



Kazakhstan at a Crossroads: Governance, Corruption & International Investment

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After the crash

The long boom years in Astana have come to a close. More so than any other country in Central Asia, Kazakhstan took full advantage of the opportunities provided by the extended period of international economic expansion and high commodity prices to drive its transition to capitalism. Gleaming skyscrapers and glass monuments to Kazakhstan's new found prosperity (with nicknames including the lighter, the ashtray, Titanic, the Kursk, the Syringe, Seven Barrels, the Egg, the Elevator and Chupa Chups) rose at breakneck speed across the once quiet backwater town of Tselinograd, designated by President Nazarbayev as the country's new capital in 1994, replacing Almaty in 1998. The city is a personal monument to the President's approach to rebuilding Kazakhstan and he has so far resisted the attempts of grateful lawmakers to rename the city Nursultan in his honour. However while the government's major projects continue to steadily rise, like its counterparts in the US and UK, Kazakhstan's construction (and banking) boom has come to an abrupt end. The recession is causing significant economic hardship for many Kazakhstanis and has encouraged a tendency for the government to take a more active role in the economy, with implications for international investors.

This paper, the second in our 'Kazakhstan at a Crossroads' series, seeks to explore the current economic situation in Kazakhstan and assess what it means for the country's politics and international relations. It examines issues around international investment and corruption, looking at how they relate to the nature of the state in Kazakhstan, as well as a special focus on the telecommunications sector. There are also some initial suggestions about the role the international community can still play in supporting reform.

Kazakhstan's economic transformation

Whatever criticisms this paper and others in this series may level at its government, Kazakhstan's economic performance since independence has been impressive, certainly by the standards of its CIS comrades. After a challenging first decade of independence when both GDP and the population fell, the boom of the last decade has driven the GNI per capita position from \$1260 to \$6140 in 2008². Similarly, inflation has stabilised after a 1994 peak of 1546% following the replacement of the Rouble by the Tenge, settling at a range in the mid-teens for most of the decade following the 1998 financial crisis, before falling to 7% in 2009³.

It will not come as a huge shock to those unfamiliar with Kazakhstan that natural resources have acted as the lynchpin of the country's push to prosperity. However, although the economy is largely resource driven, making up over 73%

2 World Bank GNI Per Capita, Atlas Method

<http://www.worldbank.org.kz/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/KAZAKHSTANEXTN/0,,contentMDK:20212143~menuPK:361895~pagePK:1497618~piPK:217854~theSitePK:361869,00.html> (Accessed February 24th, 2010)

3 Kazkommertsbank (2009, October) Kazakhstan Financial Review, http://en.kkb.kz/attach/KazakhstanInBrief/Kaz_Fin_Review%20Oct%2009.pdf (accessed 23rd December, 2009)



of exports, Kazakhstan is lucky to not only be blessed with the worlds 11th largest oil reserves (30 billion barrels)⁴ and its 14th largest gas reserves (2.407 trillion cubic metres)⁵ but with a diverse range of other commodities including significant deposits of iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver and uranium.

Kazakhstan's three major oil and gas fields are:

- **Tengiz**⁶ with recoverable reserves of 6 to 9 billion barrels of oil (developed by the Tengizchevroil consortium who comprise Chevron (50% stake), ExxonMobil (25%), KazMunayGas (20%) and Russian-UK LukArco)
- **Karachaganak** with 8 billion barrels (1.3 km³) and 1,350 km³ of natural gas⁷ (Karachaganak Petroleum Operating B. V. Comprising the BG Group (32.5%), Eni (32.5%), Chevron (20%) and LUKOIL (15%))
- **Kashagan**⁸ with 9 to 11 billion barrels (Agip KCO comprising ENI, KazMunayGaz, Total, Shell, Exxon all holding a 16.81% share, Conoco Phillips 8.4% and INPEX 7.55%)

The consortia developing these fields are under mounting political pressure to increase the Kazakh involvement discussed later in this paper, usually through state-owned KazMunaygas who are also expanding their international presence through investments in other post-Soviet states.

Kazakhstan's government has managed the proceeds of its oil wealth through a sovereign wealth fund founded in 2000, known as the Samruk-Kazyna (National Welfare Fund), in an attempt to reduce the impact of commodity price fluctuations on core revenue streams and to prevent rapid currency appreciation, the so-called 'Dutch disease'. By 2009 the Fund had grown to \$27.5 billion.⁹ This arrangement is a significant improvement on previous practice, whereby significant hydrocarbon revenues were held in undisclosed offshore accounts beyond any parliamentary or public scrutiny. The argument was put forward by the government that this secrecy actually encouraged financial discipline as, by not knowing the full extent of the available reserves, the risk of irresponsible spending was reduced. Unsurprisingly, this previous arrangement raised significant concerns about the opportunities for corruption amongst those who were aware of the accounts, the President and other officials close to him. The World Bank notes that the government of Kazakhstan was forced to admit that it was holding \$1.4 billion from oil deals made in 1996 in a Swiss Bank account controlled by the President. The government argued that almost \$900 million was used to pay budget deficits and pension fund shortfalls during the Russian

4 CIA World Factbook, Country Comparison: Oil Reserves, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html> (accessed August 16th 2010)

5 Ibid CIA Country Comparison: Natural Gas Proven Reserves

6 Tengizchevroil, http://www.tengizchevroil.com/home_en/ (accessed 16th August 2010)

7 Karachaganak Petroleum Operating B. V. <http://www.kpo.kz/cgi-bin/index.cgi> (accessed March 17th, 2010)

8 AGIP KCO, <http://www.agipkco.com/wps/wcm/connect/agip+kco/AgipKCO+EN/Home/> (accessed March 17th 2010)

9 Silk Road Intelligencer, 'Kazakhstan's oil fund decreases by 20 percent since beginning of 2009' <http://silkroadintelligencer.com/2009/04/08/kazakhstans-oil-fund-decreases-by-20-percent-since-beginning-of-2009/> (accessed March 25th 2010)



and Asian financial crisis and that the balance was added to the National Fund in 2001, although the details remain sketchy.¹⁰

The Samruk-Kazyna currently sits at the mid-point of the Sovereign Wealth Fund Institute's transparency rankings, scoring 6 out of 10 (were 8 is deemed an acceptable level of transparency). However, as Freedom House point out, even under the new arrangements, 'the Parliament has no authority to investigate an audit of oil funds or to determine how and under what conditions the funds are to be used'¹¹. The fund has helped finance the government's economic stimulus packages with \$10 billion allocated from the fund in 2008 for the banking bailout, small and medium sized enterprises (SME), lending and support for the construction industry, with an additional \$4 billion added to the stimulus in 2009.¹²

Foreign investment

Since the collapse of the USSR, Kazakhstan has been Central Asia's primary recipient of foreign direct investment (FDI) with over \$10.25 billion received in 2007¹³ and more than \$50 billion since 1991, around 80% of total investment in the region. Investment initially focused on the commodities sectors but some diversification took place in the 2000s with increased international investment in the finance and construction industries.¹⁴ The Government has ambitious, if perhaps overly broad, plans to increase FDI flows into 237 'priority activity' investment categories including agriculture, light industry, petro-chemical industry, machine-building, the electric power sector, tourism, transport and transshipping.¹⁵

During the last ten years, Kazakhstan joined the international mainstream as it achieved recognition as a market economy by the EU in 2000 and US in 2002, while the international ratings agencies including Moody's, Fitch and Standard & Poor's began to give it investment ratings during 2002-04¹⁶.

Historically, FDI has flowed in from the West to supplement previous Russian links, but in recent years China has played a bigger role. While Kazakhstan remains keen to continue FDI flows, particularly in light of the economic downturn, recent economic policy has shown an attempt to strengthen the position of domestic firms at the expense of international investors. As discussed

10 World Bank, March 2004, Petroleum Revenue Management Workshop, age 88-89, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/08/26/000112742_20040826095443/Rendered/PDF/296760Petroleum0ESMAP0tech0no1051.pdf (accessed August 16th 2010)

11 Dr Bhavna Dave, Freedom House 2008 Country Report Kazakhstan, Freedom House <http://www.freedomhouse.org/template.cfm?page=47&nit=477&year=2008> (accessed August 16th 2010)

12 Silk Road Intelligencer, Kazakhstan's oil fund decreases by 20 percent since beginning of 2009, April 2009, <http://silkroadintelligencer.com/2009/04/08/kazakhstans-oil-fund-decreases-by-20-percent-since-beginning-of-2009/> (accessed August 16th 2010)

13 UNCTAD, World Investment Report 2008, http://www.unctad.org/sections/dite_dir/docs/wir08_fs_kz_en.pdf (accessed August 16th 2010)

14 Reuters, Kazakhstan urges foreign investors to help economy, June 2009, via UNESCAP <http://www.unescap.org/tid/tisnet/daily/daily120609.pdf> (accessed March 17th 2010)

15 Foreign Investors Council, Priority Sectors to Invest In <http://www.fic.kz/content.asp?parent=6&lng=en&mid=27> (accessed August 16th 2010)

16 Foreign Investors Council, Investment climate in Kazakhstan <http://www.fic.kz/content.asp?parent=6&lng=en&mid=26> (accessed March 29th 2010)



later in this paper, this is in part an attempt to provide redress for what some Kazakhstanis see as unequal deals struck at a point of economic weakness in the 1990s.

Kazakhstan operates a foreign investors forum, called the Kazakhstan Foreign Investors' Council¹⁷ that brings together 26 of the leading international investors with stakes in the extractive and other sectors (including the EBRD, ENI, ExxonMobil, BG & LUKOIL) in a formal discussion arrangement with the Government of Kazakhstan represented by members including the President, Prime Minister, Ministers with economic portfolios and the head of the Central Bank. It operates a number of standing working groups on tax, image enhancement, operations, legal issues, tax and oil & gas. The council also facilitates conferences and seminars. However there have been concerns raised by British investors that the forum lacks the required teeth to provide a suitable platform for discussing controversial matters.

Impact of the crisis

Kazakhstan's economy combined the two interlinked ingredients of economic havoc the world over: bubbles in the property and financial sectors, underpinned by a reliance on commodities. The financial sector has expanded dramatically since the late 90s with banks such as Bank TuranAlem (BTA) and Alliance holding ambitions to become major regional players. This expansion was backed by foreign credit, both from international financial institutions and the private sector that in turn provided capital for the Kazakh construction booms, as well as consumer and SME loans. By the time the global party ended, Kazakhstani banks and other financial institutions had racked up over \$40 billion in foreign denominated loans¹⁸ whose risk premiums went through the roof, creating a massive problem for institutions trying to refinance at crippling rates¹⁹. As with so many countries, the state intervened to prop up the banking sector, using the state oil fund Samruk-Kazyna to take major stakes in a range of key financial institutions including the controversial takeover of BTA, discussed in greater detail later.

The crisis in the banking sector was inextricably linked to the property market collapse. The boom years irrevocably changed the nature of the housing market in Kazakhstan, as former state-owned housing was sold into the private sector and the shackles were taken off construction. Property speculation exploded for the new middle class who wished to take advantage of a housing market where housing prices rose 25 fold between 1997 and 2007. When credit dried up, the market crashed, with many ordinary people exposed as the result of failed share-holding participation agreements (*dolevoe uchastie*)²⁰ in housing projects being developed by construction companies that went bankrupt.

17 IBID Foreign Investors' Council

18 Silk Road Intelligencer, Kazakhstan's Banking Crisis- What went wrong, October 2007, <http://silkroadintelligencer.com/2007/10/11/kazakhstans-banking-crisis-what-went-wrong/> (accessed August 16th 2010)

19 Alima Bissenova, Construction Boom and Banking Crisis in Kazakhstan, Central Asia-Caucasus Analyst, June 2009, <http://www.cacianalyst.org/?q=node/5117> (accessed March 29th 2010)

20 Ibid



In February 2009, the National Bank of Kazakhstan gave up its attempts to prop up the value of the Tenge that were threatening to burn through Kazakhstan's foreign reserves and the currency devalued by around 25%.²¹ KPMG argue that Kazakhstan's ability to maintain an exchange rate of 150 Tenge to the Dollar into the medium term will rely on a strengthening of the global economy that would lift Kazakhstan's economic performance. As of August 2010 the Tenge was trading at just over 147 to the Dollar. So far however, the Kazakh government has been able to weather the storm overall with resurgent commodity prices helping to raise official growth forecasts to 4% for 2010, up from previous estimates of 1.5-2%.²²

The shifting landscape for international investors

Western investors taking the plunge in the 'Wild East' that opened up when the Wall came down were taking a considerable risk for the possibility of significant rewards. As discussed in the first paper in this series, early 90s Kazakhstan looked a likely candidate for the bitter neighbour vs. neighbour ethnic conflict that became so widespread in the Caucasus and the Balkans during that time. It also goes without saying that the legal and business environment being cobbled together for the new country was rudimentary at best, causing a significant reliance on the personal standing of President Nazarbayev and his credentials as a late Soviet period reformer, as a guarantor that Kazakhstan would honour its commitments to investors. With great risk came great reward as access to major oil and gas fields were sold off to international consortia, while Almaty bars and hotels filled with a motley array of hydrocarbon executives, prospectors and chancers akin to 1890s Texas or across the Caspian in Baku.

Almost two decades on from independence, Kazakhstan has made it to middle income status and, as in Russia, its public and politicians bridle at the idea their assets were sold off on the cheap. This sense of injustice is manifesting itself as a growing resource nationalism that is guiding Kazakhstan's government policy. By late 2007 and early 2008, the Kazakh government decided to end the creation of new production sharing agreements in the extractive sector and undertake a review of taxation in the energy and mining industries.²³

The Government of Kazakhstan's firm new approach to international investors is perhaps most clearly demonstrated by its response to slow progress on the development of the Kashagan field (several years behind schedule due to technical difficulties with doubled costs) by the AGIP KCO consortium. In 2007, the Kazakh government passed a law giving it the power, under certain circumstances, to break existing oil contracts.²⁴ After years of wrangling, the

²¹ KPMG, Investment in Kazakhstan, July 2009,

<http://www.kpmg.kz/index.shtml/en/library/investment/index.html> (accessed August 16th 2010)

²² Silk Road Intelligencer, Kazakhstan to Raise 2010 GDP Growth Estimate-Minister, June 2010, <http://silkroadintelligencer.com/2010/06/24/kazakhstan-to-raise-2010-gdp-growth-estimate-minister/> (accessed August 16th 2010)

²³ Radio Free Europe/ Radio Liberty, Newslines, February 2008 <http://www.rferl.org/content/Article/1144057.html>

²⁴ Natalia Antelava, Threat to investors in Kazakhstan, BBC, January 2007 <http://news.bbc.co.uk/1/hi/business/7015361.stm> (accessed 16th August 2010)



initial production sharing agreement for Kashagan was amended and a new operating company, the North Caspian Operating Company (NCOC), took over the operation of the field from AGIP KCO, while KazMunaiGaz increased its stake from 8.3% to 16.81%, reaching parity with the initial lead investors ENI, ExxonMobil, Shell and Total.²⁵ This new arrangement stripped operating responsibility from ENI (the parent company of AGIP), with an agreement made between Shell and KazMunaiGaz to share production operations through a joint venture known as North Caspian Production Operations Company (NCPOC)²⁶.

Foreign investors have been further irked by the way in which some see Kazakhstan's environmental and labour laws being selectively enforced against foreign-owned corporations. Tengis-Chevron has faced successful legal challenges²⁷, both to its employment practices (after a court found that its dismissal of 1500 local hires over eight years for minor infractions in labour regulation amounted to discrimination against Kazakh workers), and to its environmental record over dangerous methods used for sulphur storage. President of the American Chamber of Commerce, Kenneth Mack, vocalised some investors' concerns, accusing the Kazakh government of using its laws 'selectively and in a manipulative way' and that 'we have witnessed top managers of large and reputable foreign companies that comply with the law having to leave the country not to be arrested,' in cases that have quickly led to criminal prosecution due to a low threshold between administrative (civil) and criminal cases.²⁸

International worries over Kazakhstan's approach have been dismissed by the Kazakh government²⁹, but there have been some public signs that western investor behaviour has encouraged Kazakhstan to look elsewhere for funding. For example, in December 2009, the Governor of Kazakhstan's Central Bank fired a shot across the bows of British investors, accusing them of being fair weather friends, stating that Kazakhstan would be increasingly looking to the Middle and Far East for future fundraising rather than London.³⁰

Tackling corruption in Kazakhstan

Corruption is a major problem in Kazakhstan, as elsewhere in the former Soviet Union, from the mundane petty bribery of the traffic police to accusations of grand larceny by senior officials. According to Transparency International's 2009

25 Upstream Online, Change of Guard at Kashagan Helm, January 2009, <http://www.upstreamonline.com/live/article170381.ece> (accessed 16th August 2010)

26 Silk Road Intelligencer, Kazmunai Gas partners up with Shell on Kashagan production <http://silkroadintelligencer.com/2010/07/26/kazmunaiqas-partners-up-with-shell-on-kashagan-production/>

27 Farkhad Sharip, Kazakh Court Decision Against Chevron Carries Political Implications, Jamestown Foundation, October 2007,

http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33119 (accessed August 2007)

28 Silk Road Intelligencer, AmCham voices concerns over corruption and investment climate in Kazakhstan, July 2007, <http://silkroadintelligencer.com/2009/07/17/amcham-voices-concerns-over-corruption-and-investment-climate-in-kazakhstan/> (accessed August 16th 2010)

29 Natalia Antelava, Threat to investors in Kazakhstan, BBC, January 2007

<http://news.bbc.co.uk/1/hi/business/7015361.stm> (accessed 16th August 2010)

30 Reuters, Kazakhstan to pull London fundraising, December 2009,

<http://uk.reuters.com/article/idUKTRE5B51J820091206> (accessed 16th August 2010)



Corruption Perceptions Index, Kazakhstan ranks 120th in the world, alongside Bolivia, Ethiopia, Vietnam, Mongolia and CIS colleague Armenia³¹, up 25 places from 2008³². The improvement is attributed to Kazakhstan's accession to the United Nations Convention against Corruption in June 2008 and President Nazarbayev's announcement of a major new anti-corruption drive, described as his 'ten slashing punches', that built on his 2006-2010 anti-corruption strategy. According to Bertelsmann, in 2009 new anti-corruption policies 'promised pay rises of 25% for public servants, a 60% rise for local court judges and an almost 300% boost in salaries for traffic police' but they argued that 'however, in overall terms, corruption remains rampant'.³³

The Agency of the Republic of Kazakhstan on Fighting with Economic and Corruption Crimes, otherwise known as the Financial Police, are responsible for investigating corruption in Kazakhstan and bringing cases to the Prosecutor General. As with so many agencies in Kazakhstan, it is answerable to the President, a measure that while in theory boosts its authority in a hierarchical society, also significantly limits its independence and credibility. There are also accusations that it has been involved in political turf wars and is itself suffering from significant corruption amongst its officers.³⁴ Added to the problems with the judiciary identified in the previous Kazakhstan at a Crossroads: Human Rights and Democracy, this adds up to a major deficit in the state's ability to provide a consistent, comprehensive and politically neutral response to the challenge of corruption.

So, while there has been considerable legislative activity and new hotlines encouraging citizens to 'shop' crooked officials in exchange for rewards, there remains a considerable gap between legislation and enforcement. While modest progress has been made in reducing everyday corruption at lower levels of the bureaucracy, higher up the picture is uneven.³⁵ Some analysts see the crackdown as an attempt to be seen to take action to provide a distraction from the wider economic crisis, rather than addressing the fundamental problems.³⁶ Indeed, where there have been high profile cases put against senior figures, it has often proved controversial, with the implementation of the crackdown being perceived to be both partial and politicised.

From a UK perspective, any discussion of political corruption in Kazakhstan can only be taken in light of the recent Westminster MPs expenses scandal. However, to create a direct equivalence between the 'flipping' and fiddling of Westminster legislators and the nature of corruption allegations against

31 Transparency International, Corruptions Perceptions Index 2009, http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table (accessed 16th August 2010)

32 Transparency International, 2008 Corruptions Perceptions Index 2008, http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table (accessed 16th August 2010)

33 Bertelsmann Stiftung, BTI 2010 Kazakhstan Country Report, <http://www.bertelsmann-transformation-index.de/155.0.html?L=1> (accessed August 16th 2010)

34 Trustlaw, Anti Corruption Profile- Kazakhstan, <http://www.trust.org/trustlaw/country-profiles/good-governance.dot?id=0efc7a55-251f-441d-916d-37a5ccc986c2> (accessed 16th August 2010)

35 Kazakhstan is far from alone in suffering from this disparity.

36 Rayhan Demytrie, Officials fall to Kazakh corruption drive, BBC, July 2009, <http://news.bbc.co.uk/1/hi/8153982.stm> (accessed 16th August 2010)



politicians in Kazakhstan, as some observers have done in earshot of this author, is to make a false equation between problems of a vastly different scale. While the UK scandal may have undermined Westminster's previous self-perception as a shining beacon of propriety, the figures on the table in the Kazakhstan context dwarf even the most egregious accusations facing British parliamentarians. And the problem starts at the top.

'Kazakhgate'

President Nazarbayev's public exhortations against the evils of corruption are somewhat undermined by the fact that he was the first head of state to be accused of violating the 1977 US Foreign Corrupt Practices Act for a scandal known variously and dramatically, as 'Kazakhgate' or the Giffen affair³⁷. The scandal broke in 2003 when a US national, James Giffen, carrying a Kazakhstani diplomatic passport, was arrested at JFK airport in New York. Giffen stood accused of funnelling at least \$78 million to secret bank accounts including those believed potentially to belong to former Prime Minister Nurlan Balgimbaev (KO-1) and President Nazarbayev (KO-2)³⁸. The case became the longest running of its kind in US history as lawyers wrangled over the defence's request for access to classified documentation that Giffen claimed showed he was in fact a CIA asset and they were aware of the transactions he was undertaking. During the 1990s Giffen attained a position of considerable influence within senior Kazakh government circles, allegedly acting as a linkman between Western energy companies and the Kazakh government on deals including the development of Tengis. Earlier in proceedings, Kazakhstan had attempted to use sovereign immunity to prevent a federal grand jury from reviewing documents pertaining to the case. The case was finally brought to an end in August 2010 when, in what Steve LeVine from Foreign Policy Magazine described as a 'stunning turn of events', the charges were 'effectively dismissed' when Giffen's firm pleaded guilty to giving two snowmobiles³⁹ to an unnamed official and the other charges were dropped, giving some credence to the defence's claims of CIA complicity⁴⁰.

Examining the recent anti-corruption drive

The pattern of arrests do suggest that the battles within Kazakhstan's elite between different clans and rival centres of power, all jockeying for position in

37 Bertelsmann Stiftung, BTI 2010 Kazakhstan Country Report, <http://www.bertelsmann-transformation-index.de/155.0.html?L=1> (accessed August 16th 2010)

38 David Glovin, Kazakhstan President Nazarbayev Accepted Bribes U.S. Alleges, Bloomberg, April 2004, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a_8QW26uoX_I&refer=home (Accessed 12th August 2010)

39 Radio Free Europe/Radio Liberty, After Seven Years, 'Kazakhgate' Scandal Ends With Minor Indictment, August 2010, http://www.rferl.org/content/After_Seven_Years_Kazakhgate_Scandal_Ends_With_Minor_Indictment_/2123800.html (accessed 16th August 2010)

40 Steve LeVine's own account of the trial conclusion states that the bribes in question were speedboats. SteveLevine, James Giffen's trial ends: A slap on the wrist, and the triumph of American Putinism, Foreign Policy, August 2010, http://oilandglory.foreignpolicy.com/posts/2010/08/06/james_giffens_trial_ends_a_slap_on_the_wrist_and_the_triumph_of_american_putinism (accessed August 16th 2010)



preparation for the post-Nazerbayev era, is determining in part which politicians, officials and businesspeople are being hit by the crackdown.

Two former cabinet ministers and their junior ministerial colleagues are facing significant corruption probes. Former Kazakh Prime Minister Danial Akhmetov was forced to step down as defence minister in June 2009⁴¹, following a major corruption investigation into the activities of his deputy, Khazimurat Mayermanov, who was arrested earlier that April on suspicion of accepting bribes and misappropriation relating to \$82 million of deals with Israeli arms manufacturers.⁴² Their former ministerial colleagues, Environmental Protection Minister Nurlan Iskakov and his deputies Alzhan Braliyev and Zeynulla Sarsenbayev were charged in March 2009 with involvement in the embezzlement of over \$70 million.⁴³

Surprise in the business community

The arrest subsequent conviction and sentencing to 14 years hard labour for corruption and embezzlement of state-owned nuclear company Kazatomprom boss Mukhtar Dzhakishev shocked many in Kazakhstan's business community. Dzhakishev was seen as one of Kazakhstan's more successful business leaders who had transformed Kazatomprom from a struggling company into the world's largest Uranium producer, while also cultivating a clean-cut reputation amongst the business elite. He was convicted of having manipulated the sale price of a 30% stake in a joint venture to Canadian firm Uranium One, with prosecutors stating the stake was sold for only \$104,000 despite the mining firm arguing it cost \$75 million. In the wake of his arrest and in a highly unusual move, 22 leading Kazakh businessmen, including a former finance minister and the head of Nur Otan's media outlet, wrote an open letter expressing their support for Dzhakishev, arguing that the case was deterring investors and calling for transparency in the investigation.⁴⁴ Following the conviction, opposition politicians have alleged political interference and suggested that the prosecution may have been linked to Dzhakishev's support in securing a pardon for Mukhtar Ablayzov in 2003, who is now in exile facing corruption allegations of his own (about more of which, below)⁴⁵.

In a similar development, Zhaksybek Kulekeyev, a former government economy and education minister and head of Kazakhstan Temir Zholy, the state railway company, was charged with taking a \$100,000 bribe from a firm tendering a

41 Ferghana. Ru, Kazakhstan: Danial Akhmetov is relieved from the position of Defense Minister <http://enews.ferghana.ru/news.php?id=1248> (accessed 16th August 2010)

42 Yossi Melman, Kazakh Minister arrested in Israeli Arms Sale, Haaretz, April 2009, <http://www.haaretz.com/print-edition/news/kazakh-minister-arrested-in-israeli-arms-sales-bribe-case-1.274065> (accessed 16th August 2010)

43 Madi Asanov, Former Kazakh government minister arrested for corruption, Central Asia Online. April 2009, http://centralasiaonline.com/cocoon/caii/xhtml/en_GB/features/caii/features/2009/04/02/feature-01 (accessed 16th August 2010)

44 Joanna Lillis, Kazakhstan: Business Climate Grows Gloomy Amid Arbitrary Arrest Controversy, Eurasianet, March 2010, <http://www.eurasianet.org/departments/civilsociety/articles/eav031710.shtml> (accessed 16th August 2010)

45 Joanna Lillis, Kazakhstan: Ex-Nuclear Boss Sentenced Amid Claims of Political Reprisals, Eurasianet.org, March 2010, <http://www.eurasianet.org/departments/civilsociety/articles/eav031710.shtml> (accessed August 16th 2010)



contract.⁴⁶ As with Dzhakishev, he had a comparatively clean reputation prior to his arrest and the bribery case against him collapsed. Kulekeyev was however sentenced to three years imprisonment for 'abuse of office', leading to accusations of political score settling.⁴⁷ However, the two most controversial figures of recent years faced with allegations of corruption, Ablyazov and Rahat Aliev, remain beyond the reach of Kazakhstan's government, claiming political asylum in Europe.

Political intrigue and Kazakhstan's banking sector: The BTA Bank & Nurbank

In the 2008-9 global financial crisis that saw market-friendly governments across the world being forced to take-over banks to prevent their collapse, the Government of Kazakhstan's intervention in its financial sector shouldn't have raised many eyebrows, particularly given its property slump and a falling oil price. However, the takeover of Kazakhstan's leading private bank, Bank Turan Alem (BTA) has been shrouded in controversy with accusations of political score settling against BTA's head, Mukhtar Ablyazov⁴⁸.

Mukhtar Ablyazov's career in Kazakhstan's public life has been something of a rollercoaster: a businessman turned Government minister in the late 1990s; founder of Kazakhstan's first serious non-communist opposition group (the liberal elite-led Democratic Choice of Kazakhstan) in the first years of the new millennium; jailed amid international controversy in 2002⁴⁹; pardoned in 2003 followed by time in Moscow; a return to Kazakhstan to lead an aggressive expansion of BTA in 2005; and finally an escape into international exile in 2009 following the government takeover of BTA and subsequent charges of corruption.

Following Ablyazov's return from Russia to head up BTA, the bank undertook a rapid expansion, with the stated goal of becoming the largest independent financial institution in the CIS, successfully raising finance on the global markets when the crisis struck. After weathering the initial stages of the banking crisis, BTA found itself unable to meet government requirements on the level of reserves and was taken over by Kazakhstan's sovereign wealth fund Samruk-Kazyna⁵⁰. Former CEO Roman Solodchenko argued in an interview that the Kazakh government undertook several actions that deliberately brought about the collapse of the bank. Solodchenko stated that his team was able to repay over \$1.4 billion in debt and trade finance obligations in December 2008 and

46 Economist, Kazakhstan: Going of the Rails

http://www.economist.com/displayStory.cfm?Story_ID=E1_TTDTJSRG (accessed 16th August 2010)

47 Joanna Lillis, Kazakhstan: Astana Achieves Slow Progress in Tackling Corruption, Eurasianet.org, January 2009, <http://www.eurasianet.org/departments/insightb/articles/eav012609.shtml> (accessed 16th August 2010)

48 It is worth noting at this stage that as part of a separate project, albeit on a similar topic to this specific paper, the FPC platformed Mukhtar Ablayzov in a Westminster debate on 'Doing Business in Kazakhstan' in June 2010

49 Marie Struthers, One Voice Less in Kazakhstan, Institute for War and Peace Reporting, May 2005,

<http://iwpr.net/report-news/one-voice-less-kazakhstan> (accessed August 16th 2010)

50 Annette Bohr, Kazakhstan: End of the Banking Boom, Chatham House, May 2009,

http://www.chathamhouse.org.uk/research/russia_eurasia/papers/view/-/id/746/ (accessed July 26th 2010)



January 2009 but argues that three actions of the Kazakhstan government led to its demise: firstly government proposals split BTA in two, hiving off its Kazakh subsidiary JSC Temirbank, thereby removing assets that would trigger a default on the requirements of its internationally-held debt. Once these proposals became public it reduced market confidence in the bank; a reduction in interbank lending by the National Bank of Kazakhstan in January; and finally it is alleged that on Thursday 29 January 2009, the government told BTA to raise its capital adequacy ratio to 24.9% by Sunday 1st February 2009 that triggered a compulsory share issue and their purchase by Samruk-Kazyna. In the wake of the takeover, corruption charges were brought against the former executive team, leading a flight into exile, mostly to London.

Abylazarov and Solodchenko argue that figures in the government used the financial crisis to remove BTA as a potential power base for a previous opponent of the regime, while the new management team accuse their predecessors of irresponsible deals and alleged lending to companies in tax havens that could be linked to Abylazarov himself, the heart of current corruption allegations against him.⁵¹ Abylazarov has retorted with corruption allegations of his own⁵² against Timur Kulibayev, Nazarbayev's son-in-law, a political and financial power player⁵³ who also serves as deputy head of BTA's new owners.

In an interesting coda to the case, as Gillian Tett noted in the Financial Times, following BTA's takeover by the government, Morgan Stanley appeared to actively engineer BTA into default by demanding the repayment of loans that the bank was at the time able to service but not pay off. The FT reported that Morgan was believed to have Credit Default Swaps to the value of or exceeding its loans to the bank, thereby benefiting from a default that would otherwise lose them and other creditors money.⁵⁴

Back in 2007 there were even more bizarre goings on at Nurbank that provided the setting for the denouement for the political career of Rakhat Aliyev, the then husband of Nazarbayev's eldest and most politically active daughter Dariga Nazarbayeva. Aliyev was accused (and eventually convicted in absentia) of a number of crimes including the case that triggered his downfall, the kidnapping of former executives of Nurbank⁵⁵ in which he and his family were shareholders⁵⁶. On the same theme, Aliyev has accused the KNB (the agency of which he was previously Deputy Director) of sending agents to kidnap him and former KNB

51 Landon Thomas Jr, Kazakh Bank Lost Billions in Western Investments, New York Times http://www.nytimes.com/2009/11/28/business/global/28kazakh.html?_r=1&ref=kazakhstan (accessed 16th August 2010)

52 Joanna Lillis, Kazakhstan: Fallen Tycoons Still rankle ruling elite, Joanna Lillis, Eurasianet, March 2010, <http://www.eurasianet.org/departments/insight/articles/eav031110a.shtml> (accessed July 26th 2010)

53 See paper 1 in this series for further information

54 Gillian Tett, Insight: Kazakh bank falls foul of CDS, FT, April 2009, <http://www.ft.com/cms/s/0/fa0428ee-35a7-11de-a997-00144feabdc0.html> (accessed January 18th 2010)

55 Joanna Lillis, Kazakhstan: Political Reshuffle Involves President's Son-in-Law, Eurasianet, February 2007, <http://www.eurasianet.org/departments/insight/articles/eav020907.shtml> (accessed August 16th 2010)

56, His divorced wife and their son sold their holdings in May 2010 according to Isabel Gorst, Kazakhstan: the family sells out at Nurbank, FT, May 2010, <http://blogs.ft.com/beyond-brics/2010/05/26/kazakhstan-the-family-sells-out-at-nurbank/> (accessed 16th August 2010)



chief Alnur Musaev⁵⁷ from exile in Vienna where he has attained asylum on the grounds that he would not receive a fair trial back home. Aliyev's increasingly eccentric missives from exile have included a tell-all book, the God Father in-Law that makes corruption allegations against Nazarbayev and other regime officials, while arguing that he was the victim of political infighting⁵⁸.

This paper does not seek to pass detailed judgement on the validity of the corruptions levelled against any of the previously mentioned, something inappropriate to do without resources and legal knowledge beyond this author's possession. However it does seem that *who* is accused (and/or prosecuted/convicted) is determined by factors beyond the straightforward legal process, tied up in the inter-factional manoeuvrings within Kazakhstan's elite. To outside eyes it seems that corruption allegations are a stock-in-trade in Kazakh political activity. Rumours also exist of conflicts between the KNB and the Financial Police⁵⁹, with both providing vehicles for levelling corruption allegations against rivals. A table including other recent high profile corruption cases is attached as an appendix to this report.

Media and telecoms regulation

The first paper in this series, Kazakhstan at a Crossroads: Human Rights and Democracy drew attention to some of the major restrictions on media freedom and the persecution and prosecution of journalists. However, the problems facing access to information go beyond the traditional print and broadcast media, as challenges concerning access to the internet are also growing.

The Kazakhstan telecommunications industry is dominated by the near monopoly presence of the partially state-owned KazakhTelecom⁶⁰, with limited competition from mobile providers such as Nursat, Megaline and Beeline.

The World Economic Forum's Global Information Technology Report 2009-10 provides a useful assessment of Kazakhstan's telecoms provision.⁶¹ While achieving a middle ranking of 68 out of 133 countries surveyed,⁶² in some respects impressive given the scale of the geographical barriers to providing access, the report highlights two main areas of weakness. Firstly, the sector suffers from the same governance failings explained previously in this and the previous report; Kazakhstan scores poorly on freedom of the press (110th), property rights (103rd) and judicial independence (97th). Secondly, there are some more prosaic (and non-political) problems around lack of competition in the sector (101th & 104th on different measures) and, perhaps related to this, the cost of connecting both residents and businesses to telephone and web (111th).

57 Radio Free Europe/ Radio Liberty, Alleged Kazakh KNB Agents To Stand Trial In Austria, August 2009, http://www.rferl.org/content/Alleged_Kazakh_KNB_Agents_To_Stand_Trial_In_Austria/1802870.html (accessed 16th August 2010)

58 He argues that he was ostracised for promoting reform. Whether or not this is true it seems likely that his positioning as a potential successor to Nazarbayev ruffled some feathers.

59 Axis Information and Analysis, Eurasian Secret Services Daily Report, October 2009, <http://www.axisglobe.com/article.asp?article=1924> (accessed August 16th 2010)

60 The state holds around 45% of shares through Kazakhstan's Sovereign Wealth Fund Samruk-Kazyna

61 World Economic Forum, The Global Information Technology Report 2009-2010

<http://www.weforum.org/documents/GITR10/index.html> (accessed August 16th 2010)

62 Kazakhstan scores particularly well on contract enforcement and level of telephone connection



As mentioned in the previous FPC report, recent developments in internet law have not been promising. In June 2009, new legislation changed the legal position of websites, blogs and chatrooms to that of an 'internet resource', creating legal equivalence with off-line media outlets and thereby subjecting them to the same restrictions on content⁶³. While there may be some sense in harmonising certain media regulations across different platforms, this move simply transplants inappropriate restrictions on freedom of expression from the traditional media to the full raft of online forums and furthermore creates a false equation between public chatroom comments and journalism. The regulations also formalise the right to block foreign websites that are seen to breach Kazakhstan's national legislation, for example by discussing issues that would breach Kazakh censorship laws, by court injunction at the request of the Attorney General.⁶⁴ Prior to the legislation being passed, Radio Free Europe/Radio Liberty's Kazak-language site had been blocked, a move that restricted access to its Kyrgyz, Tajik and Uzbek services due to Kaztelecom's position as Central Asia's main Internet Service Provider (ISP)⁶⁵. According to Rachid Nougmanov, the authorities had long maintained a blacklist of 'destructive websites' to be filtered by ISPs.⁶⁶

The legislation puts onerous user information-gathering requirements on service providers. They are required to share information with the authorities⁶⁷ that not only invades privacy but constitutes a heavy and expensive bureaucratic burden. Providers are required to store information for two years about subscribers: phone numbers, identification codes, e-mail addresses, postal addresses, passport details, personal tax identification numbers, legal details (details of the certificate of state registration, statistical card and VAT registration certificates), billing information and information about services provided to subscribers, the addresses of subscribers in the data network and addresses to access internet resources in the data network, internet resource identifiers, protocols, data network⁶⁸. Article 15 of the same law requires ISPs to provide the authorities with 'with organisational and technical capabilities of the operational-search measures of all networks, access and transmission of proprietary information about the subscribers and take measures to prevent the disclosure of methods of conducting these activities'.⁶⁹

On the economic challenges raised by the WEF report, Nougmanov's contribution to the OSCE's Governing the Internet Report highlights some of the prohibitive costs for Kazakhstan's internet users. In 2007 a basic internet package would

63 Trend News, Kazakh parliament equates all Internet-resources with media, June 2009, <http://en.trend.az/news/important/actual/1493250.html> (accessed 16th August 2010)

64 Adilsoz, Comparative table of the draft Law of the Republic of Kazakhstan 'On making amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of information and communication networks' December 2008, <http://www.adilsoz.kz/site.php?lan=russian&id=858> (accessed January 26th 2010)

65 Media Network, RFE/RL says Kazakhstan blocking its websites, May 2008, <http://blogs.rnw.nl/medianetwork/rferl-says-kazakhstan-blocking-its-websites> (accessed 16th August 2010)

66 Rachid Nougmanov in Christian Möller and Arnaud Amouroux ed. Governing the Internet, OSCE, July 2007 http://www.osce.org/publications/rfm/2007/07/25667_918_en.pdf (accessed 16th August 2010)

67 Law No. 567-II of the Republic of Kazakhstan on Telecommunications, dated July 5, 2004.

68 Xenia Bondal, in Respublica.Ru via Profit.kz, November 2009, <http://www.profit.kz/articles/001054/> (accessed January 26th 2010, in Russian)

69 Draft Law of the Republic of Kazakhstan "On making amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of information and communication networks" <http://www.medialawca.org/book/export/html/1356> (accessed January 26th 2010, in Russian)



cost €30 a month, over 10% of the average monthly income, while an unlimited package would cost 28% of a monthly salary (€82).⁷⁰ There has been some reduction in costs since then, to around €12 for a basic package and €66 for the unlimited access,⁷¹ as of August 2010, however it is clear that cost and the low quality of connections available are major causes (alongside inaccessibility of rural communities due to Kazakhstan's vast geography) of the low penetration of internet access.

As an approach that may help improve access to information on all fronts, there is an important opportunity for the international community to assist Kazakhstan improve its telecoms regulation and to explore the liberalisation of the market (and reduce the bureaucratic burdens on providers) to create a greater diversity of suppliers of internet services. Liberalisation could potentially have the dual benefits of reducing costs to residents and businesses (also encouraging improvements in bandwidth), while simultaneously creating a small, though sadly surmountable, barrier to *informal* attempts by the state to block access to websites through influencing the operational decisions of Kazakhtelecom⁷². The UK's OFCOM and BEREC (Body of European Regulators for Electronic Communications), the new EU wide forum for regulators, could play a role in providing advice and technical support on telecoms liberalisation to the Kazakh government and Anti-Monopoly Agency as part of their international outreach work.

Conclusions

This paper can only provide a brief overview of some of the complex issues in Kazakhstan's economy and the political and governance challenges that relate to it. Some further issues, such as Kazakhstan's WTO accession and its Customs Union with Russia and Belarus will be addressed in paper 3 of this series. However, some trends can be identified.

In some respects, despite Kazakh ministerial denials, there are distinct parallels between Kazakhstan and its former colonial power, Russia. As the most economically successful of the post-Soviet states, the two countries autocratic leaderships that maintain a genuine level of popularity amongst their publics through a mixture of relative success and skulduggery. The downside is the sense that decision-making by the courts and state agencies can be politicised, and to an extent arbitrary, and that the government is expanding its writ within the economy, seeking to atone for past weakness towards international investors in ways that undermine confidence in the fairness of the system.

However, despite rule of law failings, the recent economic troubles and the Kazakh government's increasing resource nationalism, there remain significant opportunities for international investors and some visible improvements in the last few years. The World Bank's 'Doing Business' rankings show some of the

70 Rachid Nougmanov in Christian Möller and Arnaud Amouroux ed. *Governing the Internet*, OSCE, July 2007 http://www.osce.org/publications/rfm/2007/07/25667_918_en.pdf (accessed 16th August 2010)

71 Almaty Telecom <http://www.almatytelecom.kz/> (accessed August 22nd 2010)

72 Such a move clearly would not change access to sites officially barred but create a further hurdle for informal blocking.



areas where practical reforms have led to improvements, including: easing the process for getting construction permits; eliminating the requirement to pay for new electrical connections; reducing time limits for building permits; abolishing the requirements to register at local tax offices; lowering the cost of topographic surveys; and reducing social and corporate income tax. As a result, Kazakhstan has improved in their rankings from 80th place in the report in 2008⁷³ to 63rd in 2010.

So, what practical measures can be brought to bear to help improve broader economic governance? Put simply, there are measures that may bring some assistance. Some are outlined below, however to get to the heart of some of the problems identified in this paper, there needs to be a far deeper reform of the relationship between the judiciary, state agencies and the government that would involve greater transparency in decision-making and a fundamental shift in power within Kazakhstan. While this remains a long-term goal and will involve a wider shift towards greater democratisation and rule of law reform set out in our first paper, there are certain measures that may be of some assistance:

- Liberalisation of the telecommunications industry. Ofcom, BEREC and telecoms regulators in other EU member states (particularly France and Germany, given their lead in rule of law issues in Central Asia for the EU) could play roles in providing advice as to how to move away from a market dominated by a near-monopoly provider, with the aims of reducing prices, developing stronger formal procedures that would be required in a liberalised market and creating a degree of independence between providers and the government.
- Increased international assistance in reform of Kazakhstan's anti-corruption bodies. Similar to the point above, the UK's Serious Fraud Office could develop its engagement with its sister institutions in Kazakhstan through the range of mechanisms set out in its international strategy. Any cooperation could be added to or coordinated at the European level by OLAF and other member state anti-corruption/fraud agencies. One of the major challenges that such work could address would include how to tackle corruption within the anti-corruption agencies and promote greater transparency. It would be helpful perhaps to make clear that if greater trust could be placed in the independence and impartiality of Kazakhstan's agencies and related judicial processes, western governments may engage more willingly on issues in this area of interest to the Kazakh Government. It is also worth noting that the new UK government's decision to delay the implementation of the Bribery Act 2010 by six months does not exactly send a positive message to Kazakhstan, or to any other country for that matter, about the extent to which it sees tackling international corruption as a priority.
- Enhance Parliamentary scrutiny of activities of anti-corruption agencies. While certainly not a panacea given the current one-party Majilis, but

73 Doing Business, Kazakhstan, <http://www.doingbusiness.org/ExploreEconomies/?economyid=100> (accessed 16th August 2010)



ensuring that agencies are publically held to account by Parliament would provide an important method of diversifying and enhancing the scrutiny of their activities.

- Complying with the Extractive Industries Transparency Initiative (EITI). Kazakhstan is far from alone in having some problems in meeting the requirements of the EITI validation process, with the deadline for 20 countries delayed from April to September 9th 2010. Kazakhstan has faced issues around showing that *all* companies are reporting *all* their payments and revenues as required under the scheme⁷⁴. According to EITI themselves, their process has been hampered by a fragmentation in the civil society response to the process, with a breakdown from a common negotiating position through the *Oil Revenues-Under Public Oversight* coalition into three groups with differing priorities⁷⁵.

Since the publication of the first Kazakhstan at a Crossroads: Human Rights and Democracy paper, President Nazarbayev has achieved his main objective of his country's Presidency of the OSCE: an agreement to hold in Astana an OSCE Summit for the first time this millennium. It comes after frenetic diplomacy by the Government of Kazakhstan and against the advice of human rights NGOs and others, including this author, who argued that as the country had failed to fulfil the Madrid commitments on human rights and good governance that it made on being offered the Presidency, such a move was inappropriate. Indeed, at the event following the publication of our earlier report, the Minister for Europe in the previous UK government stated in response to the report's findings that Britain would not support a full OSCE summit due to such concerns. Therefore it is somewhat depressing that the July OSCE ministerial meeting⁷⁶ did to agree to the summit, giving a significant propaganda victory to the government without much to show in return on Kazakhstan's own governance and human rights issues.

Nevertheless, the approach taken by the new UK government and its EU partners to December's summit will be an important test of how they seek to approach the issue of governance and values. To achieve real long-term benefits for UK and EU investors, there is a need not to go to Astana simply drumming up business for today, but to engage constructively and honestly with Kazakhstan on ways of working together to address the real problems outlined here and elsewhere. The west is unlikely to win in a race to the bottom on

74 Correspondence with officials at EITI on progress. Further to this paragraph despite the UK being the founder and major backer of the scheme it has not gone through the process itself, something that may help develop trust in the process.

75 The picture of infighting amongst Civil Society groups tallies with what the author has been hearing from other sources and the issue will be addressed in the final Kazakhstan at a Crossroads compilation report

76 OSCE, Kazakhstan's President welcomes decision to hold OSCE Summit in December in Astana, July 2010, <http://www.osce.org/item/45662.html> (accessed August 16th 2010)



standards against the growing engagement of China in Kazakhstan's economy⁷⁷. This paper would suggest perhaps sending a political delegation headed by the Foreign Secretary or Minister for Europe rather than the Prime Minister, although this may prove impossible given the Head of Government nature of such summits. Baring a significant political gesture of that nature, it is important that significant work be undertaken at official level to seek to address areas of concern. Furthermore, whatever support British and other world leaders may wish to express for the actions of the Presidency on other issues, it is imperative that its failure to honour its Madrid commitments continues to be raised both publically and behind closed doors.

⁷⁷ Something that will be assessed in the following paper Kazakhstan at a Crossroads: Kazakhstan in the World.



Appendix 1: Key Recent Prosecutions against Senior Officials and Business People

Name	Post	Reasons for the Arrest	Consequences
Alzhan Braliyev	Kazakhstan's Vice Minister of Environment	Arrested by the financial police in January 2008; Braliyev was investigated in relation to a \$3.3 million scheme to allow students with inadequate test scores to go abroad to study.	The case was abandoned due to a lack of evidence, but prosecutors said they reserved the right to reopen the case, if additional evidence came to light ⁷⁸ . He has since been charged as part of the case against his boss Nurlan Iskakov.
Kazhimurat Mayermanov	Defence Ministry, deputy minister (Mr Akhmetov's ⁷⁹ deputy)	Arrested on corruption charges (Spring 2009). Mr Mayermanov and several other defence ministry officials were accused of purchasing defective military equipment from Israel and misappropriating \$82m from the defence budget ⁸⁰ .	
Mukhtar Dzhakishev (arrested along with a number of his deputies)	Head of the state-owned nuclear firm "Kazatomprom"; Mr Dzhakishev led Kazatomprom for 10 years.	The authorities say Mr Dzhakishev appropriated 60% of Kazakhstan's uranium deposits, worth billions of dollars, and sold them to foreign firms. But the authorities are releasing little information about the case. "Any Kazatomprom contract has to be approved by the government and the ministry of energy and natural resources. Technically it is impossible that Dzhakishev could have appropriated 60% of uranium deposits," says Mr Smirnov.	His arrest caused a stir in Kazakh business circles, prompting a group of businessmen to write an open letter to President Nazarbayev urging transparency in Mr Dzhakishev's criminal case. The businessmen said a secret investigation would tarnish Kazakhstan's international image and deter potential investors.
Nurlan Iskakov ⁸¹	Former Environment Minister	Charged with financial manipulation and embezzling more than \$6m from the state budget	The case against two of his deputies was opened
Tokbergen Abiyev	Editor of a newspaper called "Anti-corruption newsletter"	Arrested by Kazakhstani police on charges of bribing one of its officers. Financial crime police accuse the editor of paying \$2,000 (1,017 pounds) to obtain compromising information about judges ⁸²	
Serik Burkitbayev ⁸³	Former head of the Kazakhtelecom and KazMunayGaz national companies. Mr Burkitbayev was appointed head of KazMunayGaz in May 2008 but he was	Arrested on corruption charges in September 2008. The newspaper claimed that "according to one of the theories, Serik Burkitbayev, when he headed Kazakhtelecom, had handed over special equipment to tap telephone conversations to Rakhat Aliyev and showed Aliyev's trusted people how to	

78 Eurasianet, Kazakhstan: Vice Minister Arrested on Apparent Corruption Charge, February 2009, http://www.eurasianet.org/departments/news/articles/eav022709c.shtml?quicktabs_11=0 (accessed 16th August 2010)

79 Danial Akhmetov, ex-Defence Minister a long time loyalist and former prime minister was fired by President Nazarbayev. No official reason was giving for his dismissal. (Early June 2009)

80 Information from National Security Committee (KNB), see in main text above for further sources

81 http://centralasiaonline.com/cocoon/caii/xhtml/en_GB/features/caii/features/2009/04/02/feature-01

82 Olzhas Auyezov, Kazakh corruption fighter arrested on bribe charges, Reuters, May 2008,

<http://uk.reuters.com/article/idUKL2122909820080521> (accessed 16th August 2010)

83 Central Asia Market Watch, Kazakh Top Manager Detained on Corruption Charges, September 2008,

<http://www.marketwatch.kz/for-subscribers/other/118-kazakh-top-manager-detained-on.html> (accessed 16th August 2010)



	unexpectedly fired in August.	use it".	
Zhaksybek Kulekyev	former government minister and the former head of the Kazakhstan Temir Zholy railway company	Arrested on corruption charges in April 2008	
Abylkasym Mamyrbekov	ex-deputy chief executive of Alliance Bank (voluntarily left his post prior to the accusation); the second high-ranking official at Alliance Bank	Accused of using deceptive accounting practices to shift 1.1 billion dollars into privately held offshore bank accounts (arrested on September 10). "He has been charged with complicity in the theft of 1.1 billion dollars."	Alliance Bank, Kazakhstan's fourth largest lender, has been in talks with the government about a state takeover as officials have sought to stave off the collapse of the country's crisis-battered banking sector.
Zhomart Ertayev	The company's former chief executive	Arrested over the scheme in August	
Nurman Bayanov	Deputy Chairman of the Statistics Agency ⁸⁴	Arrested on charges of misappropriation of the funds assigned to the national census; Another Deputy Chairman of the Statistics Agency and two prominent businessmen - one of them, Serik Turzhanov, is the Vice-President of Chamber of Commerce and Industry and a well-known public person - were arrested too as accomplices	There was total of \$7.6 million allocated for the census. As a result of investigation it was determined that in fact only \$2.2 million were spent for this purpose. The remaining funds were plundered

84 Global Voices, Kazakhstan: "Statistical Error", a new corruption scandal, Ground Report, June 2009, <http://www.groundreport.com/World/Kazakhstan-Statistical-Error-a-new-corruption-scan/2900814> (accessed 16th August 2010)