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# **CG CODE IN KAZAKHSTAN: to be or not to be...**

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# Strong Macroeconomic Performance

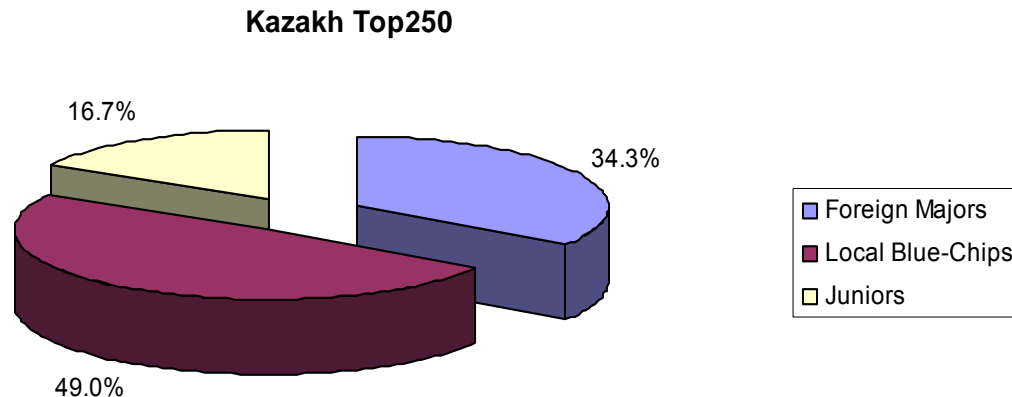
**In recent years Kazakhstan has demonstrated macroeconomic stability**

- ❑ More advanced and transparent than other CIS's countries including Russia
- ❑ Positive estimations from financial institutions of the world (World Bank, EBRD, IFC, ADB and etc.)
- ❑ Kazakhstan maintains prudent fiscal & budget policies and enjoys investment-grade rating from the all leading rating agencies (**BBB- / Baa3 / BBB**) / Positive Outlook
- ❑ Over the past four years Kazakhstan has experienced an average annual economic growth rate of **10 %**
- ❑ Inflation is kept at the manageable rate of 6.0-7.6%
- ❑ Banking sector is growing at a rate of **50 %** a year in line with property price inflation in the country



# Economy's Structure

- **Oil Majors.** Five world-class oil & gas projects led by ChevronTexaco, Agip, British Gas, CNPC, and Eni
- **Local Blue-Chips.** Regionally-competitive mid-cap projects in basic materials (energy, metals, infrastructure (pipelines, national power grid, transportation & communications) and banking (top five banks)
- **Juniors.** The rest of economy indirectly enjoying petrodollar penetration and improving living standards



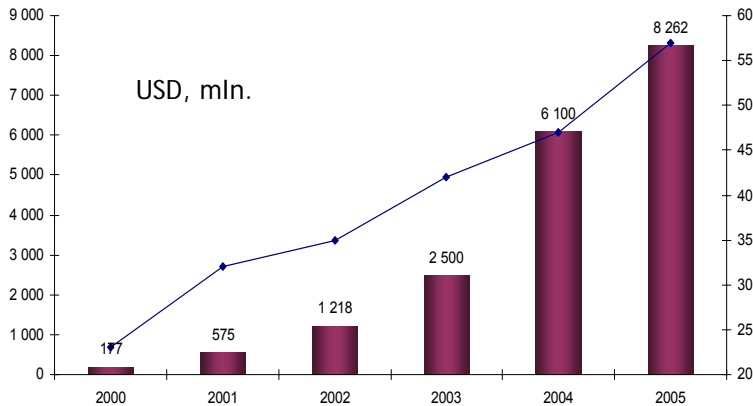
# Securities Market

- Legal, regulatory and accounting systems are consistent with international norms
- There are currently 10 asset management companies, 13 private pension funds and 1 state-run pension fund in Kazakhstan. As of 1 December 2005 pension funds have accumulated approximately **USD 4.7 billion** in assets.
- At present, all types of bonds (government, municipal and corporate) and shares are widely represented on the stock market, however, their derivatives and hybrids are almost not spread
- The number of Joint Stock companies in Kazakhstan has reached **2,372**
- Stock market is still undeveloped - As of 1 January 2006 Kazakhstan Stock Exchange (KASE) is listing the following securities:
  - Stocks – Category “Listing A” – 32 stocks
  - Stocks – Category “Listing B” – 29 stocks
  - Bonds – Category “Listing A” – 49 issues
  - Bonds – Category “Listing B” – 8 issues

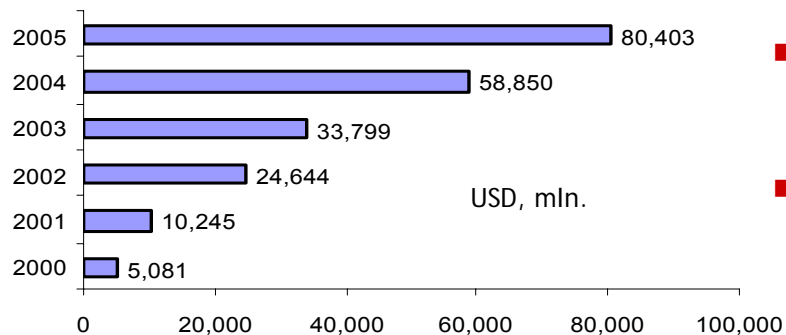


# Securities Market: one-sided growth

## Bond market capitalization/issuers



## Transaction turnover on KASE



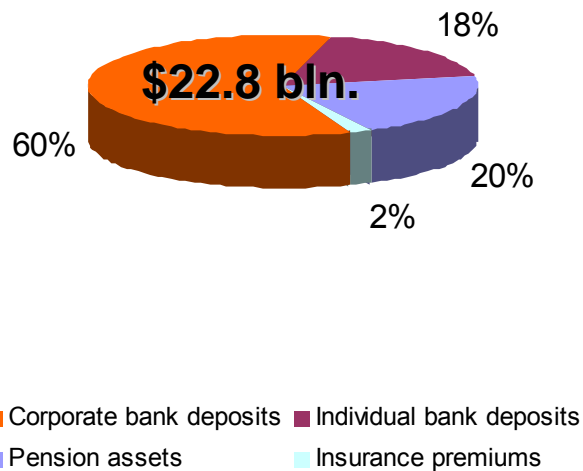
Source: KASE

- Kazakh securities market grows rapidly: 2005 transactions turnover was up 36,6% compared to the year 2004
- The vast majority of it – REPO, FX, Government bonds
- Corporate debt market is the most developed
- Bond market capitalization exceeds USD8 bln. (Kazakh SPV's Eurobonds inclusive)
- Stock issuers number growth is in stuck
- Stock market remains undeveloped



# Lack of instruments vs. wide resource base

## Investor resource base



- There is still significant demand for the alternative instruments to invest
- There is more than USD22.8 bln. placed on bank deposits, in assets of pension funds, and insurance companies
- As of 1 December 2005, only 8.22% of pension assets were invested in equity compared to 31.69% invested in corporate bonds
- Deficiency of the Good Corporate Governance is one of outstanding obstacle for stock market development

# Corporate Governance Concept Issues

Currently we face 3 concept Issues in CG system development in Kazakhstan:

- The companies does not see any motivation for the good CG system implementation provided on a state level
- In social mind there is not still precise understanding of CG companies does not still see advantages of good CG
- There is neither mechanism to evaluate CG level in any Kazakh company nor control on how the company comply with CG principles declared by it



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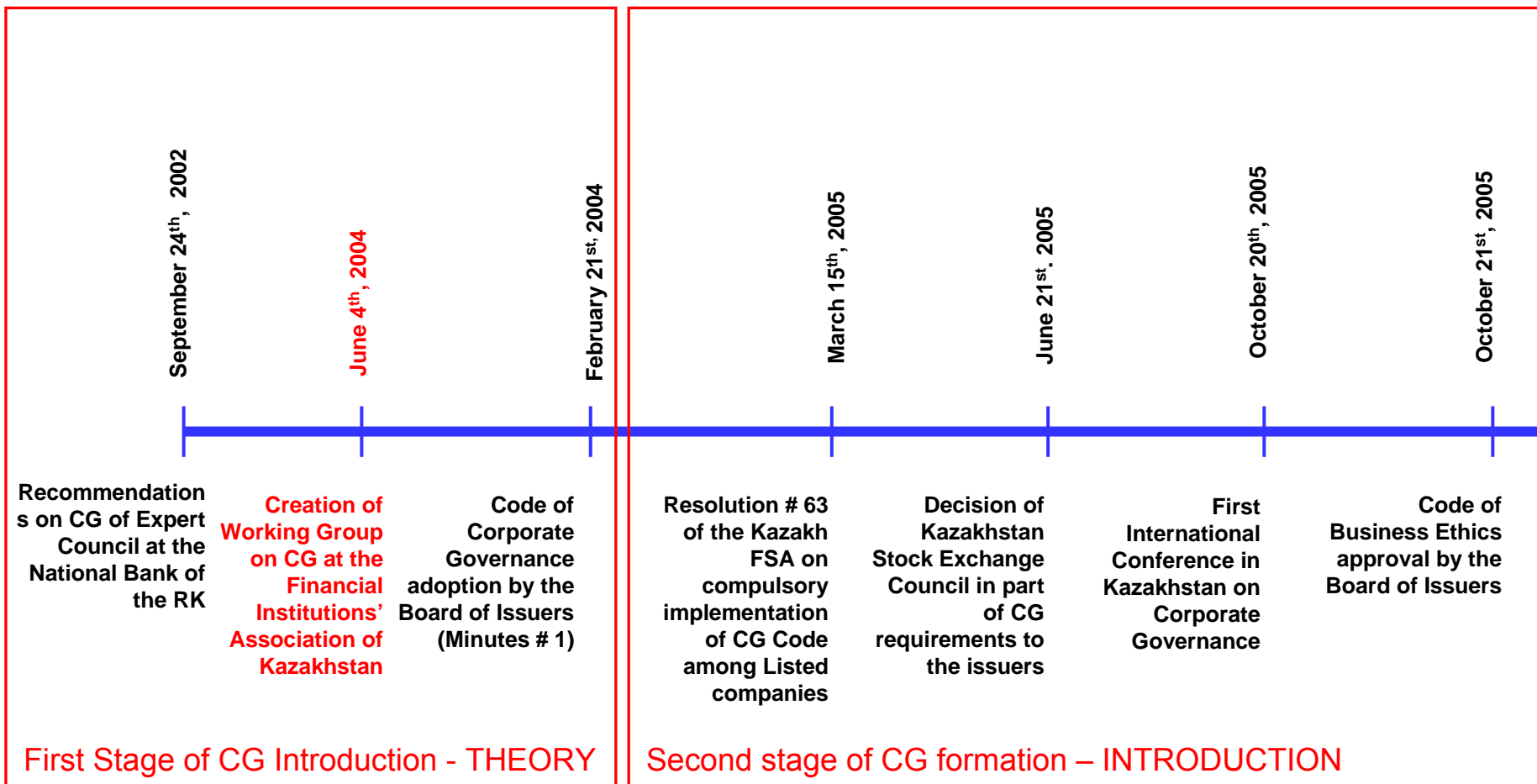
# Corporate Governance Corporate Issues

- Poor financial transparency
- Untransparent ownership structure and impact of major shareholders on Company's decision-making mechanism
- Poor disclosure of conflict of interest
- No or limited management interest in building long-term shareholders' value
- No developed practice of management performance valuation





# Milestones in Kazakh CG Development



# Working Group on CG: results and goals

Primary aim of the Working Group (WG) - creation of the effective system of Corporate Governance in the RK by integrating efforts of all interested parties

What has been done by the Working Group:

- Standard Code of Corporate Governance is designed on the basis of which local companies can create their own Codes of CG
- Changes in the law “On Joint Stock Companies” are designed in the project
- Working Group actively assisted in the process of capturing attention of the local companies and international experts in the field of CG in the RK
- The First International Conference on Corporate Governance in the RK was conducted

What will be done by the Working Group:

- Formation of explanations on issues of CG in order to accelerate implementation process and development of CG system
- Application of necessary amendments and changes in the legislation of the RK
- Participation in the development of monitoring system in the CG implementation
- More attraction of securities market participants in the process of CG establishment (Kazakhstan Stock Exchange, banks, investors)



# Changes in the law “On Joint Stock Companies”: do the right things in the beginning...

## Why now:

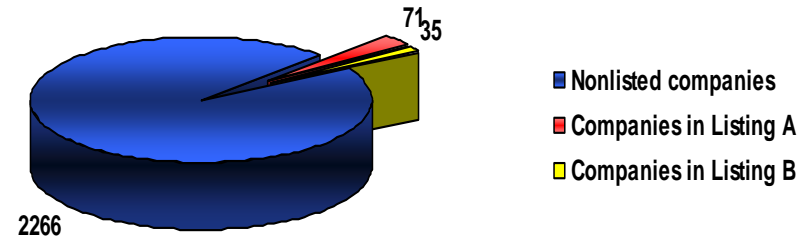
- It is necessary to set the right direction in the process of CG implementation at the very beginning
- The Law “On Joint Stock Companies” must be amended by the fundamental conditions for developing of CG
- Statutory provision will grant more guarantee of CG compliance in comparison to the internal documents of the Joint Stock Company
- Already at this stage on the legislation level it is necessary to start execution of CG provisions



# Can we “embrace the boundless” or why Corporate Governance must be only for PUBLIC COMPANIES

- Currently certain aspects of CG (Code of CG, independent director and etc.) are required from all Joint Stock Companies of Kazakhstan
- It is generally recognized that CG serves to increase transparency of companies
- Do we want all companies to be transparent? Is it necessary to require the presence of Independent director, the Code of CG from Joint Stock Companies, which DO NOT attract openly “public” money by placement of securities?

Correlation of public and non-public companies in Kazakhstan



- How many Independent directors are needed for 2372 joint stock companies and where will we get them??? ANSWER: minimum 2372 directors, somewhere...
- Is it realistic to control the existence of the actual independent directors in all Joint Stock Companies? ANSWER: No...

## DECISION:

**CONCENTRATE EFFORTS ON DEVELOPMENT OF CG IN COMPANIES, WHICH ARE IN LISTING OF THE KAZAKHSTAN STOCK EXCHANGE AND WHICH ARE PUBLIC...**

... or urgently decrease the number of JSC in the Republic by 10-12 times?



## «The stick and the carrot...» or the next step

- **AIM OF CORPORATE GOVERNANCE IMPLEMENTATION** – improvement of investment climate and better development of securities market in Kazakhstan
- As mentioned before, the majority of Joint Stock Companies often suffer from the requirements of the Corporate Governance than have any advantages from it
- It is necessary on the initial stage to promote (1) improvement of the Corporate Governance level in companies and (2) assignment of public company status, in other words – “provide carrots for implementing the Corporate Governance”

### WHO HAS THE RIGHT FOR “CARROTS”:

- Companies, which are **PUBLIC**
- Public companies, executing special requirements, defined by KASE (free float, trade volume and etc.)

### “CARROTS” FOR PUBLIC COMPANY:

- *Long-term* – attraction of large volume of investments to the company
- *Short-term* – introduction of tax and other indulgences for public companies

### NEXT STEP:

**WORKING GROUP SUPPORTS THIS INITIATIVE AND WILL PARTICIPATE IN THE DEVELOPMENT OF PROMOTIONS FOR PUBLIC COMPANIES**



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