



Technical Assistance Report

Project Number:40552
November 2006

Republic of Kazakhstan: Preparing the Kazpost
Financial Strengthening and Modernization Project
(Financed by the Japan Special Fund)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 November 2006)

Currency Unit	–	tenge (T)
T1.00	=	\$0.0078
\$1.00	=	T127.84

ABBREVIATIONS

ADB	–	Asian Development Bank
Kazpost	–	Kazpost Joint Stock Company
Samruk	–	Samruk State Holdings Company
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sectors	–	Multisector (transport and communications, finance)
Subsectors	–	Telecommunications and communication, banking systems, microfinance
Themes	–	Sustainable economic growth, inclusive social development, governance
Subtheme	–	Developing rural areas, financial and economic governance, fostering physical infrastructure development

NOTES

- (i) The fiscal year of Kazpost ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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Team leader	S. Wermert, Country Director, Kazakhstan Resident Mission, CWRD
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I. INTRODUCTION

1. Kazpost Joint Stock Company (Kazpost) has asked the Asian Development Bank (ADB) to provide technical assistance (TA) to help prepare a quality corporate business plan and a reputable credit rating. Both of these activities are necessary to support a fund-raising program (long-term, nonrecourse, or nonsovereign finance) for the development of postal and financial services centers primarily in rural areas of Kazakhstan. The Fact-Finding Mission, from 26 August to 5 September 2006, resulted in an understanding between ADB and Kazpost and its sole shareholder, Samruk State Holding Company (Samruk), on the TA objectives, scope, financing plan, and implementation arrangements.¹ A design and monitoring framework for the TA is in Appendix 1.

2. Consistent with the Agreement Establishing ADB, the Government of Kazakhstan (the Government) will be asked to confirm that it has no objection to the TA. No activities under the TA will commence and no TA consultant will be contractually engaged by ADB unless and until ADB receives a no-objection letter from the Government.

II. ISSUES

3. The geographic, demographic, and economic features of Kazakhstan include vast territory, low and uneven density of population, remoteness of inhabited localities, and significantly lower ability to pay for services in rural areas. As an estimated 43% of the country's population lives in rural areas,² the provision of basic postal and financial services represents an important public policy objective. Acceleration of demand for such services and ability to pay in recent years is due in part to the high Kazakhstan literacy rate (99.4%) and decreasing poverty rate in the country as whole, including many rural areas.³ The initial poverty and social analysis is in Appendix 2.

4. Worldwide, providers of postal universal service obligations have been increasingly challenged to operate efficiently and profitably (i) given the burden of low margin or even loss-making segments of rural area business, (ii) the need to function within very competitive urban environments, and (iii) reduction of physical mail services due to the growth of rapid information technology transfer. Frequently this has led to requests for operating and/or capital subsidies, including in cases of economically unsustainable rural services required under the universal service obligations and/or for reduction or outright discontinuation of cross-subsidies from urban customers to rural customers.⁴ Over the last decade, the impetus to corporatize national postal operators has been growing in many parts of the developing and developed world. In optimal cases, operators have been able to improve logistical and financial performance significantly not only through efficiency measures but also through changes in business definition. Usually this has involved expansion into more commercially profitable specialized postal services and use of traditional postal service infrastructure to deliver financial and other services. Given the high fixed-cost nature of the industry and ineffectiveness of legislated monopoly status, these types of proactive business strategies have become more and more essential for commercial viability.

¹ The TA first appeared in *ADB Business Opportunities* on 11 September 2006.

² The Government of the Republic of Kazakhstan. 2004. *The Sector Development Program of the Postal-Savings System in the Republic of Kazakhstan for 2005–2010*. Astana.

³ A good summary of poverty indicators for Kazakhstan can be found in United Nations Development Programme. 2005. *Human Development Report*. {Almaty City} and updates for 2005 can be found in Republic of Kazakhstan. 2005. *Agency for Statistics, Statistical Yearbook, 2005*. {Astana City}.

⁴ Kenny, Charles. 2005. *Reforming the Posts: Abandoning the Monopoly-Supported Postal Service Obligation in Developing Countries*. World Bank Policy Research Working Paper. Washington, DC: World Bank (June).

5. Kazpost was established in November 1995 as a state enterprise and in December 1999 was transformed into a joint stock company under full state ownership.⁵ Its corporatization, which formed part of a broad government reform program covering many major infrastructure services, provided effective tools to company management to generate cash-flow positive operations albeit at still low profit margins and with little independent capability to raise long-term debt finance. In 2001, Kazpost was granted a license to provide a limited range of financial services (outside of lending).⁶ The license allows it to undertake primarily (i) agency functions including payments of pensions, wages, and social allowances; and collection of public utility payments and taxes; (ii) agency functions for securities market transactions and (iii) loan agent functions for banks without access to its regions. In addition, it was permitted to take deposits from postal customers.⁷ Over the last few years, its standard postal facilities have been transformed into postal and financial service centers, often the only facility of its type in many rural parts of Kazakhstan. By the end of 2007, all rural postal facilities owned by Kazpost are expected to be connected via the Internet (for both staff and customers).

6. The Government established Samruk to strengthen corporate governance practices by appointing corporate directors tasked only with safeguarding commercial viability and avoiding confusion between the role of Government as shareholder and the Government's policymaking and regulatory functions. Under such corporate governance principles, Samruk-appointed directors would be expected to take an active role in guiding strategic policies of the company but not be involved in day-to-day management. In January 2006, Samruk identified Kazpost as one of five selected companies with full or partial government ownership.⁸ In June 2006, Samruk nominated its first new directors to the Kazpost board of directors, replacing directors representing government line ministries. With the revamped board, Kazpost must now focus on developing a comprehensive business plan that documents existing plans, and augment it with potential improvements and new actions. Such a business plan would require Samruk involvement in components categorized as strategic planning. Development of a plan and discussion of this plan will be a good means of delineating pragmatic guidelines for decision-making allocation between the new Kazpost board and management.

7. Kazpost's business plan should be used effectively to better communicate its medium- to long-term vision to its longer term debt financiers, and prior to that with rating-agency analysts. Currently, Kazpost debt is primarily short to medium term, extended via locally based financial institutions and the local bond market. It has only successfully raised long-term finance once through a government-guaranteed loan from the Islamic Development Bank. Like other large-scale fully or partially state-owned enterprises in Kazakhstan, Kazpost carries a credit rating from one of the three international rating agencies (Standard & Poor's); this rating is just one-half grade below the Kazakhstan sovereign rating. Based on a review of the most recent international ratings update report, this grade is heavily contingent on the perception that the Government can be relied upon to make equity injections into the company to cover a significant portion of its capital spending. Since Kazpost is undertaking a major long-term borrowing program on its own and wishes to reduce its dependence on government equity contributions

⁵ Originally named OJSC Kazpost at time of original corporatization, but renamed Kazpost Joint Stock Company at time of reregistration in 2004.

⁶ Kazpost is not currently permitted to extend credit, but Financial Supervision Agency of Kazakhstan has granted an approval (subject to amendment of postal legislation) for Kazpost to undertake limited scale microfinance lending and credit card operations secured by payments of government salaries or pension and limited to 3 years.

⁷ Kazpost's depository base is currently estimated at \$3 million–\$4 million in total by its Treasury Department.

⁸ Republic of Kazakhstan Presidential Decree, *On the Measures to Further Ensure the Government Interests in the State Economy Governance*, 28 January 2006.

for a major portion of its capital financing program, the next rating-agency presentation will require detailed planning and preparation, particularly given that the company's corporate debt profile will be significantly changed.

8. Kazpost's next long-term borrowing (requested from ADB on commercial nonsovereign terms) will finance new construction of 800 rural postal facilities (700 to replace existing leased facilities and 100 facilities at new locations).⁹ The plan is geared to create modernized postal facilities under Kazpost's newer expanded business model and to address large rural population migration over the decade, and further migrations due in part to the Government's Strategy for Territorial Development, which restricts major government infrastructure investment to areas viewed to be economically viable.¹⁰

9. The proposed rural post office project will be the largest construction program in Kazpost's history as a company. Currently, this function is undertaken by Kazpost's real estate division. The institutional capacity to undertake such a large program over a short period of 3 years will require assessment of its capability to complete the project on time and on budget. In this context, the tie between construction completion, and universal service obligations and revenue generation by new facilities should be well understood by Kazpost's board of directors and management.

10. The TA is consistent with ADB's Kazakhstan country strategy and program update (2006–2008),¹¹ which (i) indicates that ADB will identify means of supporting subsovereign infrastructure companies with demonstrated ability to act in a commercially viable manner and (ii) support rural development initiatives a key Government priority.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. This project preparatory TA will help prepare Kazpost with major long-term borrowing on a commercial nonsovereign basis, and contribute to improving its ability to access long-term borrowing on the international and domestic financial markets. The TA will help define an investment and fund-raising program; and focus on institutional strengthening. This will back up a sustainable borrowing program by the company. In addition, it will ensure that Kazpost has the capacity to manage and undertake the proposed large-scale construction project. The TA is not intended to cover areas normally associated with standard due diligence by ADB or by other lenders. Such due diligence will be carried out on a normal commercial basis prior to any future ADB loan processing. The TA objectives are to (i) enhance Kazpost's business planning process and final business plan (ii) assist Kazpost in developing a management, planning, and financial information documentation system necessary for initial and ongoing interface with credit-rating agencies; and (iii) strengthen Kazpost's construction management capacity to ensure that large capital projects are implemented efficiently. The TA will support the financial management and overall capacity of Kazpost. The TA will contribute to the extension of a private market credit culture in Kazakhstan that recognizes and rewards fully or partially

⁹ ADB is being requested to provide a loan on a corporate basis for (i) 562 of the 800 new postal facilities, and (ii) certain logistics improvements. Government equity contributions are expected to finance the remaining 238 new postal facilities.

¹⁰ Republic of Kazakhstan. 2006 *Strategy of Territorial Development of the Republic of Kazakhstan up to 2015*. {Astana City} (28 August).

¹¹ ADB. 2005. *Country Strategy and Program Update (2006–2008): Republic of Kazakhstan*. Manila.

government-owned companies able to consistently transmit professionally assembled transparent information to credit-rating agencies and markets.

B. Methodology and Key Activities

12. The TA will have three components. Component A will cover the development of a comprehensive business plan for Kazpost. This plan will incorporate basic principles associated with high-quality corporate planning, drawing on best practices from comparable postal and low-risk financial service and agency businesses. Component B will focus on establishing a sustainable credit-rating agency with interface via direct assistance to Kazpost in the preparation of the initial package of presentation materials for rating-agency consideration. Suggestions for improving presentations for annual rating-agency review will also be incorporated into this component. Component C will focus on a review of Kazpost's capacity to undertake all construction work under the investment program on time and on budget. This will feed into the perspective of normal lender due diligence risk mitigation.

13. Components A, B, and C are expected to be undertaken in parallel, although some subcomponents under each will be carried out sequentially. To assess the results of the TA activities, a series of performance indicators and milestones will be established as a baseline at the start of the TA, and be monitored throughout its duration.

14. ADB will train up to three Kazpost officials on ADB's environmental and social safeguards through participation in seminars run by ADB staff as well as on-the-job 1 week immersion training with Regional and Sustainable Development Department staff involved in the preparation of ADB-funded projects.

C. Cost and Financing

15. The total cost of the TA is estimated at \$1,000,000 equivalent. Kazpost has asked ADB to provide \$600,000. Kazpost will finance the balance. The ADB part of the TA will be financed on a grant basis from the Japan Special Fund. The detailed cost estimates and financing plan are given in Appendix 3. Kazpost has been informed that approval of the TA does not commit ADB to finance any ensuing project. In the event that the TA results in further financial assistance from ADB (whether by loan, equity, guarantee, or otherwise), Kazpost will repay the grant through composite pricing (including fees) of the financial package or through refinancing the grant from the package. Kazpost will also repay the grant under this TA to ADB, in the event that the project contemplated under this TA is financed from any other source.

D. Implementation Arrangements

16. Samruk is the Executing Agency for the TA and Kazpost is the Implementing Agency. Kazpost will establish project offices in Almaty and Astana for the consultants and administrative support funded under the TA. Kazpost will designate an individual to coordinate with the consultants. A coordinating committee consisting of Samruk and Kazpost representatives will provide general guidance and oversee TA implementation.

17. The TA will require approximately 8 person-months of international consulting services and 15 person-months of national consulting services. The international consultants will be (i) a postal services industry specialist (2 person-months), (ii) financial services industry specialist (1.5 person-months), (iii) credit-rating expert (2.5 person-months), and (iv) construction management specialist (2 person-months). One of the international consultants will be the team leader, responsible for all aspects of TA implementation. The national consultants will be (i)

detailed design engineer (5 person-months), (ii) information technology specialist (5 person-months), and (iii) construction budgeting consultant (5 person-months). In view of the narrow focus of the scope of work, the multidisciplinary nature and complexity of the required tasks, and alternative methods and mix of expert skills for carrying out the TA, all international consultants will be engaged on an individual basis in accordance with ADB's *Guidelines on the Use of Consultants* (2006). Kazpost will finance and engage all national consultants. National consultants will be engaged by Kazpost on terms satisfactory to ADB. The outline terms of reference for consulting services are in Appendix 4.

18. The TA will be implemented over 4 months, starting in December 2006 and ending in March 2007. Reports will include an inception report including the work plan and key milestones (at the end of month 1) and monthly progress reports, culminating in a final report at the end of the TA. The key deliverables (to be developed outside of reports) are the draft business plan and rating-agency submission package. A number of special activity reports will be prepared, based on inputs from consultants. They will be referenced and included in the progress and final reports.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$600,000 on a grant basis to Kazpost Joint Stock Company for preparing the Kazpost Financial Strengthening and Modernization Project, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>State-owned enterprise, Kazpost, under Samruk develops a rural postal services and financial network funded by long-term debt without reliance on government support or guarantees.</p>	<p>Postal and financial services network covering rural areas in the country</p> <p>Debt maturities are lengthened for finance of long-life physical assets. Debt/equity ratios comparable to upper tier comparator companies from other countries</p>	<ul style="list-style-type: none"> Transaction and TA reports 	<p>Assumption</p> <p>Government and Samruk provide a system of disincentives to draw on state equity contributions to finance the majority of capital costs</p>
<p>Outcome</p> <p>Kazpost is able to raise long-term finance from commercial (including international) sources under international best practice without sovereign guarantee to fund large-scale rural development project. Credit rating is awarded and investment project is executed on time and on budget.</p>	<p>International credit-rating agency(ies) assign rating(s) within one grade of sovereign rating with reliance on Kazpost as a stand-alone business entity with reasonable mid- to long-term business prospects. A new business plan is prepared. Project management execution capability is established.</p>	<ul style="list-style-type: none"> Formal rating notification from international agency including satisfactory report language on business planning, management, and cash-flow projections TA report with findings and recommendations Report on actions taken by company 	<p>Assumption</p> <p>Rating agency reacts positively to Kazpost's plans for moderate-risk business growth</p> <p>Risk</p> <p>Officials in charge of interface during future rating-agency presentations revert to minimalist approach</p>
<p>Outputs</p> <p>1. Business plan is prepared in line with international best practice</p>	<p>A business plan covering strategic directions, investment program, financial controls, redefined business lines, modernized management, and financial information systems and practices; efficient project management system; and establishment of a data room for credit-rating agency and commercial bank due diligence</p>	<ul style="list-style-type: none"> Consultants report and endorsement note by Samruk appointed board of directors Credit-rating report 	<p>Assumptions</p> <p>Kazpost staff establish new business plan, including more modern systems, procedures, and skills</p> <p>Samruk appointed board of directors is acquainted with best practices on corporate business plans and endorses the proposals</p> <p>Risk</p> <p>Kazpost does not adhere to its own rules and regulations. The business plan is rejected and credit rating is not completed</p>
<p>2. Kazpost able to execute large-scale capital works program on time and on budget</p>	<p>80%+ of postal faculties completed on time and on budget</p>	<p>Construction completion reports required under the loan documents</p>	<p>Risk</p> <p>Construction risks materialize</p>

Activities/ Inputs	Inputs
	ADB: \$600,000
	Kazpost: \$400,000
<p>Business Plan</p> <p>1.1 Assessment of existing business plans (December 2006)</p> <p>1.2 Suggested applicable practices from other postal and financial services companies (January 2007)</p> <p>1.3 Professionalize business planning process and set up system for regular updates (February 2007)</p> <p>1.4 Formal link between business planning and capital investment decisions(February 2007)</p> <p>1.5 Draft Plan for Rating Agency Purposes (February 2007)</p> <p>1.6 Finalization of Business Plan (March 2007)</p>	
<p>Rating Agency Preparation</p> <p>2.1 Decision on Rating Agencies to be used (December 2006)</p> <p>2.2 Preparation of Detail Rating Agency Written Presentation (February 2007)</p> <p>2.3 Conclusion of Interaction with Rating Agency(ies) (March 2007)</p> <p>2.4 New ratings assigned (March 2007)</p>	
<p>Construction Management</p> <p>3.1 Defined targets set for Kazpost construction management performance. (December 2006)</p> <p>3.2 Report delivered to Kazpost with detailed recommendations for improvement in Kazpost construction management practices (January 2007)</p> <p>3.2 Satisfactory review of Kazpost construction plan.(March 2007)</p>	

INITIAL POVERTY AND SOCIAL ANALYSIS

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is the sector identified as a national priority in country poverty partnership agreement?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p>Contribution of the sector or subsector to reduce poverty in Kazakhstan:</p> <p>The project will contribute directly and indirectly to poverty reduction through improved access by the population to modern postal and post banking services. Timely delivery of salaries, pensions, social allowances, better access to banking services, and enhanced business mail services will help promote social safety and business development, especially in rural areas. Increased communication services via the Internet will contribute to human development and use of information technology. The project will also increase employment during construction and operation of new rural post offices.</p>			

B. Poverty Analysis

Targeting Classification: General intervention

<p>What type of poverty analysis is needed?</p> <p>The project's indirect contribution to poverty reduction will be elaborated in the project documents developed for project approval.</p>
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C. Participation Process

Is there a stakeholder analysis?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is there a participation strategy?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

D. Gender Development

<p>Strategy to maximize impacts on women:</p> <p>The project is expected to have a positive impact on gender development by improving the working conditions of post office employees, the majority of whom are women (about 80%). Wages and benefits will increase as a result of increased labor efficiency.</p>		
Has an output been prepared?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Kazpost will provide a covenant in the loan documentation not to use involuntary resettlement for land acquisition for the project.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Postal and post banking services are generally affordable for most sectors of the population.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The project will create more employment opportunities during construction. It will also improve working conditions of staff in rural post offices and increase minimum sector wages as a result of enhanced labor efficiency and new technology-based activities.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous Peoples	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	All identified impacts are positive for servicing of Indigenous Peoples areas.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	No other social risks on any vulnerable groups are anticipated.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. International Consultants	
a. Remuneration and Per Diem	300.0
b. International and Local Travel	95.0
2. Reports, Communications (including translation services)	50.0
3. Administration and Support ^b	35.0
4. Training	25.0
5. Contingencies	95.0
Subtotal (A)	600.0
B. Counterpart Financing	
1. Detailed Project Design	280.0
2. National Consultants	
a. Remuneration and Per Diem	35.0
b. Local Travel	10.0
3. Office Accommodation	10.0
4. Transportation (within city)	5.0
5. Office Equipment ^c	15.0
6. Communications ^d	5.0
7. Miscellaneous Administration and Support Translation	5.0
8. Contingencies	35.0
Subtotal (B)	400.0
Total	1,000.0

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Includes a contract with local office management specialist.

^c Includes a minimum of four pentium computers, one photocopier, one scanner, two laser printers, and one facsimile machine.

^d Includes Internet access, and international and domestic telephone calls.

Sources: Asian Development Bank and Kazpost estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. Four international consultants will be engaged; one will also serve as team leader.
2. **Postal Services Industry Specialist** (2 person-months). The consultant will be responsible for all elements of the postal services component of the Kazpost business plan. The consultant must have sufficient knowledge and practical experience (over 10 years) in the postal services industry with exposure to the dynamics of servicing rural and urban areas, commercial and technical aspects of the business and operations of corporatized and/or privatized postal companies, as well as new commercial and technical advances being used in developed countries. The consultant will take primary responsibility for the draft business plan with inputs from and collaboration with the financial services industry specialist (para. 3). The terms of reference of the consultant include the following:
 - (i) Review all segments of Kazpost's existing and planned future postal business operations from the perspective of commercial practices and adhering to the universal service obligations.
 - (ii) Within the inception report, identify 8 to 10 comparable commercially operated post office companies (in large part from the developed world); and during the course of the assignment provide a summary of key elements of other company business plans that could enhance Kazpost's postal service business operations in terms of efficiency gains, net income growth, and risk mitigation.
 - (iii) Assist Kazpost in preparing postal services related components of projections of revenues, operating expenses, and debt service payments. Summarize the sources and uses of capital funds. Estimate annual cash-flow requirements associated with each postal services project within its capital improvement program.
 - (iv) Undertake a competitor analysis for Kazpost's urban postal services business, and make realistic suggestions on comparative advantages and sustainability for each business segment.
 - (v) From the perspective of business planning, assess Kazpost's 5-year capital investment program for postal services, recommending possible improvements in logic and consistency of the program, presentation formatting, and program management.
 - (vi) Give practical recommendations for improving management functions and staffing for postal operations. Explore means of upgrading staff capabilities in light of the evolving nature of the postal business.
 - (vii) Suggest most realistic means for periodic updating of the plan for multiple purposes including its inclusion in annual ratings review presentations.
 - (viii) In light of key components within the business plan, suggest alterations to detailed implementation plans for the 5-year capital improvement plan with Kazpost (2007–2011) in terms of priority and phasing of projects.
 - (ix) Review Kazpost's corporate governance principles and draft a corporate governance policy.
 - (x) Draft an initial business plan for review and comment. Work with the Coordinating Committee to finalize the plan.
3. **Financial Services Industry Specialist** (1.5 person-months). The consultant will be responsible for tasks of the financial component of the Kazpost business plan. The consultant

must have sufficient knowledge and practical experience (over 10 years) in the types of financial services carried out by Kazpost; and be familiar with international credit-rating perspectives on industry risks, the business environment in both rural and urban areas, new commercial and technical advances being used in developed countries, and credit assessment practices. The specialist's tasks include the following:

- (i) Review all segments of Kazpost's existing and planned future financial service business operations from the perspective of commercial returns and risk mitigation.
- (ii) Assist Kazpost in preparing the financial services related components of projections of revenues and operating expenses.
- (iii) Analyze and comment on commercial and technical aspects of Kazpost's planned entry into a limited microfinance and credit card business.
- (iv) Assess medium- to long-term sustainability of agency business in rural areas, i.e., taking into account Kazpost's comparative advantage and commercial barriers to entry of commercial banks.
- (v) As part of business plan preparation, undertake a review of 8 to 10 companies with a similar financial services profile (whether post office based or using other business models); and during the course of the assignment, provide a summary of key elements of other company business plans that could enhance Kazpost financial service operations in terms of efficiency gains, net income growth, and risk mitigation.
- (vi) Give practical recommendations for improving management functions and staffing for financial service operations. Explore means of upgrading staff capabilities to handle financial service functions.
- (vii) Review the credit assessment function for microlending and credit card risk exposure.
- (viii) Assess credit exposure (if significant) to financial institution customers for services.
- (ix) Draft and insert financial services sections into the draft business plan in close collaboration with the team leader and postal services industry specialist.

4. **Credit-Ratings Expert and Team Leader** (2.5 person-months). As team leader, the consultant will be responsible for overall management and implementation of the TA and timely delivery of these outputs: draft and final Kazpost business plan, draft and final Kazpost ratings submission package, interim and final reports, and management of other consultants. As the credit-ratings expert, the consultant will be responsible for closely advising Kazpost on all aspects of first rating submission (following announcement of a major capital financing plan referred to in this TA) with the objective of significantly enhancing Kazpost's presentations for periodic ratings review. The consultant must have sufficient knowledge and practical experience (5 years) in preparation of ratings information submissions to international ratings agencies and/or international financial institution credit analysis. The consultant's tasks include the following:

- (i) Review historical communication between Standard & Poor's and Kazpost for both initial and annual ratings review. Assess strengths and weaknesses of Kazpost presentations and suggest a practical plan for improvement. Provide early stage feedback to other consultants on aspects of their work with the greatest impact on quality of credit-ratings submission.
- (ii) Review ratings methodologies used by each of major international agencies for companies with similar business profiles to Kazpost, and rank agencies in terms

of methodology that could accurately assess Kazpost's credit.¹ Suggest best agency(ies) to undertake rating review work, including as an option continuation of the currently used agency.

- (iii) Undertake comparator analysis with other similar national postal operators from both developed countries and developing middle-income countries.
- (iv) Advise Kazpost on likely rating-agency view of company cash-flow projections taking into account conservatism of assumptions, integration with business plan, and impact of sensitivity analysis.
- (v) Develop a debt management policy (including risk mitigation) for discussion with the Coordinating Committee. The policy may form the nucleus of a corporate debt covenant structure to be included in the rating agency submission package.
- (vi) Suggest the best means of moving Kazpost from the category of Government general capital investment to Government targeted capital investment from the perspective of rating agencies.
- (vii) Assist Kazpost in enhancing its database for a comprehensive rating-agency package for presenting information. Include information on the rural area economy, customer base, management, employees, and other key areas. For documents of information disclosure, draw on one or more templates using best practices from other countries.
- (viii) Provide detailed assistance to Kazpost in its preparation of an information package for such rating agency(ies) and in answering follow-up inquiries.
- (ix) Prepare a meeting for the rating agency assuming that key company officials may be collectively interviewed by rating-agency analysts.

5. **Construction Management Specialist** (2 person-months). The consultant will be a construction engineer or commercial manager with sufficient knowledge and practical experience of efficiently operated corporate construction management divisions for projects with similar levels of complexity and wide geographic spread in multiple locations (over 10 years). The terms of reference for the consultant include the following:

- (i) Review staffing, experience, and capability within Kazpost's existing institutional structure to undertake construction management projects on the scale being envisaged by Kazpost.
- (ii) Assess performance of the project implementation unit formed by Kazpost to handle equipment procurement funded by an Islamic Development Bank loan² in terms of bid transparency, cost efficiency, and timeliness; and suggest the most effective means of redeploying and revamping the unit for future large-scale capital projects.
- (iii) Assess general adequacy of software to be used by Kazpost for construction management.
- (iv) Review the tender process for transparency, effectiveness, and ADB nonsovereign private sector standards for tenders.³
- (v) Review construction cost estimates, and assess risks of cost overrun and adequacy of construction budget contingency. Careful attention needs to be

¹ The list of international rating agencies is expected to include Standard & Poor's and Fitch and Moody's at a minimum, but could be expanded upon advice from the consultant

² \$9 million long-term sovereign guaranteed loan from Islamic Development Bank effective September 2003.

³ Kazpost intends to tender its projects on a one contract per oblast basis. Careful attention will need to be given to delineation of post office facilities constructed using ADB funds and facilities constructed using Government budget funds.

- given to trends in Kazakhstan construction markets along with impacts of inflation and foreign exchange impact on contractor and construction material prices.
- (vi) Review the proposed construction schedule and assess delay risks (with special attention to risks attendant to seasonal cold weather climate building cycles in Kazakhstan).
 - (vii) Review adequacy of design standards and construction materials taking into account weather standards among other factors.
 - (viii) Review Kazpost's environmental and social policies (resettlement) and practices, and assess any inconsistency with ADB standards.
 - (ix) Review software used for construction management.
 - (x) Recommend a detailed institutional structure for construction management taking into account lender requirements for bid transparency, and effective as well as commercial on-time and on-budget objectives.

B. National Consultants (15 person-months)

6. **Detailed Design Engineer** (5 person-months). The consultant will be an engineer and must have solid knowledge and practical experience in architecture. The consultant will advise Kazpost on all aspects of development of technical requirements for building construction considering various climatic conditions, preparation of standard construction planning documents, and obtaining necessary permits and clearances for construction (ecology, land, state appraisal, etc.)

7. **Information Technology Specialist** (5 person-months). The consultant will advise Kazpost on porting (connection) of new local postal offices to Kazpost's integrated information-communication system and equipping postal offices with information technology and banking equipment.

8. **Construction Budgeting Specialist** (5 person-months). The consultant will advise Kazpost on the development of the initial project construction cost estimate for review by the international construction management consultant. The consultant must create a macro budget that can easily be updated to take account of macro changes in construction market prices as well as individual project changes. The consultant will work closely with the international consultants

C. Reporting Requirements

9. The team leader will manage the consultant inputs to produce the required outputs including reports, all of which must be in both English and Russian. At the end of the first month following TA start-up, the team leader will submit (i) an inception report for international consultant work and interface with the domestic consultants, and (ii) a detailed work plan. The team leader will also submit short-form monthly progress reports during TA implementation and a draft final report will be required before the end of the TA. Other key deliverables are a draft business plan and draft ratings application package. (Consultants will be contributing to but not take final responsibility for final versions of Kazpost documents.) Other detailed reports on specialized matters will be in accordance with the detailed terms of reference. Final reports will be submitted 1 month after comments on the draft final report are made by Kazpost, Samruk, and ADB. Review meetings of the coordinating committee will be held at regular intervals to discuss TA progress.