

### Highlights

On 15 January, the National Bank of Kazakhstan released data about overall foreign investments. Financial flows from the Netherlands amounted to \$49 billion and represented 30% of capital invested as of 30 September 2012.<sup>1</sup> Britain and China took second and third place respectively. In total, Kazakhstan received investments of \$177.7 billion.<sup>2</sup> Of more interest was the amount of money flowing out of Kazakhstan. As of 30 September 2012 Kazakhstan invested \$155.3 billion, almost 30% (\$46 billion) going to the United States, \$16.8 billion to the UK and \$16.2 billion to the Netherlands. As a result, despite high financial flows, only \$22 billion remained in Kazakhstan. The Netherlands and the UK are the largest onshore zones hosting Kazakh capital, whereas United Arab Emirates and Virgin Islands are the largest offshore zones receiving financial flows from this Central Asian state.<sup>3</sup> UAE is especially prominent

because Kazakh laws do not recognize it as an offshore zone, allowing this small Arab state to host \$341 million in the first quarter of 2012, roughly equivalent to the amount of money invested in the Netherlands in the same period.<sup>4</sup>

### Internal affairs

On 19 February 2013 a new Supreme Mufti (title of the highest religious authority of Muslim believers in Kazakhstan), Yerzhan Mayamerov, was elected at the 7<sup>th</sup> Session of the Spiritual Administration of Muslims in Kazakhstan (SAMK).<sup>5</sup> Mayamerov is a former Chairman of SAMK in Eastern Kazakhstan. By virtue of the SAMK charter, Mayamerov, under 40 (born in 1972), has been elected for five years with the possibility of extending his term on the basis of a common decision of all the members of the Kurultay, which is a meeting bringing together all district and regional imams.<sup>6</sup>

<sup>1</sup> TengriNews.com (2013), 'Kazakhstan's Major Investor Countries and Investments Destinations Announced', 15 January 2013, available at <http://en.tengrinews.kz/finance/Kazakhstans-major-investor-countries-and-investments-destinations-announced-15972/>, accessed on 16 February 2013

<sup>2</sup> TengriNews.com (2013), 'Kazakhstan's Major Investor Countries...

<sup>3</sup> Alexander Vorotilov (2012), 'Ideal Offshore: Where Money Flows from Kazakhstan', Forbes, # 13, September, available at

[http://forbes.kz/process/probing/idealnyiy\\_ofshor](http://forbes.kz/process/probing/idealnyiy_ofshor), accessed on 16 February 2013

<sup>4</sup> Alexander Vorotilov (2012), 'Ideal Offshore: Where Money Flows from Kazakhstan'

<sup>5</sup> Radio Islam (2013), 'Kazakh Muslims Elect New Mufti', Iran: World Service, available at <http://english.trib.ir/radioislam/news/islam-in-asia/item/85892-kazakh-muslims-elect-new-mufti>, accessed on 27 February 2013

<sup>6</sup> Central Communications Service of the President of Kazakhstan (2013), 'New Mufti of Kazakhstan Elected', 19 February 2013, available at <http://www.ortcom.kz/en/news/view/674>, accessed on 23 February 2013.



Although elections are seemingly democratic, the presidential administration holds considerable power over SAMK and exercises control over religious affairs in the country. Mayamerov's candidacy was approved by the President of Kazakhstan who set several directions for the spiritual administration.<sup>7</sup> Specifically, the President called for stronger cooperation between religious educational institutions and government bodies. This task is crucial since the government of Kazakhstan discovered 24 Salafist religious organizations registered in the country with close to 500 members.<sup>8</sup> Salafists call for religious purity and a literal interpretation of the Koran. They actively work against the separation of state and religion, and many Salafists form radical terrorist organizations. Closer cooperation in this sphere is of paramount importance because homegrown terrorist networks have already appeared in Kazakhstan. The country was shuttered when Rakhimzhan Makatov blew himself up in front of the National Security Committee in May 2011.<sup>9</sup> A month later, 14 people died when security forces attempted to disarm a militant group in Aktope region.<sup>10</sup>

<sup>7</sup> Tengri News (2013), 'Spiritual Management of Muslims of Kazakhstan Will Start Issuing Fatwas by Sharia Laws', 22 February 2013, available at <http://en.tengrinews.kz/religion/Spiritual-Management-of-Muslims-of-Kazakhstan-to-start-issuing-fatwas-by-Shariah-17165/>, accessed on 23 February 2013.

<sup>8</sup> B News, (2013), '24 Radical Salafi Organizations Present in Kazakhstan', *Society*, 21 February 2013, available at <http://bnews.kz/en/news/post/125738/>, accessed on 23 February 2013.

<sup>9</sup> Joanna Lillis (2011), 'Kazakhstan: Astana Confronts Extremist Threats', New York: Open Society Institute, 6 September 2011, available at <http://www.eurasianet.org/node/64133>, accessed on 3 March 2012.

<sup>10</sup> Joanna Lillis (2011), 'Kazakhstan: Astana Confronts Extremist Threats...

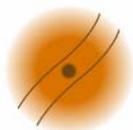
Mayamerov's appointment represents a much-needed shift in the recruitment process of SAMK leaders. His figure points to a radical departure from the previous Mufti, Absattar Derbisali, who was much older and did not have proper religious education. Derbisali's appointment followed a diplomatic career as counselor at the Kazakh embassy in Saudi Arabia. His education focused on linguistics rather than Islam and his speeches were not therefore legitimate for most Muslims in Kazakhstan. Only 30% of believers supported the state interpretation of Islam that was based on the revival of ethnic cultural traditions rather than adherence to the universal religious faith.<sup>11</sup> Contrary to Derbisali, Mayamerov spent considerable time in Egypt where he was enrolled in the sharia and law faculty of Al-Azhar University in Cairo.<sup>12</sup> He also spent three years as an intern at Egypt's Spiritual Authority of Muslims studying adoption of fatwas (decisions by religious authorities on controversial issues).<sup>13</sup> The government has therefore appointed a figure endogenous to the Muslim community with the capacity to represent and provide guidance in spiritual affairs.

One of the primary functions of the new Mufti will be related to issuing fatwas. He will rely on sharia rather than ethnic cultural understandings of Islam to clarify SAMK's official position on controversial issues, thereby providing the community with a trustworthy interpretation. This interpretation will be based on the Hanafi

<sup>11</sup> «Казакстанцы и Религия», Almaty: Institute of Political Decisions, 16 August 2011, available at <http://www.ipr.kz/projects/2/1/30>, accessed on 3 March 2012

<sup>12</sup> Tengri News (2013), 'New Supreme Mufti of Kazakhstan Elected', *Hot News*, 19 February 2013, available at <http://en.tengrinews.kz/religion/New-Supreme-Mufti-of-Kazakhstan-appointed-17113/>, accessed on 23 February 2013.

<sup>13</sup> Tengri News (2013), 'New Supreme Mufti of Kazakhstan Elected...



school of thought, which holds that all interpretations of the Koran have been concluded and we should respect its rule. The Mufti's job is to decide which of the already-existing interpretations apply in each controversial case.

Regardless of leadership changes, multiple problems remain within Kazakhstan's religious educational institutions. For example, only one university in Kazakhstan is eligible to produce imams, religious authorities responsible for conveying the message to believers. This university has a capacity of educating 30-40 imams a year, which will not satisfy demand for qualified imams in the over 2,200 officially registered mosques in Kazakhstan.<sup>14</sup> In addition, the method of changing the top leadership is unlikely to decrease the popularity of extremist organizations in local communities, which already object to state rule and exist in secrecy beyond government radar.

## Economy and business enterprise

Kazakhstan's once praised pension system faces imminent collapse and requires urgent government intervention. Launched in the late 1990s, the pension system was considered the most progressive in the entire post-Soviet space. It was secure: private pension funds could invest in foreign stock with the highest rating and improve

<sup>14</sup> Tengri News (2012), «Духовное управление мусульман Казахстана будет ежегодно обучать 30-40 имамов для работы в мечетях страны», 15 October 2011, available at [http://tengrinews.kz/kazakhstan\\_news/199232/](http://tengrinews.kz/kazakhstan_news/199232/), accessed on 3 March 2012

the financial well-being of regular citizens who were obliged to contribute 10% of their salaries to a fund of their choice. The State guaranteed deposits in the event that pension funds experienced severe market tribulations. However, with inflation of 7% (below return from the AAA-rated stocks) and the growing numbers of retirees with minor contributions, pension funds were unable to generate the level of profit required to fulfill their obligations.<sup>15</sup> On 23 January President Nazarbayev announced his decision to merge 11 funds (ten private and one government-owned) and transfer \$20 billion worth of assets to the National Bank in order to channel the money towards the country's economic development.<sup>16</sup> The management of the national bank has one month to design the new system.

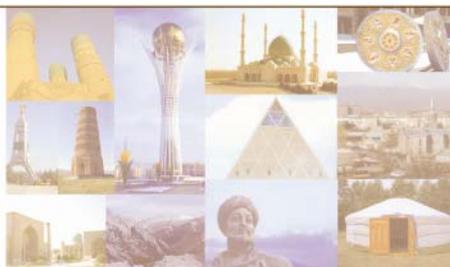
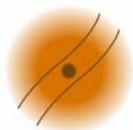
The pension system reform followed a highly debated proposal by Grigory Marchenko, chairman of the national bank, who suggested increasing the pension age to 63 years for both men and women in order to save private pension funds.<sup>17</sup> Citing depleting oil reserves Marchenko called on people to reconsider the system. He argued that if the system continues, the state pension budget that has grown by 30% already will not be able to fulfill its obligations when the oil runs out.<sup>18</sup> He also attempted to dispel a myth that Kazakhstan's male population dies right after

<sup>15</sup> Krystina Krzyzak (2013), 'Kazakhstan's Pension System is Thrown into Turmoil', *Investment Pensions Europe*, 25 January, available at [http://www.ipe.com/guest/kazakhstan-pension-system-thrown-into-turmoil\\_49713.php#.UTqzccWIGIU](http://www.ipe.com/guest/kazakhstan-pension-system-thrown-into-turmoil_49713.php#.UTqzccWIGIU), accessed on 3 March 2013.

<sup>16</sup> Raushan Nurtayeva (2013), 'Kazakhstan Mobilizes Pension Fund Assets to Spur Growth', *Reuters*, 23 January, available at <http://www.reuters.com/article/2013/01/23/kazakhstan-funds-idUSL6N0AS98620130123>, accessed on 3 March 2013.

<sup>17</sup> Gregory Marchenko (2012), 'Kazakhstan's Pension System Will Go Bankrupt If the Retirement Age Isn't Raised – Interview', *Tengri News*, 11 October 2012, available at <http://en.tengrinews.kz/opinion/279/>, accessed on 3 March 2013.

<sup>18</sup> Marchenko (2012), 'Kazakhstan's Pension System Will Go Bankrupt If the Retirement Age Isn't Raised – Interview...



retirement, an interpretation that gained currency after citizens learned that the average life expectancy for men is 63.5 years.<sup>19</sup> Marchenko drew on different data, claiming that men continue to rely on pensions for 12 years after retirement and women for 20.<sup>20</sup> With all these controversial data in circulation, uncertainty continues with regard to a possible increase of the pension age.

The main question concerns the implementation of the reformed system. First, it is not clear whether the new unified system will be merged into a single entity managed by the national bank or whether private funds will remain in place and the return of the assets will be managed by the national bank.<sup>21</sup> Second, the management of the oil fund by the national bank has been criticized.<sup>22</sup> In 2008 more than \$10 billion from the oil fund was spent on bailing out economic enterprises in Kazakhstan.<sup>23</sup> The assets have not yet been returned to the fund. Third, it is not clear where the money will be invested. Deputy prime minister Kairat Kelimbetov suggested earmarking the

funds for large infrastructure projects.<sup>24</sup> In the light of all these uncertainties, pension reform clearly needs to be conducted in a transparent fashion, with the interests of existing and future retirees protected from the vagaries of the markets.

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<sup>19</sup> Marchenko (2012), 'Kazakhstan's Pension System Will Go Bankrupt If the Retirement Age Isn't Raised – Interview...

<sup>20</sup> Marchenko (2012), 'Kazakhstan's Pension System Will Go Bankrupt If the Retirement Age Isn't Raised – Interview...

<sup>21</sup> Isabel Gorst (2013), 'Kazakh Pension "Nationalization" Plan Worries Fund Managers', *Financial Times*, 25 January 2013, available at <http://blogs.ft.com/beyond-brics/2013/01/25/kazakh-pension-nationalisation-plan-worries-fund-managers/#axzz2N0mfWRTB>, accessed on 3 March 2013 and Tengri News (2013), 'Minister of Economic Affairs Commenting on Single Pension Fund', *Hot News*, 24 January 2013, available at <http://en.tengrinews.kz/markets/Minister-of-Economic-Affairs-commenting-on-single-pension-fund-16303/>, accessed on 3 March 2013.

<sup>22</sup> Krystina Krzyzak (2013), 'Kazakhstan's Pension System is Thrown into Turmoil...

<sup>23</sup> Krystina Krzyzak (2013), 'Kazakhstan's Pension System is Thrown into Turmoil...

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<sup>24</sup> Renat Tashkinbayev (2013), 'Single Pension Fund Suggested in Kazakhstan', *Tengri News*, 23 January 2013, available at <http://en.tengrinews.kz/finance/Single-pension-fund-suggested-in-Kazakhstan-16267/>, accessed on 3 March 2013.