Kazakhstan

National Fund of the Republic of Kazakhstan
Synopsis

Market Value

National Fund of the Republic of Kazakhstan
$68.9 billion

Santiago Compliance Index
Not rated

Resource Governance Index Natural Resource Fund Score
67 / 100

Truman Sovereign Wealth Fund Scoreboard
71 / 100

Good Governance Fundamentals

<table>
<thead>
<tr>
<th>Good Governance Fundamentals</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear Deposit Rules</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Clear Withdrawal Rules</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Clear Investment Rules</td>
<td>No</td>
<td></td>
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<tr>
<td>Transparent</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Publicly Available Audits</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Effective Oversight</td>
<td>No</td>
<td></td>
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</tbody>
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Fund Highlights

- The National Fund was established in 2000 as a dual-purpose stabilization and savings fund.
- Deposit rules are detailed and require deposits of oil and gas revenues into the Fund, as well as the proceeds from the privatization of state property from the mining, manufacturing and agricultural sectors. However the list of companies whose taxes are deposited into the Fund may be changed arbitrarily from year-to-year.
- Withdrawal rules are detailed, but were changed three times in seven years.
- While there are some limitations on investment risk, the government enjoys significant discretion in choosing where it invests.
- The lack of independence by the parliament or Management Council impedes effective oversight.
- While deposit and withdrawal amounts are made public, there is virtually no public reporting on specific assets or even asset allocation.
KAZAKHSTAN

Timeline and Fund Objectives

**Fund Inception**
- The National Fund of the Republic of Kazakhstan was created by Decree of the President of the Republic of Kazakhstan No. 402 on August 23, 2000.¹

**Fund Objectives**
- The Fund was created as a stabilization fund to reduce the negative impacts of volatile oil prices on the economy, and as a future generations savings fund to save a portion of oil revenues for future generations.²

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¹ For further reading: [Decree of the President of the Republic of Kazakhstan No. 402](https://example.com/decree-no-402).

² For further reading: [Decree of the President of the Republic of Kazakhstan No. 962](https://example.com/decree-no-962).
Good Governance Standards and Gaps in Regulation

Operations
- Objectives are Clear
- Rule for How Much Can be Withdrawn in Any Given Year
- Rule for Which Revenues Must be Deposited and When
- Exceptions to Rules are Clarified

Investment
- Use of Resource Revenues as Collateral
- Domestic Investment is Explicitly Prohibited
- Investment Risk Limitations
- Publication of Specific Investments

Management
- Penalties for Misconduct by Fund Managers & Staff
- Ethical & Conflict of Interests Standards for Managers & Staff
- The Detailed Responsibilities of Fund Managers & Staff
- The Role of Government Agencies in Fund Management

Transparency and Oversight
- Public Disclosure of Independent External Audits
- Public Disclosure of Internal Audit Results
- Formalized Oversight Mechanism
- Public Disclosure of Regularly Compiled Fund Reports

Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.
KAZAKHSTAN Natural Resource Funds

Operational Laws, Rules and Policies

**Fund Deposit Rules**

2000 - 2004

- Deposit rules were ambiguous. The budget surplus, determined annually by the President, was deposited from the national budget into the Fund.³

2005 - present

- Presidential Decree No. 1641 specifies the Fund’s deposits as:
  - Direct taxes (excluding local taxes which go to local budgets) on approved petroleum corporations including corporate income tax, excess profit tax and rent tax on oil and gas exports as well as bonuses, royalties and production sharing;
  - Other income from petroleum operations such as fines from violations of the terms of an oil contract;
  - Proceeds from the privatization of state property in the mining and manufacturing sectors;
  - Proceeds from sales of agricultural land;
  - Investment income of the Fund; and
  - Other income deposited by the government that’s not prohibited by law.

- The Minister of Finance and the Minister of Oil and Gas jointly approve the list of petroleum corporations that pay the aforementioned taxes.⁵ This list changes from year-to-year.

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**Fund Withdrawal Rules**

2000 - 2004

- Withdrawal rules were unclear as amounts and usage were determined by the President.⁶

2005 - 2009

- Under Presidential Decree No. 1641, withdrawals from the Fund, called “guaranteed transfers”, were only be used to finance the government’s development programs and not current budget expenditures. The amount was determined using the following formula:⁷

  \[
  G = A + bNFRK_{t-1} \times E,
  \]

  where:

  - \( G \) was the transfer amount
  - \( A \) was a number set by law every three years based on the budget’s development programs’ average costs over a given period of time
  - \( b \) was also a number set by law every three years based on the Fund’s average investment income over a given period of time
  - \( NFRK_{t-1} \) was the value of National Fund assets at the beginning of the fiscal year
  - \( E \) was the exchange rate between the Kazakh Tenge and the U.S. Dollar

- To avoid depleting the Fund, guaranteed transfers were prohibited from exceeding one-third of the Fund’s assets.⁸

- One-off withdrawals called “targeted transfers” were permitted in 2008-2009 to finance Samruk-Kazyna, a holding company for state-owned companies, and KazMunaiGas, the national oil company, during the global financial crisis.⁹ Targeted transfers totaled approximately $7 billion.¹⁰

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The Fund’s deposit and withdrawal rules have undergone several significant changes since inception.
Operational Laws, Rules and Policies

Fund Withdrawal Rules

2010 - present

- Presidential Decree No. 962 introduced the most recent rule. Annual transfers are fixed at $8 billion per year, which can now be used to fund current budget expenditures in addition to development programs. The transfer amount can be adjusted by 15 percent through legislation depending on the state of the economy.
- According a law passed in 2012, the transfer amount was increased to approximately $9 billion for 2013. In 2014 and 2015, the transfer will return to approximately $8 billion annually.
- The balance of the Fund cannot fall below 20 percent of GDP in a given fiscal year. If it does, the shortfall is to be covered by cutting the fixed annual transfer by the amount needed to cover the difference.
- A portion of the Fund is also withdrawn to cover the Fund’s operational expenses and to pay for annual external audits.
Operational Laws, Rules and Policies

Flow of Funds

Oil Revenues

Direct taxes paid by approved petroleum corporations and other sources of revenue (see page 5)

National Fund of the Republic of Kazakhstan

Fixed annual transfer of $8 billion or $9 billion (can be adjusted by 15% through legislation), unless the Fund’s balance falls below 20% of GDP, in which case the transfer is reduced accordingly to cover the shortfall

National Budget
Investment Laws, Rules and Policies

Investment Authority

Investment strategy and policies are set by a Management Council consisting of the President, Prime Minister and other high-ranking ministers, government officials and parliamentarians.14

Investment Objectives

The Fund is to be invested in a way that preserves its value and maintains liquidity, while minimizing risk to a moderate level.15

Investment Strategy16

• Since the Fund has two main purposes, stabilization and savings, its assets are also divided into two portfolios for investment purposes:17
  • The stabilization portfolio is invested in highly liquid assets so that funds can be used as needed in the short-term.
  • The savings portfolio’s assets are invested with a view to maximizing long-term returns.

• Government approved investments include:
  • Government and government agency debt securities
  • Debt securities of international financial institutions
  • Corporate debt
  • Equities
  • Deposits
  • Derivatives
  • Cash in foreign currencies
  • Money market funds

Investment Allocation

The target asset allocation of the Fund’s two portfolios is as follows:18

• Stabilization portfolio
  • 50-100 percent foreign currency and U.S. Treasuries
  • 0-50 percent non-U.S. debt securities (rated at least AA or Aa2 by Standard & Poor’s and Moody’s) and debt securities of international financial institutions
  • 0-50 percent deposits
  • 0-20 percent derivatives
  • 0-30 percent corporate debt

• Savings portfolio
  • 70-100 percent fixed income
  • 0-30 percent equity

Actual Investments

Although the Bank of Kazakhstan releases general annual reports that include a section on the performance of the National Fund, it does not go into detail about actual asset allocations by class or geographic location.

Policy on In-State Investments:

Fund assets may not be invested in Kazakhstan.19
Both the Fund and its Management Council were created through Presidential decrees.

The Management Council, consisting of the President and other high-ranking officials, sets general governance and investment policies for the Fund and advises the President of Fund activities.

The Minister of Finance and the Minister of Oil and Gas jointly approve the list of petroleum sector companies whose taxes are deposited into the Fund.

Day-to-day management of the Fund is the responsibility of the National Bank of Kazakhstan, which releases a general report to the public each year that includes a limited section on the Fund. Although there are internal audits according to the National Bank, there is no additional information regarding them.

The Fund’s equity investments are managed externally.

An external auditor is selected by the Management Council, but there is no further information on the external audits, aside from audit expenses. Reports are not published.
Oversight and Safeguards

Oversight Mechanisms

- The Management Council, which includes the President, is empowered by the law to monitor the Fund’s activity, ensuring compliance with the regulations governing the Fund.

- Funds are managed separately from the country’s international reserves.

- The IMF monitors the Fund’s performance through Article IV consultations which are annual reports that evaluate macroeconomic policy.

- Finances are subject to regular and comprehensive internal audits; however, results are not published.

- Fund finances are subject to a regular and independent external audit that meets international standards; however, results are not published.

Common Oversight Mechanisms or Safeguards Not Present in Kazakhstan

- Although spending from petroleum revenues is nominally approved by the Management Council, the President’s presence on the Council limits its independence.

- There is no regular monitoring by citizens or civil society organizations.

- There is no legislative oversight by the Parliament.

The President’s seat on the Management Council limits its independence.
## Transparency Laws, Rules and Policies

There is public disclosure of the following:

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available</td>
<td>yes</td>
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<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports</td>
<td>yes</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>yes</td>
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<tr>
<td>Deposit and withdrawal amounts</td>
<td>yes</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>no</td>
</tr>
<tr>
<td>Detailed asset allocation – asset class</td>
<td>no</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>no</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>no</td>
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</tbody>
</table>
Annex:
List of Applicable Laws

Decree of the President of the Republic of Kazakhstan No. 402
http://adilet.zan.kz/rus/docs/U000000402_

Decree of the President of the Republic of Kazakhstan No. 1641
http://adilet.zan.kz/rus/docs/U050001641_#z0

Decree of the President of the Republic of Kazakhstan No. 336
http://adilet.zan.kz/rus/docs/U070000336_

Decree of the President of the Republic of Kazakhstan No. 725
http://adilet.zan.kz/rus/docs/U090000725_

Decree of the President of the Republic of Kazakhstan No. 962
http://adilet.zan.kz/rus/archive/docs/U100000962_/02.04.2010

Decree of the President of the Republic of Kazakhstan No. 1509
http://adilet.zan.kz/rus/docs/U040001509_#z6

Budget Code of the Republic of Kazakhstan No. 548-2
http://online.zakon.kz/Document/?doc_id=30364477#sub_id=220000

Law of the Republic of Kazakhstan No. 357
http://adilet.zan.kz/rus/docs/Z990000357_#z0
7. Decree of the President of the Republic of Kazakhstan No. 1641 April 2, 2010. Available at: http://adilet.zan.kz/rus/docs/U050001641_#z0
8. Decree of the President of the Republic of Kazakhstan No. 1641 April 2, 2010. Available at: http://adilet.zan.kz/rus/docs/U050001641_#z0