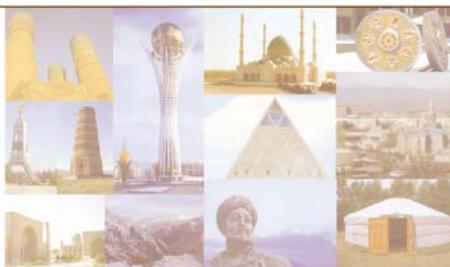




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KAZAKHSTAN MARCH-APRIL REPORT

May 2013

Bimonthly Article

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Highlights

Two Kazakh citizens, Azamat Tazhayakov and Dias Kadyrbayev, are charged with the obstruction of justice in relation with the investigation of the Boston Marathon explosions that killed three and injured more than 200 people on 15 April.¹ Both took some personal items, including a laptop and a backpack stuffed with firecrackers from the dorm room of Dzhokhar Tsarnaev, a student at the University of Massachusetts-Dartmouth and the main suspect in the Boston Marathon bombings. Tsarnaev sanctioned retrieval of his personal items by sending a text message to Kadyrbayev telling him he was free to take whatever he wanted from his room.² Kadyrbayev re-sold the laptop to another person on 19 April, the day the FBI raided Tsarnaev's dorm room. Their neighbours noted that the Kazakh citizens drove a BMW with the license plate 'UMass-Dartmouth College TERRORISTA #1'.³ One of them also violated US visa regulations and will be deported regardless of

how the investigation unfolds.⁴ Accusations of destroying evidence can put both men in prison for up to five years plus a \$250,000 fine.⁵ They are awaiting trial on 14 May with consular support from the Embassy of Kazakhstan in the United States and their lawyers.⁶

Internal affairs

Kazakhstan has experienced growing social tensions as more people joined protests and petitioned against withdrawal of welfare support. After proposing to increase the retirement age for women from 58 to 63 in February 2013, the Kazakh government made another proposal on 7 March to decrease child and maternity leave support. These two innovations will have a significant impact on

¹ Steve Almasy (2013), 'Friend Arrested in Boston Bomb Probe Fights for Freedom', *CNN*, 5 May 2013, available at <http://edition.cnn.com/2013/05/05/us/boston-suspect-friends/index.html>, accessed on 7 May 2013.

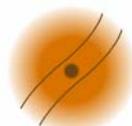
² Steve Almasy (2013), 'Friend Arrested in Boston Bomb Probe Fights for Freedom...

³ Irving DeJohn, Joe Kemp and Rich Schapiro (2013), 'Friends of Accused Boston Bomber Taken into Custody in New Bedford, Mass.', *New York Daily News*, 21 April 2013, available at <http://www.nydailynews.com/news/crime/2-pals-accused-boston-bomber-custody-article-1.1323004>, accessed on 7 May 2013

⁴ Scott Malone, Tim McLaughlin, Ross Kerber (2013), 'Three Men Charged With Undermining Boston Bombing Probe', *Reuters*, 1 May 2013, available at <http://www.reuters.com/article/2013/05/02/us-usa-explosions-boston-arrests-idUSBRE9400M720130502>, accessed on 7 May 2013.

⁵ Steve Almasy (2013), 'Friend Arrested in Boston Bomb Probe Fights for Freedom...

⁶ Shaun Waterman (2013), 'Kazakhstan's Foreign Ministry in Touch with Two Kazakh Students Arrested Near Boston', *Washington Times*, 22 April 2013, available at <http://www.washingtontimes.com/news/2013/apr/22/kazakhstan-foreign-ministry-touch-two-kazakh-stud/>, accessed on 7 May 2013.



population growth in a country that has one of the lowest population densities in the world. It currently stands at six people per square kilometre⁷ and is strikingly different from neighbouring China, where the population density is 144 inhabitants per square kilometre.⁸ The government of Kazakhstan has nonetheless decided to go ahead and decrease state support for newborns.

The ruling adopted on 17 February states that in cases when an expecting mother's salary exceeds the minimum salary (KZT186,600, \$1,700), she will not be eligible for full maternity leave indexed to her salary, but will have to obtain the difference between minimum support and her salary from the employer.⁹ As a result, many advocacy groups predict gender discrimination in the hiring policies adopted by employers. They claim that employers will prefer to pay women less than KZT186,600 in order to avoid payment of maternity leave or stop hiring women of reproductive age.¹⁰

The official explanation is that the new amendments were adopted because the State Fund for Social Support (SFSS) ran out of money.¹¹ SFSS was established in 2007 from obligatory contributions of social tax from employers to support the needy, including increasing the

number of women who are financially capable of having a child. The policy was successful: if in 2007 just 70,000 women could afford to have a child, today the number stands at 380,000 working women and 140,000 unemployed women.¹² However, the state planners did not take into account that some women might make more than KZT186,600 and claim higher maternity benefits. Last year 93% of all payments went to maternity support, of which approximately KZT8 billion went to 6,700 women whose salary exceeded KZT300,000.¹³ The new law will put all women on an equal footing: they will receive a standard amount of money for a child regardless of their previous salary.

Another unpopular government move concerns the minimum amount of child support. Rather than indexing child support to father's salary, the government proposed adopting an equal (minimum) payment to all children. Protests against these measures cited increasing number of divorcees from 39,500 in 2009 to 44,500 in 2011, as well as the growing number of children born out of wedlock (20% of all births in 2010).¹⁴ According to social activists, withdrawing child support will nurture a generation of children who will experience poverty, lack of exposure to normal family relations and irresponsible sexual behaviour.¹⁵ Although such generalization requires further research, two policies that significantly diminish incentives for pregnancy

⁷ The World Bank (2013), 'Kazakhstan: Population Density, 2008-11', *World Development Indicators*, available at <http://data.worldbank.org/indicator/EN.POP.DNST/countries/1W?display=default>, accessed on 7 May 2013.

⁸ The World Bank (2013), 'China: Population Density, 2008-11'...

⁹ Alexandra Alehova (2013), 'Minister to Our Correspondent – Everything is on Fire', *Vremya*, 5 March 2013, available at <http://www.time.kz/articles/zloba/2013/03/05/ministr-nashemu-korrespondentu-vse-vokrug-gorit>, accessed on 7 May 2013.

¹⁰ Madina Aimbetova (2013), 'Exit from the Condition', *Vremya*, 7 March 2013, available at <http://www.time.kz/articles/zloba/2013/03/07/vihod-iz-polozhenija>, accessed on 7 May 2013.

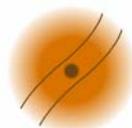
¹¹ Alexandra Alehova (2013), 'Minister to Our Correspondent – Everything is on Fire'...

¹² Alexandra Alehova (2013), 'Minister to Our Correspondent – Everything is on Fire'...

¹³ Alexandra Alehova (2013), 'Minister to Our Correspondent – Everything is on Fire'...

¹⁴ Madina Aimbetova (2013), 'For Lovely Ladies', *Vremya*, 13 March 2013, available at <http://www.time.kz/articles/zloba/2013/03/13/za-milih-dam>, accessed on 7 May 2013.

¹⁵ Madina Aimbetova (2013), 'For Lovely Ladies'...



and childcare will have a negative impact on overall population growth in Kazakhstan. Stunted population growth may result in slower economic growth in the next 15-20 years as less people join the labour force.

Understanding the negative long-term outcomes from dwindling welfare benefits brought more people to squares thereby significantly diversifying the portrait of the average protestor. On 27 April more than 1,000 people joined a rally against government rulings in Almaty. Besides anger over retirement age increase and the decrease of child support benefits, activists cited high utility costs, lack of adequate public facilities, including nurseries and kindergartens.¹⁶ Many participants were in their 40s and 50s since they are the primary targets of the reforms. Messages from the protest were distributed in Kokshetau, Petropavlovsk, Semei and Pavlodar.¹⁷ Therefore, if 2012 was a year of protests in the extractive industries, March and April 2013 were characterized by the expansive protest movements capable of mobilizing people with diverse incomes, ethnicities and beliefs. Stricter punishments for instigating strikes did not stop individual activists from risking their well being and engage more people protesting against withdrawal of welfare benefits. If this trend continues, the government will have to re-introduce welfare benefits by squeezing foreign investors and tapping into its sovereign wealth fund to avoid civil disobedience and major political upheaval.

¹⁶ Socialismkz.info (2013), 'Protests against Anti-Social Measures in Almaty', 29 April 2013, available at <http://socialismkz.info/?p=7829>, accessed on 7 May 2013.

¹⁷ Socialismkz.info (2013), 'Protests against Anti-Social Measures in Almaty...

Economy and business enterprise

Eurasian Natural Resources Corporation (ENRC), a global miner incorporated in Kazakhstan faces trial in the United Kingdom (UK). UK's Serious Fraud Office launched an investigation of several deals in Kazakhstan and Democratic Republic of Congo accusing ENRC managers of corruption, bribery and fraud.¹⁸ The trial began days after Alexander Mashkevich, one of the three founders of the group, announced potential buyback of shares worth \$6 billion on the stock exchanges of Kazakhstan and London.¹⁹ The buyback may involve the Kazakh government whose finance ministry holds 11.65% of shares in the company. The rest of the owners include KazakhMys Eurasia B.V. (26%) and three founding members, Alexander Mashkevich, Patokh Shodiev and Alijan Ibragimov each holding 14.59% of total shares. Mashkevich proposed forming a consortium of four partners (excluding KazakhMys Eurasia B.V.) to buy back shares and increase the value of share prices in stock markets. ENRC has already experienced revenue losses of \$852 million in 2012 compared to a \$1.9 billion profit in 2011. As a result, the Kazakh government may be interested in the proposal since it is \$3 billion short in taxes from slim sales of ferrous and non-ferrous metals.²⁰ However, ENRC's debt is

¹⁸ Simon Goodley, Mark Hollingsworth, Rupert Neate (2013), 'ENRC: Serious Fraud Office Launches Criminal Investigation', *The Guardian*, 25 April 2013, available at <http://www.guardian.co.uk/business/2013/apr/25/serious-fraud-office-enrc-documents>, accessed on 7 May 2013.

¹⁹ Clara Ferreira-Marques (2013), 'ENRC Founders Consider Buyout of Troubled Kazakh Miner', *Reuters*, 19 April 2013, available at <http://www.reuters.com/article/2013/04/19/enrc-takeover-idUSL5NOD62DP20130419>, accessed on 7 May 2013.

²⁰ TengriNews (2013), 'Nazarbayev Discusses Economic Development with Akhmetov', *Hot News* 2 May 2013, available at



\$5 million after expensive acquisitions in Africa and Brazil,²¹ so it may not have the wherewithal to buy back without selling other assets, such as Eurasian Bank in Kazakhstan or its insurance company 'Eurasia'. No one has expressed interests for these assets yet.²²

Allegations from the Serious Fraud Office (SFO) aggravated solvency problems and pushed share prices down 47.99% in the past year alone.²³ SFO has accused ENRC of misusing the funds by purchasing and operating a farm in Kazakhstan from the budget of a ferrous-alloy plant in northern Kazakhstan. The farm is closely affiliated with Alijan Ibragimov, one of the founders.²⁴ In addition, SFO is questioning the ethics of ENRC's relationship with Dan Gertler who might have negotiated the sale of mining fields at discounted rate and is closely associated with Congo's president Joseph Kabila.²⁵

The share value continues to decline because most independent directors fled the company. SFO appointed Dechert LLP, an American law firm to investigate the charges. Dechert pulled out of this arrangement.²⁶ In addition, Mehmet Dalman,

ENRC Chairman who succeeded Richard Sykes last year and led the internal investigation, also quit the job in April 2013. His name is on the long list of people who left the company in the past two years. ENRC's head of human resources, chief financial officer, chief financial controller and the company's secretary quit their jobs days before Mr. Dalman's departure.²⁷ Two non-executive directors are also leaving their jobs in June.²⁸ The return of ENRC's status to a private company will free its members from strict reporting and future investigations. Founding members will be able to buy more farms, while the government of Kazakhstan will keep the company afloat at the expense of public money.

If the buy-back share deal falls through, ENRC will likely be acquired by Glencore International Plc, the world's largest commodity supplier which is already interested in purchasing its assets.²⁹ The Kazakh government had to buy 29% of shares in Kazzinc in February 2013 to stop the aggressive expansion of Glencore into its mining sector.³⁰ If the deal does take place, ENRC's

http://en.tengrinews.kz/politics_sub/Nazarbayev-discusses-economic-development-with-Akhmetov-19099/, accessed on 7 May 2013.

²¹ Clara Ferreira-Marques (2013), 'ENRC Founders Consider Buyout of Troubled Kazakh Miner...

²² Novosti-Kazakhstan (2013), 'Large Owners of ENRC Deny Gossip about Potential Business Closure in Kazakhstan', 3 May 2013, available at <http://newskaz.ru/economy/20130503/5052567.html>, accessed on 7 May 2013.

²³ Tulegen Askarov (2013), 'ENRC: What is Next?' *Forbes-Kazakhstan*, 22 April 2013, available at http://forbes.kz/finances/exchange/enrc_chno_dalshe, accessed on 7 May 2013.

²⁴ Simon Goodley, Mark Hollingsworth, Rupert Neate (2013), 'ENRC: Serious Fraud Office Launches Criminal Investigation...

²⁵ Simon Goodley, Mark Hollingsworth, Rupert Neate (2013), 'ENRC: Serious Fraud Office Launches Criminal Investigation...

²⁶ Simon Goodley and Mark Hollingsworth (2013), 'ENRC Chairman Quits amid Internal Inquiry into Corruption Allegations',

The Guardian, 23 April 2013, available at <http://www.guardian.co.uk/business/2013/apr/23/enrc-chairman-quits-amid-corruption-inquiry>, accessed on 7 May 2013.

²⁷ Louise Armistead (2013), 'SFO Launches Criminal Investigations into ENRC', *The Telegraph*, 25 April 2013, available at <http://www.telegraph.co.uk/finance/newsbysector/industry/mining/10017960/SFO-launches-criminal-investigation-into-ENRC.html>, accessed on 7 May 2013.

²⁸ Simon Goodley and Mark Hollingsworth (2013), 'ENRC Chairman Quits amid Internal Inquiry into Corruption Allegations...

²⁹ Firat Kayakiran (2013), 'ENRC Co-founder Machkevich May Form Group to Bid for Miner', *Bloomberg*, 19 April 2013, available at <http://www.bloomberg.com/news/2013-04-19/machkevitch-may-form-group-to-make-takeover-offer-for-enrc.html>, accessed on 7 May 2013.

³⁰ Raushan Nurshayeva and Mariya Gordeeva (2013), 'Kazakh Fund Buys 29% in Glencore-controlled Kazzinc', *Mneweb*, 7



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ordeals will illustrate Kazakhstan's dependence on mining revenues and the tough business environment for companies that are required to comply with strict international standards outside Kazakhstan. In addition, it will show that ENRC can use its size and influence within the government in order to exert the necessary economic support.

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<http://www.mineweb.com/mineweb/content/en/mineweb-fast-news?oid=176934&sn=Detail>, accessed on 7 May 2013.



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