

TAR:KAZ 29021

ASIAN DEVELOPMENT BANK

TECHNICAL ASSISTANCE

TO THE

REPUBLIC OF KAZAKHSTAN

FOR

FINANCIAL SECTOR ADVISORY SERVICES

October 1995

CURRENCY EQUIVALENTS
(as of 4 August 1995)

Currency Unit	-	Tenge (T)
D 1.00	=	\$0.0179
\$1.00	=	T56

ABBREVIATIONS

NBFI	-	Nonbank Financial Institution
NBK	-	National Bank of Kazakhstan (central bank)
TA	-	Technical Assistance
WB	-	World Bank

NOTES

- (i) The Government's fiscal year ends on 31 December.
- (ii) In this Report, "\$" refers to US dollars.

I. INTRODUCTION

1. During a Country Programming Mission's visit to the Republic of Kazakhstan in October 1994, the Government sought Bank technical assistance (TA) to (i) provide financial sector advisory services; and (ii) assess the present conditions and trends of the financial sector, focusing on nonbank financial institutions (NBFIs). The request was made in light of the ongoing reform process, and to help identify and overcome impediments to the sound development of the NBFi sector. A Bank Fact-finding Mission, which visited Almaty from 22 April to 1 May 1995, reached an understanding with the authorities concerned on the broad terms of reference for the TA. This Report is based on the Mission's discussions, findings, and recommendations.¹

II. BACKGROUND AND RATIONALE

2. The Government began its economic transition upon the demise of the Former Soviet Union (FSU) in 1991 and is currently implementing a broad-based economic reform program, giving high priority to the financial and industrial sectors.² There have been substantial advances (e.g., the inflation rate has been brought down from 2,000 percent to 40 percent per annum and the new currency [tenge] has remained relatively stable during the last six months); however, production levels are still declining, albeit at a slower rate. (Gross Domestic Product [GDP] fell approximately 50 per cent between 1991 and 1994.)

3. Market-oriented macroeconomic management techniques are being introduced in consonance with the deepening of the reforms in various sectors, particularly in the financial sector, to make the changing structures respond efficaciously to price signals. Financial sector reforms have been accorded high priority to ensure (i) a stable and sound transition towards better market allocation of scarce economic resources, and (ii) mobilization of domestic savings in accordance with the growing needs of the economy.

4. The previous financial system of Kazakhstan played little, if any, role in mobilizing or allocating resources, serving mainly to provide liquidity to current transactions. Mobilization of financial resources was not one of its functions, as this was fulfilled by the mandated Soviet-wide investment plan. The prevailing economic and financial conditions are still largely determined by the role that Kazakhstan played within the larger economic framework of the FSU. In this context, the economy was compelled to specialize along administrative lines, largely divorced from market or competitive considerations. Thus, Kazakhstan is burdened with a legacy of production inefficiencies and indifference towards the consumer. The services sector, of which the financial sector is one component, is the most distinct example. Institutions such as market mechanisms will need to be created from scratch, and social norms such as unwritten market rules will need to be understood and practiced. Equally important, adequate financial market mechanisms will urgently need to be introduced to fill the void left by the disintegrated command-economy allocative mechanisms.

¹ The TA first appeared in *ADB Business Opportunities* in June 1995.

² In March 1995 the Bank approved a TA that aims at identifying a policy reform agenda for the industrial sector: TA No. 2313-KAZ: *Industry and Enterprise Sector Reform* for \$600,000 approved on 20 March 1995. The two-pronged approach of linking the industrial and financial sectors is part of the Bank's current strategy in its operations in Kazakhstan.

5. Despite historical and structural obstacles, the steady transition process has led to unequalled growth in the financial sector. However, the growth has not been orderly nor has quality in the services provided been adequately induced. The growth pattern of the fledgling financial sector is a clear indication that the regulatory framework required to guide the transition phase properly is not yet in place. The pitfalls are magnified by the dearth of qualified human resources and learning processes. These deficiencies highlight the changes needed in the financial system to stimulate and sustain real sector growth in desirable directions. Moreover, the lack of clear-cut rules prevents an appropriate broadening and diversification of the financial sector, limiting financing sources mostly to short-term commercial bank credit.
6. Significant measures and institutional strengthening are still needed before the National Bank of Kazakhstan (NBK), the central bank, can effectively ensure monetary stability and the soundness of the financial system, including NBFIs. Despite the introduction of relevant legislation that allows financial transactions to take place in a number of ways, most financial transactions are still settled in cash, and substantially in foreign currency. Lack of enforcement capability precludes action to ensure compliance. Equally important are the yet unknown consequences — in terms of policy implications and structural stability — of ample bank licensing since the onset of the reforms. Appropriate prudential regulations for banks and NBFIs have yet to be developed and the supervisory role of Government agencies is still coalescing.
7. The ongoing reform process has reorganized the financial system into a two-tier system in which the financial institutions are gradually learning the means to mobilize and allocate resources. NBK is operating under a traditional central bank charter and its earlier commercial banking operations are being phased out. A commercial bank law has been drafted and its approval is expected before the end of the year. Despite the lack of a legal basis, approximately 200 commercial banks (only about 25 are relatively significant) are now operating in the country and are learning the business practices of deposit mobilization and credit operations. However, the financial system is dominated by state commercial banks whose loan portfolios are of poor quality; private domestic banks hold less than 12 percent of all bank assets while joint ventures hold about another 12-13 percent. Nevertheless, in only three years the banks' asset structure has drastically changed and private intermediaries now hold 25 percent.
8. In this context, NBFIs are gradually beginning to emerge. There are two recently established leasing companies, one state-owned and the other a joint venture between the local private sector and a Korean concern. Although there are two (inactive) stock exchanges, there is still no approved securities legislation. A National Securities Committee has been established to oversee the operations of the stock exchanges but its corporate and regulatory independence is uncertain, and its highest governing body is not clear as both the Cabinet of Ministers and the Supreme Council claim statutory authority. Some investment funds are engaged mostly in buying privatization share/coupons, but this activity is considered highly speculative as secondary markets have yet to appear and therefore lack a liquidity base. Moreover, the real assets supporting these coupons have yet to be market-priced.
9. NBFIs still do not play a significant role in overall resource mobilization. The lack of a suitable legal and regulatory environment is a major obstacle for their development; a second obstacle is the still coalescing short-term money markets and banking sector. In this context, commercial sources of medium- and long-term financing are close to nil and the Government is attempting to fill the gap with the establishment of policy-oriented long-term

lending institutions. However, based on current reforms and after the new private financial institutions, including foreign ventures, consolidate, they will probably accelerate the broadening of the financial sector and lead to a greater variety of financial instruments and intermediaries, including the deepening of NBFIs operations. In the context of the envisaged financial sector widening, the aims of the TA are timely and necessary. Sufficient lead time is required as the role and constraints of NBFIs has barely been examined, encouraged, or assisted. Moreover, specific technical expertise is still required to link the short- and long-term ends of the market.

10. Since early 1992, the financial sector reform process has benefited significantly from external assistance. The International Monetary Fund approved in 1993 an Enhanced Structural Adjustment Facility, and in 1994 a Stand-by Agreement. Negotiations to initiate a second Stand-by Agreement were concluded in early June 1995. The International Monetary Fund (IMF) and the World Bank (WB) have also been providing specific TA for the implementation of financial sector reforms. The WB approved in 1993 the Rehabilitation Loan of \$180 million to support the stabilization efforts, and in April 1995, the Finance and Enterprise Development Loan of \$72 million. The WB is processing the \$150-180 million Financial Sector Adjustment Loan, with approval expected in early 1996. Bilateral agencies are also assisting in reforming the financial sector, particularly in developing human resources and establishing appropriate sectoral infrastructure, including facilities for trading long-term securities.

11. The Bank approved in December 1994 its first loan to Kazakhstan for \$60 million, including \$20 million from the Asian Development Fund.¹ The loan has a component targeting the financial sector by providing foreign exchange through an auctioning mechanism to five banks. The TA is the Bank's initial assistance to Kazakhstan's financial sector. Appropriate evaluation and monitoring of new developments will help identify emerging key policy issues and areas that may require swift attention. The TA is a step in this direction.

12. The achievements reached under the reform process are a clear signal that the Government wishes to extend the scope of financial intermediation under more transparent market-based standards to encourage a higher degree of efficiency and efficacy. However, the human resources, the institutional structures, and the policy environment need to be improved if the goals envisaged under the ongoing reform program are to be accomplished soon. The Government is of the view that the TA is timely and will contribute significantly to identifying and prioritizing necessary reforms. The medium- and long-term roles of the financial sector have to be further demarcated to allow the timely introduction of appropriate reform measures to promote stable growth in congruence with the arising needs of the growing economy.

III. THE TECHNICAL ASSISTANCE

A. Objectives

13. The TA will provide advisory services to NBK and review the NBFI subsector's structure, trends, scope, and restrictions. The review will examine (i) the status of the financial policy and regulatory frameworks, focusing on NBFIs, to identify existing or emerging sectoral or subsectoral weaknesses and links; and (ii) the corresponding policy issues that they are

¹ Loan No. 1337/1338-KAZ: *Special Assistance Project*, for \$60 million, approved on 6 December 1994.

generating, particularly for NBFIs, and need to be addressed to maintain and facilitate a stable transition towards market-based mobilization and allocation of financial resources. In this connection, the TA aims at (i) identifying a set of practical policy recommendations that target the NBFI subsector and can be implemented within a time-bound action-oriented program, and (ii) strengthening new institutions that are attempting to fill existing resource allocation gaps while enhancing the role of the financial system as an allocative mechanism. The TA will also help consolidate the Bank's knowledge of the economy of Kazakhstan and will provide a better perspective to the Bank's future assistance programs. The formulation of the review has taken into account the activities of other aid agencies in the financial sector, by focusing on NBFIs and avoiding duplication. The review will seek to identify areas that require further examination from the international community, enhancing aid coordinating efforts. Identifying the NBFI subsector as the focal point of the TA will complement the work of other agencies, as little work has been undertaken or is being planned in this area. Central banking operations also need to be strengthened to ensure more cohesive financial links between commercial banks and NBFIs. An adviser to NBK will provide support in developing these links, leading to a sounder base for the promotion of NBFIs.

B. Scope

14. The policy-oriented review will (i) analyze the structure, trends, impediments, and key policy issues affecting development of NBFIs, taking into consideration earlier work by the Bank and other agencies; (ii) examine the enabling legal environment and proposed legislation pertaining to the NBFI subsector; (iii) examine the existing regulatory framework of the financial system as it pertains to the establishment and operations of NBFIs, with a view to identifying measures to improve the financial sector's efficiency and/or effectiveness and allowing NBFIs to enhance their operating radius; (iv) provide an issues paper to form the basis for the initiation with the Government of a policy dialogue on the future development of NBFIs, particularly for private investment funds and the corresponding regulatory framework; and (v) produce a detailed, cohesive, and time-bound agenda of policy reform measures to allow greater NBFI participation in the financial sector.

15. By focusing on NBFIs, the TA supports and complements WB and Government efforts aimed at increasing (i) the market orientation of financial sector policy, (ii) the financial sector's efficiency in domestic resource mobilization and its linkages with efficient allocation by facilitating the introduction of new agents and instruments and strengthening the policy environment, and (iii) the accuracy and selectivity of financial sector data to support future policy design and implementation.

16. The TA is also designed to provide direct assistance in policy design and implementation, and on-the-job training to NBK officials with a view to facilitating the emergence of NBFIs. Moreover, since early 1994 the Government has been issuing short-term paper to increase its revenues. NBK, being the fiscal agent of the Government, requires the strengthening of its open market operations and human resource base in this area.

C. Cost Estimates and Financing Plan

17. The total cost of the TA is estimated at \$630,000 equivalent, comprising foreign exchange costs of \$540,000 and local currency costs equivalent to about \$90,000 (see

Appendix 1). The Bank's TA grant of \$600,000 equivalent will meet the entire foreign exchange requirement, and part (\$60,000) of the local currency costs to cover transportation, translation, and local consultancy. The remaining \$30,000 will be contributed by NBK in kind to cover office facilities, translation, local communication, and other administrative expenses and functional support. The TA will be charged to the Bank-funded TA program. The grant may cover some minor expenses for outfitting the consultants' office.

D. Implementation Arrangements

18. The Executing Agency for the TA will be NBK, which will provide counterpart staff, office space, necessary data and information, and other administrative services as may be reasonably required. The Ministry of Finance will designate a counterpart official to interact with the consultants. Selected NBK staff, under the guidance of a senior NBK staff member, will be designated to work and interact with the consultants. NBK will provide support services to the consultants in carrying out their assignments, including adequate counterpart support, economic and financial data when available, and basic communication facilities.

19. The TA will require five experts, including four international consultants and one domestic consultant, who will (i) review the status and potential for the development of NBFIs, and corresponding policy/supervisory frameworks (the team leader; five months); (ii) review economic policy and regulatory frameworks in the context of the ongoing sectoral reforms and the needs to develop the NBFIs subsector (three months); (iii) review the financial/legal business enabling environment and existing financing mechanisms as they relate to NBFIs (four months); and (iv) assist the other experts, particularly in data gathering and analysis (local macroeconomist/financial sector specialist, 4 months); (v) provide advice to NBK on financial sector and central bank policy, particularly on those aspects relating to NBFIs (six months).

20. The review will be implemented within a five-month period and the advisory component will comprise six person-months of consultant services in NBK. The TA will require a total of 22 person-months, including 4 months allocated to the local consultant. The consultants will be engaged directly as individuals or through a firm in accordance with the Bank's *Guidelines on the Use of Consultants*, depending on their experience for the assigned task. The team leader will ensure that the consultant inputs are effectively coordinated and that the review component of the TA is satisfactorily implemented, in accordance with the TA's objectives.

21. The team leader will submit to the Bank and NBK an inception report within three weeks of initiating services, an interim report seven weeks after commencing the assignment, as well as progress reports, and a draft report by the end of the field work. The other international consultants will provide the team leader with separate final reports, which will be reviewed by the Bank and taken into account by the team leader in preparing the draft final report (the review). A tripartite meeting among the team leader, NBK, and the Bank is proposed to be held by the end of field services to discuss the proposed policy agenda.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated to him by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Republic of Kazakhstan in an amount not exceeding the equivalent of \$600,000 for the purpose of Financial Sector Advisory Services, and hereby reports his action to the Board.

ESTIMATED COSTS AND FINANCING PLAN
(\$'000)

Item	Foreign Currency	Local Currency	Total
A. Bank Financing			
1. Consultants			
a. Remuneration			
i. International Consultants	330	—	330
ii. Domestic Consultants	—	8	8
b. Per Diem			
i. International Consultant	80	—	80
c. Travel			
i. International Consultant	30	—	30
ii. Domestic Consultant		10	10
d. Preparation of Reports	10	—	10
e. International Communications	5	—	5
f. Office and Other Administrative Expenses	—	15	15
2. Government Observers(s) in Contract Negotiation	9	—	9
3. Miscellaneous TA Administration and Support Costs			
a. Translation/simultaneous Interpretation	5	10	15
b. Computer Support	20	—	20
c. Secretarial	—	5	5
4. Contingencies	<u>51</u>	<u>12</u>	<u>63</u>
Sub-total (A)	540	60	600
B. Government Financing			
1. Office Facilities	—	20	20
2. Translation, communication and other administrative expenses	<u>—</u>	<u>10</u>	<u>10</u>
Sub-total (B)	<u>—</u>	<u>30</u>	<u>30</u>
Total (A + B)	540	90	630

(Reference in text: page 4, para. 17)

DETAILED TERMS OF REFERENCE

A. General Considerations for Consulting Services

1. The international experts will be expected to have relevant post-academic working experience in economies in transition and to have at least ten years of experience in the specific areas for which they will provide their services. The team leader will be expected to have an advanced degree in economics with demonstrable research and/or consulting experience in financial sector policy reform. The local consultant will be expected to have at least a degree in economics and working knowledge of Russian. Each consultant will be expected to provide separate monthly progress reports to the Executing Agency and the team leader, who will consolidate them for transmittal to the Bank. At the end of the assignment, each consultant will conduct a seminar to interested Executing Agency staff, covering the areas examined, the recommendations provided, and their rationale. The final report (the review), to be prepared by the team leader, should detail specific gaps and structural weaknesses and specify recommendations for strengthening the financial structures related to consolidation of the nonbank financial institution (NBFI) subsector.

2. The following experts will be required:

- (i) The senior financial sector/macroeconomist (team leader) will be engaged for five months to review the policy and regulatory frameworks for financial institutions, focusing on NBFIs. The expert should have substantial experience in NBFI policy issues, and preferably exposure to regulatory and supervision aspects, and must have dealt or be familiar with NBFI regulatory supervision, financial sector, and policy issues in transitional economies.
- (ii) A macroeconomist will be engaged for three months to review the policy framework (monetary and fiscal policy/operations), highlighting its relevance to the current and future issues of the NBFI subsector. The expert should be knowledgeable in macroeconomic policy, and have relevant experience in macro policy analysis of transitional economies and awareness of specific financial sector policy issues related to the transition process.
- (iii) A legal/financial expert will be engaged for four months to review the enabling legal framework of the financial business environment. The expert should have substantial experience in business and financial laws, and, preferably, experience as a senior private investment banker and exposure to economies in transition. The expert will also examine the financing sources of NBFIs by designing and undertaking a suitable survey. The expert should have substantial experience in accounting standards and practices, and financial analysis in financial institutions.

(Reference in text: page 5, para. 19)

- (iv) A local consultant specializing in macroeconomics will be engaged for four months to assist in data gathering and analysis. The consultant should have practical and analytical knowledge of existing economic structures and regulatory framework in Kazakhstan or other Central Asian Republic.
- (v) A senior central bank/fiscal adviser will be engaged for six months to assist and advise the central bank policy makers and review the monetary and fiscal sectors as they relate directly to financial/central bank policy, particularly aspects relevant to NBFIs. The expert should have suitable academic credentials, ample research and practical experience in a central bank/public finance operating environment, and direct exposure to public finance issues of economies in transition.

3. The consultants will work as a team under the general guidance of the senior macroeconomist who will act as the team leader. The team will collaborate closely with experts from other agencies working on related objectives. The review component will be implemented within a five-month period and will require approximately 16 person-months of consulting services, including 4 person-months of local consultancy. The advisory component will last six months.

B. Specific Terms of Reference of the Consultants

4. The senior financial sector/macroeconomic expert, as team leader, will become familiarized with the current Government economic strategy/policy reform measures and ensure that the final report is in general harmony with such strategy. The team leader will function as on-site liaison with concerned multilateral and bilateral agencies. The expert will produce a stand-alone report that will (i) examine the regulatory capability of the National Bank of Kazakhstan (NBK) and other relevant agencies', including reporting and enforcement; (ii) provide a critical analysis of the structure and trends of the financial sector structures, focusing on NBFIs' requirements, and their implications for the sound development of the financial sector in terms of systemic risks and the sustained growth of the economy in general; and (iii) with the collaboration of the macroeconomists, summarize relevant studies carried out, or technical assistance provided, by other agencies to strengthen NBFIs' policy/regulatory frameworks. The team leader will prepare a comprehensive profile and evaluation of the country's NBF industry and the corresponding regulatory environment, focusing on its current efficacy, prospects, and suggestions for its further development. This profile will highlight particularly the recent regulatory reforms and their overall impact and effectiveness given the recent growth in the financial sector, and its implications for the development of the NBFIs (particularly public and private investment funds), and the economy in general. The report should incorporate but not be limited to the following:

- (i) In conjunction with the international macroeconomist, review the financial sector policy/operations of the Government, including the NBK; identify constraints; and make recommendations aimed at enhancing economic policy effectiveness related to NBFIs; and

- (ii) In conjunction with the international macroeconomist, review the rationale, scope, and enforcement of the existing regulations and the level of NBK's or other relevant agencies' supervisory capabilities, including the adequacy of their organizational arrangements to undertake these tasks and the corresponding recommendations to enhance their effectiveness in terms of NBFIs operations.
 - (iii) Review in detail the policies relating to the licensing and accreditation of NBFIs, and propose suitable and practical recommendations for improving the licensing/accreditation system.
 - (iv) Identify pragmatic and easily implementable measures for the improvement of sectoral efficiency, such as prudential regulations, including recommendations for preferable measures for enforcement; the recommendations should aim at encouraging the development (size, business focus, sources and uses of funds, clients) of NBFIs.
 - (v) Based on findings and recommendations, supply a comprehensive document in which the NBFIs sectoral policy requirements to sustain a sound economic transition and development of the financial system are fully considered and which aims at increasing the level and diversification of savings mobilization and financial intermediation. The review's main thrust will be its analysis of the nonbank financial sector, particularly with respect to NBFIs' developmental issues, and make precise recommendations to overcome pertinent institutional and policy restrictions.
 - (vi) Insure the compatibility and cohesiveness of the proposed NBFi financial sector policy program/agenda in regard to sectoral (general and specific) policies, institutions, and instruments, and refine the frame for their implementation. The review will suggest practical methods or procedures for monitoring and measuring the implementation of NBFi policy reforms. The program/agenda should give foremost priority to improving the competitiveness of the financial system, strengthening and diversifying financial intermediation, enlarging maturity profile of financial instruments, and mobilizing domestic financial resources (savings and other sources of finance).
5. The macroeconomist will become familiar with recent and ongoing studies and projects in the financial sector by other agencies, such as the International Monetary Fund, World Bank, and United Nations Development Programme. To the extent possible, the expert will collate such studies/projects, as determined by the team leader. The macroeconomist will work closely with the team leader, providing the general framework for the policy agenda. The report should incorporate but not be limited to the following:
- (i) Evaluate the directions, specific characteristics, and progress of the ongoing financial sector reforms as these relate to NBFIs, with particular emphasis on the design and implementation of policy and regulatory frameworks. Taking into account earlier studies undertaken by the Bank and other agencies, analyze the structural features of the financial sector and identify the institutional obstacles to further development of the NBFIs. Identify policy and regulatory issues that need

resolution or are emerging. Assess the scope for further development of the sector and for enhancing the policy links between the monetary and fiscal environments and NBFIs. The evaluation should give attention to the links between the real and financial sectors of the economy.

- (ii) Describe and assess the economic and financial impact of the reform measures implemented during the last three years on the role of state and private financial intermediaries. Recommend measures to enhance the role of private NBFIs and the soundness and stability of NBFIs' operating environment.
- (iii) Support the team members in framing the time-span (2-4 years) of their time-bound policy agendas of specific measures. Assist the team leader in ensuring that the set of proposed measures aim towards the development and diversification of the financial sector as it relates to NBFIs, particularly with regard to increasing the market orientation of macroeconomic policy, improving the competitiveness of the financial system, developing private financial institutions under balanced competitive conditions, and increasing mobilization and diversification of short-term and long-term domestic financial resources.
- (iv) Prepare an analytically consistent report, taking into account team member's findings and recommendations, and focusing on the policy, institutional, and regulatory reforms needed to sustain sound development of the financial system congruent with the requirements of the real sector and in support of the NBFIs subsector.

6. The legal/financial specialist will, with the assistance of the international and local macroeconomists, survey the financing needs and existing financing mechanisms for NBFIs. The expert will prepare a comprehensive evaluation of the survey results to support the recommendations presented in the report. Based on the survey and other findings, the report will center specifically on (i) making recommendations to identify and enhance financing mechanisms for the development of NBFIs, and (ii) detailing gaps and structural weaknesses and specifying recommendations for strengthening the financial business environment, including the enabling legal framework. The report should incorporate but not be limited to the following:

- (i) Provide an appropriate statistical (descriptive as well as inferential) survey of the NBFIs' financing needs and mechanisms.
- (ii) Identify the main legislative reform measures that have been implemented, and the issues encountered (resolved and unresolved), in the development of NBFIs' legal and regulatory framework. Critically review the status of the current regulations pertaining to the encouragement of private financial enterprises. Formulate a set of recommendations emphasizing ways to increase the level of private sector participation in the financial sector, and specify monitorable elements and targets for implementation.
- (iii) Identify the different financing sources available to NBFIs, and recommend measures or channels to increase their access to financing. Evaluate the

possibilities of integrating into the organized sector the informal financing mechanisms utilized by non-state firms.

- (iv) Assess the legal basis needed to ensure NBFIs sound business operations, particularly for secured loans and other transactions. Assess weaknesses in legal enforcement of contracts, and laws relating to the entry and exit, particularly of NBFIs.
- (v) To the extent feasible, and keeping in mind the relevant experience of other transitional economies, identify the main reform measures that have been implemented for and the issues encountered in the development of the enabling legal structures that relate directly to the development of the NBF subsector.
- (vi) Examine the provisions of any proposed legislation related directly to the financial sector, deducing its likely short-, medium-, and long-term impact on the development of NBFIs and the immediate measures/actions, if any, required to achieve the objectives of the legislation and enhance the NBF operating environment.
- (vii) Formulate a sector framework in consultation with team leader, showing the roles and business scopes of NBFIs, highlighting the needed measures for further reforms and strengthening the recommendations suggested by the other experts by providing time-bound practical policy recommendations.

7. The local macroeconomist will help gather and analyze data as requested by the team leader. The consultant will produce a detailed and self-contained description of the evolution of the private financial institutions that should focus on the role and efficacy (or otherwise) of existing institutional framework for mobilizing domestic resources. The macroeconomist will also assist the team leader in assessing the status of the regulatory framework in the financial sector and as requested, verifying data being analyzed by team members. The expert will (i) provide a detailed review of recent training in the country's financial sector; (ii) provide, in consultation with NBK and the other consultants, a practical training-needs assessment for the development of NBFIs; and (iii) assist in ensuring that data to be analyzed by the other consultants is accurate and the most recent.

8. The main task of the central bank/fiscal advisor will be to provide advice to policy makers on the design and implementation of monetary/fiscal policy from the NBK's point of view and towards facilitating the growth of NBFIs. In this regard, the expert is expected to collaborate with the other team members, as needed. The expert will review the status of public revenues, and their fiscal and monetary linkages, focusing on NBFIs. The fiscal expert will also be expected to evaluate the existing conditions and potential for developing public financing mechanisms under existing and different tax structures. The expert's task will take into account the public finance work being developed by United States Agency for International Development (USAID)/International Monetary Fund (IMF). During the initial phase, the consultant will thoroughly review the country's bill market, focusing on its status (i.e., previous and outstanding issues, maturities, and pricing), and identify the existing constraints to its further development. The assignment will require the following:

- (i) Provide an up-to-date and documented detailed history of the debt paper issuing process in Kazakhstan since 1994 and the public financing mechanisms in existence during 1991-1993. Record the relevant policy actions taken and their effects in the financial markets. Assess the constraints on the development of the bill market and recommending how the constraints can be removed.
- (ii) Taking into consideration the public expenditure constraints and current central bank policy, describe and assess the evolution of the Government's revenue structure in the last 3-5 years, including the economic and financial impact of the different tax reform measures, and make suitable and implementable recommendations for increasing the level of efficiency and amount of domestic resource mobilization through market channels.
- (iii) Examine the institutional fiscal/financial environment such as sources of revenues, tax rates, etc., and recommend alternative measures for financing public expenditures directly from market mechanisms, including tax neutral measures and short-term securities, etc. The evaluation should detail operational gaps and weaknesses in the institutional structure, and the recommendations should seek to overcome these deficiencies.
- (iv) Recommend measures for improving the design, and assist, when requested, in the implementation of monetary policy, focusing on open market operations.
- (v) In consultation with team members, examine the current fiscal legislation and policies, as well as fiscal directives and laws/decrees to be adopted shortly in relation to the financial sector, and offer useful and practical recommendations, in a context of monetary and fiscal policy cohesiveness, for enhancing competition through fiscal means, and financial intermediation and diversification.
- (vi) Assess the coherence of the existing public sector's domestic borrowing for budgetary needs and its impact on the financial sector, and provide specific practical recommendations for its rationalization. Particular attention should be given to its effects on the money markets and on the NBFIs operating environment.
- (vii) Formulate a medium-term policy agenda emphasizing avenues for minimizing monetary financing of public expenditures and aiming at a budget compatible with the development of a sound financial policy framework and of the financial sector in general. The policy agenda will be explicit in setting out specific monitorable elements and targets for implementation. The fiscal expert will work closely with the team leader in this component.
- (viii) Assist the team members in the area of financial policy and regulation as they pertain to the development of the NBFIs subsector. Assist the team in identifying NBFIs developmental constraints and collaborate in formulating recommendations to remove them.

C. Output

9. The review will produce (i) a data base; (ii) an analytically cohesive assessment of existing financial sector regulatory and supervisory guidelines/instructions; (iii) an analysis of the NBFIs and the NBFI subsector structure, trends, issues, prospects, and regulations, including an operational strategy for the development of the NBFI (iv) a quantitative analysis of the existing financing needs and mechanisms of NBFIs; (v) a general strategy and operational agenda for future Bank assistance for the NBFI subsector; and, (vi) an implementable time-bound financial sector policy program/agenda targeting the NBFI subsector. At the end of the assignment, each consultant will conduct a seminar to interested Executing Agency staff, covering the areas examined, the recommendations provided, and their rationale. The output also includes advisory assistance to NBK and on-the-job training to selected staff.

D. Implementation Arrangements

1. Executing Agency

10. The Executing Agency for the TA will be NBK, the central bank, which will provide counterpart technical services, supporting staff, office space, necessary data and information, and other administrative services as may be reasonably required. The Ministry of Finance will designate a counterpart official to interact with the consultants. A senior NBK official will be designated to liaise with the consultants.

2. Reporting Requirements

11. The team leader will submit to the Bank and NBK an inception report three weeks after commencement of services, an interim report within ten weeks of initiating assignment, as well as monthly progress reports, and a draft final report by the end of the field work. The three other international consultants will provide the team leader with separate final reports, which will be reviewed by the Bank and taken into account by the team leader in preparing the draft final report (the review). The team leader, in consultation with the Bank, will determine the reporting mode for the local consultant. A tripartite meeting among the team leader, NBK, and the Bank is proposed to be held by the end of field services to discuss the proposed policy agenda. Thereafter, the team leader will submit a final report. The TA will be considered finalized when the final report is approved by the Executing Agency and the Bank