances for each bank. The aggregation would be effected on the existing regional computers and copied to the microcomputers which would maintain one consolidated balance for each bank. This would allow each region to monitor such balances and, at the request of the concerned bank, enact transfers from branch to branch as and when necessary to provide cover. At the end of the processing cycle, these aggregate balances (a maximum of approximately 150 for any one region) should be transferred to NBRK headquarters for further aggregation by banks, i.e. one settlement balance per bank, and maintenance of an interbank indebtedness matrix. Where electronic data transmission is still not possible, the teletype facility could be used for forwarding aggregate balances from the regions. This scheme would facilitate financial risk management, improve the velocity of money, and, reduce the float inherent in the existing system.
- (d) The engagement by NBRK of a telecommunication specialist for a one month study to produce tender documents for both the telecommunication equipment and the assorted microcomputers.

- (e) Study tours of three key NBRK managers on (Financial Risk, Accounting and Data processing) to two central banks in Europe to investigate operational payments system modalities. Prospective countries could include Switzerland and France, and the trip could be undertaken over a ten day period.
- (f) Installation of an international telecommunication connection for effective correspondent banking, monitoring of money markets, and foreign exchange transactions.

Sub-Component (ii): Preparations for the Long-Term Solution of the Payments System (approximately US\$400,000):

While the short term improvements are being implemented, NBRK would commission a feasibility and design study for the long-term solution to the Payment System. This study would address strategic issues related to the payments system and financial risk management; institutional arrangements; technical standards; system engineering; technical specifications; and implementation considerations. The study would be expected to commence in early August, and would involve a sequence of six reports covering these six areas, with the last report submitted some 7 months after the start of the assignment.

Sub-Component (iii): Computerization of NBRK's Internal Accounting (approximately US\$1,000,000):

The Project would finance the software or software development, and hardware as may be needed, to computerize NBRK's internal accounting on the basis of its new accounting system. The preparations are being assisted by the IMF and Bank of France.

Sub-Component (iv): Computerization of the Processing of Commercial Banks' Reports (approximately US\$ 100,000):

The Project could finance standard software, and its local adjustment, for recording and analyzing the regular reports of banks to NBRK.

5. Sub-Components (i) - (iv) together would amount to approximately US\$5,700,000. Further US\$300,000 would constitute a contingency amount. One potential use would be for a feasibility and design study of a service bureau network that would process the customs accounts of participating commercial banks, including interbranch clearing. NBRK would first seek grant financing for this study, however. Implementation of the service bureau network could be supported by the Bank's proposed Financial and Enterprise Sectors Development Loan.

6. In sum, an estimate of items to be financed under the Project Component is as follows:

IBRD

(i) Interim Solution of Payments System

-	500 Microcomputers for Cash Centers	2,500,000
-	40 Microcomputers for Clearing Centers	320,000
-	260 Error Correcting Modems	260,000
-	Database Management System	250,000
-	Telecommunications Equipment	600,000
-	Telecommunications Study/Tender	20,000
-	International Telecommunications Connection	200,000
-	Training/Study Tours	50,000

Subtotal 4,200,000

(ii) Study for Long-Term Solution of Payments System 400,000

(iii) Computerization of NBRK's Internal Accounting 1,000,000

(iv) Computerization of the Processing of Bank Returns 100,000

Contingency (potentially Study for Service Bureau Network) 300,000

GOK Cost (local staff, office space, local transportation) 50,000

TOTAL 6,050,000

7. Costs include an estimated US\$120,000 for 6 staffmonths at an estimated US\$ 20,000 per staff month. In addition, an estimated US\$5,580,000 equivalent in additional foreign currency are needed to cover equipment, study tours, travel and subsistence. Local costs are estimated at US\$350,000 equivalent, of which it is expected that the IBRD will finance US\$ 300,000 equivalent and the GOK will finance US\$50,000 equivalent. Total costs are therefore estimated at US\$ 6,050,000 equivalent.

TECHNICAL ASSISTANCE LOAN

TERMS OF REFERENCE

FINANCIAL AND OPERATIONAL DIAGNOSTIC STUDIES OF THE TEN LARGEST BANKS

A. BACKGROUND

1. The Government of Kazakhstan has started to implement a number of economic, monetary and legal reforms aimed at restructuring the economy. These reforms will induce a new and more active role for banking institutions and call for the rapid development of an efficient financial sector.
2. However, most banking institutions are in a very fragile financial situation and suffer from numerous operational weaknesses that may impede them to fulfill efficiently their new responsibilities of mobilizing and allocating resources in a competitive environment. These weaknesses are related, in particular, to a general lack of autonomy in credit allocation and of banking skills required in a market oriented environment. Also, the financial sector relies excessively on central bank refinancing facilities. In general, there is an inadequate financial structure due to distortions in interest rate policy, and to the poor quality of their loan portfolio.
3. Within its overall program for developing the financial sector, the National Bank of the Republic of Kazakhstan (NBRK) has also initiated a number of actions aimed at reforming the regulations of the sector, developing a new accounting plan for banks and building up its own supervisory capacity.
4. As part of the first phase of this banking sector reform, the Government of Kazakhstan and the NBRK, responsible for the supervision of the sector, have decided to launch comprehensive financial and operational diagnostic studies of the 10 largest banks in the country. These studies will be undertaken in the context of the proposed World Bank "Technical Assistance Project" and will be carried-out by experienced international consulting firms (hereafter referred to as "the Consultant") selected through an international competitive bidding process.

B. OBJECTIVES

5. The main objectives of the studies are: (i) to provide an accurate assessment of the financial conditions and operational capabilities of the banks, including their organization, policies, and procedures; and (ii) to serve as a basis for undertaking, when required and warranted, restructuring and strengthening that address the major deficiencies of the banks, including their recapitalization to suitable levels in accordance with sound international banking practice.
6. As part of this process, the Consultants should: (i) determine the financial and operational viability of the institutions, and their main strengths and weaknesses; (ii) recommend, when required, structural changes that may be necessary for the safety of the banking sector such as merging, splitting of activities between different legal entities, liquidation, etc.; and (iii) propose, for

each bank, a global strategy and a detailed and prioritized action plan, including the estimate of financial and human resources, and of the timeframe, required to implement the program of reform for each activity.

7. The objective of this program of reforms is to set the banks in a position to be fully audited, based on international standards, as of December 31, 1995, and to meet international banking operational practices, at the latest, by the end of 1996.

C. ASSISTANCE STRATEGY

8. For efficiency and timeliness purposes, it is expected that the studies of some banks will be carried out simultaneously by the same Consultant, with the exception of the studies of Agroprom Bank, the agricultural credit agency, and Sber Bank, the state savings bank. For these banks the Consultant contract will also include an analysis of the sectors in which they operate.

9. It is therefore expected that five different consulting firms will be involved in this program and that selected firms would make proposals covering the following grouping:

Group A: Agroprom Bank

Group B: Sber Bank

Group C: Turan bank, Kazdor Bank

Group D: Alem Bank, Igilik Bank, Interinvest Bank

Group E: Kretsoc Bank, Kramds Bank, Center Bank

10. The Consultants would be expected to begin work in the first half of August, 1993, and to submit their final report to the NBRK, the analyzed bank, and the World bank before the end of December 1993. The Consultants should also be prepared to make a presentation highlighting major findings and recommendations in December 1993.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

11. The coordinating agency for this Project, as part of the Bank's Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this agency, will be responsible for contractual and logistical arrangements. The banks undergoing these financial and operational diagnostic studies will establish counterpart teams to work in close collaboration with the Consultants. The Consultants will be expected to seize this opportunity to provide the staff of the banks with on-the-job training, when required, in financial and operational matters covered with these studies.

12. The forthcoming supervision department at NBRK will delegate one or two new staff members to work with the Consultants' team in charge of the studies of each bank in order for them to benefit from a first exposure to international bank auditing practices and to act as liaisons with the NBRK during the execution of these studies.

13. The consultants will coordinate their work related to accounting and financial management with NBRK departments in charge of the design and implementation of the new chart of accounts for banking institutions and of prudential regulations. These studies should, in this context, aim at preparing a step-by-step implementation plan of the new accounting system and at improving the reliability of banks' reports related to prudential regulations. The Consultant will also take into account the information technology capabilities of NBRK, the two-phased on-going reform of the payment system and the potential computer and advisory services that could be provided by the Service Bureau Network envisaged by the Kazakh Association of Banks on Information Systems located in NBRK. The impact of the Government's privatization program on the banks' capital and on the governance of each bank will also be an important input in the design of recommended individual strategies.

E. ACTIVITIES AND OUTPUTS

14. The studies will include a comprehensive financial and institutional review of the banks, as detailed in the following paragraphs. The recommended strategies should specifically assess, for each bank, the option of focusing all its efforts to collect loan arrears through the design and implementation of restructuring plans and debt work-out arrangements.

(I) Financial Diagnosis

15. The Consultant is required to analyze the consolidated accounts of each bank and express a conclusion on the financial condition of the bank as of June 30, 1993 (or if not feasible, as of December 1992), and on the reported financial performance of the bank during the first half of 1993 (or if not feasible, during 1992).

16. For this purpose, the Consultant has to adjust the available financial statements for the review date in order to produce a balance sheet and the related statements of operations, retained earnings and changes in the financial position of the bank in a format in accordance with Generally Accepted Accounting Standards for banks, taking into account the inflationary environment of the Kazakh economy.

17. It is recognized that, owing to the present state of accounting and the economic environment in Kazakhstan, some of the requirements of this first financial diagnosis will present the consultants with a difficult task. In such cases, the consultants should use their judgement and are expected to state clearly which items cannot be satisfactorily answered or addressed in the present study and what assumptions have been chosen to assess the repayment capacity of the borrowers. It will therefore likely be necessary for the consultant to use two scenarios to base the conclusion: (i) assume the continuation of the present reform policy, with substantial macro-economic imbalances; or (ii) assume an acceleration of the stabilization and structural adjustment policies, together with a satisfactory solution to the present inter-country settlement difficulties. The scenarios used by the consultants must be discussed and reflect consensus with other consultants conducting diagnostic studies in the other banks.

18. The financial and portfolio diagnostic will place particular emphasis on the assessment of the quality of the bank's portfolio, as of June 30, 1993, and will include a systematic evaluation of

loans to large borrowers, and a sample evaluation of smaller loans. The evaluation will focus on the financial viability of the large borrowers, and their capacity to repay loans. As part of the portfolio analysis the consultants would evaluate at least the 10 largest risks in the portfolio, as well as a sample of smaller risks, to cover a minimum of 70 percent of the loan portfolio by volume, in the limit of 100 individual evaluations. The portfolio analyses will include visits to a number of significant borrowers whenever the information available at the bank's level is not felt to be sufficient to enable the Consultant to carry out a proper assessment.

19. In the course of undertaking the diagnosis the following items deserve particular attention:

- (i) A portfolio assessment to determine the overall quality of the bank's loan portfolio and the reasonableness of the bank's lending policies, practices, and procedures.
- (ii) An assessment of the adequacy of the existing level of provisions, and as appropriate, recommendations for adjustments thereto.
- (iii) An evaluation of the adequacy of other valuation reserves, if any, and as appropriate, recommendations for adjustments thereto.
- (iv) Analysis of concentration of credit risks (exposure) to determine the extent to which a few companies or a group of companies account for a large proportion of the total outstanding loans and/or loans and equity of the bank (e.g., 25 percent of the bank's capital by industry and 5 percent of the Bank's capital for individual or connected enterprises).
- (v) An analysis of the portfolio by: a) types of primary collateral (including guarantees and insurance); b) economic sector; and c) types of enterprises, including enterprises' shareholders, connected and independent from the bank; d) regions; e) types of lending instruments; f) a breakdown of the portfolio by loans made under centralized credit resources, other NBRK credit facilities, and the banks' own resources with a distinction, for each category, between loans made under direct government instruction and those made at the bank's own discretion. For each category, the amounts classified as problem loans and the percentage of each category extended at subsidized rates should be specified.
- (vi) Assessment of the equity portfolio of the bank and the reasonableness of the values reported on the balance sheet. This element will also have a bearing on the level of provisions. In assessing the equity portfolio, particular attention should be given to the bank's objectives and policies for making equity investments (e.g., whether to serve as a catalyst for assisting client projects in attracting other equity investors, whether to provide a more balanced capital structure for the project enterprise, a source of income, or as a means of diversifying or complementing the bank's business activities through a subsidiary/affiliate relationship). The realization of the objective/policy, as well as the productivity of the equity portfolio should be assessed. The relationship (ratio) of total equity investments to the bank's own capital and the reasonableness thereof, must also be assessed.

- (vii) **Assessment of reliability and composition of reported earnings of the bank for the review period, with special emphasis on the extent to which accrued but uncollected interest on non-performing loans is taken into income, and the relative shares of operating (interest income and expense, non-interest income and expense, taxes) and non-operating income and expenses.**
- (viii) **Breakdown and analysis of the operating costs of the bank, including costs and benefits related to performing tasks or providing services for the account of national or local authorities.**
- (ix) **An analysis of the bank's liquidity, and asset and liability management practices. Attention should be given to interest rate and maturity mismatches.**
- (x) **Analysis of the capital adequacy and of the components of capital, dividend policy, appropriations, and the ability of the bank to internally generate capital. The adequacy of capital should be evaluated in terms of the financial condition of the bank, the mix of risk assets (including off-balance sheet commitments), future growth plans, and the quality of management.**
- (xi) **Assessment of the composition and structure of the bank's assets, deposits and other liabilities. Fixed assets are to be separately listed along with their values. Any revaluation should be specifically indicated. The treatment of any revaluation surpluses in the accounts should be identified and adjustments made as appropriate. Particular attention should be paid to the foreign exchange assets and liabilities which consist of foreign exchange deposits, loans and interbank positions. Furthermore, assets should be classified between income and non-income generating. All outstanding term borrowing should be identified and broken down on a loan-by-loan basis. In addition, the structure and evolution of the internal and external float should be analyzed in order to assess potential liquidity problems and hidden losses.**
- (xii) **Notes on each item of the adjusted balance sheet and income statement, explaining its nature and any clarifications considered useful.**
- (xiii) **Accounting policies and valuation criteria applied in preparation of financial statements.**
- (xiv) **Itemization of each adjustment and reclassification deemed necessary by the consultant, irrespective of materiality.**
- (xv) **Itemized exposure to the bank's council, founders/shareholders, or other parties connected with the bank.**
- (xvi) **Itemization and quantification of contingent liabilities; and**
- (xvii) **Any significant events affecting the bank which occurred between the accounts review date and the date of the diagnostic report.**

20. The consultants should prepare the following reports:

- (i) The annual Financial Statements, after appropriate adjustments, and, if possible, including a distinction between activities financed with centralized credit resources and activities financed with own resources – Balance sheet, Profit and Loss Statement, Statement of changes in Shareholders' Equity, Statement of Sources and Application of Funds, Statement for Provisions for Losses, Write-offs and Recoveries, Statement of Past Due, Non-performing and Renegotiated Loans and Advances, and Statement of Commitments and Contingencies.
- (ii) The basic conclusion rendered on the financial statements.
- (iii) The evaluation of the quality of assets.
- (iv) An opinion on the adequacy of the reserve for loan losses and other valuation reserves.
- (v) An enumeration and quantification of all adjustments necessary to fairly present the financial statements.
- (vi) The identification and quantification of credit concentrations.
- (vii) The identification and quantification of credit extended to bank management.
- (viii) As part of the diagnosis of the Profit and Loss Statement, suggestions on areas and manner in which greater efficiencies in revenue enhancement and cost control may be achieved.
- (ix) An opinion on internal controls and procedures.
- (x) An evaluation of liquidity, asset and liability management practices.
- (xi) An opinion on the adequacy of capital.

21. In addition to the above, the financial report shall be prepared and submitted in Long Form, and shall discuss the following:

- (i) Summary of efforts made by the consultants to verify the reliability of the accounting information processed in the computing centers or through manual procedures. The consultants must mention any inability to obtain sufficient information or verify any part of work and enter a relevant reservation in judgement.
- (ii) Summary of steps taken to verify the extent of compliance with legal standards and regulations of the National Bank of the Republic of Kazakhstan and other applicable institutions, with details concerning any observed violations as well as actions taken in relation.

- (iii) Copies of technical reports by outside consultants, if the consultants use them to support their conclusion.

(II) Institutional Diagnosis

22. The second component of the study is a detailed institutional diagnostic study which will examine the management and organization of the bank, and its operating procedures, policies and systems. Only for banks in Group E will significantly less weight be placed on the institutional diagnosis, given that a preliminary institutional review has been conducted in these banks by an EBRD team, whose results would be made available to the Consultants. In undertaking the diagnostics, the consultants are expected to visit the head office of the bank and major branches. Each area covered under the institutional diagnostic should conclude with recommendations and a proposed action plan, including its timeframe, an implementation methodology, and an assessment of required external support and internal, financial and human, resources required. These recommendations and action plans should be discussed and prepared with the banks' management and professional staff. The review is expected to cover the following areas.

- (i) **Strategic Plan**. The study should determine if the bank has a strategic plan and how it discusses its objectives, strengths and weaknesses, opportunities and threats, target markets, products and services, the basic strategies and actions it needs to take to meet these objectives, and a financial plan that projects resource requirements and financial outcomes of the strategic plan.
- (ii) **Accounting Systems**. The study will evaluate the existing accounting systems and propose transitional steps towards implementing international general accounting and cost-accounting practices.
- (iii) **Management Audit**. The study will review the adequacy of existing management systems, decision making procedures and internal directives with the objective of identifying areas for possible improvements in order to enhance goal achievement.
- (iv) **Organizational Review**. The organizational structure of the bank should be reviewed to determine whether it provides for effective and efficient realization of the bank's objectives. The study should take into account the legal framework of the banks, including its by-laws, the grouping of main functions, delegation of authority, clear definition of responsibilities and accountability, the relationship of head-office with branch offices, and of front-offices with back-offices.
- (v) **Credit Policy and Procedures**. The study should review the policies and procedures required for effective management of the entire credit process from origination through credit approval, disbursement and monitoring. Particular attention will need to be paid to the existence of effective internal controls, to procedures for assessing and dealing with credit risk and classifying, monitoring, and following up on overdraft facilities, overdue payments and arrears, and the delegation of credit authority to the branch levels. The study should also examine procedures for provisioning for actual and potential losses, debt recovery and management reporting.

In this context, the consultants will review individual loan files to determine quality and depth of credit evaluation (cash-flow projection for short term facilities and project appraisal for term loans), completeness of documentation, reasonableness of procedures related to credit and loan administration/monitoring and recovery. The consultants also will analyze the adequacy of lending instruments and of guarantees used by the banks, in particular in the mobilization of enterprises' receivables and the bank's capacity to conceive, negotiate, and implement financial restructuring action plans and work-out procedures.

- (vi) **Financial Management.** The study should appraise the overall financial management of the bank, and in particular, the effectiveness and adequacy of asset and liability management, including procedures for managing liquidity positions, maturity mismatches, exposure to changes in interest rates, foreign exchange risk including trading limits, and accounting and revaluation procedures.
- (vii) **Planning, Budgeting and Performance Measurement System.** A review of the bank's procedures for planning, budgeting, and performance measurement should be included in the study. The review should examine whether the bank has a suitable planning process - at the corporate, directorate, department and branch levels, and whether it has a budgeting process that fits the planning process, and a process that establishes performance measures and goals for the bank overall, for each staff unit, and for each line unit.
- (viii) **Management Information System.** The study should assess the existing management information system and indicate areas for possible improvements in order to enhance its effectiveness as a tool for management.
- (ix) **Automation Policy.** The information technology policy of the bank will be assessed with the view to outline a three year automation plan, when required and warranted, in the context of the overall strategic plan of the bank, the external existing and potential facilities (such as the payment system and the envisaged service center network), and the reform of the national NBRK. Particular attention should be given to the reduction of internal and external float.
- (x) **Internal Controls.** The study will review and give an opinion on internal controls and procedures, which must be analyzed with a view to determining their effectiveness in ensuring that the bank's assets are being safeguarded, transactions have been executed in accordance with management's directives, and that transactions have been adequately recorded to permit the timely preparation of the organization's financial statements in accordance with generally accepted accounting principles.
- (xi) **Internal Audit Function.** The study should assess the adequacy, scope, and frequency of the audit program and the independence and competency of the internal auditor. Particular attention should be given to a) the appropriateness of reporting lines between the auditor and the board or executive management and b) whether timely corrective action is taken by management in response to deficiencies identified by the auditor. In addition, the study should indicate whether the bank has a manual that

incorporates sound audit policies and practical audit procedures, and whether the level of audit skills needs to be upgraded and expanded.

- (xii) **Personnel and Training Policy.** The study will determine whether the bank has defined an adequate recruitment and internal staffing policy in order to match job descriptions and skill requirements, as well as incentives to productivity gains, for management, specialist and key clerical positions. It will also determine whether the bank has assessed and prioritized skills shortfalls, and developed practical plans to meet these shortfalls.

(III) Sectoral Analyses Related to the Diagnoses of Agroprom Bank and of Sber Bank

23. The strategies recommended for Agroprom Bank and Sber Bank, as well as the related action plans, will have to rely on a detailed assessment of : (i) agricultural credit and households' financial services, respectively, over the medium term, and (ii) the role that commercial banks are expected to play in these areas, since both markets are now open to competition.

24. These assessments are expected to : (i) present in detail banking services needed by the different segments of the population and the agricultural sector; (ii) analyze to what extent common commercial banks can be expected to progressively meet the population's and agricultural units' demand on a commercial basis; (iii) define and quantify segments of the population and agricultural units, in particular in remote areas and/or with low income, that cannot be expected to be served by commercial banks in the next 5 to 10 years; and (iv) review options for providing financial services in a cost effective manner to these groups. Particular attention should be given to means of reducing transaction costs and of achieving high loan recovery rates, including the development of credit and savings cooperatives, group lending schemes, efficient mobile banking services and the use of the post-office network.

25. Based on these assessments and on the analysis of the present situation and prospects of these two specialized banks, the consultants should determine: (i) if their present network and de facto monopoly in many areas is a strong deterrent to the development of competition in bankable markets and, if it is the case, propose adequate remedies; (ii) outline alternative options and policy guidelines aiming at promoting competition and cost effective delivery of financial services to all segments of the population and the agricultural sectors, respectively; and (iii) define the potential role for each of these two institutions in both commercially bankable and non bankable markets in the medium term, and the external and internal conditions required for their financial viability.

F. CONFIDENTIALITY

26. This exercise is being carried out exclusively for the purpose of developing a basis for strengthening the concerned viable banks. Accordingly, the consultants will neither discuss with, nor distribute to, parties outside NBRK, the Bank, and the management of the relevant bank, without their explicit authorization, any aspects or details relating to their findings.

G. INDEPENDENCE AND IMPARTIALITY

27. The consultants must be independent of any member of the board of directors, executive officer or senior manager of the bank. Independence implies that the senior managing partner, other partner, or staff member who would be involved in the diagnostic study, is neither serving as a director of the bank nor has any personal, financial, or close business relationship except as an independent professional advisor during the course of a diagnosis.

H. CONSULTANT QUALIFICATIONS

28. Since the diagnostic studies contain two components – the portfolio and financial diagnosis and the institutional analyses, it is essential that the work be carried out by teams fully qualified in both areas. For the financial and portfolio diagnosis component, the teams must include bank examiners and/or auditors with extensive international experience, as well as bankers with extensive lending experience. Given the importance and complexity of the task to be undertaken, it is anticipated that the studies would be carried out by reputable international firms drawing on their staff world-wide to propose a team with the suitable skill mix. For the institutional analysis component, teams must include qualified bankers and bank auditors and/or examiners with significant international experience in bank management or consulting. It is anticipated that each consultant would undertake the analysis of up to three banks, so that the whole process could be carried out by five teams. The teams proposed for Agroprom Bank and Sber Bank studies should also include experts with strong experience in agricultural credit operations and savings bank management respectively.

29. Curriculum vitae (CVs) of the principals of the firms who would be responsible for providing the conclusions and reports should be provided, together with the CVs of other personnel proposed for the project, including detailed experiences with banking activities in transitional economies and language qualifications. CVs for diagnosis personnel should include details on audits carried out by these staff, including ongoing assignments. It also will be appreciated if the proposals could include the participation of local audit firms experienced in banking activities or of local individuals having a suitable background. The staff proposed for these diagnoses will have to be made available and to participate directly in the investigations and the formulation of opinions and recommendations. They shall not be replaced, during the course of the studies, without the prior agreement of NBRK and the Bank.

I. TIMETABLE AND OUTPUT

30. The consultant would be expected to begin work in the first half of August, 1993.

31. Within six weeks after initiation of the study, the consultant should prepare an interim report (in both English and Russian) detailing its preliminary findings in particular regarding the portfolio analysis. A completed report (in both English and Russian), together with a comprehensive executive summary, should be submitted in draft to the concerned parties within one month after the consultant team departs the bank and no later November 15, 1993. Within one month of receiving comments on the draft final report, the consultants will finalize the report and submit the final report

(4 copies in English, 4 in Russian) to the NBRK (3 copies), the bank analyzed (3 copies), and the Bank (2 copies in English). After review by the concerned parties, the Consultant should be prepared to make a presentation which highlights major findings and recommendations.

J. EVALUATION CRITERIA

32. Procurement of consulting services will follow the guidelines of the Bank. Proposals will be evaluated by a committee which may consist of representatives of the NBRK, and a representative for the analyzed banks. Separate proposals are required for each of the five packages of banks. Bidding firms will provide their technical proposal and financial proposal in different envelopes. The proposals will be evaluated primarily on technical considerations. Technical criteria will be scored as follows:

Criterion	Points (max)
1. Professional experience of the firm in the special diagnosis of commercial banks and financial institutions, with particular attention to experience in transition economies.	15
2. Appropriateness of approach and quality of proposal.	25
3. Qualification/experience of the team leader.	25
4. Qualification/experience of the team members.	35
	<hr/>
	100

K. INPUTS, BUDGET AND FUNDING

33. The consultants will prepare their proposals on an all-costs-included basis, the local banks providing secretarial support, furnished office space with telephones, and car transportation. These arrangements will be finalized during the negotiations of the contracts.

34. The contracts will be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. The total Loan is proposed to amount to US\$ 38 million equivalent. It is designed to support privatization, enterprise reform and private sector development, financial sector reform, improvements in the social safety net, and various training activities.

35. Given the heterogeneity of the different groups of banks to be diagnosed (some indicators on these banks are provided in annex), the cost of each contract may substantially differ. The total funding of the consultant contract must not, however, exceed US\$ 400,000 for Group A and US\$ 600,000 for Group C, D, and E respectively. The total cost of the diagnostic studies is expected to amount to about US\$ 2,600,000. The amount of contingency to provide flexibility is estimated at a about US\$ 325,000 equivalent. GOK contribution will be US\$ 75,000 to meet local costs of staff, office, local travel etc; and IBRD will finance US\$300,000 equivalent of local cost for local staff, office space, travel cost and subsistence and certain business expenses. The total cost of the component is estimated at US\$ 3,000,000.

TECHNICAL ASSISTANCE PROJECT

ACCOUNTING REFORM

1. While Kazakhstan is in the process of adopting international accounting standards in conjunction with the revision of the banks' "Chart of Accounts" and its recording procedures, the exact structural arrangements for pursuing this matter are still embryonic. Furthermore, the whole process of standard setting and incorporating western (international) standards of accounting and auditing also needs to be carefully evaluated in the context of Kazakhstan's socio-economic development.
2. The existing "Chart of Accounts", dating back to the FSU uniform chart, is subject to drastic revision and potential reduction of the main (synthetic) accounts. The rules applicable to the charts were essentially in the form of procedures, and carefully thought through accounting standards based on clear accounting concepts. With the expressed need to move to market-oriented standards (international standards) the whole accounting framework for private and public enterprises, and financial institutions warrants drastic overhaul.
3. Auditing has not been a distinct profession in the FSU, and only recently have independent auditing firms been established. No auditing guidelines and procedures have been set forth. Efforts are made to outline statutory requirements for audits and auditors. In this connection a separate "Chamber of Auditors" could be established, and would be responsible for auditing standards, qualifications and examinations for certified auditors, as well as codes of conduct.
4. The whole framework of standard setting, development of layout of accounts, reporting and disclosure requirements warrants support by international bodies in order to develop policies which are coherent and relevant to the new emerging economic realities.
5. **Institutional Development.** The institutional development would include the following categories: (i) establishing an accounting taskforce, in charge of overseeing the overall reform of accounting and auditing in Kazakhstan; (ii) develop an accounting training infrastructure (see Annex V-F); (iii) foster the establishment/strengthening of the Accounting and Auditing Association(s).
6. **Costs.** The TA Loan will finance the initial phase of accounting and auditing reform. Costs include an estimated US\$ 400,000 for 20 staffmonths at an estimated US\$ 20,000 per staff month. In addition, an estimated US\$ 125,000 equivalent in additional foreign currency costs are needed to cover travel, subsistence, equipment and other miscellaneous costs. Local costs are estimated at US\$ 75,000 equivalent, of which it is expected that the IBRD will finance US\$ 50,000 equivalent and the GOK will finance US\$ 25,000 equivalent. Total costs are therefore estimated at US\$ 600,000 equivalent.

TECHNICAL ASSISTANCE LOAN
SUMMARY TERMS OF REFERENCE
SPECIALIZED FINANCIAL SERVICES
TERM FINANCING AND FINANCIAL RELATIONSHIP IN THE BANKING SECTOR

PART I. TERM FINANCING

A. BACKGROUND

1. The transition from a command economy to a market-oriented economy is inducing: (i) a major shift in the absolute and relative price structure; (ii) a pronounced change in inter-enterprise relations both between entities inside Kazakhstan and between firms located in the Republic and those located in other CIS republics; and (iii) a completely new set of objectives and incentives at the enterprise level.
2. As a consequence of this new environment some production facilities will not be able to adjust and will have to be closed, and many others will need comprehensive restructuring to become viable, while again others should be well positioned to seize new opportunities and to expand rapidly in a profitable manner. The modification of the "rules of the game" is also translating in a surge of new enterprises, mainly of small size, set up to exploit new market opportunities and to compete with present or previous state-owned entities. All these fundamental changes will induce important investment requirements and, for them to materialize, adequate financing resources.
3. These structural modifications in the enterprise sector are taking place in a macroeconomic environment that will not be conducive, for the next few years, to the domestic mobilization and intermediation of large amounts of medium and long term resources. This constraint indicates that the bulk of the new investments will have to be self-financed by existing enterprises, through increased retained earnings, and by the new entrepreneurs. In order to mitigate this constraint Kazakhstan intends also to rapidly prepare itself to be in a position to mobilize foreign long term resources and to allocate them in the most efficient manner.
4. The anticipated progressive improvement in the overall macro-economic situation is, however, expected to gradually lift the above-mentioned constraints and to lay the ground for the provision of term financing through the development of capital markets facilities and the deepening of banking functions.

B. OBJECTIVES

5. The two main objectives of this study are to: (i) survey and prioritize the different sources of medium and long term financing that could be progressively made available to enterprises having appropriate governance and managerial structures as well as an adequate financial situation or restructuring program; and (ii) conduct a detailed feasibility study, including the actual test of pilot schemes, for the strengthening of existing entities and/or the creation of the new structure that will

have been selected. The study will therefore focus on the needs of enterprises and will not include housing finance.

6. The study will cover both securities -- equities, bonds and hybrid instruments -- that can be provided either directly or through intermediaries such as investment funds, and risk-intermediated instruments such as credits and financial leases. For each of these financial tools the study will aim, in its first phase, at determining the minimal macro-economic conditions, the legal framework, the refinancing sources and the structures and/or institutions required for their emergence. Based on this assessment, and on an analysis of the present and foreseen economic and financial situation in Kazakhstan, the study will make concrete and prioritized recommendations for the development of term finance.

7. After discussions of these recommendations with the Kazakh authorities and the Bank officials the study will proceed, in its second phase, with the detailed analyses that will be required for the concrete implementation of the agreed conclusions of the first phase. This will consist of : (i) a study of the market, and of legal, financial, institutional and implementational aspects of the retained project(s), and (ii) the actual processing, on a pilot basis, of four financial applications. After having identified adequate enterprises, and using the proposed schemes, two comprehensive offering prospectus for the syndication of a securities issuance and two medium to long term credit applications will be prepared and presented to potential financiers in order to test their reactions and to adjust, if required, the proposed schemes.

C. ASSISTANCE STRATEGY

8. This study will be carried out by a specialized consulting firm or a financial institution (hereafter referred to as "the Consultant") having high credentials and a long experience in the financial and banking issues to be covered, as well as a good knowledge of the present economic, financial and legal situation in transition economies.

9. The envisaged technical assistance for the development of term financing in Kazakhstan is expected to be carried out in two steps. The first step will be undertaken under this Technical Assistance Loan and according to these terms of references. The second step would consist of the actual implementation of the detailed recommendations of the present study, and could be supported by the Bank's proposed Financial and Enterprises Development Loan that is under preparation.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

10. The coordinating agency for this project, as part of the Bank Technical Assistance Loan, is the National Agency for Foreign Investment (NAFI) at the Ministry of Economy. The Project Implementation Unit (PIU) for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

11. The National Bank of the Republic of Kazakhstan (NBRK), as the entity in charge of the implementation of the components of the Technical Assistance Loan related to the financial sector,

will be responsible for the implementation of this study. The counterpart group of the Consultant will be an ad-hoc working group chaired by a Deputy Chairman of the NBRK and consisting of high-level representatives from the Ministries of Economy and Finance, and from the banking and private enterprise sectors. This group will have at least monthly working sessions with the Consultant and will meet between these sessions upon request by NBRK or by the Consultant. NBRK will make available to the Consultant all available information relevant for this study.

12. The Consultant will coordinate their work with Government bodies in charge of the restructuring and privatization of public enterprises, the promotion of the private sector, and the development of the financial sector. They will also gather required quantitative and qualitative information from a representative sample of enterprises and financial institutions.

13. This study is expected to start in early October 1993 and to be completed within six months. Within this timeframe, a detailed timetable will be agreed upon during the negotiation of the contract.

E. ACTIVITIES AND OUTPUT

14. During the first phase of the study, which should be achieved within three months, the Consultant will:

- * survey the present and potential need for term finance by enterprises that can be considered as creditworthy for such a purpose;
- * recommend ways and means, at the legal, financial and technical levels, to make possible the financing of viable projects prepared by enterprises that are not themselves creditworthy at present;
- * analyze the different types of legal arrangements, financial instruments and techniques that could be used to reduce the high risks involved in the present economic environment that prevent the development of term finance;
- * study the potential sources for the funding of long term financing, both domestically and internationally, with the objective to prioritize them and to identify requirements that have to be fulfilled in order to access them;
- * review in detail the present and potential role of existing institutions that could play a dynamic role in the progressive development of term finance and, on the basis of an assessment of their strengths and weaknesses, determine the need for external support and for new institutions;
- * describe major options for the design of such institutions, the functions they should perform, and their relations with existing entities;
- * identify the core structures, if any, around which such institutions could be developed.

15. The Consultant will take a concrete, pragmatic and step-by-step result oriented approach to perform this assignment. They will, in particular, illustrate their findings with actual cases; propose practical solutions taking into account the present environment to solve the problems that will be identified; and clearly prioritize their recommendations.

16. The second phase of this study will commence after agreement has been received from NBRK and the Bank on the conclusions of the first phase and the detailed scope of the second phase. The second phase is expected to last three months, with the objective of completion by the end of March 1994. It will consist of two main tasks: (i) the detailed feasibility study of the most important financial intermediary whose creation will have been agreed on as essential for the development of term finance in Kazakhstan; and (ii) the actual processing, on a pilot basis, of four financial applications. It will also include the detailed preparatory work for the actual implementation of other priority recommendations.

17. The feasibility study will cover the following areas:

- * Market analysis of the detailed range of services to be developed;
- * functional and financial relations with commercial banks, the Government, NBRK, and other entities involved in the development of term finance;
- * the share ownership and the legal framework, including by-laws;
- * institutional arrangements including the organizational structure, internal procedures, staffing requirements and external technical assistance needs;
- * financial framework and projections, including a detailed budget analysis and the pre-identification of refinancing sources and a potential project pipeline;
- * a detailed implementation chart and timetable.

18. The processing of four actual financial applications (two for new private enterprises, and two for enterprises being restructured), and for each of these groups one application related to the issuing of securities and one to a lending or leasing operation, will cover:

- * The presentation of the enterprises and of the projects;
- * the technical, market, managerial and financial appraisals;
- * the detailed institutional, financial and contractual arrangements; and
- * the proposed conditionality and monitoring.

19. The proposed offering prospectus and loan applications will be presented to and discussed with potential financiers in order to take into account their reactions for the finalization of the study's recommendations, and to start building-up a concrete pipeline of financible projects.

F. REPORTING

20. The Consultant will submit to the above-mentioned working group, to NAFI, and to the Bank bi-monthly reports, highlighting progress achieved, interim findings and conclusions, next steps to be undertaken and, if required, requests for guidance. They will also submit final reports for phases one and two of the study, respectively. All reports will be submitted in two copies to NBRK (1 Russian, 1 English); NBRK will be in charge of distributing them to the members of the working group, as well as to NAFI and to the Bank.

G. BUDGET AND FUNDING ARRANGEMENTS

21. It is estimated that phase one require some 7-9 personmonths of external experts, and phase two some 9-11 personmonths. The Consultant contract will also cover the cost of interpreters and translators; travel, accommodation, and subsistence; sundry supplies, communication, and miscellaneous expenses; and a contingency of about 5 percent of the contract value. The total funding of the contract shall not exceed US\$ 500,000.

PART II. FINANCIAL RESTRUCTURING IN THE BANKING SECTOR

22. The monetary authorities are of the view that the banking sector is in a fragile condition and that its strengthening -- as a precondition for its playing a more active role in the mobilization and intermediation of financial resources -- will require an important effort at restructuring through provisioning and recapitalization.

23. The complexity of this problem, as well as the heterogeneity in the distribution of the bad loans across sectors and individual institutions, and the diversity in the financial situation of individual banks, will be aggravated by the stringent constraints faced by public finances. Its resolution requires, therefore, a well designed overall strategic plan, adaptable financial instruments and detailed implementation procedures.

24. The diagnostic studies to be financed under this Loan will give a detailed assessment of the magnitude and the diversity of this problem, and of the financial and operational capabilities of the different banks to participate in the resolution of this problem.

25. Based on the above and the on-going revenues by the National Bank, the study would aim, in its first phase, at designing a comprehensive action plan aimed at recapitalizing the banks and at setting the conditions for avoiding the resurgence of new flows of bad loans. In this context, the creation of a Rehabilitation Bank that would finance and supervise restructuring-cum-privatization programs for the state's largest loss-making enterprises if they are economically viable, and/or enforce their liquidation if not viable, would be investigated.

26. In its second phase, this study will: (i) recommend detailed arrangements required for the implementation of the agreed strategy; (ii) carry out a feasibility study of a Rehabilitation Bank or other institutions that will be agreed upon by the authorities following discussion of the conclusions of the first phase; and (iii) test the proposed scheme on a pilot basis for two enterprises managed by the same holding company. This will serve as the basis for the preparation of restructuring plans under the component of the Technical Assistance related to the supervision and restructuring of major state owned enterprises.

27. The study would be overseen by a high level steering committee chaired by a Vice Chairman of NBRK and consisting of representatives of the President's Office, the Ministries of Economy and of Finance, and other agencies as will be appropriate, with the technical support of the Ministry of Industry and of the banking sector.

28. The total funding of the consultant contract, including a 5 percent contingency, would not exceed US\$ 500,000.

29. The local costs of both parts of this component and expected to amount to US\$75,000 of which IBRD will finance US\$50,000 equivalent and GOK will finance US\$25,000 equivalent. The total costs are expected to amount to US\$1,025,000.

TECHNICAL ASSISTANCE LOAN

TERMS OF REFERENCE

INSTITUTIONAL DEVELOPMENT OF ON-SITE BANK SUPERVISION

A. BACKGROUND

1. One aspect of the transition process to a market economy in the Republic of Kazakhstan is the development of capacity for prudential supervision over the banking system by the National Bank of the Republic of Kazakhstan (NBRK). Since the system of prudential supervision in the country is in its formative stages, it is necessarily beset by a number of problems. These include: inadequate staffing (eleven full-time staff for a system that encompasses 185 banks and more than 5,000 branches and agencies); salaries that are not competitive with those in the private sector; the absence of powers to effectively deal with the larger specialized banks; supervisory procedures that were designed to ensure compliance with economic regulations which are now outdated; and a financial system that is heavily distorted by massive amounts of subsidies, refinance credit, and lending to loss-making state enterprises.
2. The technical assistance program outlined below seeks to overcome these obstacles by complementing the assistance provided by the IMF and USAID, whose involvement is in the organizational structure of the banking supervision department (BSD) and in other specific regulatory aspects such as licensing, and off-site supervision. The emphasis of the Project is to create a team of banking supervisors able to perform quality bank examinations. However, Government policy-makers will need to make important and bold decisions regarding the appropriate role of subsidies, refinance credit, and the treatment to be accorded to loss-making enterprises for prudential supervision to be truly effective. Additionally, the NBRK should make efforts to provide adequate salary and career development schemes for those individuals participating in the strengthening program to prevent them from leaving the institution in favor of the private commercial banking sector.
3. Because of the small staff, there is a limit to the absorptive capacity of the BSD to provide counterparts and to undergo training. Therefore, under the program, technical assistance activities will proceed in a manner that coincides with the staffing of the department. Initial actions will emphasize the training of new examiners on the job using the training team concept, rather than focusing on the development of procedures and manuals. As individuals are trained, they will in turn make better counterparts for further activities designed to formalize supervisory policies and procedures.
4. The NBRK is committed to significantly higher levels of staffing for the BSD and envisages recruitment of eligible new employees from among recent university graduates. Not less than 80 persons are necessary for professional positions, of which nearly 3/4 should be involved in on-site bank examination. NBRK management expects to have a team of at least 30 staff in the on-site supervision division by October, which will include NBRK staff and 20 new hires. For those recruited, intensive instruction in languages, preferably English, will commence at the onset. Emphasis on training young people is placed, since the goal is to train people who will assimilate a new approach to banking supervision. Also, care is taken to select the most appropriate people out of

the existing staff in the NBRK to conform the on-site examination team. The NBRK also envisages to make efforts to keep the trained staff by working out an adequate salary and career development scheme.

B. OBJECTIVES

5. The main objective of this component is to initiate in the BSD of the NBRK an effective program of on-site examination. Specifically, the goals are to assist the NBRK to:

- * create a strong, technically skilled BSD to enable it to assess effectively the conditions of banks in the transforming environment of the Kazakh economy;
- * train new BSD staff in basic bank examination skills, and developing overall enhanced analytical capabilities in the BSD;
- * develop bank on-site examination guidelines and manuals to promote the further strengthening of the BSD;
- * provide policy advice to BSD and NBRK officials on issues related to banking supervision and examination;
- * upgrade the office equipment available to BSD staff to facilitate on-site supervision.

6. The work will be carried out in a manner contributing to the overall general objectives of strengthening the authority of the NBRK in the area of banking supervision in order to develop a healthy and efficient financial sector.

C. ASSISTANCE STRATEGY

7. The envisaged technical assistance for on-site supervision will be staged in two phases. The first phase will be financed with this Technical Assistance Loan, and carried out under these terms of reference (except the purchase of equipment). The second phase will be funded in 1994-95 with the upcoming Financial and Enterprise Sectors Development Loan (FESDL). This on-site supervision will supplement the assistance of the IMF and USAID to off-site supervision and bank licensing.

Phase I. Under this Loan, technical assistance will commence with the provision of two resident foreign advisors experienced in bank examination, for a period of up to two years. The focus of their work will be on training, conducting partial on-site examinations, and preparation of guidelines and policies. Assistance will start in September, 1993, but not before the NBRK has completed to hire the first batch of recruits. These terms of reference refer to phase I.

Phase II. Further institutional strengthening of the BSD will require assistance for at least two additional years. The World Bank has proposed to complement this project by financing two additional advisors starting about one year after start of phase I. These advisors will start conducting full on-site examinations with the trained staff. One of them will be specialized in dealing with problem loans. The second new advisor, specialized on risk management, will join the BSD somewhat later.

8. The resident foreign advisors in Phase I will have three specific tasks regarding on-site examination: (i) formal training; (ii) conducting examinations; (iii) providing policy advice and guidelines.
9. Given the lack of specialized staff, the program will focus on the development of a capacity for on-site bank examination using a training team concept. Initially, the two resident advisors will lead teams of examiners into banks to be trained through a mix of classroom instruction and practical on-the-job coaching. It is expected that each training team will be comprised of six to eight persons under the guidance of the bank supervision advisor. Each training cycle/partial examination is expected to last approximately two months. It is estimated that during one year the advisors would perform at least ten to twelve partial examinations.
10. During the first year, the NBRK will continue hiring new staff for the division of on-site examination. New recruits should receive the formal training by the advisors, who will be assisted by graduates of the previous training cycles.
11. Out of the initial staff group of the on-site supervision division, the NBRK will select twenty persons to act as liaisons with the companies conducting in-depth diagnostic studies of the ten largest banks (Agroprom Bank, Sber Bank, Turan Bank, Kramds Bank, Creditsoc Bank, Center Bank, Igilik Bank, Alem Bank, Kazdor Bank, and Interinvest Bank), which will take place during August-November 1993 under a different component of the Technical Assistance Loan. This group will have a unique opportunity to observe how on-site bank analysis is carried out with western methodologies. The experience they will derive from this will add to the training they receive through this component.
12. The advisors will conduct partial on-site examinations, focusing on bank portfolio, liquidity management, and internal controls, and will prepare the corresponding reports, while they train the new recruits. These examinations should be carried out in banks other than the 10 largest banks. It is envisaged that ten pilot examinations will be performed during the first year, and twelve full examinations during the second.
13. A third responsibility of the foreign advisors will be the participation in higher-level discussions on the results of the examinations, and on the preparation of policy guidelines for their improved execution. Staff will be trained to use common sense and educated intuition when examining a bank. Therefore these guidelines are not intended to be "operational manuals", but rather to be used as reference guides by the trained staff.
14. Another requirement for strengthening the supervisory capabilities of the NBRK is the acquisition of computers and other equipment for the on-site supervision division of the BSD. It is expected that a maximum of one tenth of the total funds available through this component will be spent on office automation. One of the two foreign resident advisors who will come to Kazakhstan will have the responsibility to assess the computer requirements of the BSD. The advisor should also envisage the usage of a few portable computers for on-site examinations.

D. COUNTERPART AND IMPLEMENTATION ARRANGEMENTS

15. The coordinating agency for this Project, as part of the Bank's Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements. The technical main counterpart agency for this component will be the NBRK.

16. One of the resident foreign advisors will be selected as leader, and will report directly to the Director of BSD. This advisor will also closely coordinate activities with the resident banking supervision specialists, in particular Mr. Niels Larsen, who has, since January been responsible for assisting the development of the BSD, especially in structural organization, regulation, and off-site supervision.

To support the activities of the project, the NBRK plans:

- * hire at least 20 new university graduates until July 1993, who will initially participate in the diagnostic studies for the ten largest banks;
- * hire 10 more staff before the end of 1993 and 30 more in 1994;
- * select out of the existing 50 staff of the various departments which will conform the BSD another 10 persons to work in the on-site supervision division;
- * set up the organizational structure of the BSD, including the appointment of the Director, together with job descriptions at all levels by July, 1993.

17. **Phasing and Implementation Schedule.** The technical assistance program will be carried out over a period of up to 2 years. This will permit effective use of the technical assistance and help avoid overload of limited counterpart resources within the bank supervision department.

E. ACTIVITIES AND OUTPUTS

(i) Formal Training

18. The resident foreign advisors will:

- a. Initiate the training program by interviewing the initial participants in order to determine the overall technical level of the BSD;
- b. prepare the training materials for the classroom training, which should include case studies on actual on-site examinations;
- c. provide teaching material in Russian, which should be targeted at the specific level of skills of the BSD staff and at the status of the banking sector;
- d. design a training program that should be discussed with the management of the BSD, and approved by NBRK and the World Bank;
- e. conduct the classroom training sessions that should be given for a period of two weeks to the new hires at the BSD. There should be a minimum of four two-week courses per year during two years.

(ii) Conduct of partial examinations:

19. To prepare for the partial examinations, the BSD Director, the manager of the on-site supervision division, together with the advisors will prepare a list of the first twelve banks to be examined during the first year by the foreign advisors and staff of the BSD. The NBRK plans to make relevant available material related to these banks to the advisors, in order for them to prepare the examinations. Meetings between the BSD and the twelve banks will be arranged by BSD to present the advisors to the twelve banks in order to coordinate the examination work. These meetings will take place at least two weeks prior to every examination.

The advisors will:

- a. Propose the selection criteria for the twelve banks to be examined during the first year, and the topics to be covered during these examinations;
- b. prepare all materials necessary to conduct the examinations, including what may be available in the banks, and conduct strategy sessions with the team of the BSD who will participate in the examinations;
- c. conduct four three-day preparatory sessions on the specific tasks to be carried out by each team during the partial examinations. These sessions are intended for staff who already attended the two-week training course.
- d. execute the examinations; it is expected that each examination will last for two months and that each advisor will be responsible for six banks;
- e. take the lead and give guidance for the preparation of the examination report and review inputs from BSD staff participating in the examinations;
- f. prepare and monitor a follow-up scheme aimed at periodically reviewing the implementation of the examiner's recommendation, and prepare a conclusion for those banks where the process of examination, implementation, and review has been completed.

(iii) Policy advice and guidelines:

20. Formal meetings will be held at least weekly between the Director of BSD, the head of the on-site supervision division, and the advisors to discuss the development of the program. The advisors will:

- a. provide advice to BSD and other NBRK officers as appropriate on issues that they identify during the examination process, and on others related to banking supervision as requested by the NBRK;
- b. conduct at least two half-day seminars in the first year on the concept and use of on-site bank supervision, for NBRK's leadership and higher level staff. Similar brief high-level seminars will be conducted in the second year;
- c. hold two one-day seminars on bank examination for commercial bank managers; prepare bank examination manuals and guidelines that will be used by the division. They will not be intended to be used as a unique source of knowledge in the subject, since the overall goal is to develop intuitive analysis in the examiners. The manuals
- d.

shall be targeted to deal with the specific conditions of the banks in Kazakhstan, and aim at understanding the introduction of internationally accepted banking practices.

(iv) Advice on automation of the on-site supervision division:

21. The BSD will arrange staff meetings together with one or both advisors to explain the activities they perform in order for them to identify the automation needs. It will also provide training in standard spreadsheet and wordprocessing packages to the staff in the division. The NBRK will acquire the equipment in accordance with the Bank procurement regulations.

The advisor(s) will:

- a. Prepare a written diagnosis of the automation needs of the on-site supervision division of the BSD, and a scaled acquisition program for the purchase of the equipment.

22. **Confidentiality.** This program is being carried out exclusively for the purpose of developing a basis for strengthening the banking supervision capabilities of the NBRK and to initiate on-site bank examination practices. Accordingly, the advisors will neither discuss with, nor distribute to, parties outside NBRK the World Bank, and the management of the relevant bank, without their explicit authorization, any aspects or details relating to their findings.

F. REPORTING

23. The advisors will submit quarterly reports on the implementation of the project. All reports shall be submitted to the NBRK, and the National Agency for Foreign Investment in a total of at least four Russian language and two English language copies; and to the Bank in two English copies. These reports shall be briefs in informal style. All such reports will enumerate the inputs, activities and outputs of the last period; the contribution to the project objectives; the problems encountered, remedies sought, and further remedies; the detailed plans for the coming period; and suggested changes to the plans for subsequent periods; and miscellaneous further issues. The reports will annex all distributed training materials and contributions to examination manuals and guidelines. The examination reports shall be provided to the NBRK and the examined banks in two copies in Russian for each. The Bank will be provided access to these reports by NBRK upon request.

G. ADVISORS QUALIFICATIONS

24. The advisors must be bank examiners and/or auditors with extensive experience in the preparation of examination reports, who have also experience in training. They should also have policy advice experience, in order to discuss with the management of the BSD and high officials of the NBRK: (i) the strategies for developing on-site examination capabilities, and (ii) implementation of examination recommendations in the banks under review. Familiarity with transition economies and/or high inflation economies will be highly valued. Advisors shall not be replaced, during the course of the program, without the prior agreement of NBRK and the Bank. Knowledge of the Russian, Kazakh and/or Turkish languages will be highly appreciated.

H. INPUTS

25. The advisor's contract will cover:
- * fees including overhead;
 - * travel, accommodation, and living expenses;
 - * project-related communication, report distribution, and office supplies;
 - * translation, interpretation, and English-language secretarial support;
 - * office equipment (computers, printers, facsimile machines, copiers, etc), and vehicles for direct project use by the advisors, to be passed to the NBRK at the time of project completion.
26. The NBRK will make available to the advisors:
- * assistance in the arrangement of housing, hotel rooms, visas, and travel;
 - * Russian-language secretarial support;
 - * data and legal texts as requested by the advisors and required for carrying out their assignment.
 - * a furnished office with telephone facility;
 - * a classroom facility.

I. BUDGET AND FUNDING

27. The project will finance the provision of two advisors for up to two years, plus equipment. The Consultant contract shall not exceed US\$ 900,000. The cost of the office automation equipment should total US\$ 80-100,000. The contract with the advisors shall include a contingency of approximately 2 percent that could be used flexibly but only with prior approval of the NBRK, NAFI, and the Bank.

28. Indicative budget estimate:

(in US\$ equivalent)	GOK Local cost	Local cost	IBRD Foreign Cost
Consultant Contract:			
Fees of Foreign Consultants			769,000
Travel Costs	-	15,000	24,000
Subsistence and Accommodation	-	48,000	-
Translation & Secretarial Services	-	12,000	-
Others(Supplies, Communication)	-	5,000	9,000
Contingency	-	18,000	
Subtotal: Consultant Contract	-	80,000	820,000
Other Costs of the Project Component^{1/}:			
Russian Language Secretarial and other Support	24,000	-	-
Furnished Office Space	20,000	-	-
Office Equipment for SDB Use (computers, copiers, faxes, etc.)	16,000	-	100,000
Total Costs	60,000	80,000	920,000

^{1/} Counterpart staff will be regular NBRK personnel who will work in NBRK's SDB in any case, even if the project did not take place. Their salaries are hence not included in the table.

TECHNICAL ASSISTANCE PROJECT

EMPLOYMENT SERVICES

1. An important feature of the current economic situation is the sharp increase in the unemployed, from about 4000 in January 1992 to over 70,000 by the end of 1992. A high proportion of currently unemployed have been laid off by material production units and by service (especially military complexes) units.
2. Monitoring the unemployment situation is of utmost importance not only to prevent a decline in the living standards of the population, but more importantly to maintain the morale of the population during this difficult, but necessary, transition period. The Ministry of Labor has only limited experience in providing employment services on a mass scale. The staff of the Ministry are not equipped technically and lack the practical experience to handle the deteriorating employment situation in the short run. Technical assistance, therefore, is imperative to strengthen the Ministry of Labor's capacity to handle the challenge of transitional unemployment.
3. **Project Objectives.** The main objectives of the Project are: (i) to help design and implement policies and programs in the immediate short run in the area of unemployment relief; (ii) to train staff in the development of labor market policies conducive to a market economy and in labor demand forecasting; (iii) and to help modify the structure of employment services so as to render them relevant to the changed economic, social and political environment.
4. **Project Description.** The project will have four basic elements:
 - (i) Providing to the Ministry of Labor the services of an international specialist to strengthen the capacity of the Ministry of labor;
 - (ii) Setting up a small center for labor market studies, attached to the Ministry of Labor but not endowed with day-to-day administrative responsibilities, to train the staff of the State Employment Service. At this center, specialists from other countries will visit for short durations of 7 to 10 weeks, but the center will be largely managed by local staff of the Ministry and the University.
 - (iii) In the immediate short run, training of a few core staff of the Ministry and the Employment Offices (5 to 8) for short period (10 to 12 weeks) abroad in Europe (West Germany or France) on problems relating to training and retraining of disengaged people in a market economy.
 - (iv) Equipping the proposed center and the Ministry with microcomputers.
5. **Implementation Schedule.** The expatriate consultant is expected to begin his association with the Ministry of Labor by October 1993, but the project implementation will take place over one year, i.e., November 1993 to November 1994. The Consultant will discharge the responsibilities outlined in the specific TOR (enclosed). It is envisioned that the Consultant will also prepare (i) an Inception Report within three months at the start of the assignment, and (ii) a Final

Report on the progress of the work and suggestions for the future at the end of the assignment. The implementing agency will be the Ministry of Labor, Government of Kazakhstan.

6. **Estimated Costs.** Estimated costs are as follows;

Foreign Costs	GOK	IBRD
	(in US\$)	
1. Salary for the Specialist (8 staff months)		120,000
2. Travel/Per diem		40,000
3. Training costs of staff to be sent abroad (8 x 2 staff months) (Accommodation + subsistence + international travel)		120,000
4. Equipment (personal computers, fax machines and photocopiers). (20 personal computers, 2 printers, 2 photocopiers, 2 fax machines and software)		160,000
Total Foreign Costs		440,000
Local Costs	GOK	IBRD
	(in US\$)	
4. Local staff to manage the proposed center in the Ministry of Labor (5 x 12 staff months)	20,000	
5. Local technicians (5 x 12 staff months)	10,000	
6. Interpreters		10,000
7. Local transportation		20,000
8. Overhead and contingency		30,000
Total Local Costs	30,000	60,000
Total Costs	30,000	500,000

7. **Costs include an estimated US\$ 120,000 for 8 staffmonths at an estimated US\$ 15,000 per staff month. In addition, an estimated US\$ 320,000 in additional foreign currency are needed to cover travel, subsistence, training costs and equipment. Local costs are estimated at US\$ 90,000 equivalent, of which it is expected that the IBRD will finance US\$ 60,000 equivalent and the GOK will finance US\$ 30,000 equivalent. Total costs are therefore estimated at US\$ 530,000 equivalent.**

TECHNICAL ASSISTANCE PROJECT

POVERTY MONITORING AND TARGETING OF INCOME SUPPORT PROGRAM

1. The issue of poverty and protection of vulnerable groups is a new one for the Kazakh government. The growth of a private sector may initially lead to a widening distribution of income, and thus, to the possibility that some groups will not be able to transition to the market economy with the same ease as others. Whereas income growth is a positive development in the long run, the immediate concern is the growing number of poor and of vulnerable groups in the country, and the need to protect them from falling further into poverty. An essential part of this strategy is to identify the poor and to implement policies to protect this portion of the population by establishing a comprehensive and realistic poverty line, as well as designing a monitoring system, including a reliable family budget survey. This technical assistance project will strengthen the capacity of the State Statistical Agency to monitor poverty, develop poverty line, and implement a quick survey of living standards. The following steps are proposed:

- (i) Assistance in setting up a Poverty Monitoring Cell, within the State Committee for Statistics or Ministry of Labor.
- (ii) Development of a definition of a minimum consumption basket for those completely dependent on the State for their incomes. The establishment of a poverty line will include looking at the consumption and production patterns.
- (iii) Provision of technical and financial assistance to Goskomstat or Ministry of Labor for the design and implementation of a Monitoring Survey which would study the social and economic needs of the population, and measure the social impact of the economic crisis during the transition period.
- (iv) Assistance in constructing a Consumer Price Index based on a basket of essential food and nonfood items consumed by the poor, and use this index to deflate wage incomes of the poor.
- (v) Analyze the nature of mechanisms used by some of the vulnerable groups (particularly pensioners, unemployed, some emerging rural private sector members) to cope with poverty and other social and economic strains. The study would collect quantitative and qualitative data on these groups such as their source of income and expenditures; the level of community solidarity, and in particular, the existence of income transfers from households.

2. Cost Estimates.

Foreign Costs	GOK	IBRD
	----- (in US\$) -----	
1. Expanded staff (12 staff months)		180,000
2. Travel/Per diem		80,000
4. Equipment:		
personal computers (6)		30,000
laser printers (6)		20,000
statistical software		10,000
Total Foreign Costs		320,000
Local Costs	GOK	IBRD
	----- (in US\$) -----	
5. Local Staff	20,000	
6. Interpreters		20,000
7. Local transportation		30,000
8. Overhead and contingency		30,000
Total Local Costs	20,000	80,000
Total Costs	20,000	400,000

2. Costs include an estimated US\$180,000 for 12 staffmonths at an estimated US\$15,000 per staff month. In addition, an estimated US\$140,000 in additional foreign currency are needed to cover travel, subsistence, and equipment. Local costs are estimated at US\$100,000 equivalent, of which it is expected that the IBRD will finance US\$80,000 equivalent and the GOK will finance US\$20,000 equivalent. Total costs are therefore estimated at US\$420,000 equivalent.

REPUBLIC OF KAZAKHSTAN
TECHNICAL ASSISTANCE PROJECT
SOCIAL PROTECTION SERVICES

1. **Generous pension schemes and child and family allowances are not sustainable in a period of fiscal contraction. At the same time, hyperinflation has driven down the standard of living in many households. Efforts to streamline the benefits and introduce targeting are imperative. The consequences of a reduction in the budget of the Ministry on poverty and the living conditions of the critically poor need to be assessed. The Ministry is not currently equipped to perform these tasks. While the Ministry's proposed Voluntary Pension Fund (VPF) will shift the burden from the state to the individuals themselves over the medium run, the Ministry lacks the capacity to analyze the various aspects of the scheme carefully before it is introduced. The Ministry also needs to be equipped with at least 20-25 personal computers to monitor the progress of the vulnerable households.**

2. **Project Objectives. Advise the Ministry of Social Protection on the rationalization and targeting of social protection benefits with a view to reducing the fiscal burden without hurting the critically poor households, and to equip the Ministry with equipment (computers).**

3. **Project Description. The proposed Technical Assistance will: (i) provide an expatriate technical specialist to advise on the private pension fund and related issues in the targeting of social protection benefits, (ii) send five senior staff for a study tour of private pension schemes abroad, and (iii) provide technical equipment (computers and printers) to the Ministry.**

4. **The Specialist should have considerable experience in addressing the problems associated with pension funds and family allowances. The selected specialist is expected to be resident in the country for 12 months. The total compensation will be US\$180,000.**

5. **The specialist's responsibilities will include:**
 - (i) **Redesigning and implementing income security schemes (especially all pensions and child allowances) and other cash allowances, focussing especially on the mechanisms of targeting benefits;**

 - (ii) **Modifying the prevailing framework to make it viable and fiscally sustainable;**

 - (iii) **Rendering technical advice on such issues as indexation, projections of actuarial costs and benefits;**

 - (iv) **Training the staff of the Ministry in the new schemes, including the proposed voluntary pension scheme.**

6. Budget. Cost estimates are as follows:

Foreign Costs	GOK	IBRD
	(in US\$)	
1. Consultant fees (12 staff months)		180,000
2. Travel costs/per diem		80,000
3. Training costs of staff to be sent abroad (5 x 2 staff months for accommodation, subsistence, and travel)		75,000
4. Equipment (20 personal computers, 2 printers, 2 photocopiers, 2 fax machines and software)		160,000
Total Foreign Costs		495,000
Local Costs	GOK	IBRD
	(in US\$)	
5. Salaries of local staff	20,000	
6. Interpreters		20,000
7. Local transportation		20,000
8. Overheads and contingency	20,000	65,000
Total Local Costs	20,000	105,000
Total Costs	20,000	600,000

7. Costs include an estimated US\$ 180,000 for 12 staffmonths at an estimated US\$ 15,000 per staff month. In addition, an estimated US\$ 315,000 in additional foreign currency are needed to cover travel, subsistence, training costs, and equipment. Local costs are estimated at US\$ 135,000 equivalent, of which it is expected that the IBRD will finance US\$ 105,000 equivalent and the GOK will finance US\$ 20,000 equivalent. Total costs are therefore estimated at US\$ 620,000 equivalent.

TECHNICAL ASSISTANCE PROJECT

HEALTH CARE REFORM

1. **Background.** The terms of reference set out below cover technical assistance (TA) for specific aspects of health sector reform that were identified as critical in earlier and more general TA assignments supported by the Bank in FY92. The FY92 TA assignments assessed the overall health sector -- building on work performed by WHO, UNICEF, and UNDP -- and focused on system organization, efficiency and financing.
2. The FY92 findings can be summarized. Kazakhstan has an exceptionally large number of hospital beds and medical personnel per capita and provides wide coverage with curative services and selected child health services. In spite of the size of the infrastructure, the mix and quality of services have failed to produce significant improvements in infant and adult health, especially over the last decade. The system is strongly biased toward curative services while preventive services are poorly developed, physical facilities are of poor quality and suffer from insufficient maintenance, medical training lags in up-to-date medical techniques, and the system suffers from structural deficiencies. The efficient use and supply of pharmaceuticals is hampered by non market pricing and distributional policies that do not reflect costs, and the upheaval in supplies caused by the dissolution of the former USSR.
3. With regard to health financing, budgeting and planning are hampered by the inexperience of Ministry staff, the continuing rapid inflation in the value of the ruble, and the need to procure pharmaceuticals and other key inputs at international prices and following international procurement procedures for the first time. Although a law was adopted to allow the Ministry to assume the powers previously held by the Soviet government, no overall policy guides the management of the sector. Staff has little experience in managing, budgeting, and planning, since prior to the dissolution of the Soviet Union, these functions were largely carried out in Moscow. Finally, the Government would like to develop the role of the private sector and has adopted a new health financing law opening the way to possible private provision of care and social insurance financing. The ministry needs assistance to devise consistent and coherent policies in the area of finance.
4. The Ministry of Health (MOH) would like to adopt policies and a strategy to address deficiencies in each of these areas but needs fresh viewpoints and expertise from outside to inform the process of policy development. As a first phase to meet these needs, technical assistance is required in the areas of: (i) health sector finance, (ii) public health policy, (iii) health sector organization, (iv) budgeting procedures, and (v) pharmaceuticals.
5. The objectives, consultant characteristics, scope of duties, and timing in each area are set out below. Later phases, concerned with greater detail of implementation, are not covered below but will be developed as the strategy for health system reforms is laid out and additional funding becomes available.

A. Health Sector Finance

6. **Objectives.** The objectives of the technical assistance would be to assist the Ministry of Health to: (i) develop a structure for health financing, (ii) work with the budgeting consultant to introduce cost accounting and reimbursement systems, (iii) devise alternative strategies of cost recovery and savings, and (4) draft implementation plans. The objectives would also include assistance to the Government in the development of policy on the structure of health services, including determination of the respective roles of the private and public sectors in the delivery of health services, and determination of the appropriate degree of decentralization of control and delivery of services. Special concerns will be the creation of performance incentives and the encouragement of competition among providers while ensuring client choice and universal access to medical services.

7. **Consultant Characteristics.** A resident adviser for one year is required. The resident adviser should be a health economist or financial analyst with at least ten years of experience with health economics policy development, health financing and public/private issues, and implementation. The adviser should have training in business, economics, or health administration to at least the Masters Degree, and preferably the PhD, level.

8. The resident adviser can be complemented by up to 6 months of supplementary short term consultants with skills to be determined as needed.

9. **Scope of Consultancy.** To meet the objectives, the resident adviser, with the assistance of the short-term consultants, should assist the Ministry to:

- (i) Further refine and develop the proposal for the institution of a reformed financing system. This may include preparing technical analyses of various options for the system, acting as a resource in discussions and debates on the proposal before other members of government, the legislature, and interest groups;
- (ii) Develop plans for the implementation of the reformed financing system, including terms of reference for any external assistance required beyond that described here;
- (iii) With the budgeting consultant, develop plans for and assist with initial implementation of accounting, financial management, and reimbursement systems associated with the reformed financing system, in health facilities;
- (iv) With the budgeting consultant, begin institution of computerization of health facilities, particularly in the areas of accounting, financial management, and preparation for reimbursement systems (if any) associated with reformed health financing;
- (v) The consultant should also assist the Government to draft a policy for allocating responsibilities for health sector functions between the public and private sector. Given the desired public-private mix specified in the policy, a strategy and actions to stimulate private participation in the health system should be developed. It should be accompanied by a report explaining and analyzing the rationale for the policy and showing how the policy should be implemented, including specification of

complementary steps to be taken, such as regulation and a complementary legal framework;

- (vi) With the health management specialist, plan for changes needed in the Ministry's own organization and in the organization of health facilities to have the capabilities needed to operate, monitor, evaluate, and implement financial and organizational reforms; and
- (vii) Write terms of reference for short-term consultants included in this loan, needed to assist with the above tasks.

In carrying out these activities, the consultant will pay particular attention to the following:

- (i) client choice of provider;
- (ii) the role of the private sector in the provision of health services and health insurance;
- (iii) the support of preventive health care and health services that are public goods. This especially includes prevention for chronic disease and maternal child health care;
- (iv) services for disadvantaged groups such as the unemployed, the poor and elderly, core entitlement for health related benefits, and achievement of universal coverage;
- (v) special concerns for a social insurance system. These include the potential use of co-payments, setting of premiums, the appropriate base for premium payments (wages, profits, or enterprise revenue), and actuarial determination of costs;
- (vi) rules for negotiation of provider contracts with insurers;
- (vii) the role of capitation schemes; and
- (viii) the development of management skills for insurance funds or government agencies involved in health finance.

In addition to the above, the consultant will act as coordinator to facilitate effective use of other, shorter term, consultants in special areas of health financing, management or organization.

10. **Timing, Length, and Frequency of Visits.** The resident adviser should spend one year in country, beginning as soon as possible. The adviser's departure should be preceded by a team planning meeting. The scheduling of the short-term consultants (three person-months) will be done jointly by the resident adviser and his or her counterpart in the Ministry.

B. Public Health Policy

11. **Objectives.** The objective is to assist the Government to develop a comprehensive national health policy, strategy, and accompanying guidelines on integration of preventive health care

programs. The consultant would also assist the Government in planning for the effective organization and management of the delivery of public health services.

12. **Consultant Characteristics.** This consultant would be a health management specialist with at least ten years of experience with national health systems strategy development and implementation. It is desirable, but not essential, that this consultant be a physician. The consultant should be familiar with the issues involved in the integration of preventive care services with curative services.

13. **Scope of Consultancy.** The consultant on health policy should assist the Health Ministry to prepare a draft health policy on public health. The consultant should provide analysis of advantages and disadvantages of the options considered in the policy. The policy should include specifics on integration of preventive services and promotion with curative services. Advice will be given on the organization and content of prevention (e.g., immunizations, dietary change) and promotion (e.g., breast feeding, family planning, anti-smoking measures) and the roles of Ministry of Health, local Governments and other Ministries in the delivery of services. Particular concerns are (but not limited to) maternal and child health issues in prevention as well as adult chronic diseases.

14. **Timing, Length, and Frequency of Visits.** The consultant should make three visits of three to four weeks to Kazakhstan. The first visit would be spent on gathering data, conducting interviews, and drafting initial approaches. Between visits, the consultants should elaborate on the initial approaches developed and have a full draft of a report setting out the planned program and its justification ready for review by counterparts on arrival for the second visit. The second visit should include presentation of the draft products, additional data collection to fill gaps, and revision of the products to reflect comments from counterparts.

C. Health Systems Organization

15. **Objectives.** The objective of the consultancy is to develop an organizational structure for the delivery of health care, and a supporting structure for the Ministry of Health, that is consistent with the revised structure of financing and provides management incentives for efficiency while also addressing the needs of lower income groups or the unemployed.

16. **Consultant Characteristics.** The consultant should be a health systems management specialist with at least ten years of experience working with organization and management issues in the health sector. This consultant should be familiar with how to integrate epidemiological, financial, and management issues in organizational structures.

17. **Scope of Consultancy.** The consultant would assist counterparts within the Ministry of Health to develop an organizational and management framework for the health sector. Because the organization and financing of health care are linked, the consultant will work closely with the finance consultant, the health policy consultant, and counterparts. The consultant will also assist the Ministry of Health to develop an organizational structure for the Ministry that would be appropriate to its new functions in the revised health sector structure. The consultant should produce a report describing the rationale for the revisions and annotated charts of the sector and ministry. The report should be

accompanied by an implementation plan laying out how to move from the current to the revised structure.

18. **Timing, Length, and Frequency of Visits.** The consultant should make three three-to-four week visits to Kazakhstan. The first visit would be spent on gathering data, conducting interviews, and drafting initial approaches. Between visits, the consultants should elaborate on the initial approaches developed, to have a full draft of a report ready for review by counterparts on arrival for the second visit. The second visit should include presentation of the draft products, additional data collection to fill gaps, and revision of the products to reflect comments from counterparts.

D. Budgeting Procedures

19. **Objectives.** The consultant would devise capital and operational budgeting procedures. The budgeting and accounting procedures developed should lend themselves to (1) timely budget formation, (2) efficient monitoring, (3) coordination with service and epidemiological statistics for periodic cost effectiveness policy analysis, (4) implementation of incentives to minimize costs compatible with quality objectives.

20. **Consultant Characteristics.** The consultant should have business, economics, or health administration training to at least the Masters Degree level. The consultant should have the equivalent of at least five years of experience with financing planning and budgeting with social sector Ministries. Knowledge of computer hardware and software applications in the areas of accounting and reimbursement is required.

21. **Scope of Consultancy.** The consultant should assist the Ministry to develop practical procedures for capital and operational budgeting, linking epidemiological, service and financial information. The consultant should make recommendations about equipment needs and training needs for Ministry personnel who will be implementing the procedures. Assistance will be provided with software choices and implementation to achieve the objectives of budgeting and accounting.

22. **Timing, Length, and Frequency of Visits.** The consultant should make three visits of three to four weeks to Kazakhstan. The first visit would be spent on gathering data, conducting interviews, and drafting initial approaches. Between visits, the consultants should elaborate on the initial approaches developed, to have a full draft of a report ready for review by counterparts on arrival for the second visit. The second visit should include presentation of the draft products, additional data collection to fill gaps, and revision of the products to reflect comments from counterparts.

E. Pharmaceuticals Distribution and Retailing

23. **Objectives.** The objective would be (1) to develop a national drug policy and (2) to develop capacities in international pharmaceutical procurement, storage, distribution and accounting. It is recognized that further consultancies will be needed in a second phase, not covered

by these terms of reference, to fully develop an implementable policy to address the restructuring of production, distribution and retailing of pharmaceuticals.

24. **Consultant Characteristics.** The consultant will be a pharmaceutical policy and procurement specialist with at least five years of experience in developing and implementing pharmaceutical procurement, distribution and accounting procedures.

25. **Scope of Consultancy.** The output of the consultancy would be (1) a draft national drug policy, (2) personnel trained in pharmaceutical procurement and accounting, and (3) revised distribution procedures

26. **Timing, Length, and Frequency of Visits.** The consultant should make three visits of three to four weeks to Kazakhstan. The first visit would be spent on gathering data, conducting interviews, and drafting initial approaches. Between visits, the consultants should elaborate on the initial approaches developed, to have a full draft of a report ready for review by counterparts on arrival for the second visit. The second visit should include presentation of the draft products, additional data collection to fill gaps, and revision of the products to reflect comments from counterparts.

F. Phasing of the Consultancies

27. The financing consultant, to be a resident advisor over a one year period, will also play the role of coordination of products and dialogue with the Government. Ideally, the health policy, and organizational structure consultants should make their visits together or at least overlapping. The budgeting consultant could follow the others in both the first and second visits.

28. **Implementing Agency:** The implementing agency will be the Ministry of Health, Government of Kazakhstan.

29. **Costs.** Costs include an estimated US\$420,000 for 28 staffmonths at an estimated US\$15,000 per staff month. In addition, an estimated US\$85,000 in additional foreign currency costs are needed to cover travel and equipment costs. Local costs are estimated at US\$115,000 equivalent, of which it is expected that the IBRD will finance US\$95,000 equivalent and the GOK will finance US\$20,000 equivalent. Total costs are therefore estimated at US\$620,000 equivalent.

Budget for Health Technical Assistance

Foreign Costs:		IBRD (US\$ Equivalent)	
Consultant Fees and Per Diem:			
Health Finance Specialist	12 mo. @ 15,000		180,000
Public Health Policy	4 mo. @ 15,000		60,000
Health Sector Organization	4 mo. @ 15,000		60,000
Budgeting Specialist	4 mo. @ 15,000		60,000
Pharmaceutical Specialist	4 mo. @ 15,000		<u>60,000</u>
Subtotal			420,000
Equipment:			
4 personal computers			12,000
2 laser printers			4,000
2 copy machines			5,000
1 fax machine			1,500
Software			<u>2,500</u>
Subtotal			25,000
Travel	15 rd. trips @ 4,000		60,000
Total Foreign Costs			505,000
Local Costs:		GOK (US\$ Equivalent)	IBRD (US\$ Equivalent)
Local Staff:			
Local support staff	4x12 mo.	8,000	
Local technical staff	4x12 mo.	12,000	
Local transportation			20,000
Interpreters			10,000
Local overhead			<u>65,000</u>
Total Local Costs		20,000	95,000
Total Costs		20,000	600,000

TECHNICAL ASSISTANCE PROJECT

TRAINING COMPONENT

1. **Kazakhstan's ongoing transition from a command to a market economy is severely constrained by a scarcity of skills in some critical sectors and occupational categories. At the same time, previously existing training systems largely lack the resources, and in most cases also the leadership necessary to develop and carry out suitable training for new skills required in a market economy. As part of Bank-financed sector work in the human resources area, proposals are now emerging for a new strategy for training in Kazakhstan. The training component of the proposed Technical Assistance Project described in this annex, together with other training investments directly embedded in some of the technical assistance components, can be seen as a first phase of implementation of this emerging strategy in three areas of highest priority, consistent with the main thrust and institution building objectives of the Project. A second phase of training investments in the same and additional areas are anticipated to form part of the proposed future Financial and Enterprise Sectors Project.**

2. **The three areas of training selected for the project are as follows:**
- (i) Financial sector training (including training of bankers and bank accountants),**
 - (ii) Enterprise management training, and**
 - (iii) Public sector management training.**

These three training subcomponents are described in detail below. Their total cost is estimated at US\$3.8 million, including US\$2,975,000 in foreign exchange costs and the equivalent of US\$825,000 for local costs. Of this, US\$3,500,000 will be financed by the Bank, and US\$300,000 will be financed by the Government of Kazakhstan. Together with additional training which is included under other components (for instance, on-the-job bank supervisor training which is immersed in the technical assistance component for the financial sector), overall investment in training under this project is estimated at US\$5.4 million.

A. Financial Sector Training

3. **This training subcomponent would address two key professional groups in the sector: bankers and bank accountants, professionals typically employed by commercial banks. (Bank supervisors, who perform the prudential supervision of the banking system on behalf of governments through their statutory bodies for such supervision, would be trained separately on-the-job under the present Project's technical assistance program for the banking sector.) The training programs for bankers and bank accountants will deal with partly the same subject matter but will be quite different from each other in concept and methodology, reflecting the differences in professional viewpoints and responsibilities. They are therefore described separately in the following paragraphs.**

1. Training of Bankers

4. Background. Changes taking place in the economic and financial markets of Kazakhstan prompt the need for radically different methods of managing banks, marketing and delivering banking services, controlling risk, ensuring banks' financial viability and performance, and carrying out basic banking operations. Preparing banks to carry out their new role will require a combination of institutional development, assisted by specialized expertise, and training. Given the importance of skilled human resources to the development of the financial sector a core training program to meet primary skills needs should be established.

5. Given the situation of Kazakhstan's banking system, the phasing of the institutional development and training activities is likely to be somewhat unorthodox. In market economies, training of bankers is most often undertaken to instill the technical or management skills necessary to carry out previously defined activities for which a policy and procedural framework exist. As such, training supports institutional efficiency and effectiveness. In Kazakhstan a more dynamic approach to training will be required since many of the changes in the banks' policies, procedures and operations will not be implemented until institutional development programs have been undertaken. Such programs will establish the manner in which the functional areas of the banks, such as credit and finance, will be managed, and the way customer service will be delivered and transactions processed. Institutional development programs, in essence, define the new banking jobs for which staff and management will be trained, thereby establishing the objectives and basic content of training.

6. Moreover, the regulatory and institutional framework necessary to the banking system of a market economy have yet to be defined. To cite only one example, training in accounting would ideally relate to a country's accounting standards and principles, but in Kazakhstan, the accounting standards are still in the process of elaboration. Accounting is particularly important, since it is the basis for finance, financial analysis, credit analysis, financial management, and virtually all disciplines in the financial field. The same issues arise in the relationship between corporate law and credit contracts. Structuring a loan or credit contract takes place within a legal context. In Kazakhstan corporate law is still not well articulated. Credit training thus needs to concern itself with the evolving nature of contracts.

7. Thus the situation in Kazakhstan is unprecedented and classical models of training for a pre-established framework do not apply. Yet the need to initiate some basic training is urgent because personnel in the banking system are almost totally unprepared to carry out the banking activities which their new role requires. Relevant training programs can be devised to cover core needs in basic banking disciplines so that bank staff and entrants to the field can operate more effectively. Training within the context of a framework undergoing radical transformation will likely be an interactive process. To accomplish it effectively will require skill and flexibility. Conceptually, a program of core skills could be introduced. Possession of these skills would permit bankers to participate effectively with foreign technical experts in the elaboration of institutional development as well as in the evolving financial markets. Subsequent to defining a basic approach to managing the major banking functions, more elaborated and detail specific training programs would take place.

8. Current Training Efforts. The interest taken by European and American governments and institutions in the development of the banking system in Eastern Europe and the

FSU has provoked a stream of studies, consultants, visiting missions, visiting lecturers, training invitations to foreign banks and training proposals. The offers and proposals are from countries with banking systems and practices, which though converging, still differ in many respects. Thus, bankers in these regions are being exposed to a variety of banking methods and techniques.

9. Currently, training provided consists largely of courses of short duration which is more akin to exposure than to training. Though the exposure gained by bankers in these regions is undoubtedly beneficial in building awareness of banking techniques, it can not provide the skills building needed to actually carry out modern commercial banking activities. Increasingly, training will need to have a greater degree of consistency and depth. This proposed sub-component aims to build a sound and consistent foundation for banking training to be further developed in future projects. While the program should address the most pressing needs first, a process should be put in place to ensure that evolving needs are met.

10. **Objectives of the Sub-subcomponent.** The objectives of this program are as follows:

- (i) To establish a core curriculum for training of bankers which addresses priority banking skills and training needs;
- (ii) To adapt and develop a set of training materials for effectively imparting the core curriculum;
- (iii) To assist the NBRK in making temporary facilities and equipment available to permit rapid start-up of training activities;
- (iv) To initiate a training program for key banking officials using the core curriculum and training materials;
- (v) To train national training administrators and trainers; and
- (vi) To prepare a detailed plan for the establishment of a permanent banking training institute, and implement this plan to the extent possible in the timeframe allowed.

11. **Strategy.** The strategy to achieve the above objectives would be to invite a well established banking training institution with international experience to provide assistance in the selection and preparation of curriculum and materials and to supply administrative expertise and experienced banking trainers to prepare and initiate training in key areas (including selecting outside training providers when available), train national trainers, and to plan and assist NBRK concerning the permanent training institute to be established. The assisting institution's staff would work closely with NBRK staff on all aspects of the work.

12. **Primary Skill Needs.** Training needed for the development of banking professionals to meet the needs of Kazakhstan's banking system has not been precisely defined. However, based on preliminary impressions and discussions with the banks and the Central Banks, it is clear that technical and management skills need to be developed in the areas of credit analysis and risk management, asset and liability management, planning, market instruments and general management.

It will take time to precisely define skills requirements in these areas for the reasons outlined earlier. However, courses can be initiated covering the basic principles of these disciplines.

13. Since credit is at the core of banking and the area of highest risk, it is proposed to proceed in priority with the elaboration of a credit training program. At this stage of development, the banks also need to develop skills in planning in order to reorient the way in which the banks are managed. Therefore, it is also proposed that training in the methods of strategic, tactical and financial planning be given priority. This discipline forms a basis for managing by objectives rather than by procedure or task which is central to the reorientation of the management approach in the banking systems of Kazakhstan. Courses will also be required in topics such as: money and banking, capital markets, international banking, trade finance, general management, marketing and retail banking.

14. **Elements of a Training Program.** The following paragraphs summarize the main components of a training program for professional bankers: bank managers and technical specialists in the financial field. Training of clerical staff, branch tellers and information system specialists is not included in this proposal, though such training is also of high importance. A training program for professional bankers would be composed of the following components:

15. **Core Curriculum.** The core curriculum would consist of financial accounting, credit and lending. These are the central topics in Western banks' professional training programs. Courses in planning, budgeting and performance measurement and in other topics of financial management such as asset and liability management and foreign exchange risk management are also needed at this time in order to reorient the way in which banks are managed and to respond to the needs of financial market development. General courses on topics such as: an introduction to money, banking and the role of banks in a market economy, financial markets, marketing, human resource management, and trade finance would also be provided.

16. A course should be developed that would provide an introduction to banking in a market environment. It would describe the management and operational needs of banking in a financial market. The themes covered would provide an introduction to credit risk management, financial management, marketing, planning, trading and internal controls. Individual courses in the core curriculum would cover these topics in more depth.

17. **Training Materials.** Training materials are readily available in English and other Western European languages. Such materials have become a product and are sold by numerous vendors. It will be necessary to choose from readily available materials those which are relevant and to develop others as necessary. Moreover, for training to penetrate the banking institutions of Kazakhstan, an effort must be undertaken to translate selected materials into Russian. It is also necessary to develop case studies based on the banking environment of the country. Several types of training materials could be used: textbooks, readings, case studies, self correcting workbooks, audiovisual presentations and computer assisted learning. Once the core program is defined necessary training materials would be gathered and/or developed.

18. **Bank Training Institute.** In order to provide a cost effective venue for making training in modern banking skills available to all banks in the system through seminars given by

foreign experts, a number of countries have established training institutes. This approach has been successfully followed in Hungary and Poland, *inter alia*.)

19. **Inputs.** To carry out the strategy described above, the following inputs would be necessary:

- (i) The services of an experienced banking training institution to provide advisory services and the services of administrators and trainers;
- (ii) substantial staff inputs from NBRK; and
- (iii) services of local Project Implementation Unit in supporting the above activities in Kazakhstan, and specifically, to facilitate the creation of links between NBRK and local training institutions.

20. **Implementation.** The aim would be to implement this subcomponent at the earliest possible date, which would require inviting proposals from qualified banking training institutions immediately following Board approval, starting consultant field work in the early summer of 1993, and complete the subcomponent within a year. Implementation would again be comparatively straightforward, to be managed by the contracted institution under the supervision of the PIU.

21. **Cost Estimate.** The total cost for implementing the strategy as described would be in the range of \$1,075,000, including \$850,000 in foreign currency and the equivalent of US\$225,000 for local costs of which the Bank will finance US\$150 million.

2. Training of Bank Accountants

22. **Background.** While Kazakhstan is in the process of adopting international accounting standards in conjunction with the revision of the banks' "Chart of Accounts" and its recording procedures, the exact structural arrangements for pursuing this matter are still embryonic. Furthermore, the whole process of standard setting and incorporating western (international) standards of accounting and auditing also needs to be carefully evaluated in the context of Kazakhstan's socioeconomic development.

23. The existing "Chart of Accounts", dating back to the FSU uniform chart, is subject to drastic revision and potential reduction of the main (synthetic) accounts. The rules applicable to the charts were essentially in the form of procedures, and carefully thought through accounting standards based on clear accounting concepts. With the expressed need to move to market-oriented standards (international standards) the whole accounting framework for private and public enterprises, and financial institutions warrants drastic overhaul.

24. Auditing has not been a distinct profession in the FSU, and only recently have independent auditing firms been established. No auditing guidelines and procedures have been set forth. Efforts are made to outline statutory requirements for audits and auditors. In this context a separate "Chamber of Auditors" could be established, and would be responsible for auditing standards, qualifications and examinations for certified auditors, as well as codes of conduct.

25. The whole framework of standard setting, development of layout of accounts, reporting and disclosure requirements warrants support by international bodies in order to develop policies which are coherent and relevant to the new emerging economic realities.

26. **Training Needs.** Vast efforts are warranted to train, retrain and upgrade bank accountants (and auditors) in Kazakhstan. Their previous training was essentially along lines of bookkeeping. A modernized banking system will require a great number of accountants with different qualifications (such as financial accounting, management/cost accounting, auditing, information systems) to cater to the new needs of a market-oriented economy.

27. **Objectives.** The objectives of this sub-component would be to:

- (i) support the reform of bank accounting and auditing in Kazakhstan by providing assistance to a task force to develop new guidelines for accounting and auditing methods and procedures;
- (ii) developing curricula and training materials for the purpose of training bank accountants and auditors in new methods and procedures, including in-house training programs and external courses;
- (iii) assist in the development of an infrastructure for accounting training, including in-house training systems in major banks as well as relevant programs at universities and other institutions; and
- (iv) initiate and implement training programs for accountants and auditors as well as staff of training institutions and departments through in-country courses and study tours to selected Western countries.

28. **Strategy for Training Activities.** The envisaged training strategy for this subcomponent would comprise: (i) sending practitioners, bank accountants, and teaching faculty members abroad for short or long periods of time; (ii) bringing in expatriate practice-oriented bank accountants to help upgrade existing accounting professionals, and help revamp the accounting methods and procedures in use, or to be installed; (iii) developing in-house courses, and courses outside the respective banks to upgrade existing accounting staff, using expatriate instructors; (iv) developing training materials of various kinds of an elementary and more advanced nature to assist in the revamping; (v) translation and adaptation of foreign training materials and tests, and encouragement of writing (developing) local text materials for training and education; (vi) development of auditing guidelines and procedures for banking, and training and material should be developed for these areas; and (vii) preparing recommendations on relevant accounting programs and curricula of universities and other institutions.

29. **Strategy for Institutional Development.** The institutional development would include the following categories: (i) establishing a bank accounting task-force, in charge of overseeing the overall reform of bank accounting and auditing in Kazakhstan; (ii) develop an accounting training infrastructure; (iii) foster the establishment/ strengthening of the Accounting and Auditing Association(s).

30. **Necessary Inputs.** The inputs required to implement the above strategy are as follows:

- (i) **Services of international consultants in accounting and auditing training to carry out the tasks listed above under strategies for training and institutional development; and**
- (ii) **Support as required from the Project Implementation Unit in the Ministry of Economy.**

31. **Implementation Schedule.** The TA loan would finance the initial phase of bank accounting and auditing reform. The aim would be to implement this sub-component at the earliest possible date, which would require inviting proposals from qualified banking training institutions immediately following Board approval, starting consultant field work in the late summer of 1993, and complete the sub-component within a year. Implementation would again be comparatively straightforward, to be managed by the contracted institution under the supervision of the PIU.

32. **Costs.** The total costs for this sub-component are estimated at US\$540,000, of which US\$425,000 in foreign exchange and the equivalent of US\$115,000 for local costs of which the Bank will finance US\$ 75,000.

B. Enterprise Management Training

33. **Background and Justification.** The Kazakh economy is adjusting to a market system for which enterprises and their managers are not prepared. Both those enterprises that have already incorporated and those likely to remain in the public sector in the short or medium term are facing the new reality virtually without any experience of free markets and, in many cases, without the necessary understanding of basic economics and management principles. As a result, in addition to the inevitable hardships imposed by the loss of markets and the scarcity of parts and raw materials, large inefficiencies and losses result simply from inadequate decision-making due to a lack of insight in basic matters such as costing and pricing of products, efficiency and productivity monitoring, marketing, and worker motivation and personnel management (as well as from traditions of disregard for product quality and finish, and of non-delegation of decision-making per se).

34. Under those circumstances, management training is a clear priority and expenditures in this area should have high returns. However, it should be remembered that the same lack of information and suitable attitudes that leads to poor management decisions in general also makes managers reluctant to train themselves and their staff. For this reason, part of this proposed first phase of management training is devoted to activities that are means to overcome initial reticence as much as to deal directly with the problems. It is critical in this context that the initial training should be targeted on top level managers in companies which show clear signs of being receptive to training; otherwise training at lower levels will not be possible or will be ineffective.

35. In designing the program, it is also important to keep in mind the main problem at this stage, which is that managers are making basic but critical mistakes in area which determine the health and survival of their companies. What is missing is not the refinement of highly sophisticated

Training should directly address these issues in their context. The worst that could happen at this stage would be a dispersal of effort in all directions, catering to the vagaries of the latest management fashions from the West.

36. **Objectives.** The objectives of this sub-component would be:

- (i) To initiate a cycle of enterprise management training activities to be subsequently followed up by other Bank projects. During this project, the following objectives would be achieved:
 - (a) 25 qualified management trainers would be trained;
 - (b) 20 key managers of selected enterprises would be trained in a programs of internships;
 - (c) Training materials focusing on the problems of Kazakh enterprises would be prepared according to a detailed plan prepared by consultants;
 - (d) 30 local management consultants would be trained; and
 - (e) Action learning groups for Kazakh managers would be initiated through one core group coordinated by a consultant.
- (ii) To engage local training institutions in these processes, with the aim of subsequently selecting the most appropriate to participate in later stages of the project.

37. **Strategy.** While solid commitment on the part of the Kazakh government would be critical for the long run success of this sub-component, the strategy for this first phase of assistance to enterprise management training is to start rapidly based on the experience and ability of foreign agencies, and to use this initial period to establish close links with the Kazakh government as well as with local training institutions, both public and private. To achieve the above objectives, a six-pronged strategy would be applied as follows:

38. **Training of management trainers.** An international institution specializing in the selection, placement and follow up of foreign students would be competitively chosen to conduct a program of recruitment of talented Kazakhs to study abroad for a period of one year. The program should be nationally announced and open to high level candidates who wish to become teachers of management and economics. Preference will be given to candidates fluent in English, with degrees and experience in management and experience in teaching. The selection would be done by the contracting institution, with the participation of Kazakhs. The chosen candidates would be sent to appropriate institutions abroad and offered a program focusing on the core issues of management and the economic background necessary to deal with them.

39. **An internship program for Kazakh managers.** An international organization would be chosen to undertake a program of internships for Kazakh managers. The same consultant group that would select enterprises (see next paragraph) would also choose the participating enterprises and the managers that would go abroad for periods from two to six months. Selected

managers should have at least rudiments of English, German or French (and can be given time to improve their language between selection and travel dates), be in critical positions inside their enterprises and have leadership inside their organizations. The contracting organization would identify suitable enterprises in the same sectors as those in which the respective managers work, and organize the program of internships with those enterprises. Prior to departure, participants would be thoroughly prepared for the visit, attending lectures on economics and related subjects. The enterprises should be willing to pay a small share of the costs of the program, as a demonstration of their commitment to it.

40. **Preparation of Kazakhstan-based training materials.** International consultants on management problems would be hired and brought to Kazakhstan to examine and document the situation of twenty selected firms from a management point of view. The Bank, in conjunction with the Ministry of the Economy, would develop the criteria for inclusion of firms in the program and agree on their selection. In general, the program would aim at firms which are strategically important to the Kazakh economy and are willing to engage in such an exercise. The consultants would then work at the enterprises and discuss with their managers their evaluation of the situation as well as possible plans of action. A modest amount of follow up in the implementation of these actions should be included. While this consulting exercise should be directly useful to the firm, from the perspective of the present project the main target would be the preparation of training materials for future consultants and trainers (in addition to provide the on-the-job-opportunities mentioned in the following section).

41. **On-the-job training of management consultants.** A major subproduct of the activities of the international consultants should be the apprenticeship of local consultants. Prior to the beginning of the consultations, one of the foreign consultants would select local candidates to become "apprentices" during their work in the local firms. All the activities of the foreign consultants should take place with the collaboration of the local trainees. Each foreign consultant should work with three local trainees who would also serve as interpreters and research assistants. These trainees should have a major role in the preparation of the training materials.

42. **Action Learning.** An international consultant with experience in coordinating groups of Action Learning (R. Revans method) would be contracted to create one such group in Kazakhstan. His/Her tasks would include the discussion of the participating enterprises with the Bank and the Ministry of the Economy, contacts with these enterprises for the selection of the participants, the creation of the group and the organization of periodic meetings to discuss issues and progress. The consultant should expect to stay for one month in Almaty to launch the program and to return periodically for the meetings of the group (once a month). These meetings should be funded for a minimum of two years. Participants not living in Almaty should be given financial support for travel and boarding.

43. **Creating links with local training institutions.** While time constraints force this initial part of the program to be very heavily dependent on international consultants, this period should also be devoted to creating local roots that can support subsequent phases and initiatives of management training. All the above activities should take place in interaction with local institutions and should sub-contract suitable tasks with them. The experience of working with a variety of local institutions will permit a progressive engagement with those that respond better and prove to be better partners in this process.

44. **Inputs Required.** To carry out the strategy described above, the following inputs would be required (items numbering refer to objectives above):

- (i) (a) Services of an international training institution to manage the training of trainer program in Kazakhstan and host countries;
- (b) Services of an international organization to arrange and implement the internship program for managers;
- (c), (d) Services of an international management consulting group to analyze Kazakh firms, prepare training materials, and train local consultants on-the-job;
- (e) Services of international consultant to organize action learning group (preferably under same contract as for (c) and (d));
- (ii) Services of local Project Implementation Unit in supporting the above activities in Kazakhstan, and specifically, to facilitate the creation of links between NBRK and local training institutions.

45. **Detailed Terms of Reference** for the above consultants' services would be prepared and agreed at loan negotiations. Consultants would be selected in accordance with the Bank guidelines, taking into account eventual efficiency gains by using the same consultants for various tasks depending on capabilities and experience.

46. **Implementation.** The aim would be to implement this sub-component at the earliest possible date, which would require inviting proposals from qualified consultants immediately following Board approval, starting consultant field work in the late summer of 1993, and complete the sub-component within 18 months (with the exception for the action group learning program, which will take up to two years overall). Implementation would be comparatively straightforward, to be managed by the consultants under the supervision of the PIU.

47. As mentioned above, efficiencies may be achieved by aggregating functions and contracts using the same consultants, depending on the particularities of proposals received.

48. **Cost.** The overall cost estimate for this sub-component is US\$1,075,000, including US\$850,000 in foreign exchange cost and the equivalent of US\$225,000 for local costs of which the Bank will finance US\$150 million.

C. Public Sector Management Training

49. **Background.** As Kazakhstan moves from a command economy to a market economy, the role of government will change fundamentally. As a consequence, the attitudes, knowledge and skills of civil servants will also need to change radically. As the new functions and processes of the government emerge, it is important for it to develop methods of identifying these new requirements, and to develop a strategy and a permanent but flexible program to help train and retrain civil servants to meet them. To achieve maximum impact, training should start at the earliest

possible moment and at high levels of authority in the service, as well as include the training of trainers. It should be developed gradually to accompany and support civil service reform, and should be carried out in such a fashion that it both addresses immediate problems and builds ownership and motivation among trainees; this can best be achieved through an endogenous training process in which participants play an active role and contribute to curriculum objectives and content. Such an approach will also make it easier to obtain the intended multiplier effects when training graduates are called upon to apply and transmit their new skills throughout the reforming civil service.

50. Purpose. The purposes of this sub-component are to: (i) help the Government of Kazakhstan redefine the role of the civil service and support its restructuring for its key functions in a market economy (in synergy with other technical assistance provided under the Project); (ii) identify the attitudes, knowledge and skills that need to be acquired by civil servants to meet new job requirements; (iii) develop a strategy and programs for the necessary training, (iv) initiate training of selected civil servants, including trainers, through seminars, study tours, and follow-up training programs to be carried out by graduates of the programs; and (v) develop capacity in selected training institutions in Kazakhstan to provide necessary future training for the public service.

51. Objectives. In quantitative terms, the objectives of this component are as follows:

- (i) to train 300 persons (240 civil servants and 60 trainers) in three separate seminars in Kazakhstan;
- (ii) to train 100 persons (80 civil servants and 20 trainers selected from the 300 seminar participants) through study tours abroad; and
- (iii) to carry out a minimum of 300 training programs in Kazakhstan for civil servants (these programs will be delivered by seminar participants).

52. Training needs identification, strategy and program formulation, and development of capacity in training institutions would be carried out as part of the seminars (representatives of training institutions would be included among selected civil servants and trainers). The above objectives would be achieved in about 18 months starting around mid-1993.

53. Strategy. The strategy for this component would be very process oriented. The core of the program would be a series of three diagnostic seminars each with about 100 participants, organized with the help of consultants and held at regular four to six months intervals in Almaty. Between the seminars, study tours would be arranged for selected seminar participants with the assistance of the consultants, and participants would also prepare and carry out local training programs.

54. Inputs. The inputs necessary to carry out the above strategy would consist of:

- (i) The services of international consultants specialized in the training of high level public service personnel and in the application of participative training methods, and capable of organizing suitable study tours for senior civil servants and trainers in selected countries experienced in civil service reform; and
- (ii) Financing for study tours, seminars etc., including costs of travel and accommodation for trainees, interpreters, etc.

55. **Implementation.** The overall implementation and supervision of the sub-component, and responsibility for liaison with the PIU and other donors, should be tasks for a Steering Group which should include representatives of:

- (i) The Ministry of Economy;
- (ii) Heads of key training institutions in Kazakhstan; and
- (iii) The consultants contracted to assist the sub-component.

56. At each of the seminars, a team of consultants and trainers contracted for the purpose under the project would first meet for diagnostic and planning purposes with the Steering Group for public service training together with staff from those institutions identified to provide training for the civil service in Kazakhstan, to plan training activities. (The PIU would be informed and invited to attend all meetings). This would be followed by three one week workshops for a total of 100 civil servants and trainers as described in detail below. Finally another meeting with the Steering Group would be devoted to evaluating outcomes, plan for activities until the next seminar, and select participants for study tours.

57. The broad purposes of each seminar would be:

- (i) to review the activities undertaken within the project framework since the last seminar (note: this would not be the case for the first seminar - the equivalent activity would be to share basic information and clarify respective roles and contributions to be made to the project);
- (ii) to provide an opportunity for trainers and civil servants in Kazakhstan to learn about modern approaches to civil service management and the related training;
- (iii) to analyze priority needs in relation to the development of training for civil servants; and
- (iv) to plan a program of activities, including working groups and other activities in Kazakhstan and study visits to other countries, that would take place in the period before the next seminar.

58. The following program is proposed for the first seminar:

- (i) A two day meeting of the Steering Group;

This meeting would familiarize the consultants with the situation in Kazakhstan, make final plans for the workshops (see below) and clarify the arrangements for the management of the overall project.

- (ii) Three one week workshops in Almaty for a total of about one hundred civil servants drawn from central ministries and regional administrations together with senior staff from the selected training institutions in Kazakhstan;

The workshops should include:

- (a) an analysis of situation in Kazakhstan -- the developing structure of the civil service, civil service law, personnel management, financial management, performance management, training needs and provision;
 - (b) lectures on civil service reform in other countries;
 - (c) lectures on specific management issues -- e.g., economic management including public investment management, personnel management, financial management, legislative drafting;
 - (d) lectures on the management of training for civil servants; and
 - (e) an identification of key issues to be considered in detail by working groups in Kazakhstan and by members of study tours.
- (iii) A further meeting of the Steering Group to agree the program of activities before the next seminar and select participants for the working groups and study tours. The program of activities would include the following:
- (a) Study tours to other countries where the experience of civil service reform and training is directly relevant to the needs of Kazakhstan;
 - (b) Working groups in Kazakhstan which would be responsible for specific tasks (eg organizing training programs to disseminate lessons learned at the workshops); and
 - (c) language strengthening programs for those with basic English, French, etc.

59. The subsequent seminars would follow a similar pattern, placing a greater emphasis on evaluating progress achieved within the changing environment. Each seminar would be used to make adjustments to the project to meet any shortcomings in the work already undertaken and to reflect the developing understanding of needs in Kazakhstan.

60. The criteria for evaluating the success of this sub-component would be (i) the impact the training program is making on the quality of management in the civil service, and (ii) the additional capacity created for delivering quality training programs in Kazakhstan. Quantitative performance indicators for criterion (i) would be identified as part of the consultants's terms of reference and would be submitted to the Steering Group for approval and monitoring. For criterion (ii), measures of increased staff capability in training institutions, facilities available for training and numbers of courses offered would all be appropriate indicators.

61. **Cost.** The total cost of this component is estimated at US\$1,110,000, including US\$850,000 in foreign exchange costs and the equivalent of US\$260,000 in local costs of which the Bank will finance US\$ 150 million.

62. Costs for all the subcomponents include an estimated US\$ 1,800,000 for 120 staffmonths at an estimated US\$ 15,000 per staff month. In addition, an estimated US\$ 1,175,000 in additional foreign currency costs are needed to cover travel, subsistence, training materials, study tours, and other miscellaneous expenses. Local costs are estimated at US\$ 825,000 equivalent, of which it is expected that the IBRD will finance US\$ 525,000 equivalent and the GOK will finance US\$ 300,000 equivalent. Total costs are therefore estimated at US\$ 3,800,000 equivalent.

TECHNICAL ASSISTANCE PROJECT

TERMS OF REFERENCE

I. LEGAL TECHNICAL ASSISTANCE COMPONENT

1. The Government of Kazakhstan (the Government) has applied for a loan from the Bank to finance, *inter alia*, legal technical assistance activities in support of the Government's economic reform program. The services described in these Terms of Reference (TOR) are to be financed under the legal assistance component of this Loan.
2. **Project Objectives.** One of the objectives of the Project is to assist the Government in the development and implementation of a legal and institutional framework to promote private sector activities and assist in the transition to a market economy. The emphasis of these TOR is on provision of a program of legal assistance to support such framework. Flexibility and adaptability in the implementation of the TOR will be critical for the success of the Project.
3. **Project Scope.** The areas of law to be covered by the Project are potentially very broad, including business/commercial law (the terms "business" and "commercial" are used interchangeably in these TOR) and legislation in the fields set out below, as they relate to (or have an effect on) business activity. The listing below is intended as an indication of the type of areas in which the Consultants (the terms "Consultants" and "legal assistance team" are used interchangeably in these TOR) will provide legal expertise (assessment and diagnosis, drafting, review of drafts, implementation, monitoring and enforcement assistance, training, and institutional development). The listing does not imply that existing or draft legislation is inadequate or should be changed, nor that specific laws should be enacted for each of these topics, some of which overlap with others or reflect concepts borrowed from different legal systems. Preliminary legal assistance in some of these areas may be provided by other sources. In such cases, the Consultants may be asked to review legislation drafted by others in order to check its consistency with the overall legal framework and reform program.
4. The following is an indicative listing of potential topics: company law; bankruptcy law; contract law; property law; real estate law (including titling, registration, etc.); protection of intellectual property; sureties law (secured transactions, including mortgages, liens, etc.); leasing; securities law; law of negotiable instruments (checks, notes, etc.); banking law; private accounting and auditing; financial disclosure requirements and investor protection; insurance; competition law; deregulation of specific sectors of economic activity, including removal of barriers to entry (legal or de facto, such as privileges to state-owned enterprises); international business law; international public law (relevant treaties, conventions, etc.); customs law; tax law; labor law; privatization; foreign investment laws; commercial dispute settlement mechanisms and procedures; administrative law, including recourse mechanisms against administrative decisions; state enterprise law, in particular with a view to create a level playing field between private and public enterprises; public procurement regulations; civil and criminal penalties for violations of business laws; product liability; environmental law; economic aspects of constitutional law; and organization of legal professions (lawyers, notaries, registrars, bailiffs, etc.). This component will also include a subcomponent to provide assistance in the development on legislation needed to support the development of a new competitive procurement code for state enterprise and Government procurement.

5. Not all of the areas of law mentioned above are equally important although they could at some point be critical for the development of the private enterprise sector. In determining priorities in the scope of assistance and implementation the Consultants should involve the private sector in order to learn where the perceived major problems are. Some other areas - like legislation on banking, procurement of goods, and services, payment system, financial institutions, interbank clearing of settlement mechanisms, and the development of legal information system and training support mechanisms for the Ministry of Justice - will be subject of separate terms of reference and the task of the Consultants will be to coordinate and ensure consistency of these other tasks with the overall legal reform effort.

6. The assistance will focus not only on draft legislation and regulations, but, also on their proper implementation and enforcement. This will, inter alia, require the development of information and documentation sources on legal reform in the business law area, the training of staff of concerned agencies, and assistance in developing the needed administrative and institutional mechanisms and procedures for the application of the new legal framework. In addition mechanisms to enforce laws and regulations will be addressed and reforms proposed as appropriate: for example, in the area of bankruptcy a full range of assistance should be provided to help the authorities in establishing procedures for the timely and efficient liquidation of bankrupt enterprises.

7. The Consultants' specific work program will be further defined in an Inception Report to be drafted by the Consultants and approved by the Government. The content of the Inception Report will reflect the priorities at the time and will reflect assistance received or promised from other sources (for example, lawyers financed by other donors or by the Government). In general, the Consultants will:

- (i) Assist in drafting key economic, financial and business legislation according to the priorities established. The laws or amendments thereof will be prepared with the utmost concern for coherence, practicability, and appropriate integration with Kazakhstan legal, institutional and cultural traditions. If the drafting of laws has already been done the Consultants' activities will focus primarily on comments on such drafts.
- (ii) Advise on institutions, including agencies, regulatory bodies, and dispute settlement mechanisms needed to implement the new laws and regulations; and assist in preparing appropriate institutional development or strengthening programs and implementing decrees and regulations.
- (iii) Monitor implementation and enforcement of the relevant texts to identify problems or bottlenecks in their execution.
- (iv) Assist in designing remedies to correct implementation or enforcement problems.

8. **Training.** The project is an institution-building exercise and a basic training program for lawyers should be designed. The training will focus in particular on the needs of lawyers working for key economic ministries and agencies, judges, law faculties and students. Training will include: (i) on the job activities; (ii) focussed seminars and courses; (iii) participation of selected lawyers in seminars held abroad; (iv) participation of selected candidates in fellowships at foreign law schools; and (iv) internships at the Consultants', or other appropriate offices.

9. Priority will be given to training a core group of lawyers in commercial law. The target group will include government lawyers as well as private sectors practitioners. As noted above, judges and others, including if appropriate, Parliamentarians or lawyers working with Parliament, will also be included. The specific subject matters of the formal training will be decided on the basis of an assessment to be undertaken by the Consultants of training needs, including discussions with Government authorities, lawyers and others in the emerging private sector about their perceived problems with laws and the implementation thereof.
10. The training activities to be carried out with the assistance of the Consultants will be tailored to the needs of the target group and adapted to the specific circumstances. They should include:
- (i) identification of the training needs of the concerned ministries, agencies and other bodies (including the judiciary) in the area of commercial law;
 - (ii) periodic seminars and talks about specific issues or developments in the area of economic reform (in addition to on-the-job training) for Government lawyers or advisors who are concerned with economic, financial and commercial law;
 - (iii) one or two courses to introduce the broader group of officials who must implement economic, financial and business laws, to the new laws, basic concepts underlying the laws and relevant legal issues and techniques; one of the objectives of this type of training activity would be to ensure uniform interpretation of laws before their implementation;
 - (iv) collection and distribution of supporting teaching material, such as examples of foreign legislation, procedures manuals, standard forms for contracts, and model forms for company bylaws; and
 - (v) other ad hoc seminars or training activities as appropriate to achieve the objectives set forth in the TOR.
11. The Legal Assistance Team financed by the Project includes a Resident Legal Coordinator for 12-18 months and a resident Legal Expert for about 12 months, in Kazakhstan medium and short-term legal experts, as needed. Alternative arrangements to this proposal may be suggested by the Consultants as long as at least two senior Consultants remain as resident legal specialists on a full-time basis. The Consultants will work closely with other advisors, including legal and other advisors recruited under other contracts and the Government's own advisors.
12. The Resident Legal Coordinator (LC) will be assigned and report to the Ministry of Economy, the Ministry of Justice or a core legal reform group established by the Government. The LC will be the Consultants' main staff for this assignment and is expected to be involved in all the tasks covered by these TOR. In particular, the LC will develop an overall view of the legislation and of the new texts prepared by the various ministries or parliamentary committees. In some instances, the LC will be the primary drafter of the legislation, in others will only provide guidance and comments to the drafters. The LC will in all cases be involved in the preparation of new legislation relevant to economic development in general and business activity in particular. This should enable the LC to avoid overlapping or contradictory pieces of legislation and of other projects in preparation.

In many instances, the primary drafter will be a Government lawyer, and in others a legal expert financed under this or another loan by another donor. One of the LC's main tasks will be to assist the Government and the lawyers in ensuring (i) cohesion in the legal framework for business activities and (ii) prioritization of tasks to further develop said framework.

13. At the request of specific ministries or agencies, and to the extent the work program allows the LC will provide assistance to such ministries or agencies in the organization of their legal work, by analyzing their needs, identifying priorities, designing assistance packages, and helping in identifying donors interested in providing such assistance. In coordination with the Ministry of Justice, the LC will carry out the training activities set out in paragraph 10 above.

14. The Resident Legal Expert (LE) will be part of the legal assistance team and will be assigned to the High Economic Council or the core legal reform group established by the Government, reporting to the LC. The LE will in some instances be the primary drafter. The LE will work on legislation, regulations and decrees in areas relating to economic reforms. The LE is not expected to have the qualifications or depth of knowledge to provide assistance in all areas, and will have to rely heavily on local counterparts, short-term experts and other advisors.

15. Medium and Short term missions. The Project will finance, in addition to the LC and LE's services, medium and short-term experts to carry out specialized legal tasks, for which neither the LC or LE is qualified or is not available due to other work constraints. These short-term missions are part of the contract. Their precise timing, subject matter, and scope will normally be agreed upon in the context of the preparation and approval of the Consultants' Inception Report and Quarterly Reports. Some missions will require one or more trips to Kazakhstan while others could be limited to desk work outside Kazakhstan. Experts going to Kazakhstan on such missions will, in addition to the tasks specified in their terms of reference, be expected to contribute to the training program described earlier.

16. Once a specific short-term mission has been agreed upon by the Consultants and the Government, detailed terms of reference and costing will be required, together with the curricula vitae of the experts proposed for the mission, all of which will be submitted by the Consultants for prior approval of the Government and the Bank. In case the Consultants' submission for a short-term mission is not satisfactory to the Government or the Bank, the Government may solicit other proposals from legal experts not associated with the Consultants (such experts would be retained under separate contracts independent of and not funded by this contract). The Consultants will be expected to provide the necessary support to such legal experts (as well as to other experts retained by the Government).

17. The Consultants shall appoint a Liaison Officer (LO) who shall be in charge of the Project at the Consultants' headquarters or other office and who shall work on a part-time basis on this assignment. The LO will assist the LC and provide the necessary back-up, organize the short-term missions and liaise on a regular basis with the Bank. The LO's fees and travel expenses should be included in the total cost of the contract.

18. Reports. The Consultants shall submit a draft Inception Report to the Government, thereafter submit a final version of such report reflecting the Government's observations. The revised Report will be sent to the Bank for discussion and approval. The Inception Report will describe the work program of the legal assistance team in general with a particular emphasis on the first four

months. This report would normally be an update of the Consultants' technical proposal, reflecting the priorities expressed by the Government at the start of the assignment. It would also discuss, where relevant, legal assistance provided by other sources in the area covered by these TOR and proposals for coordination. This report would include specifications of equipment to be acquired through the Consultants.

19. The Consultants shall prepare at least once every three months a report on the execution of the legal assistance project and of these TOR in particular, and an annotated work program for the following six months. This report will review the activities carried out by the Consultants and its staff during the period, and by other experts providing legal assistance in Kazakhstan focussing on the key legal issues that were addressed and on the issues that remain outstanding. Problems and, when possible, solutions to such problems, will also be described in this report. Such report will also be copied to and used as a basis for discussions with the Bank.

20. A mission report will also be prepared and submitted within one month of the return of each short-term mission.

21. The Consultants shall prepare a terminal report drawing lessons from the execution of the project. A draft of such report will be submitted to the Government and the Bank for review not later than two months prior to the end of the assignment.

22. If time permits, the Consultants shall also prepare, or contribute to, such other reports or notes as the Government shall reasonably request. At the Government's request, the Consultants shall send drafts of major pieces of legislation in a timely manner to the Bank and to other institutions for comments.

23. Interim, quarterly and terminal reports will be in English. Other reports will be drafted in English and Russian/or Kazakh as requested.

24. **Exclusions – Conflict of Interest.** The assignment does not cover matters related to criminal law, unless these are directly linked to business matters, for example prosecution of fraudulent use of checks.

25. The Consultants will not represent any party in Kazakhstan other than the Government (or, with the written agreement of the Government, other public entities) for the duration of the assignment, nor will they represent during said period any party involved in litigation against the Government or any of its enterprises, agencies or bodies; nor should they be involved in such litigation involving matters with which they were directly concerned for a three year period after the completion of the assignment.

26. **Costs.** Costs include an estimated US\$ 1,000,000 for 50 staffmonths at an estimated (US\$ 20,000) per staff month. In addition, an estimated US\$ 700,000 in additional foreign currency costs are needed to cover computer equipment and systems (US\$ 500,000), travel, subsistence, training materials, and other miscellaneous costs (US\$200,000). Local costs are estimated at US\$ 435,000 equivalent, of which it is expected that the IBRD will finance US\$ 300,000 equivalent and the GOK will finance US\$ 135,000 equivalent. The above includes costs of banking legislation assistance. Total costs are estimated at US\$ 2,135,000 equivalent.

II. BANKING LEGISLATION COMPONENT

A. BACKGROUND

27. The transition from a command economy to a market economy requires considerable changes in the legal framework. A number of important legal reforms have already been initiated with the view to provide an adequate framework for ensuring sustained banking soundness and stability over the long term. The efficient enforcement of these laws will also require that adequate resources are devoted to developing proper institutional support and implementation procedures and to training skilled professionals.

28. The authorities are actively pursuing this process. A new National Bank Law, a new Banking Law and a new Law on Foreign Exchange have been recently approved by the Parliament. These laws are the starting point for the building of a new legislative framework for banking activities.

29. The technical assistance program on banking legislation described in the following paragraphs will focus on commercial banking activities and therefore complement the assistance provided by the International Monetary Fund that concentrates on issues related to National Bank activities and international relations, in particular foreign exchange transactions.

B. OBJECTIVES

30. The main objective of this sub-component of the Legal Technical Assistance Component of the Project is to assist the Legal Department of the National Bank of the Republic of Kazakhstan (NBRK) in its on-going program of upgrading the legal banking framework. More specifically, it aims at supporting NBRK efforts to : (i) deal with issues related with the implementation of the Banking Law, that itself suffers from some important weaknesses and may require to be rapidly revised; (ii) modernize the legal framework for the clearing and settlement of interbank transactions that are to be upgraded under the Payment System component of this project; (iii) update the legislation governing financial instruments; and (iv) strengthen the skills of NBRK's commercial banks' and tribunals' staff specialized in banking legislation.

C. ASSISTANCE STRATEGY

31. The envisaged technical assistance program will be carried out by a law firm (here after referred to as "the consultant") having high credentials and long experience in banking issues, as well as a good knowledge of the legal and banking framework in CIS countries and other transition economies. The project can also finance local experts who have independent practices or are members of local law firms.

32. It is expected that the selected firm will provide a resident expert as team leader, an adequate back-up from headquarters, short-term experts when required, and training material. The training component will represent about one-quarter of this program.

D. COUNTERPARTS AND IMPLEMENTATION ARRANGEMENTS

33. The coordinating agency for this Project, as part of the Bank Technical Assistance Loan, is the National Agency for Foreign Investment at the Ministry of Economy. The Project Implementation Unit for the Technical Assistance Loan, which is also located in this Agency, will be responsible for contractual and logistical arrangements.

34. The main counterpart agency will be NBRK's Legal Department, that will have the responsibility of managing the project. The resident expert will be located in this Department and report directly to the General Counsel of NBRK. He will liaise closely with NBRK supervision department that is in charge of the preparation of licensing and prudential regulations.

35. The resident expert will coordinate his work with Government bodies in charge of the elaboration of the legislation, develop contacts with academic and professional circles specializing in banking legislation and with banking practitioners, and coordinate its training activities with those of universities, and the envisaged banking training institute.

36. This project will be implemented over a one year period and is expected to start in september 1993.

E. ACTIVITIES AND OUTPUT

37. This project will involve the following activities:

(i) Planning of work related to banking activities:

The resident expert will review the present state of the legislation related to commercial banking activities and the on-going preparatory work on complementary legal measures taking place in NBRK and other Government entities, in particular, the proposed revisions to collateral and bankruptcy laws. On this basis, he will propose amendments, if required, to the working program of NBRK legal department and agree with NBRK general counsel (and the resident legal reform expert) on his own program, including priorities and timetable. This program will be updated every quarter and will cover the activities of NBRK legal department related to the commercial banks' framework for the next 12 months.

(ii) Issues related to the implementation of the Banking Law:

The resident expert will thoroughly review the present banking law and propose revisions and complements that seem to be required for it to be fully consistent with the development of an efficient and sound banking sector. He will also actively participate in the drafting of legislation, regulations and NBRK decisions projects required for the comprehensive implementation of the articles of the Banking Law. This assignment may also include the initiation of the preparation of the voluntary deposit insurance scheme mentioned in the Banking Law.

(iii) Modernization of the legal framework of the payment system:

The resident expert will review the present legal framework for the clearing and settlement of interbank transactions and the reforms proposed by NBRK ad hoc working group and propose amendments, when required, using his own expertise, the back-up of his firm and, if necessary, short term experts.

(iv) Updating the legislation governing financial instruments:

The priority will be given to the rapid implementation of up-to-date legislation for negotiable payment instruments such as checks, bills of exchange, promissory notes and electronic funds transfers and for their collection by commercial banks. An utmost priority will be given to the introduction of instruments enabling the enforcement of more financial discipline by borrowers.

The resident expert will also review the legal framework of lending instruments in order to introduce modifications required for sound banking practices in a market oriented economy and to promote the use of financial leasing, factoring and forfeiting techniques.

The same exercise will be performed for current account, deposit and savings devices.

On all the aforementioned issues (i-iv), the resident expert is expected to provide NBRK with adequate advice during parliamentary debates in order for the consistency of the draft laws to be maintained.

(v) Participation in training activities:

The resident expert is expected to devote around one quarter of his time, including preparatory work, to training activities. A rapid assessment of present legal skills shortages in commercial banking activities, in both NBRK, commercial banks and jurisdictional entities concerned, and of programs proposed by present and envisaged training facilities will enable him to draw, under the guidance and responsibility of NBRK legal counsel, an NBRK sponsored training program. It is envisaged that basic legal skills will be provided by existing training facilities and that the expert will only concentrate on advanced courses.

The training will also include the participation of two staff of NBRK legal department, selected jointly by NBRK and the resident expert, in a 2-3 week bank legislation seminar abroad. The Consultant will make the arrangements for this seminar participation, and cover the cost of travel, subsistence, and seminar fees under this Contract. All training activities shall be carried out in coordination with the Ministry of Justice and the law reform resident expert.

F. REPORTING

38. The Consultant will submit an inception report within six weeks after commencing their assignment, mainly with a view to outlining their planned work program in more detail, and recommending changes as appropriate in view of their initial findings and discussions. This first

report will also include the suggested work program for NBRK's legislation activities. Thereafter, the Consultant will submit quarterly a progress report, in brief informal style, on past and planned activities and (in detail) inputs, on contributions to the project objectives, and on problems encountered and remedies introduced or proposed. These progress reports will also contain the quarterly updates on NBRK's legal reform work program. The progress reports will annex all formal written materials provided by the Consultant to the Government/NBRK or used in training. Moreover, the Consultant will submit at appropriate time their reports or legal drafts on payments system legislation, the Banking Law, and negotiable instrument (as specified above); these outputs may be submitted jointly with the quarterly progress reports if this does not entail delays. All reports shall be submitted in four copies to NBRK (3 Russian, 1 English), two copies to NAFI (1 Russian, 1 English) to the Law Reform Resident Expert (1 Russian, 1 English), and the Bank (1 Russian, 1 English). On the Consultant's suggestion and with approval of NBRK, further copies of reports will be provided to other executive, legislative and judicial organs as appropriate.

G. CONSULTANT QUALIFICATIONS

39. The Consultant will be a firm with extensive experience in banking legislation. The resident expert shall be familiar with legal issues in transition economies, and have a strong background in banking legislation. He or she should have sound proven training skills, a good sense of diplomatic interaction with various official institutions, much initiative, and a pragmatic approach. He or she should have at least basic Russian language skills; fluent Russian would be highly appreciated.

40. The Consultant will be selected on the basis of the approach, methodology and timetable (15 percent), and the qualifications of the firm (15 percent), the resident expert (45 percent), and the other team members (25 percent), respectively.

H. INPUTS

41. The Consultant contract will cover:

- * fees including overhead;
- * travel, accommodation, and living expenses;
- * project-related communication, report distribution, and office supplies;
- * translation, interpretation, and English-language secretarial support;
- * office equipment up to US\$ 8,000 (1 personal computer with auxiliary equipment, 1 printer, and facsimile machine) for the direct project-related use by the consultants, to be turned over to NBRK upon project completion.

42. NBRK will make available to the Consultants:

- * assistance in the arrangement of housing, hotel rooms, visas, and travel;
- * Russian-language secretarial support;
- * information including draft and final legal texts as requested by the Consultant and required for carrying out their assignment;
- * adequately furnished office space with telephone facilities.

I. BUDGET AND FUNDING

43. The activities are expected to be funded under the Technical Assistance Loan of the Bank to the Republic of Kazakhstan. This Loan has been appraised and negotiated, and is scheduled for Board presentation on August 5 and effectiveness shortly thereafter. The total Loan will amount US\$ 38 million equivalent. It is designed to support a wide range of reform activities including privatization, financial sector reform, improvements in the social safety net and various training activities.

44. The contract with the Consultant will amount to no more than US\$ 400,000.

45. Indicative budget estimate:

(in US\$ equivalent)	GOK Local Cost	Local Cost	IBRD Foreign Cost
Consultant Contract:			
Fees of Foreign Consultants	-	-	300,000
Travel Costs	-	-	22,000
Subsistence	-	19,000	-
Translation, Interpretation, Secretarial Services	-	4,000	5,000
Equipment for Consultant Use	-	-	8,000
Foreign Seminar Participation 2 Counterpart Staff	-	-	20,000
Others (supplies, communication, etc.)	-	1,000	5,000
Contingency	-	1,000	15,000
Subtotal: Consultant Contract	-	25,000	375,000
Other Cost of the Loan Component^{1/}:			
Russian Language Secretarial Support for Consultant	2,000	-	-
Furnished Offices Space for Consultant Use	2,000	-	-
Subtotal: Not included in Consultant Contract	4,000	-	-
Total Costs	4,000	25,000	375,000

^{1/} Counterpart staff are regular NBRK personnel who are not recruited for the specific purpose of this project. Their salaries are hence not included in the table.

TECHNICAL ASSISTANCE PROJECT

INSTITUTIONAL SUPPORT – ENVIRONMENTAL COMPONENT TERMS OF REFERENCE

1. **Kazakhstan's industrial base is mainly concentrated on heavy industry and natural resource extraction, both of which have produced a legacy of environmental degradation and health risk. Regardless of the course of industrial restructuring and privatization, future production is likely to continue this trend without strengthened and expanded capacity for environmental monitoring and management.**
2. **Strengthened environmental and resource management, particularly water and land resources, is equally important in the agriculture sector which contributes an even larger share of GDP primarily through crop and livestock production on 35 million ha of crop land and 185 million ha of range land (of which only 55 million ha are thought to be in good condition). The development of vast collective and state farms on marginal land with central government budget support has resulted in critical agro-ecological problems including deteriorating range land, depleted and degraded water resources, and pollution from excessive use of agro-chemicals.**
3. **Current pollution problems and degradation of natural resources stem mainly from past economic policies of the former Soviet Union that promoted quantitative targets set for the whole country and its different sectors by the central planning authorities. These policies were accompanied by pricing policies under which natural resources were undervalued and the environment as a whole was treated as a free good, both by productive sectors and by consumers. In parallel, the lack of environmental policies, sound environmental regulations, realistic environmental standards, and an environmental management system incapable of enforcing those regulations and standards has led over the years to over-usage of natural resources and their degradation, as well as to pollution levels with increasingly adverse effects for public health of the population.**
4. **While the macro-economic and policy reforms supported under this project are likely to result in significant environmental benefits, particularly as inefficient and pollution intensive production facilities are closed or replaced by cleaner technology, and price reforms lead to more rational and efficient land, water, and agricultural input use in the agriculture and livestock sectors. Experience has shown that appropriate policies and incentives are necessary but not sufficient for cost-efficient environmental control and improvement. An effective institutional arrangement whereby a realistic and management oriented regulatory system can be developed and implemented is also essential.**
5. **Component Objectives. This component of the project will identify and address key shortcomings in the current environmental management system of the Ministry of Ecology and Bioresources (MEBR) and related organizations and institutes including the Ministries of Industry, Health, Agriculture. The aim would be to strengthen the capacity of MEBR to monitor and gather information on environmental resources and problems, adequately establish priorities, develop a**

preliminary environmental strategy, and identify options for institutional and policy change, and to make full use of the existing legal and policy framework. The component would support the preparation of interim guidelines and regulations, institutional and organizational assessment, training and hands-on experience through pilot and demonstration activities. Component activities will be developed in support of three objectives:

- (a) Assessment and upgrading of the institutional capacity of MEBR and related organizations for environmental management;
- (b) Development of interim guidelines and regulations for high priority sectors related to privatization and restructuring in industry and agriculture, particularly in the areas of environmental review, environmental audit and environmental liability;
- (c) Assessment of information resources and monitoring systems, and enhancing the capacity for priority setting.

6. **Component Description.** The envisaged technical assistance program would address immediate environmental needs related to the ongoing program of privatization, and carry out activities in the area of institutional strengthening and priority setting that are critical for establishing a long-term program of improvement and reform. Three tasks corresponding to the three objectives outlined above are envisaged:

Task 1. – Institutional Strengthening. This task will establish priorities for capacity building, training, and institutional reform, develop a corresponding work program within the ministry, and assist the MEBR and other organizations to carry out the work plan including limited high priority training for staff. Activities would include:

- (a) Assessment of present institutional arrangements for environmental management and identification of programs and priorities for reform including policy planning, priority setting, standards, enforcement and permitting, and environmental review;
- (b) Assessment of staff training needs for priority programs, and implementation of training activities;
- (c) Provide assistance to the MEBR to develop the capacity to carry out critical project implementation functions including procurement, coordination, and project financial management;

Task 2. – Environmental Review and Auditing. As the process of policy reform, restructuring, and privatization in the industry and agriculture sectors gets under way it will be important for MEBR to be in a position to insure that environmental issues, both from past and future production are given adequate consideration. The aim of this task is to train small teams within the concerned organizations to supervise and carry out environmental audits and assessments, and develop

interim methodologies, procedures, and guidelines for use by MEBR and other organizations. Activities would include:

- (a) Review of existing laws and policies concerning environmental liability and regulation, and assist MEBR to put in place an interim framework;
- (b) Develop interim guidelines for environmental audits and environmental assessments, and a system and procedure for environmental review;
- (c) Train selected staff of MEBR, the Ministries of Industry, Health, and Agriculture, selected industrial enterprises, and other related organizations in environmental auditing and environmental assessment procedures and processes. The primary training mode to be used will be based on carrying out preliminary audits of high priority enterprises (selected based on investor interest and environmental issues);

Task 3. – Environmental Priorities. One of the most important issues facing MEBR will be setting priorities for the allocation of the very limited resources that are likely to be available for solving environmental problems. Adequate knowledge concerning the nature and causes of problems, the identification of programs for preventative and curative measures, and establishment of clear priorities will also enhance the ability of MEBR and other concerned Ministries and organizations to attract additional external resources to the sector to solve critical problems and build appropriate capacity for environmental management. The aim of this task would be to develop a preliminary national strategy focusing primarily on key sectors and problems areas. Activities supported by the project would include:

- (a) Assess existing information and monitoring systems including the adequacy and appropriateness of existing data, and identify measures and programs to strengthen monitoring and information system in view of the priority needs and problems in the sector;
- (b) Identify the key health and safety related issues related to toxic and hazardous wastes, air pollution, agro-chemicals, and water pollution, and to the extent possible carry out a risk assessment identifying priority issues and sites;
- (c) Identify and assess the present condition and risk of irreversible damage to sensitive and valuable biological, environmental, and natural resources;
- (d) Carry out a preliminary assessment of water resources based on readily available information to identify critical issues in the near, mid, and long term, and develop a prioritized work plan;

- (e) **Identify priorities for environmental management and action and outline the related policy and institutional reforms, programs, and investment activities, including and outline of the timing and resource needs.**

Project Implementation. This component is expected to be implemented through a consulting firm or association of consulting firms recruited in accordance with the current guidelines of the Bank for the Recruitment of Consultants. Substantial local technical participation will be required and will be financed in part from this loan and by the MEBR. The Terms of Reference for the full consultant team will be finalized in consultation with the Bank and will include an estimate of staffing requirements, detailed description of tasks, and resources required. An indicative project budget and financing plan are outlined in the tables below.

7. **Costs include an estimated US\$ 750,000 for 50 staffmonths at an estimated US\$ 15,000 per staff month. In addition, an estimated US\$ 210,000 in additional foreign currency are needed to cover travel, subsistence, reports, communications, vehicles, equipment, and miscellaneous direct costs. Local costs are estimated at US\$ 80,000 equivalent, of which it is expected that the IBRD will finance US\$ 40,000 equivalent and the GOK will finance US\$ 40,000 equivalent. Total costs are therefore estimated at US\$ 1,040,000 equivalent.**

Project Budget

Item	Cost in US\$			
	Task 1	Task 2	Task 3	Total
FOREIGN				
1. Salaries (50 staffmonths)	120,000.00	255,000.00	375,000.00	750,000.00
2. Accommodation and Subsistence	12,000.00	26,000.00	38,000.00	76,000.00
3. International Travel	8,000.00	16,000.00	24,000.00	48,000.00
4. Reports	500.00	1,000.00	2,000.00	3,500.00
5. Communications	1,000.00	3,000.00	5,000.00	9,000.00
6. Vehicles, Equipment, and Misc. Direct Costs	15,000.00	20,000.00	38,500.00	73,500.00
Subtotal	156,500.00	321,000.00	482,500.00	960,000.00
LOCAL				
1. Local Specialists (216 staffmonths)	5,000.00	9,000.00	24,000.00	38,000.00
2. Local Support Staff	2,000.00	3,000.00	6,000.00	11,000.00
3. Local Direct Costs	2,000.00	4,000.00	7,000.00	13,000.00
4. Reports and Communications	3,000.00	6,000.00	9,000.00	18,000.00
Subtotal	12,000.00	22,000.00	46,000.00	80,000.00
TOTAL	168,500.00	343,000.00	528,500.00	1,040,000.00

Financing Plan

Component	LOCAL		FOREIGN	TOTAL	
	GOK	IBRD	IBRD	GOK	IBRD
1. Task 1	7,000.00	5,000.00	156,500.00	7,000.00	161,500.00
2. Task 2	13,000.00	9,000.00	321,000.00	13,000.00	330,000.00
3. Task 3	20,000.00	26,000.00	482,500.00	20,000.00	508,500.00
TOTALS	40,000.00	40,000.00	960,000.00	40,000.00	1,000,000.00

TECHNICAL ASSISTANCE PROJECT

PROJECT IMPLEMENTATION UNIT (PIU)

Introduction

1. The Project Implementation Unit (PIU), under the authority of the Ministry of Economy, will be responsible for the overall implementation, of the Technical Assistance Loan and the related reporting and accounting activities. The PIU will also be responsible for subsequent Bank loans, in principle. Given the wide scope and importance of its assigned functions, the PIU will be given the authority and stature to deal directly and effectively with the Bank, government ministries and offices as well as the NBRK, commercial and correspondent banks and project beneficiaries. It will also be provided with adequate office space for its staff and facilities for file storage, copying, telecommunications (telephone, telex, and facsimile), information systems (computers and software), transport and adequate staff (see below on organization). It will be required to provide extensive support to participating commercial banks, guidance in procurement procedures new to the country's procurement agencies and other aspects of project implementation. The following is a summary of the main responsibilities of the PIU, which should be read with the Bank's Procurement Guidelines, Disbursement Handbook, and Guidelines for Financial Reporting and Auditing.

2. **Overall implementation.** Overall project implementation responsibilities of the PIU will include the following:

- (i) coordinate the activities of concerned ministries, other public entities, trading companies, participating commercial banks, and consultants, in order to monitor the implementation of the Government's reform program and to ensure a consistent and timely implementation of the Loan;
- (ii) monitor overall project implementation, in particular the procurement of and the disbursement for the goods and services purchased through the Loan;
- (iii) provide other management and administration services as may be necessary for the successful implementation of the Loan; and
- (iv) prepare the Project Completion Report.

3. The counterpart ministries will be responsible for the development of the terms of reference, short lists, bidding process and negotiating, signing, and executing contracts. However, the PIU will assist in and oversee the work of the counterpart agencies in these areas, endorse the contracts, and approve disbursements.

4. The coordination of technical assistance between the technical staff in the line ministries, consultants providing the technical assistance, and the policy makers will require management and organization skills that are not readily available in Kazakhstan. Therefore, two consultants (program coordinators) will be recruited (initially for one year) and attached to the PIU to

assist the Government in managing and coordinating the technical assistance program. These consultants will focus on the administration and organization of technical assistance as well as related financial matters. The consultants' activities will primarily include coordination among the technical authorities, the consultants for the different technical assistance activities and policy makers and ensuring that the scheduling of technical assistance allows timely availability of results that can be used in the development and the implementation of the reform processes. The consultants will work with the counterpart agencies, guide technical assistance consultants, monitor the progress of the technical assistance programs and ensure the communication of results to the Government and the Bank, and also provide on-the-job training to the PIU staff.

5. **Organization.** The PIU already comprises a full time Manager who shall have overall responsibility for the project. He is assisted by a Financial Manager who is responsible for project finance and accounting and a Procurement Manager who advises and assists on all procurement procedures and monitor their implementation. The managerial group will be assisted by other professional staff (including consultants) as needed to ensure timely decisions and project execution.

A. Procurement

6. The PIU will be responsible for the procurement of all goods and services under the Loan, and will also assist in the procurement of goods and services in future Bank loans. Because of the lack of experience of the PIU, procurement advisers have been hired to assist with public sector procurement under the Loan, while simultaneously training local staff to become proficient in public procurement.

7. **Procurement of Goods.** Goods to be procured under this loan will consist primarily of computers, telecommunication equipment, and office equipment. For procurement under International Competitive Bidding (ICB) procedures, the PIU will provide adequate advice and monitor the following activities by concerned agencies:

- (i) advertising in local and international professional and press media and advising foreign delegations of Bank member countries, including CIS countries who have become members of the Bank, and Taiwan (China);
- (ii) preparation of bidding documents using the Sample Bidding Documents issued by the Bank for the procurement of goods issued by the Bank;
- (iii) distribution/selling of bidding documents to prospective bidders;
- (iv) inviting bids from suppliers in eligible countries;
- (v) conducting the bid opening process and the evaluation of bids;
- (vi) when designated to do so, signing and finalizing the contract; and,
- (vii) when required, arranging and witnessing pre-shipment inspections (PSI).

8. For non-ICB procurement, the PIU would provide advice to and ensure that procurement agencies are following the appropriate procedures specified in the Loan Agreement, including:

- (i) soliciting written quotations from a list of potential suppliers in eligible countries;
- (ii) soliciting quotation on sole-source basis and negotiating with supplier for spare parts or other proprietary items; and,
- (iii) placing purchase orders and contracts with selected suppliers.

9. In the area of contract administration services, the PIU will closely coordinate with concerned agencies in:

- (i) collecting documentation, such as inspection certificates, certificates of origin/manufacturer, manufacturers'/suppliers' guarantees, bills of lading, beneficiary insurance certificates, and manufacturers' invoices;
- (ii) forwarding documentation to the clearing agent;
- (iii) handling insurance claims; and,
- (iv) assisting in the preparation of withdrawal applications with the required supporting documentation and arranging payments to suppliers.

10. **Technical Assistance (TA).** For TA, the PIU would:

- (i) assist concerned agencies in preparing Terms of Reference acceptable to the Bank, review bid evaluation and endorse consultants contracts, ensuring that the selection procedures and contracts comply with the Loan Agreement and with Bank Guidelines for recruiting consultants; and
- (ii) monitor the implementation of the TA contracts to ensure their timely execution, ensure that the consultants receive the supporting services agreed (housing, transportation, staff, office facilities, etc.), can freely travel to, from, and within Kazakhstan, have access to documents and other information necessary, that they are paid in a timely and professional manner, and that an acceptable output and periodic reports are received for each study.

B. Disbursement

11. The PIU will be responsible for the disbursement of funds, the preparation of withdrawal applications and the collection of documents. Disbursement will start once the Loan becomes effective. The Disbursement Handbook, which outlines disbursement procedures for Bank Loans, provides additional information on the procedures and should be read in conjunction with this section. Withdrawal applications will be fully documented, except for expenditures against contracts valued at less than US\$50,000 equivalent, which will be made on the basis of certified statements of expenditures detailing the individual transactions. The documentation to support these expenditures will be retained by the PIU for at least one year after receipt by the Bank of the audit report for the year in which the last disbursement is made. This documentation will be made available for review by the auditors (see sections below on "Reporting, Accounting and Auditing") and the Bank upon request. In order to assist the PIU in developing the proper disbursement procedures, and the carrying out of its disbursement responsibilities, a disbursement adviser will be recruited and attached to the unit by Loan effectiveness.

12. **Project Preparation Facility (PPF).** PPF has been approved in October 1992 to finance some activities related to the start-up of project implementation (equipment for the PIU's office, training and technical assistance including procurement advisory services). Disbursement procedures to be followed under the PPF are the same as for the Loan, as discussed below.
13. **Special Account.** To facilitate the disbursement of funds, a Special Account (SA) will be opened in a foreign commercial bank acceptable to the Bank. The SA will be maintained in a fully convertible and stable currency. Documentation requirements for replenishment allocations will follow the same procedure as described above. In addition, monthly bank statements of the special account which have been reconciled by the Borrower should accompany all replenishment requests.
14. The foreign commercial bank selected to be the depository bank of the SA should be selected as soon as possible (criteria are defined on page 31 of the Disbursement Handbook). The SA will be in the name of the Borrower and will be administered by authorized representatives of the Borrower (preferably staff at the PIU). Two signatures will be required to make any transaction from the account. The SA will be replenished at monthly intervals, or more frequently if necessary.
15. **Goods.** For goods to be financed under this Loan, contracts will include payment terms and the PIU will have to ascertain, before approving the contracts, that these payment terms are in line with Bank disbursement procedures. The acceptable disbursement procedures for this component will be the following:
- (i) procedure of special commitments for LC's;
 - (ii) payments of the LC through the Special Account: the importer's commercial banks will notify the PIU of their readiness to pay the suppliers, and the PIU will give orders to the SA depository bank to transfer the necessary funds to the banks of the suppliers;
 - (iii) in the case where no LC has been used, direct payments to the suppliers by the PIU through the SA can also be effected.
16. **Reporting, Accounting and Auditing.** The PIU would establish and maintain a Management Information System (MIS) covering all procurement financed by the Loan, including information received on all procurement transactions, including the identity of the user, the kind of goods purchased, the contract value, identification of the bidders and the winning supplier, the key dates for the bidding process, and the subsequent fulfillment of the contract.
17. The above information will allow the PIU to monitor Loan implementation and will also provide the basis for the PIU to prepare the Project Completion Report required after the Loan has been disbursed and closed.
18. The PIU would establish an appropriate accounting system according to generally accepted standards, in order to provide information on receipt and use of funds, in line with the term of the loan Agreement. The system would ensure timely and accurate accounting of all transactions under the Loan, and clear presentation of the financial information. It should enable identification of the use of all funds by components and categories of goods imported. The accounting should reflect

the movements of the receipts and payments through the Special Account, with balances agreed with monthly financial statements from the holding commercial bank and with periodic statements from the Bank.

INDICATIVE BUDGET ESTIMATES

	<u>IBRD</u>	
Procurement Advisors (2)		750,000
Disbursement Advisors (18 months)		325,000
Management Consultants (36 months)		720,000
Travel and Subsistence		485,000
Equipment (personal computers, printers, 6 vehicles for machines)		50,000
Contingency		500,000
Subtotal		\$2,830,000
<u>Local Costs</u>	<u>GOK</u>	<u>IBRD</u>
Local Consultants (70 months)	15,000	60,000
Interpreters, translators, secretaries	25,000	60,000
Office Space	20,000	
Local Transportation	20,000	10,000
Local Staff	130,000	
Business Expenses (communication, reports, distributions, office supplies)	<u>\$15,000</u>	<u>\$40,000</u>
Subtotal	<u>\$225,000</u>	<u>\$170,000</u>
Total Costs	\$225,000	\$3,000,000

TECHNICAL ASSISTANCE LOAN

**Cost Estimates by Major Contract and
Projected Schedule of Critical Procurement Steps**

<u>COMPONENT</u>	<u>CONTRACT TYPE</u>	<u>BASE COST (US\$)</u>	<u>PROCUREMENT METHOD</u>	<u>CRITICAL PROCUREMENT STEPS¹</u>		
				<u>Preparation of Bidding Documents</u>	<u>Issuance of Invitations for Bids</u>	<u>Signing of Contract</u>
Privatization Mass Privatization	Consultants/Training	6,110,000	Short list of three to six firms with selection based on technical merit	June 1, 1993	August 1, 1993	October 1, 1993
Computers and Equipment	Goods	190,000	IS	November 15, 1993	December 15, 1993	February 15, 1994
Case by Case Privatization	Consultants	400,000	Short list of three to six firms with selection based on technical merit	June 1, 1993	August 1, 1993	October 1, 1993
Corporate Governance	Consultants	1,000,000	Short list of three to six firms with selection based on technical merit	June 15, 1993	August 15, 1993	October 15, 1993
Restructuring	Consultants	500,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Printing Press and Related Equipment	Goods	1,500,000	ICB	August 1, 1993	September 1, 1993	November 1, 1993
Computers and Equipment	Goods	200,000	IS	January 15, 1994	February 15, 1994	April 15, 1994
Competition Policy	Consultants	500,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
Foreign Investment and Regulation Advisors	Consultants	970,000	Short list of three to six firms with selection based on technical merit	June 15, 1993	August 30, 1993	October 15, 1993
Computers and Equipment	Goods	30,000	IS	August 1, 1993	September 1, 1993	November 1, 1993
Mining Advisors	Consultants	1,800,000	Short list of three to six firms with selection based on technical merit	May 15, 1993	July 31, 1993	October 30, 1993
Computers and Equipment	Goods	200,000	IS	October 1, 1993	November 1, 1993	February 1, 1994

¹Estimated dates for completion of procurement steps.

COMPONENT	CONTRACT TYPE	BASE COST (USD)	PROCUREMENT METHOD	CRITICAL PROCUREMENT STEPS		
				Preparation of Bidding Documents	Issuance of Invitation for Bid	Signing of Contract
Payment System Advisors	Consultants	500,000	Short list of three to six firms with selection based on technical merit	June 1, 1993	August 1, 1993	October 15, 1993
Computers and Equipment	Goods	5,500,000	ICB	November 1, 1993	December 15, 1993	February 28, 1994
Bank Audits	Consultants	3,000,000	Short list of six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Bank Accounting Reform	Consultants	500,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Specialized Financial Services Study	Consultants	1,000,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
Bank Supervision	Consultants/Training	1,000,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Employment Advisors/Trainers	Consultants/Training	340,000	Short list of three to six firms with selection based on technical merit	June 15, 1993	August 15, 1993	November 1, 1993
Computers and Equipment	Goods	160,000	IS	December 1, 1993	January 15, 1994	March 15, 1994
Social Protection Advisors/Trainers	Consultants/Training	440,000	Short list of three to six firms with selection based on technical merit	June 15, 1993	August 15, 1993	November 1, 1993
Computers and Equipment	Goods	160,000	IS	December 1, 1993	January 15, 1994	March 15, 1994
Poverty Monitoring Advisors	Consultants	340,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Computers and Equipment	Goods	60,000	IS	December 1, 1993	January 15, 1994	March 15, 1994
Health Care Reform	Consultants	575,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
	Goods	25,000	IS	January 1, 1994	February 1, 1994	April 1, 1994

<u>COMPONENT</u>	<u>CONTRACT TYPE</u>	<u>BASE COST (US\$)</u>	<u>PROCUREMENT METHOD</u>	<u>CRITICAL PROCUREMENT STEPS</u>		
				<u>Preparation of Bidding Documents</u>	<u>Issuance of Invitations for Bids</u>	<u>Signing of Contract</u>
Training Bankers	Training	1,000,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Accountants	Training	500,000	Short list of three to six firms with selection based on technical merit	July 1, 1993	August 1, 1993	November 1, 1993
Public Sector Employees	Training	1,000,000	Short list of three to six firms with selection based on technical merit	June 1, 1993	August 1, 1993	October 15, 1993
Enterprise Managers	Training	1,000,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
Legal Reform Advisors	Consultants/Training	1,500,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
Computers and Office Equipment	Goods	500,000 ²	IS	TBD ³	TBD ³	TBD ³
Environment	Consultants	1,000,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	December 1, 1993
Project Implementation Procurement	Consultants/Training	750,000	Short list of six firms with selection based on technical merit	December 15, 1992	April 1, 1993	August 1, 1993
Disbursement	Consultants/Training	500,000	Short list of three to six firms with selection based on technical merit	August 1, 1993	September 1, 1993	November 1, 1993
Other advisors	Consultants/Training	1,700,000	Short list of three to six firms with selection based on technical merit	TBD ³	TBD ³	TBD ³
Computers and Equipment	Goods	50,000	IS	August 1, 1993	September 1, 1993	November 1, 1993

²Goods will be procured through international shopping as computers and equipment will be purchased for different agencies/ministries; no individual purchase will exceed US\$300,000. It is not expected that all purchases will be made at the same time, therefore bundling purchases for ICB will not be possible.

³Timing of component will depend on progress of other components.

TECHNICAL ASSISTANCE PROJECT

Detailed Project Costs (US\$ 000 equivalent)

Technical Assistance	Local	Foreign	Total	Foreign Cost as a % of Total Cost	Component Cost as a % of Base Cost
1. Privatization and Private Sector Development					
a. Privatization and Enterprise Reform					
1. Mass Privatization	840	7,330	8,170	90	20.7
2. Case-by-case Privatization	75	350	425	82	1.1
3. Corporate Governance	200	850	1,050	81	2.7
4. Restructuring	70	450	520	87	1.3
b. Competition Policy	60	450	510	88	1.3
c. Foreign Investment Promotion and Regulation					
1. National Policies	110	940	1,050	90	2.7
2. Mining	200	1,900	2,100	90	5.3
2. Financial Sector					
a. Payments system	350	5,700	6,050	94	15.3
b. Accounting and Bank Diagnostic Studies	450	3,150	3,600	88	9.1
c. Specialized Financial Services	75	950	1,025	93	2.6
d. Bank Supervision	140	920	1,060	87	2.7
3. Social Sector					
a. Social Safety Net					
1. Employment	90	440	530	83	1.3
2. Social Protection	125	495	620	80	1.5
3. Poverty Monitoring	100	320	420	76	1.1
b. Health Care Reform and Financing	115	505	620	81	1.6
c. Training					
1. Banks	225	850	1,075	79	2.7
2. Accountants	115	425	540	79	1.4
3. Public Sector Employees	260	850	1,110	77	2.8
4. Enterprise Managers	225	850	1,075	79	2.7
4. Institutional Support and Development					
a. Legal Framework	435	1,700	2,135	80	5.4
b. Environment	80	960	1,040	92	2.6
5. Project Implementation	395	2,830	3,225	88	8.2
6. Contingencies	150	1,400	1,550	90	3.9
Total Cost	4,885	34,615	39,500	88	100%

TECHNICAL ASSISTANCE PROJECT

Detailed Financing Plan
(US\$000s equivalent)

	Local		Foreign	Total		Total Project Cost	% IBRD Financing
	GOX	IBRD	IBRD	GOX	IBRD		
1. Privatization and Private Sector Development							
a. Privatization and Enterprise Reform							
1. Mass Privatization	170	670	7,330	170	8,000	8,170	98
2. Case-by-case Privatization	25	50	350	25	400	425	94
3. Corporate Governance	50	150	850	50	1,000	1,050	95
4. Restructuring	20	50	450	20	500	520	96
b. Competition Policy	10	50	450	10	500	510	98
c. Foreign Investment Promotion and Regulation							
1. National Policies	50	60	960	50	1,000	1,050	95
2. Mining	100	100	1,900	100	2,000	2,100	95
2. Financial Sector							
a. Payments system	50	300	5,700	50	6,000	6,050	99
b. Acctg & Bank Diagnostic Studies	100	350	3,150	100	3,500	3,600	97
c. Specialized Financial Services	25	50	950	25	1,000	1,025	98
d. Bank Supervision	60	80	920	60	1,000	1,060	94
3. Social Sector							
a. Social Safety Net							
1. Employment	30	60	440	30	500	530	94
2. Social Protection	20	105	495	20	600	620	97
3. Poverty Monitoring	20	80	320	20	400	420	95
b. Health Care Reform and Financing	20	95	505	20	600	620	97
c. Training							
1. Bankers	75	150	850	75	1,000	1,075	93
2. Accountants	40	75	425	40	500	540	93
3. Public Sector Employees	110	150	850	110	1,000	1,110	90
4. Enterprise Management	75	150	850	75	1,000	1,075	93
4. Institutional Support and Development							
a. Legal Framework	135	300	1,700	135	2,000	2,135	94
b. Environment	40	40	960	40	1,000	1,040	96
5. Project Implementation	225	170	2,850	225	3,000	3,225	93
6. Contingencies	50	100	1,400	50	1,500	1,550	97
Total Technical Assistance	<u>1,500</u>	<u>3,395</u>	<u>34,615</u>	<u>1,500</u>	<u>39,000</u>	<u>39,500</u>	<u>96</u>

TECHNICAL ASSISTANCE PROJECT**IBRD Disbursements**

Category	Amount (US\$'000)	% of Expenditures¹ to be Financed
Consultants' services and training	28,925	100% of expenditures
Computers, equipment and other goods	8,575	100% of foreign expenditures, 100% of local expenditures (ex-factory costs), and 75% of expenditures for other items procured locally.
Refinancing of Project Preparation Advance	500	Amounts due to repay the principal amount of the Project Preparation Advance withdrawn and outstanding, and to pay all the unpaid charges thereon
Total	38,000	

¹All expenditures to be financed will be net of taxes.

**Estimated IBRD Disbursements
(US\$ Millions)**

	FY 94	FY 95	FY 96
Annual	12	14	12
Cumulative	12	26	38

TECHNICAL ASSISTANCE PROJECT

Implementation Plan

COMPONENT	RESPONSIBLE AGENCY	TIMING
Privatization		
Mass Privatization	SCSP, MOE (NAFI)	Oct 1993 - Mar 1995
Case by Case Privatization	SCSP	Nov 1993 - Dec 1994
Corporate Governance	SCSP	Nov 1993 - Dec 1994
Restructuring	SCSP	Dec 1993 - Dec 1994
Competition Policy	AMC	Jan 1994 - Jan 1995
Foreign Investment and Regulation	MOE (NAFI)	Nov 1993 - Nov 1994
Mining	MOE (NAFI), MOI, Ministry of Geology	Nov 1993 - Jan 1995
Payments system		
Payments system	NBRK	Nov 1993 - Apr 1994
Bank Audits	NBRK	Dec 1993 - May 1994
Accounting Reform	NBRK	Dec 1993 - Dec 1994
Specialized Financial Services Study	NBRK	Jan 1994 - Aug 1994
Bank Supervision	NBRK	Dec 1993 - Jun 1995
Employment		
Employment	MOL	Dec 1993 - Nov 1994
Social Protection		
Social Protection	MSP	Dec 1993 - Nov 1994
Poverty Monitoring		
Poverty Monitoring	MSP	Dec 1993 - Nov 1994
Health Care Reform and Financing		
Health Care Reform and Financing	MOH	Dec 1993 - Dec 1994
Training		
Training	NBRK, MOE	Nov 1993 - Jul 1995
Legal Reform		
Legal Reform	MOE Ministry of Justice	Dec 1993 - Dec 1995
Environment		
Environment	Ministry of Ecology and Bioresources	Dec 1993 - Jul 1995
Project Implementation		
Project Implementation	PIU	Aug 1993 - Jan 1996

TECHNICAL ASSISTANCE PROJECT

Supervision Plan

APPROXIMATE DATES	ACTIVITIES	STAFF COMPOSITION	STAFF WEEKS
8/93	Project Launch Workshop	Task Manager Procurement, disbursement, and component specialists	8
8/93 - 12/93	Preparation of consultant bid packages and equipment bid packages.	Task Manager Procurement and component specialists	20
11/93 - 12/93	Review of selection of training program participants.	Task Manager Training specialist	2
2/94 - 3/94	Review of work progress on all components. Finalize timetables for completion of all components.	Task Manager Component specialists	12
4/94 - 5/94	Review of final audit reports. Final review of payments system.	Task Manager Financial sector specialist Payments system specialist	8
8/94 - 9/94	Mid-term review.	Task Manager Component specialist	12
11/94 - 12/95	Final review for privatization/private sector development, financial sector, social sector components.	Task Manager Component specialists	8
8/95	Final review of training and environmental components.	Task Manager Training specialist Environmental specialist	4
12/95	Final review of legal component	Task Manager Legal specialist	2
9/95 - 9/96	Final supervision of disbursement and all final reports.	Task Manager Disbursement specialists	8
Total			84

MAP SECTION

