

Natural Resource Funds



Kazakhstan

National Fund of the
Republic of Kazakhstan



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

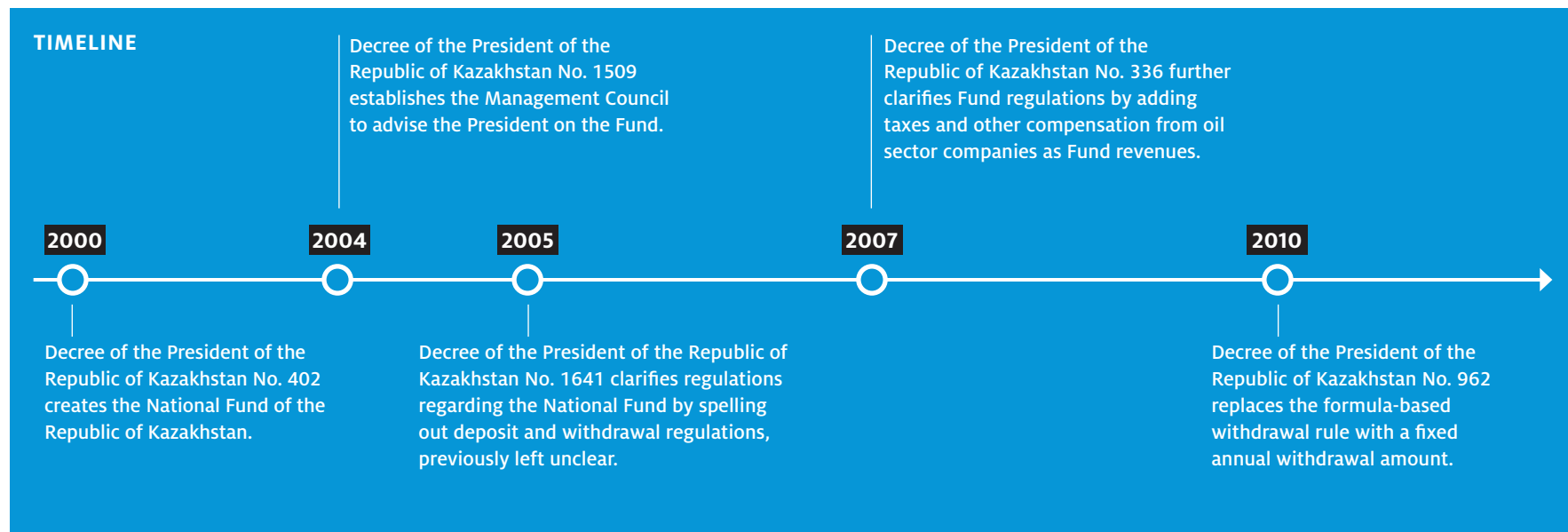
71 / 100

Good Governance Fundamentals	
Clear Deposit Rules	yes
Clear Withdrawal Rules	yes
Clear Investment Rules	no
Transparent	no
Publicly Available Audits	no
Effective Oversight	no

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.



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

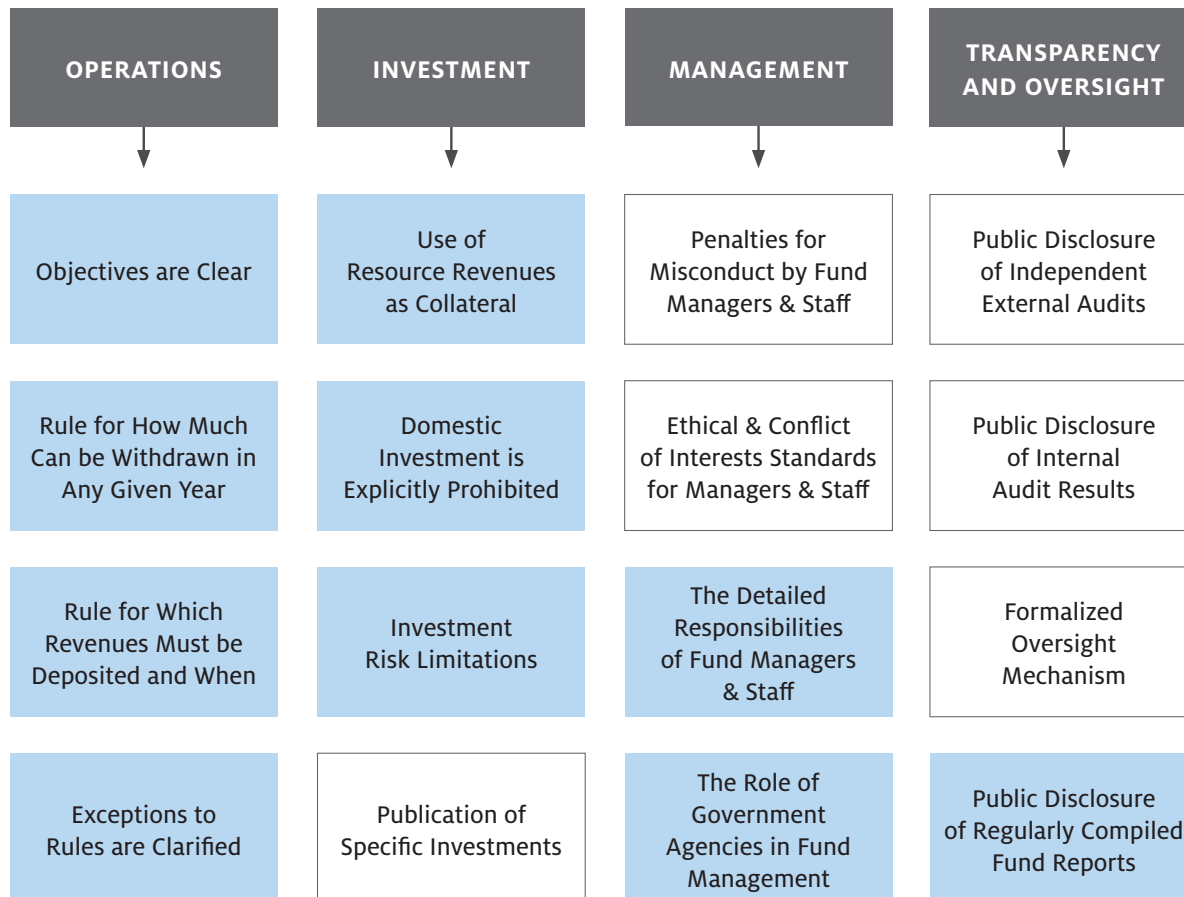
- The Fund was created as a **stabilization fund** to reduce the negative impacts of volatile oil prices on the economy, and as a **future generations savings fund** to save a portion of oil revenues for future generations.²


Good Governance Standards and Gaps in Regulation


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

10/16

Good Governance Standards Met



 Presence of Regulation

 Absence of Regulation

Operational Laws, Rules and Policies

The Fund's deposit and withdrawal rules have undergone several significant changes since inception.

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:⁴
 - 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.

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
 - $G = A + bNFRK_{t-1} * E$, 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

Operational Laws, Rules and Policies

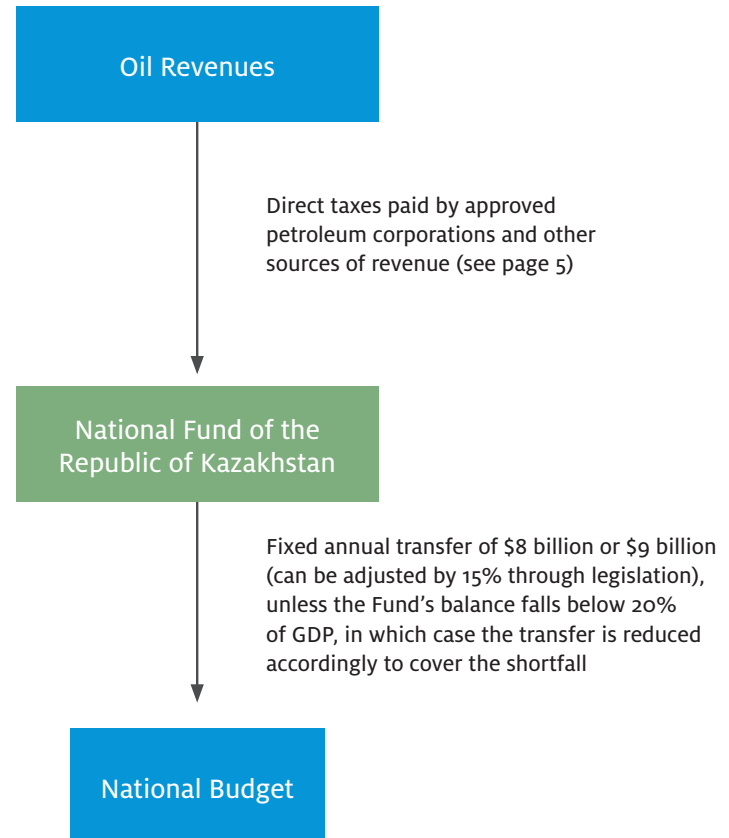
Fund Withdrawal Rules

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.¹¹ 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 2013.¹² 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.¹³
- 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



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

Management and Accountability

Management and internal accountability

Both the Fund and its Management Council were created through Presidential decrees.

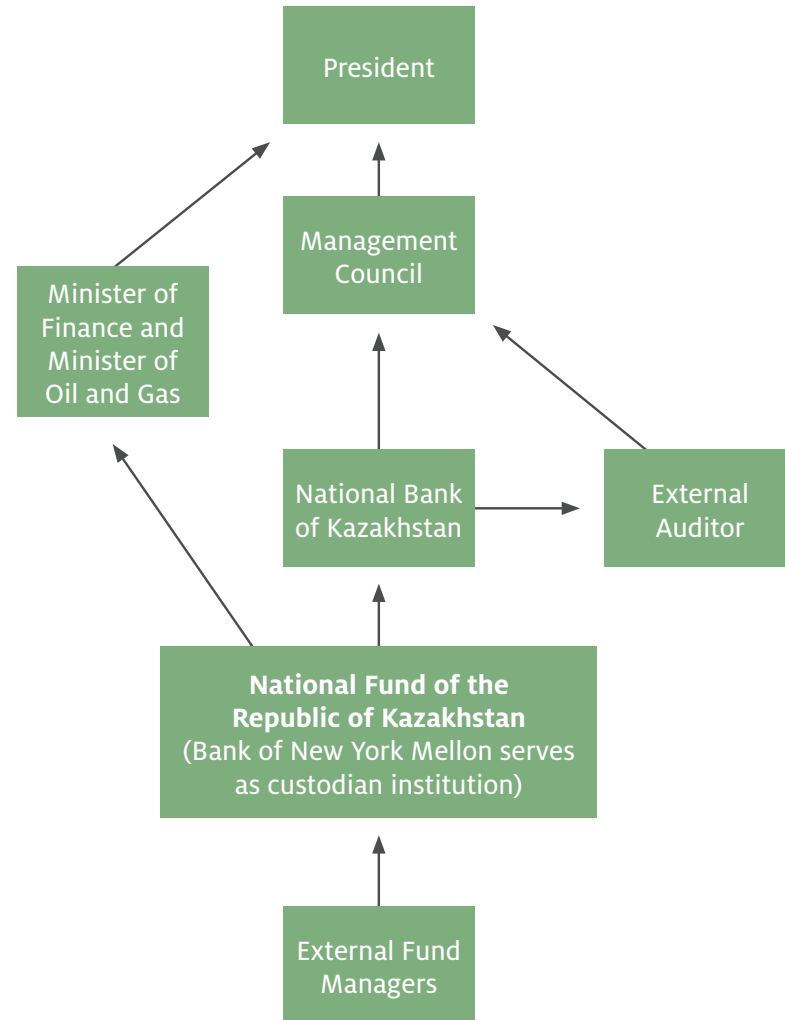
The Management Council, consisting of the President and other high-ranking officials, sets general governance and investment policies for the Fund and advises the President of Fund activities.

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.

External accountability



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

The President's seat on the Management Council limits its independence.

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.

Transparency Laws, Rules and Policies

There is public disclosure of the following:

When or how often Fund reports are published and made publicly available	yes	
Which individuals or organizations are responsible for publishing Fund reports	yes	
Size of the Fund(s)	yes	
Deposit and withdrawal amounts	yes	
Returns on investments	yes	
Detailed asset allocation – geographic location		no
Detailed asset allocation – asset class		no
Detailed asset allocation – specific assets		no
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules		no

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

1. Decree of the President of the Republic of Kazakhstan No. 402 August 23, 2000. Available at: http://adilet.zan.kz/rus/docs/U000000402_
2. Decree of the President of the Republic of Kazakhstan No. 402 August 23, 2000. Available at: http://adilet.zan.kz/rus/docs/U000000402_
3. Law of the Republic of Kazakhstan No. 357 April 1, 1999. Available at: http://adilet.zan.kz/rus/docs/Z990000357_#z0
4. Decree of the President of the Republic of Kazakhstan No. 962 April 2, 2010. Available at: http://adilet.zan.kz/rus/archive/docs/U100000962_/02.04.2010
5. Budget Code of the Republic of Kazakhstan Article 22 (3). Available at: http://online.zakon.kz/Document/?doc_id=30364477&sublink=220000
6. Decree of the President of the Republic of Kazakhstan No. 402 August 23, 2000. Available at: http://adilet.zan.kz/rus/docs/U000000402_
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
9. Resolution of the Government of the Republic of Kazakhstan No. 66 January 28, 2009. Available at: http://adilet.zan.kz/rus/docs/P090000066_#z6
10. <http://www.nationalbank.kz/index.cfm?docid=285>
11. Decree of the President of the Republic of Kazakhstan No. 962 April 2, 2010. Available at: http://adilet.zan.kz/rus/archive/docs/U100000962_/02.04.2010
12. The Law of the Republic of Kazakhstan No. 52-V November 20, 2012. Available at: <http://adilet.zan.kz/rus/docs/Z1200000052>
13. Decree of the President of the Republic of Kazakhstan No. 962 April 2, 2010. Available at: http://adilet.zan.kz/rus/archive/docs/U100000962_/02.04.2010
14. Decree of the President of the Republic of Kazakhstan No. 1509 December 28, 2004. Available at: http://adilet.zan.kz/rus/docs/U040001509_#z6
15. Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 65 July 25, 2006. Available at: http://adilet.zan.kz/rus/docs/V060004361_#z36
16. Resolution of the Government of the Republic of Kazakhstan No. 66 January 28, 2009. Available at: http://adilet.zan.kz/rus/docs/P090000066_#z6
17. Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 65 July 25, 2006. Available at: http://adilet.zan.kz/rus/docs/V060004361_#z36
18. Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 65 July 25, 2006. Available at: http://adilet.zan.kz/rus/docs/V060004361_#z36
19. Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 65 July 25, 2006. Available at: http://adilet.zan.kz/rus/docs/V060004361_#z36
20. Decree of the President of the Republic of Kazakhstan No. 1509 December 28, 2004. Available at: http://adilet.zan.kz/rus/docs/U040001509_#z6