MPA 699: Master’s Project

Sustainability of National Fund of Republic of Kazakhstan

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LIST OF ACRONYMS

APFC - Alaska Permanent Fund Corporation

GPFG - Government Pension Fund Global

LMTI - Linaburg-Maduell transparency index

NF – National Fund of Kazakhstan

SWF – Sovereign wealth fund

ABSTRACT

The active development of markets worldwide, globalization processes, resource curse, and permanent instability have led to the emergence of new financial institutions with the ability to exert a stabilizing influence on the global economy. For this purpose, sovereign wealth funds (hereinafter - SWF) were created. Recently, approximately 70 SWFs are operating worldwide. The creation and assets of sovereign funds have an impact on the external and internal balance of the national economy. The major principle was to establish the fund, which would become a «fund for future generations». Mostly, the income to the funds is tied to the commodity sector. However, with the advent of the «green economy», some of the funds adapt, diversify their investments and become non-commodity. However, there is a trend of renewable energy sources around the world. To what extent SWFs are resilient? Since Kazakhstan is at the top of the list of countries, producing oil and gas, the National Fund of Kazakhstan (hereinafter - NF) mostly depends on the commodity sector. In recent years, special attention has been paid to the activities of the NF. Especially after the Address of the Head of State Mr. Kassym-Zhomart Tokayev in September 2022, when it was announced the launch of the «National Fund for Children» program, this topic becomes relevant. Meanwhile, it is also often mentioned that the funds of the NF are excessively and inexpediently spent.

The aim of this research is to analyze and identify the factors and problems which affect on sustainability and viability of our NF. Moreover, a research study in this field contributes to increasing NF’s revenues for future generations. The research methods will suggest identifying problems with transparency, governance, and profitability of NF to demonstrate sustainability and viability.

INTRODUCTION

Since gaining independence, the commodity sector of Kazakhstan started involving foreign investments. The republican budget dependence on natural resources has determined the objective to effectively use resources and diminish the influence of world oil price fluctuations on government revenues and expenses. Usually, the commodity sector plays a significant role in the economy of such states. It occupies the major share of budget revenues and gross domestic product. Dependence on the commodity sector could jeopardize long-term economic growth (Pak & Mukhtaruly, 2021). In these terms, the Kazakhstani government created NF in 2000. NF was not created in the form of a legal entity and represents the account of the Government in the National Bank of Kazakhstan (Zlotnikov et al., 2004). Since its creation, the NF's assets have increased from $660 million to $61.9 billion. Such an amount is small in comparison with other SWFs. However, in line with the ranking of «The Sovereign Wealth Fund Institute», Kazakhstan NF placed in the 25 top in terms of assets (Bhutia, 2020). While creating NF, government officials and independents have researched the practices of SWF in foreign countries. As a result, the fund was established and modeled on the basis Norwegian Oil Fund, now it is Government Pension Fund Global (hereinafter-GPFG).

The GPFG aim is to provide well-diversified investments that distribute risk and maintain the maximum possible return. GPFG also invests globally in international stocks, fixed income, and real estate (Vorotilov, 2017). According to the annual report of the Norwegian Fund, in 2020 the value of the fund increased by 1.07 trillion Norwegian kroner ($124 billion), or 10.9%. The American high-tech sector had a positive impact on the fund's revenue. Technology companies showed the highest revenue in 2020 – 41.9% (Interfax, 2021). The GPFG is a brilliant model of transparency. Each user can see in real mode the amount of the fund on the main page of the official website. Such measures contribute to public awareness and confidence, which could follow the growth of assets.

In terms of Kazakstan, NF consists of two parts – stabilization and saving. The first part is aimed to decrease the dependence of budgets on oil prices, second – is to preserve funds for future generations (Komekbayeva, 2010). The ratio of the savings and stabilization function was 75% and 25%, respectively. The guidelines for asset use and construction are described in the Budget Code of Kazakhstan. The NF is replenished by direct taxes from the commodity sector, and revenues from the privatization of republican property (Pak & Mukhtaruly, 2021). According to the 15th National Report «About Extractive Industry Transparency Initiative implementation in Kazakhstan for 2019» (2020), a large share of revenues is provided by the gas and oil sector in the form of taxes from oil companies, except for export customs duty on crude oil. Furthermore, Shagiyev & Kuanshaliyev (2016) highlight four main expenses of items from the National Fund. They are guaranteed transfers to the republican budget, purchasing the bonds of national holdings, targeted transfers, and administrative expenses of the Fund.

In recent years, the National Fund has increasingly resembled an airbag. The funds can be used to support non-funded social projects. At the onset of the crisis and during the pandemic, the Kazakhstani government often resorted to the funds of the National Fund to close the holes in the republican budget. Throughout NF performs a stabilization function and may not be able to cope with another task - to save money for the future generation.

The purpose of this master's thesis is to research whether our NF is sustainable. Sustainability means the viability of the NF in terms of global challenges, for instance, oil price fluctuations, exchange rate. We will consider sustainability in terms of governance, transparency, and profitability issues.

In order to test our research question of whether our National Fund is sustainable we focus on the following hypothesis:

1. The form of NF governance contributes to its sustainability in terms of decision-

making impartiality;

2. Funds that are transparent are more likely to be sustainable;

3. Identification of the factors affecting the profitability of the savings of the National Fund that affect its sustainability.

LITERATURE REVIEW

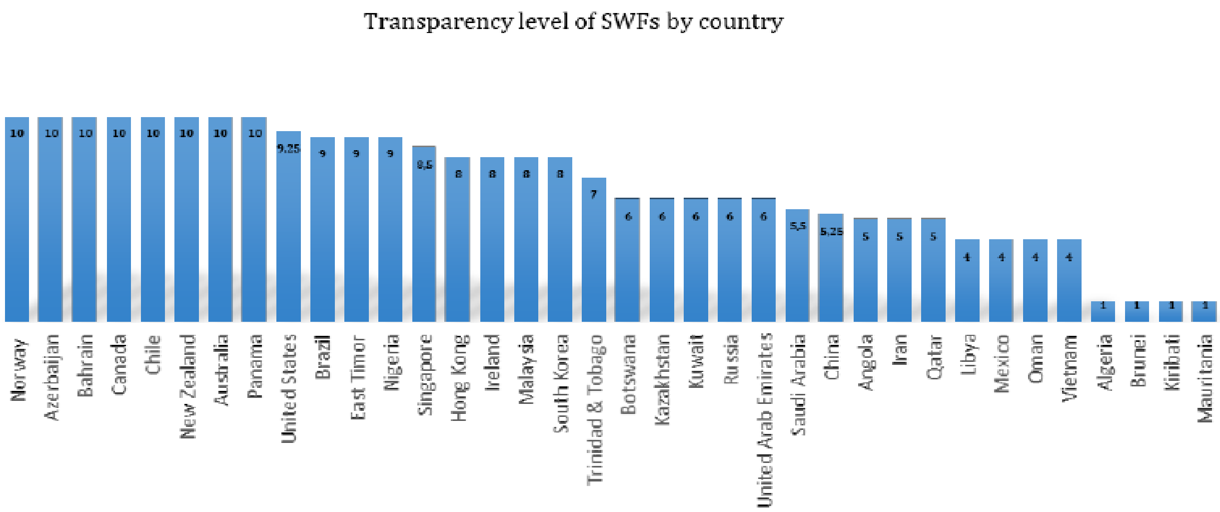
Established SWFs, which quantity is increasing, have evolved into an essential discussion of scholars and researchers. Despite the fact that most SWF is based on the commodity sector, the number of non-commodity SWFs is rising. However, SWF founded on commodities compose the majority (Ozgül, 2020). Bahoo et al. (2020) claim that SWF turned into a key element of the global financial system. There are a lot of sources and materials that study the functions and activity of SWF, accountability, management, transparency, and investment strategies. Foreign SWF comparison could contribute to defining the factors, which reflect whether the NF is resilient.

Studying the characteristics of SWF can be divided into 5 categories. First, stabilization funds, are established in commodity-rich countries to protect the economy of the country from volatile oil prices. The second type is a saving fund, which is created to save funds for future generations. The other two are reserve investment cooperation and development funds. Their goals of them are to decrease the negative cost of keeping reserves and use resources to maintain essential social projects, such as infrastructure, respectively. The last type is pension funds. Practically, most countries establish the funds with both stabilization and savings functions, for example, the SWF of Norway, Kazakhstan, and the Russian Federation. (Turlubayev, 2014).

According to the policy brief of Truman & Bagnall (2013), governance indicates the role of government, state agencies and bodies, and managers, to what extent they could make decisions on investments. These elements should provide check and balances. And the role of each party should be defined clearly in terms of investment strategy and policy. The set of balances and checks also influence on transparency and accountability. The authors provide the examples of Kuwait, Australia, Norway and Singapore SWFs, where independent managers have priorities to make decision on investments.

Transparency is one of the aspects, which demonstrates the efficiency and influence of the sustainability of the NF. There are benchmarks of transparency developed by Edwin Truman and Linaburg-Maduell transparency index (hereinafter-LMTI) in terms of addressing transparency issues (Turlubayev, 2014). Truman's ranking reflects 33 elements, which are assessed by 100 points overall score. This index evaluates transparency, reporting issues, governance, accountability, investment strategy, fiscal treatment, and behavior. The highest score has GPFG. Moreover, the SWF of the Netherlands, USA, France, Canada, Japan, and Australia have high scores. Another issue is LMTI, which is presented as a global standard benchmark of SWF annually (Until, 2020).

Table 1. Linaburg-Maduell transparency index



Note. The information provided by authors based on Sovereign Wealth Fund Institute data by July, 2020. "Ouni, Z., Bernard, P., & Plaisent, M. (2020) Sovereign Wealth Funds Definition: Challenges and concerns".

Kazakhstan concentrated on establishing an effective algorithm for NF activity. In these terms, transparency issue is an essential element for ensuring the effective use of assets and incomes (Komekbayeva, 2010). NF was founded on the model of GPFG because it is famous for transparency. The lack of transparency demonstrates as an indicator of NF management efficiency. Zlotnikov et al. (2004) emphasize that there was an official website www.nationalfund.kz, which started to work in 2002. Recently, the website does not work.

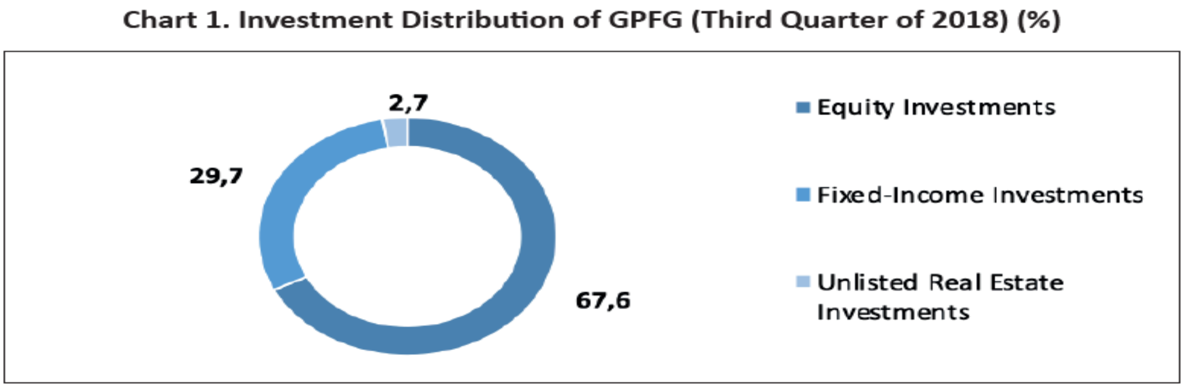
However, the annual reports were published on the official website of the National Bank of Kazakhstan and the Ministry of Finance of Kazakhstan. Therefore, the lack of transparent and accurate information diminishes the confidence and perception levels of the population toward the goals of NF. Consequently, it results that there would be no stimulation of economic growth. In its turn, the government tends to allocate more and more targeted transfers. In 2016, guaranteed transfers accounted for 9.9 trillion tenge. Targeted transfers were directed to support anti-crisis programs, assisting banks, small and medium-sized businesses (Shagiyev & Kuanshaliyev, 2016). For instance, in 2020, the number of transfers was revised several times: initially, in December 2019, the number of transfers was approved at 2.7 trillion tenges, then on March 29, 2020, the government announced that transfers would be increased by 1.825 trillion tenges (Pak & Mukhtaruly, 2021). Kapparov (2015) suggest that the most successful examples of SWF in countries, where distribution of transfers require the participation of legislation. The basic principle persists the same: the government «eats the future» by receiving benefits today, they take away opportunities for better living conditions from the future generation.

Commonly, SWF invests globally and domestically (if appropriate). Such SWFs are significant to the international financial world. Also, activity and management of funds impact the economy of own countries. Funds tend to promote high profits, and diverse assets, increase the productivity of asset allocation and decrease the risk of citizens' wealth. However, SWF policies in many countries are not standardized and their transparency and investment strategies cause concerns. Therefore, such issues could be diminished with common and regulated practices and principles (Turlubayev, 2014).

Heaney et al. (2011) claim that in 2008, the total assets of SWF achieved about 3 trillion US dollars, nearly double the size of the global hedge funds industry. Despite the fact that SWFs become the government instrument of investments, SWFs are tended to provide investment strategies in terms of an investment portfolio, long-term investments, and geography. Bahoo et al. (2020) highlight the necessity of analysis of SWFs invest in different industrial sectors, such as real estate, energy, and agriculture, and obtain bonds from American, European, and Asian companies.

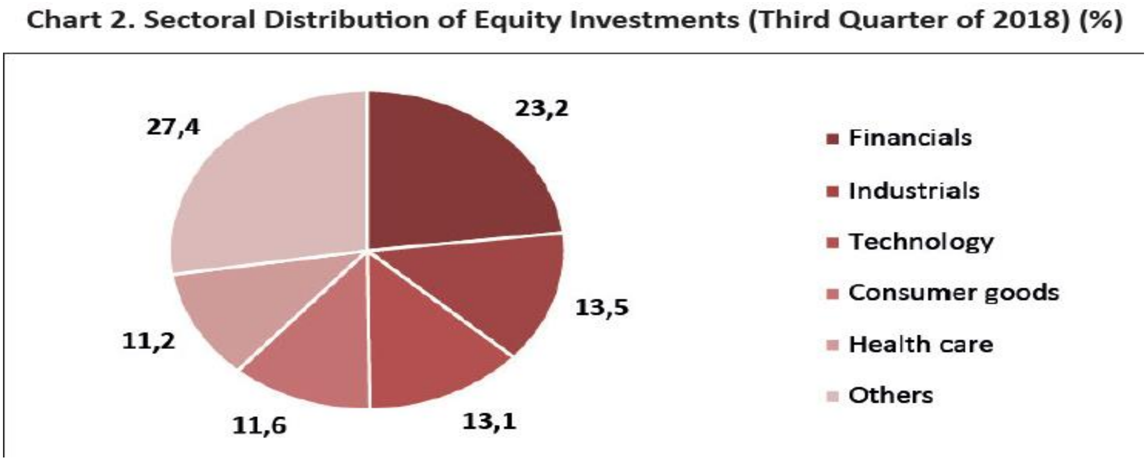
Regarding investments, in 1990th GPFG invested in government bonds and fixed-income securities of 8 countries. Then, ten years later Norwegian Fund has broaden and invested in 21 countries and included fixed-income benchmarks. In 2008 investments scope was expanded and covered all developing markets. As shown in Picture 1, a big amount was concentrated on equity investments. Moreover, in 2013 strategy of investments was changed and investments in real estate became worldwide (Ozgül, 2019).

Picture 1. The investment distribution of GPFG.



Note. The chart retrieved from the academic paper of "Ozgül, H. B. (2019). Sovereign wealth funds: the case of Norway"

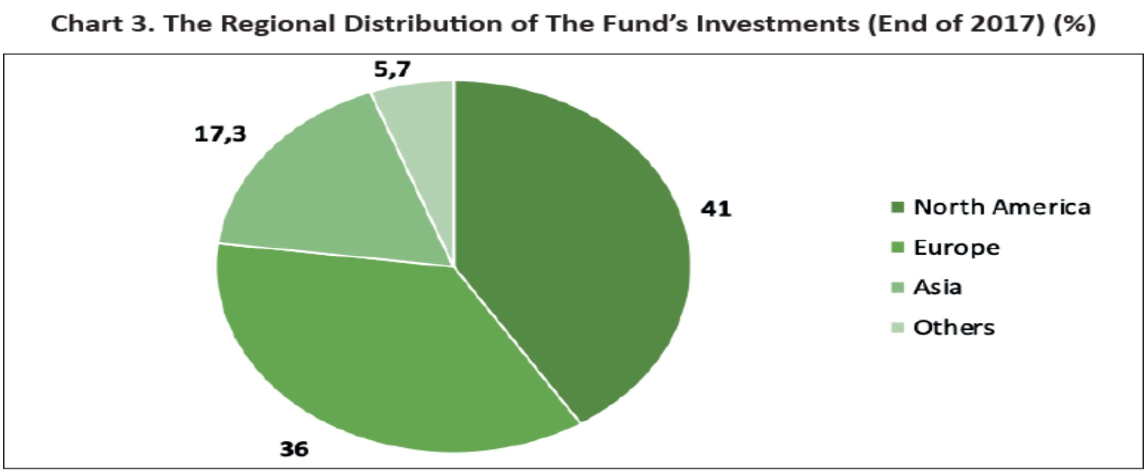
Picture 2. GPFG's equity distribution by sectors



Note. The chart retrieved from the academic paper of "Ozgül, H. B. (2019). Sovereign wealth funds: the case of Norway"

According to the Norges Bank Investment Management report (2020), the benchmark of GPFG includes the size of companies. Previously, the investments were based on big and medium-sized companies. The fund has investments in more than 9000 companies in 72 countries. Industry, finance, and technology are the main sectors, where assets are concentrated, as shown on Picture 2 (Ozgül, 2019). The report of Norges Bank Investment Management (2020) emphasize that started from 1998 GPFG has invested in three geographical regions - Europe, Asian-Pacific, and Americas with allocations of 50, 20 and 30 percent respectively.

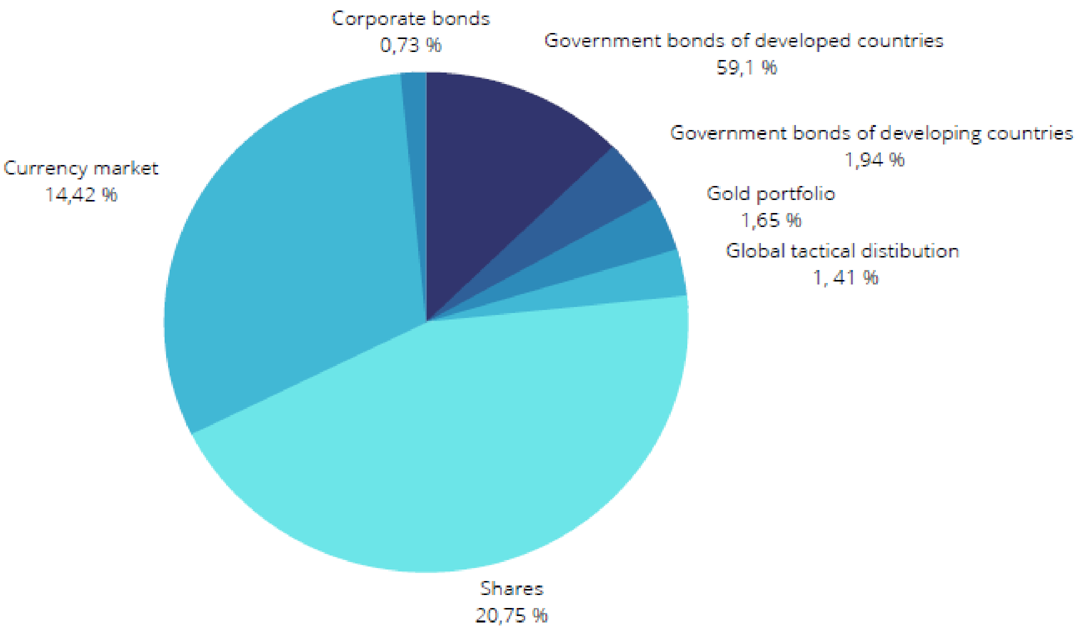
Picture 3. Geography of investments of GPFG.



Note. The chart retrieved from the academic paper of "Ozgül, H. B. (2019). Sovereign wealth funds: the case of Norway"

In terms of investments, Kazakhstani NF does not disclosure the investments distribution geography and shares. However, according to the Resolution of the National Bank of the Republic of Kazakhstan (2006) the savings portfolio asset allocation is 60 % of bonds including 29 % of developed countries, 21 % of developing countries, 10 % corporate bonds; 30 % of shares; 5 % of alternatives instruments and gold portfolio. The strategy of investments, which developed by Kazakhstani National Bank in 2006, the investment portfolio indicated as shown on Pie chart 1 below. However, the annual report does not provide the detailed information on geography and invested companies.

Pie chart 1. The structure of distribution of currency assets of the National Fund at the end of 2019



Note. Pie chart from the report of on the formation and use of the National Fund for 2019

The next element in researching the sustainability of SWF is resource dependence. Some literature considers the ways of resilient development of Kazakhstan's commodity sector. For instance, some studies show that Kazakhstan should concentrate on expanding gas and oil resources to ensure a permanent and sustainable position in the world by expanding the structure of trade in favor of high-value-added goods, improving oil and gas transportation, and expanding target markets (Jumadilova, 2012). This research article overlooks the problem of resource depletion, assuming that it will be infinite. Another disadvantage of this may be that asset rents tend to be exceptionally unstable and fluctuate depending on the value of the product on the global market. While Jumadilova mainly emphasizes the significance of oil and gas in Kazakhstan and suggests ways to use them to the fullest, this does not quite correspond to our concerns about the sustainability of the NF to energy reforms and actions that need to be taken to preserve it for future generations. Meanwhile, the table from the academic paper of Alshahel (2015) indicates that most economies with SWF are natural resources rich countries, at the same time source of assets from 10 top-ranking countries is not always commodity related.

Picture 4. Top 10 SWF ranking

Table 1
A List of the Top 10 SWFs by Assets.

Country	Fund	Assets US$ billion	Inception	Origin
Norway	Government Pension Fund – Global	878	1990	Oil
United Arab Emirates (UAE)	Abu Dhabi Investment Authority	773	1976	Oil
Saudi Arabia	SAMA Foreign Holdings	737.6	N/A	Oil
China	China Investment Corporation	575.2	2007	Non-commodity
China	SAFE Investment Company	567.9	1997	Non-commodity
Kuwait	Kuwait Investment Authority	410	1953	Oil
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	326.7	1993	Non-commodity
Singapore	Government of Singapore Investment Corporation	320	1981	Non-commodity
China	National Social Security Fund	201.6	2000	Non-commodity
Singapore	Temasek Holdings	177	1974	Non-commodity

Source: Sovereign Wealth Fund Ranking (2014).

Note. The table retrieved from the academic paper of Alhashel, B. (2015). Sovereign Wealth Funds: A literature review. Journal of Economics and Business

In term of Kazakhstan, 96.9% of the National Fund's revenues come from oil-producing regions in 2019 (Spivak et al., 2017). Since the oil sector provides the main income to the National Fund, there is an influence on fluctuations in oil prices. According to the reports of the National Bureau of Economic Research of Kazakhstan, if the price of oil falls below $ 30 per barrel, revenues to the Fund will actually cease (Akhambayeva & Nurbatchanova, 2020). As Komekbayeva (2010) claims that the concept of income generation of the NF does not solve the problems of sustainability and transparency. Following the challenges of the world community, the countries should make an attempt to gradually abandon gas and oil and switch to alternative energy sources. In the future, this issue will be relevant due to the transition of many countries of the world to renewable sources. The value of oil and gas may decrease, which will affect the economies of countries. However, the energy reforms do not relate to our hypothesis. It is a topic of future research.

The literature review demonstrates that key aspects, such as transparency, governance, and profitability will impact on the activity of wealth funds and provide sustainability.

RESEARCH METHODOLOGY

The compound nature of the study required us to use a mix of 3 methods: comparative analysis, qualitative analysis, and cash flow statement analysis for receiving comprehensive results.

Comparative analysis of foreign SWFs with the National Fund of the Republic of Kazakhstan was used to test our hypothesis on the relation of governance to its sustainability. This approach helped to define the similarities and differences between funds and reveal the best practices of governance and transparency of top-ranking SWFs. The analysis was conducted through the review of 10 global wealth funds' official websites. Funds are compared towards defining the type of governance and identification of advantages and downflows of each governance kind. Moreover, we investigated the funds with respect to their transparency index. For this purpose, we used the standard benchmark Linaburg - Maduell transparency index (LMTI). This assessment of the LMTI assesses indicates funds out of a maximum of 10 points. Though it has limitations in terms of not mentioning the reasons behind each mark that funds gained, it is one of the most applicable global standard benchmark indexes where the Kazakhstani fund was assessed. NF was not found in the assessment of Santiago Principles.

Qualitative analysis was conducted through face-to-face interviews with 10 senior governmental officials. Despite the low sample number, the interviews were conducted with high-ranking officials who would represent almost one governmental agency. The interview was conducted with representatives of the Ministry of Finance of the Republic of Kazakhstan, the Ministry of National Economy of the Republic of Kazakhstan, the Accounts Committee for Control over the Execution of the Republican Budget, and the National Bank. Respondents' names and positions were disclosed upon the agreements prior to the meeting with them. The design of the questions included general questions on the establishment, and governance, followed by questions on investments and transfers, and finalized by the queries on respondents' personal views in terms of the funds' sustainability. The questions of the interview are enclosed in the study under Appendix 1.

Cash flow statement analysis was conducted right after the first interview that revealed the existence of the data on the Fund's money inflow and outflow within reports of the Ministry of National Economy. The annual income statement of NF was built to see the dynamics of the money from within over the past 10 years from 2012 until September 1of 2022. The initial cash flow consisted of Fund's inflow, outflow, and investment return information. There was done some calculations to identify the net income of the fund, the share of expenditures in revenues, net cash inflow without investment return, dynamics of inflow and outflow without investment return compared to the previous year, and percentage of investment return purely. Additionally, there was included variables like averaged oil price, exchange, and inflation rates per year to test to what extent these factors affect Fund's profitability and thus its financial sustainability.

FINDINGS

1. GOVERNANCE

As for Kazakhstan, for Norway oil revenue is essential. National Fund of Kazakhstan was based on the model of the Norwegian Oil Fund. The funds pursue the same goals to use money from oil and gas commodity responsibly and to save money for the future. Government Pension Fund Global (hereinafter - GPFG), previously Norwegian Oil Fund, has two functions: cumulative and stabilization. Chapter 3 of Concept of formation and use of funds of the National Fund of the Republic of Kazakhstan (2016) describes that in order to prevent overheating of the country's economy and preserve the Government Pension Fund's reserves from oil prices fluctuations, assets are invested abroad. The investment portfolio is diversified and consists of investments in, fixed income bonds, international equity and real estate, in order to maximize income and taking into account risks within the investment policy established by the Norwegian Ministry of Finance.

NF and GPFG are similar in that both of them are not separate legal entities. They established in the form of special bank account. As we considered above, the Ministry of Finance of Norway controls and manages this account, as well as they delegated the management to the Norges Bank. According to the article 21 of Budget Code of Kazakhstan (2008), the NF represents the government assets in the form of financial assets concentrated on the accounts of the Government in the National Bank of the Republic of Kazakhstan. The NF owned by the Ministry of Finance of Kazakhstan and managed by National Bank. Similarly, with the Norwegian SWF, knowledge and experience in managing fund, close connection between monetary policy and fund mechanism become the reasons to choose the National Bank to manager the Fund assets.

According to Concept (2016) general coordination of activities managed by the National Fund Management Council. This is advising body, which is responsible to the President of the

Republic of Kazakhstan. Council includes President - Chairman of the Council; Prime Minister; Chairman of the Senate of the Parliament (by agreement); Chairman of the Mazhilis of the Parliament (by agreement); Head of the Administration of the President; Chairman of the National Bank; First Deputy Prime Minister; Chairman of the Accounts Committee for Control over the Execution of the Republican Budget; Minister of Finance; and Minister of National Economy. Currently, the duties of the Council are to prepare proposals in terms of enhancing the efficiency of NF, to review the volumes and areas of use of the Fund, as well as on the list of approved assets and other estates, except for intangible assets.

Unlike the Norwegian and Kazakhstani funds, historically oil rich country the Republic of Kazakhstan established the State Oil Fund (SORAZ) as a legal entity, which is separate from Central Bank and government. The activity of SORAZ is regulated by Constitution and Presidential Decrees. It is accountable to the President of Azerbaijan. According to the legal acts, related to SORAZ, the transfers to the republican budget are directed to solve issues related to nation, support strategically infrastructure and socio-economic development.

One of the leading SWF is Alaska Permanent Fund Corporation (APFC), which was established in 1980 as an independent state entity to manage and invest the assets to benefit future generation. The Board of Trustees manages the Fund's investment. They provide the investment policy and guarantee that the APFC is invest and manage in accordance of legislation (Alaska Permanent Fund Corporation, n.d.). It is noteworthy that to cover the budget deficit in Alaska, a Constitutional Budget Reserve Fund has been created. The main difference between APFC and the National Fund of Kazakhstan is that excess profits from the export of raw materials remain under the control of local authorities in the oil-producing and metallurgical regions of the country, and are not transferred to the disposal of the central authorities represented by the Ministry of Finance. This approach is quite reasonable, since the regions that provide extraction and export of non-renewable resources are experiencing increased anthropogenic load with all the ensuing consequences for the local population and the environment. In terms of transparency, the annual reports are published in mass media (Shapagatova, 2011).

Corporation GIC Private Limited (Singapore), China Investment Corporation (P.R.C.), Abu Dhabi Investment Authority (UAE), Future Fund (Australia), Chile Pension Reserve Fund (Chile) and Russian Direct Investment Fund (Russian Federation) also established as legal entity.

2. TRANSPARENCY

In October 2008, under the auspices of the International Working Group on Sovereign Wealth Funds «Generally accepted principles and practices» (GAPPs), or «Santiago Principles» were issued with the aim to pursue the transparency of SWF (Aggarwal & Goodell, 2018). Santiago Principles include 24 guidelines, which concern governance, transparency, management, and disclosure of SWF functions. GAPPs are divided into three pillars: «Legal framework, objectives, and coordination with macroeconomic policies», «Institutional framework and governance structure», and «Investment and risk management framework» (International Forum of Sovereign Wealth Funds, 2014). These practices are on a voluntary basis, and each of them is regulated by legal acts, obligations, and requirements. For example, the principles regulate the legal framework that must be disclosed and justified in order to achieve the goals and missions. Moreover, one of the principles states that the rules and policies of funds should be clear and open in relation to financing and spending operations.

Currently, the International Forum of Sovereign Wealth Funds includes 36 SWF – full members and 9 SWF – associate members. «National Investment Corporation of the National Bank of Kazakhstan» JSC and «Samruk-Kazyna» are on the list of full members. However, the National fund of Kazakhstan is not a member of this group of SWFs. All full members provide annual reports on compliance with the criteria and requirements of GAPP.

According to the report of the International Forum of Sovereign Wealth Funds (2014), in terms of legal frameworks, SWF could be established as an independent legal entity, regulated by special law. Examples are the State Oil Fund of the Republic of Azerbaijan (SOFAZ), the Kuwait Investment Authority (KIA), the Australian Future Fund (FF), and the Korea Investment Corporation (KIC). Moreover, SWF could be set up by state assets or central banks. Examples are Norway’s Government Pension Fund Global (GPFG), Chile’s Economic and Social Stabilization Fund (ESSF), and Canada's Alberta Heritage Savings Trust Fund (AHSTF).

Considering the pillar «Institutional framework and governance structure», the SWF governance is performed by the state. However, in many cases, the governance is delegated to the Ministry of finance. For instance, in Australia and Chile, the Minister of finance and the Treasurer carry out these roles. In Singapore, Alaska, New Zealand, Kuwait, Iran, and Korea, where SWF is established as an independent entity, there is a board committee. They are responsible for policies to achieve the goals (International Forum of Sovereign Wealth Funds, 2014).

In the case of investment frameworks, a number of SWFs, such as SOFAZ (Azerbaijan), ESSF (Chile), and GPFG (Norway) do not invest domestically. The key aspect is that domestic investments repudiate the economic profits of SWF. For example, the domestic market of investments could be narrow.

Furthermore, the transparency of sovereign wealth funds is measured by the Linaburg–Maduell Transparency Index. This index was implemented by Carl Linaburg and Michael Maduell at the Institute of Sovereign Wealth Funds. This is an internationally recognized ranking approach of transparency in relation to the management and use of sovereign funds.

The ranking index assesses the algorithm of investments, which includes the issues of opaque fund management (Shapagatova, 2011).

This index as an indicator of the transparency rating was created taking into account the management practices of the Norwegian Fund since this fund is a vivid example of pure investment intentions.

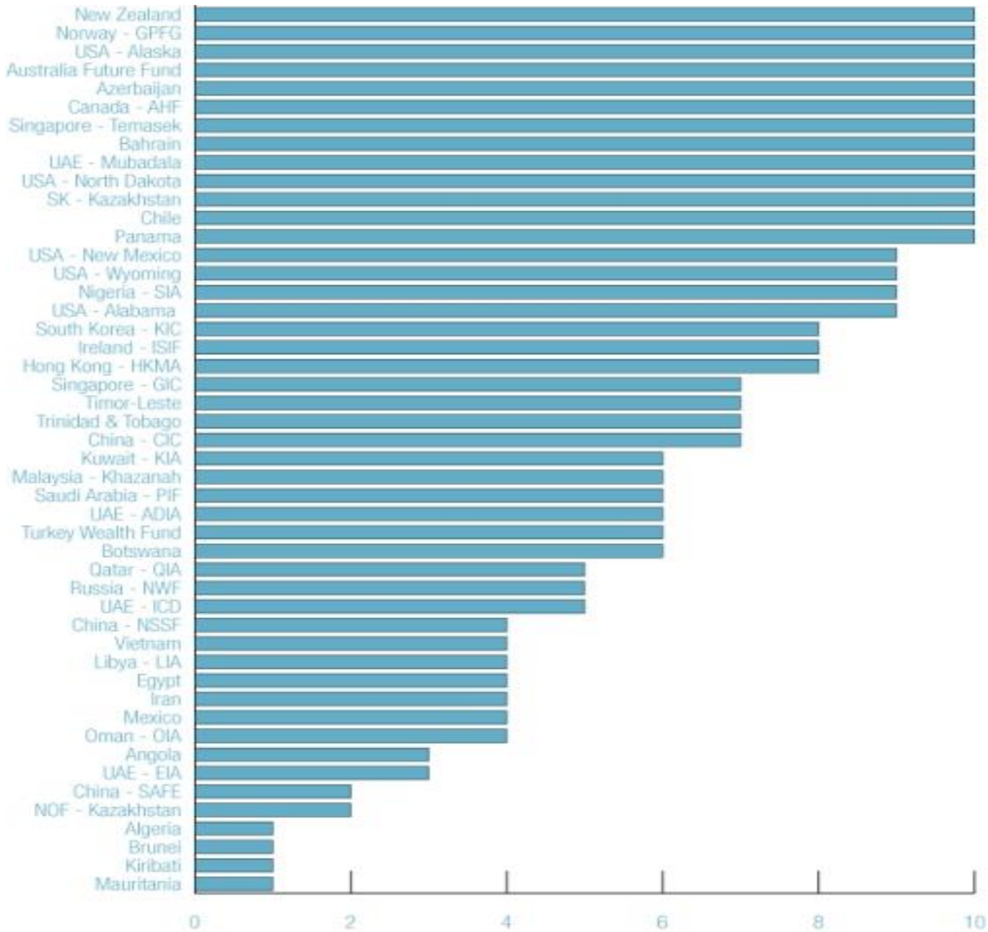
Table 1. The LMTI criteria

Point	**Principles LMTI**
+1	Fund provides history including reason for creation, origins of wealth, and government ownership structure
+1	Fund provides up-to-date independently audited annual reports
+1	Fund provides ownership percentage of company holdings, and geographic locations of holdings
+1	Fund provides total portfolio market value, returns, and management compensation
+1	Fund provides guidelines in reference to ethical standards, investment policies, and enforcer guidelines
+1	Fund provides clear strategies and objectives
+1	If applicable, the fund clearly identifies subsidiaries and contact information
+1	If applicable, the fund identifies external managers
+1	Fund manages its own web site
+1	Fund provides main office location address and contact information such as telephone and fax

Note. Information from www.swfinstitute.org

According to the Sovereign Wealth Fund Institute (SWFI) research on Linaburg-Maduell Transparency Index (LMTI), posted on the official website https://www.swfinstitute.org/ as of 1st quarter 2021, SWF of New Zealand, Australia, Canada, USA, Chile, UAE and Kazakhstan (Samruk-Kazyna) received 10 points (Table 1).

Table 2. 1st quarter 2021 LMTI



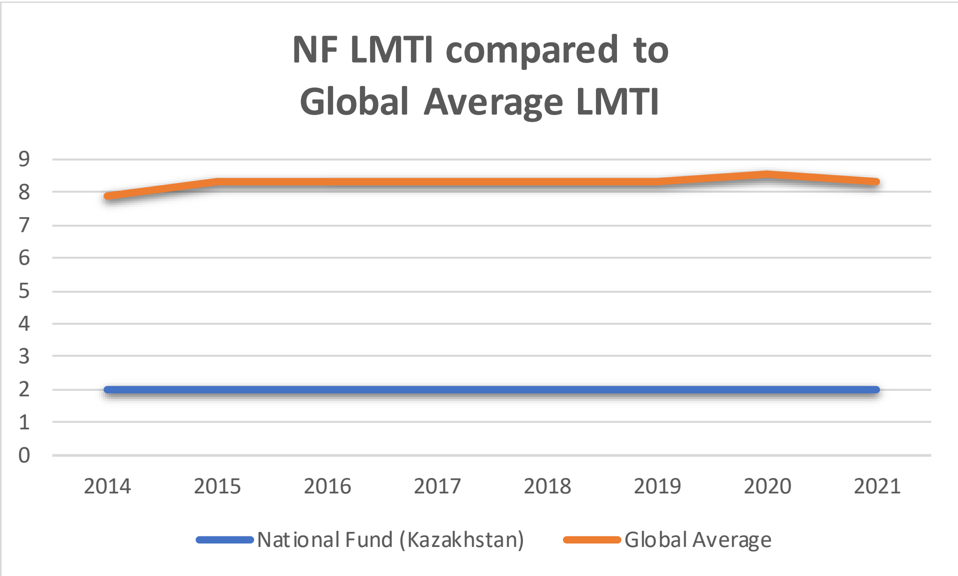
Note. Information, provided by the research of SWFI.

As a result of the analysis, of the table above, we could see the transparency of SWF has a geographical element. American, Pacific-Asian countries and some of UAE wealth funds are transparent. The Kazakhstani wealth fund is located on the last lines of the table.

The coverage of LMTI is large. Since its implementation in 2008, this index is used globally and reflects the standard benchmark in official annual reports. In 2012 47 SWFs have been scored. SWFs of Norway (GPFG), UAE (Mubadala), US (APF), Azerbaijan (SORAZ), and Singapore (Temasek) received the highest score. The National Wealth Fund of Kazakhstan rated it at 8 scores (Turlubayev, 2014). Throughout 10 years, the same SWF has the highest rates, while Kazakhstan received the lowest score.

We consider the indices of SWF from Norway, Chile, Russian Federation, Azerbaijan, China and calculate the global average. Then we compare with NF, which receives 2 points and remain stable annually.

Table 3. Comparison of NF and foreign SWF.



Note. Information based on reports from www.swfinstitute.org

According to Chapter 5 of the Concept of formation and use of funds of the National Fund of the Republic of Kazakhstan (2016) when forming and using the funds of the NF, management should guide by the principle of transparency. The process of funds allocation is channeled into the country's economy only through the republican budget. Also, in terms of transparency, reports on the formation and use of funds of the NF, the annual audited financial report must be published on the website of the Ministry of Finance of the Republic of Kazakhstan and the legal system of regulatory legal acts of the Republic of Kazakhstan «Adilet».

3. INTERVIEW FINDINGS

There has been conducted an interview with the state government officials who directly work or are related to the work with the NF and with other independent experts who understand the nature of the Fund and have ever worked with its assets. The interviewees were asked questions (Appendix 1) about the structure of the Fund, its assets, functions, investments, transfers, and sustainable development. In some cases, the interview was not following the strict structure of the questions we prepared as some respondent were sharing their opinion and had more to say. The data obtained from the interview are presented below. The discussion of the data is presented in the form of a connection with the data obtained from comparative and quantitative analyses.

It is worth mentioning that the major finding for us was that all data about the movement of money of the NF exists. They are just poorly organized and hidden in a form of report in the official websites of the Ministry of Finance of the Republic of Kazakhstan under the Monthly Statistical Bulletin for the reporting periods or the report of the Agency for Strategic planning and reforms of the Republic of Kazakhstan Bureau of National statistics. The researcher however should go dig into the website and know the correct naming of the document, otherwise, it is impossible to find it even with filters. This was the important takeaway from interviewing senior officials because it literally helped us to check data and make qualitative analyses based on it. He also mentioned that previously National Fund has own website which was later shut down and the information was transferred to the website of the Ministry of Finance of the Republic of Kazakhstan which was also modified several times unsuccessfully. The expert also pinpoints the interface of the website that it is not handy and not user-friendly.

Another thing that respondents were mentioning in the interview is that the reputation of the National Fund is spoiled by people who do not understand its intricacies of it and have no correct information and thereby making it even worse, thereby causing unrest among the population.

The question of investment was acute but at the same time underreported. According to respondents, National Bank invests in government bonds of other countries at a lower return rate (3-4%). This is due to the low level of risk. Respondents also mentioned the confidentiality of information when talking about investments. As they say, the regulations do not permit the publication of exchange information, while some do, such as The Vanguard Group, Inc., but the company does it on the website in the holder part. According to experts they are quite difficult to find and stock analysts chase this kind of information. Usually, other investment companies publish in a couple of months. Experts say that «the essence of hiding information is to hide your next step from competitors».

When it comes to assessing how well the Fund is doing in fulfilling the savings function in order to save savings for future generations, the answers of the respondents vary, which is most likely due not only to the position held but specifically to the activities they do and personal beliefs of the interview participants. Respondents mainly mentioned the causes of what hinders the fulfillment of savings functions, namely the impact of world political and economic events and transfers withdrawn from the Fund to stabilize the country's economy. However, there was also an interesting response from a specialist who pointed out that «counter-cyclical fiscal rule is currently in place, which assumes that guaranteed transfers will not exceed revenue at a conservative oil price». He argues that this initiative will certainly contribute to the accumulation of the fund's assets, thereby strengthening its savings function.

When asked about the participation of Kazakhstanis in the development of the NF, 67% of respondents agree that the population of the country should participate in the development of the NF, and 33% also noted that work on the relationship with the population is already underway, noting the initiative of the President Tokayev about the development of the project called «National Fund for children».

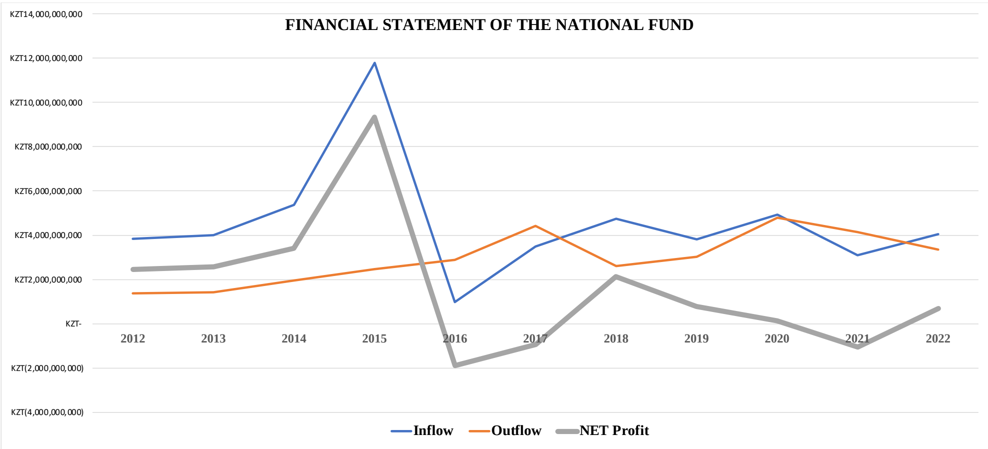
The Norwegian Global Pension Fund, the New Zealand Pension Fund, the Alaska Permanent Fund, the Arab League Funds, the Stabilization Fund of the Russian Federation, and the Chile Pension Reserve Fund were among the funds mentioned by the experts when asked about other funds with similarities and differences. The regulations for the creation and usage of the fund, investment methods, and other factors are the distinctions indicated in the interviewers' responses. The responses claimed that the only way other funds and the National Fund differed was that other funds could only invest in foreign assets abroad and that money market and fixed-income instruments were the only types of investments allowed under the existing investment policy. One of the respondents said that the National Bank sticks to plans based on a reliable investing process as a significant global investor with a long-term investment goal. The National Bank keeps looking for new approaches to enhance the procedure through cutting-edge technologies and training for its staff. Regarding fund management, one respondent made the following observation: «Progress in asset management and risk-taking is inextricably linked to an investment culture that is built on reinforcing the principles of independence, increasing tolerance for errors, the habit of learning from errors and building on successes. Data and analytics are the basis of the investing process. We emphasize automation and innovation in the asset management process, eliminating obsolete systems and replacing them with the most recent, tested industry solutions».

4. PROFITABILITY

The Annual Income statement (Table 1) reflects the picture of the cash flow of the National Fund of the Republic of Kazakhstan over the past 10 years, starting from 2012 to 2022, the picture for the last year reflects the state as of September 1. Data on the National Fund was taken from the website of the Ministry of Finance of the Republic of Kazakhstan from the monthly reports on the movement of money in the National Fund's cash control account, on the receipts and use of the National Fund, and from the Monthly Statistical Bulletin for the reporting periods.

The analysis of the cash flow shows that there are certain periods when the cash flow of funds has skyrocketed and revenues have fallen sharply (Graph 1). The gray line represents the net profit of the Fund. According to the data of the National Bank, the assets of the National Fund as of September 1, 2022, amounted to 28.7 trillion tenges or 31.4% of GDP.

Graph 1. Dynamics of financial statement of the National Fund of Republic of Kazakhstan

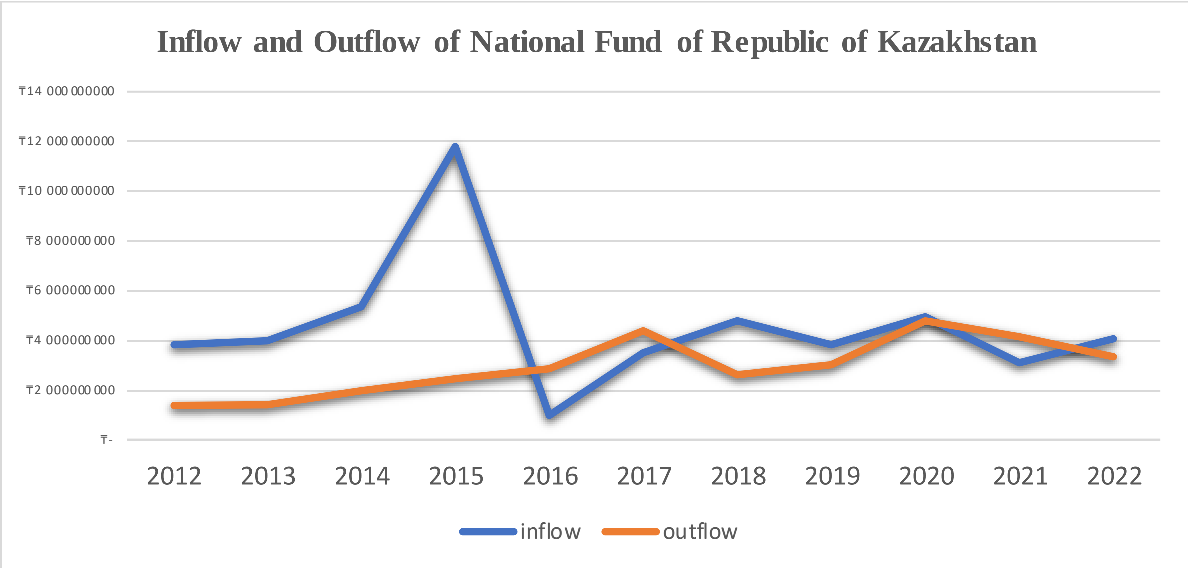


Note. Information based on official report on NF from the official website of National Bank of Kazakhstan

4.1 GENERAL OBSERVATIONS ON THE MOVEMENT OF CASH TO THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

The general picture of the NF cash flow shows that the average growth rate over 10 years is -11.91%. A close examination of the inflow reveals that the majority of the money originates in the commodities industry, with the remaining percentage coming from fund management or investment revenue. And the majority of the Fund's financial outflow may be attributed to targeted transfers and guaranteed payments (also known as social payments) (for different projects). Considering that most of the Fund's savings are collected from the oil sector and income from investment deposits, in order to identify factors affecting the dynamics, the oil price for the reporting period, inflation, and the dollar exchange rate were taken into account.

Diagram 1. Dynamics of receipts and outflows of funds of the National Fund of the Republic of Kazakhstan



Note. Information based on official report on NF from the official website of National Bank of Kazakhstan

Table 4. ANNUAL INCOME STATEMENT OF NATIONAL FUND

	2012	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**
Balance at the beginning of the reporting period	KZT 7,988,355,179	KZT 10,446,538,785	KZT 13,026,107,161	KZT 16,429,299,412	KZT 25,754,359,070	KZT 23,865,623,843	KZT 22,924,524,810	**KZT 26,062,038,092**	**KZT 27,469,965,290**	**KZT 28,213,487,451**	**KZT 28,015,718,144**
inflow	**KZT 3,843,884,717**	**KZT 3,991,604,321**	**KZT 5,366,850,822**	**KZT 11,793,630,511**	**KZT 985,647,524**	**KZT 3,479,812,466**	**KZT 4,750,881,734**	**KZT 3,812,257,461**	**KZT 4,924,069,879**	**KZT 3,096,570,084**	**KZT 4,041,439,753**
investment return	*KZT 383,659,598*	*KZT 559,259,992*	*KZT 1,862,203,663*	*KZT 10,162,625,919*	*KZT (155,070,646)*	*KZT 1,429,000,167*	*KZT 1,846,735,764*	*KZT 1,179,047,511*	*KZT 3,560,801,689*	*KZT 799,519,696*	*KZT (634,902,304)*
outflow	**KZT 1,385,701,111**	**KZT 1,412,035,945**	**KZT 1,963,658,571**	**KZT 2,468,570,853**	**KZT 2,874,382,751**	**KZT 4,420,911,499**	**KZT 2,616,116,100**	**KZT 3,031,661,349**	**KZT 4,785,134,448**	**KZT 4,145,237,322**	**KZT 3,349,410,818**
i.e. guaranteed transfers	*KZT 1,380,000,000*	*KZT 1,380,000,000*	*KZT 1,480,000,000*	*KZT 1,702,000,000*	*KZT 2,110,000,000*	*KZT 2,880,000,000*	*KZT 2,600,000,000*	*KZT 2,650,000,000*	*KZT 4,770,000,000*	*KZT 2,573,932,220*	*KZT 2,998,500,000*
i.e.targeted transfers	*0*	*KZT 25,500,000*	*KZT 475,000,000*	*KZT 754,416,963*	*KZT 745,574,097*	*KZT 1,534,317,413*	*KZT -*	*KZT 370,000,000*	*KZT 15,134,448*	*KZT 1,557,539,200*	*KZT 346,600,000*
management costs	KZT 5,701,111	KZT 6,535,945	KZT 8,658,571	KZT 12,153,890	KZT 18,808,654	KZT 6,594,086.0	KZT 16,116,100	KZT 11,661,349	KZT 10,806,286	KZT 13,765,902	KZT 4,310,818
ANNUAL INCOME	**KZT 10,446,538,785**	**KZT 13,026,107,161**	**KZT 16,429,299,412**	**KZT 25,754,359,070**	**KZT 23,865,623,843**	**KZT 22,924,524,810**	**KZT 25,059,290,444**	**KZT 26,842,634,204**	**KZT 27,808,228,883**	**KZT 27,164,820,213**	**KZT 28,707,747,079**
NET PROFIT in KZT	**KZT 2,458,183,606**	**KZT 2,579,568,376**	**KZT 3,403,192,251**	**KZT 9,325,059,658**	**KZT (1,888,735,227)**	**KZT (941,099,033)**	**KZT 2,134,765,634**	**KZT 780,596,112**	**KZT 138,935,431**	**KZT (1,048,667,238)**	**KZT 692,028,935**
Share of expenditures in revenues	**36.05**	**35.38**	**36.59**	**20.93**	**291.62**	**127.04**	**55.07**	**79.52**	**97.18**	**133.87**	**82.88**
Net cash inflow without investment return	**KZT 3,460,225,119**	**KZT 3,432,344,329**	**KZT 3,504,647,159**	**KZT 1,631,004,592**	**KZT 1,140,718,170**	**KZT 2,050,812,299**	**KZT 2,904,145,970**	**KZT 2,633,209,950**	**KZT 1,363,268,190**	**KZT 2,297,050,388**	**KZT 4,676,342,057**
Dynamics of inflow without investment return compared to the previous year		**-1%**	**2%**	**-53%**	**-30%**	**80%**	**42%**	**-9%**	**-48%**	**68%**	**104%**
% of investment return	**11.09**	**16.29**	**53.14**	**623.09**	**(13.59)**	**69.68**	**63.59**	**44.78**	**261.20**	**34.81**	**(13.58)**

Outflow dynamics compared to the previous year		**2%**	**39%**	**26%**	**16%**	**54%**	**-41%**	**16%**	**58%**	**-13%**	**-19%**
Ending Balance	**10,446,538,785.00**	**13,026,107,161.00**	**16,429,299,412.00**	**25,754,359,070.00**	**23,865,623,843.00**	**22,924,524,810.00**	**25,059,290,444.00**	**26,842,634,204.00**	**27,608,900,721.00**	**27,164,820,213.00**	**28,707,747,079.00**
Dollar exchange rate	150,43	154,09	182,35	**332,36**	341,44	334,67	384,68	387,99	419,64	434,16	472.21
Annual average Brent crude oil Closing Price price	**$111.57**	**$108.56**	**$98.97**	**$53.03**	**$45.13**	**$54.71**	**$71.34**	**$64.28**	**$41.96**	**$70.86**	**$105.36**
Inflation Rate (%)	**6.06**	**4.9**	**7.54**	**13.53**	**8.29**	**7.22**	**5.43**	**5.43**	**6.37**	8.4	17.7
Average Growth Rate Over 10 years	-11.91%										
Share of investment return (%)	29.31058049										

4.2 ANALYSIS OF CASH FLOWS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

The dynamics of funds show that from 2012 to 2015 there has been a steady increase in inflows to the NF when the fund accumulated 9,325,059,658 tenges in 2015. It should be noted that the volume of proceeds, excluding income from investment return, in 2015 falls by -53% compared to the previous year. However, there is a large inflow of cash from the management of the NF amounting to 623%, which is a consequence of the exchange rate difference formed due to the devaluation of the tenge, when its value fell by almost half (332.36 tenge = 1 US dollar). According to the Profit and Loss Statement of the National Bank of the Republic of Kazakhstan on asset management of the NF, the exchange rate difference amounted to 10,836,423,663 tenges, and net investment income is negative - 673 797 744 tenges (Table 2). As is seen from the Annual income statement of NF (Table 1) this trend is typical only for 2015 due to a sharp jump in the dollar exchange rate.

Table 5. Calculation of net investment income
Investment income = foreign exchange difference - total income   ***2015: 10 162 625 919 = 10 836 423 663 – (- 673 797 744)***

In general, the annual indicators of income from investment deposits and the inflation rate for these periods indicate that, in general, the NF has increased its income quite well due to investments. Particularly profitable years include not only 2015, but also 2020, where **the percentage of purely investment income was 261%.** However, there is also a negative trend in investment. These include 2016 and 2022, when the percentage of investment income fell to almost 14% in relation to the inflation rate for those periods of 8.29% and 17.7%, respectively.

The investment return is another main form of getting a profit to the account of the NF. Its income accounts for 29% of the fund's profit. This led to a separate analysis of investment returns as the general picture of it was dubious. According to the Table 6 and the results of the interview National Bank invest mainly in low-yielding foreign governmental bonds. We decided to calculate the rate of return purely from investment in dollars and compare them to the global Dow Jones Industrial Index rate of return to see the correlation with the global market which resulted in an 83% of correlation. These calculations proof that the investment return into the NF strongly correlated to the dynamics of the global investment market. Not only this but also that the real investment return is much less than it is reported and there were opportunities to gain more if to invest more into global companies with greater return index.

Due to the limited information on investments of the NF, it was decided to do a comparative analysis of Sovereign wealth funds. Recently, SWF became a large group of investors in the global financial market. According to the Global SWF annual report, the assets of SWF and public pension funds achieved 31.9 trillion USD in 2021 due to increasing oil prices and U.S. stock (Strohecker, 2022).

Table 6. Comparative analysis of investments

SWF	**Annual return in % (investment), 2021**	**Geography of investments**	**Asset allocation in 2021**
National Fund of Kazakhstan	34.81 %	US Europe Japan United Kingdom Canada Mexico China Indonesia Switzerland South Korea	40.75 % government bonds of developed countries 28.48 % shares 10.69 % government bonds of developing countries 5.29 % corporate bonds 8.84 % monetary market 1.77 % global tactical allocation 4.18 % gold
Government Pension Fund Global (Norway)	14.5%	US Japan Germany Singapore	72 % equities 25.4% fixed income

		UK France Canada Italy Spain Australia South Korea Netherlands Austria Latin America Oceania Africa	2.5 % unlisted real estate 0.1 % unlisted renewable energy infrastructure
Alaska Permanent Fund Corporation (US)	29.73%	U.S Europe ex. U.K Asia ex.-Japan Americas Japan U.K. Africa	39% Public equities 2% cash 9% private income 21 % fixed income 7% real estate 15% private equity
China Investment Corporation (China)	14.07 %	Non-Us developed markets	43 % alternative assets (Hedge funds, risk parity investments, industry-wide direct investments, industry-wide private equity, private credit, resources/commodities, real estate, and infrastructure) 38% public equity (Equity investment in listed companies) 17% (Bonds, including sovereign and corporate bonds) 2% (Cash, overnight deposits, and US Treasury Bills)
Abu Dhabi Investment Authority (United Arab Emirates)	20.9%	Asia India US Europe	42% Developed Equities 20% Emerging Market Equities 5% Small Cap Equities 20% Government Bonds 10% Credit 10% Alternatives 10% Real Estate 10% Private Equity 7% Infrastructure 10% Cash

GIC Private Limited (Singapore)	6.1%	US UK Europe Middle East Africa Asia Japan	5 % developed market equities 17% emerging market equities 39% nominal bonds and cash 6% inflation-linked bonds 8 % real estate 15% private equity
Future Fund (Australia)	19.1%	Australia USA Europe (ex-UK) United Kingdom Japan Developed (other) Emerging	8.5% Australian equities 27.3 % global equities 17.5 % private equity 5.9 % property 7.4 % infrastructure and timberland 6.6 % dept securities 13.5 % alternatives 13.2 % cash
The State Oil Fund (Azerbaijan)	-	North America South America Europe Middle East Australia New Zealand Asia/Pacific Africa	65.2 % fixed income 17.9 % equities 6.5 % real estate 13.1 % gold
Chile Pension Reserve Fund (Chile)	-	United States Japan United Kingdom France China Canada Italy Germany Netherlands Spain Australia Republic of Korea	37.2 % sovereign and government related bonds 9.4 % inflation indexed bonds 6.4 % US Agencies MBS 13.4 % Corporate bonds 7.3 % high yield bonds 26.3 % equities

Note. Information from the official websites of SWF.

Comparing the investments return of nine SWFs in 2021, we have revealed the average threshold is 15.46 %. The NF has 34.81 %. It is more than average. Among the funds being compared, this is a fairly good indicator. In terms of the geography of asset allocation U.S., European countries, and Japan are the most popular countries, where SWF tend to invest their funds. Also, government bonds of developed countries, and public and private equities are preferable investments.

It is noteworthy that during the analyzed period there were 3 periods when the percentage of the NF's profit was negative in 2016, 2017, and 2021, amounting to -1,888,735,227, -941,099,033 and -1,048,667,238 tenge, respectively. One common unifying feature of these 3 periods is the high share of expenditure in revenues, which is 292% (2016), 127% (2017), and 133% (2021). This indicates that the amount of use of the Fund's cash exceeds the amount of its revenue. Most of the expenditures are accounted for by guaranteed transfers. However, expenses are not the only thing that affected the negative dynamics of the profitability of the NF in these periods, so we will consider these 3 periods carefully and determine other indicators that affected them.

One of the causes of the lowest profitability in 2016 for the analyzed period (10 years) is that the price of oil fell to $ 45.13 per barrel. Accordingly, the cash flow from raw materials compared to the previous year amounted to - 30%. It should also be taken into account that in 2015 it was already with a negative value. Another important factor affecting the profitability of the Fund is the loss from its management of -13.59%. The accrued amount of investment loss receipts from the management of the NF, taking into account exchange rate adjustments, amounted to (-) 155,070,646 tenge. **Thus, the reasons for the negative dynamics are the price of oil and the dollar exchange rate against tenge**.

In 2017, the number of inflows was almost 3.5 times more than in 2016. In general, we see that despite the fact that the NF is suffering losses in absolute terms - 941 099 033 tenge, at an oil price of $ 54.71, the profitability of the Fund has begun to recover. Accordingly, in 2017, the dynamics of cash inflows without investment return is 80%. **Thus, with the oil price not lower than $ 54.71 per barrel and a stable level of inflation and the dollar exchange rate, positive dynamics will be observed.**

The total return of the Fund for 2021 shows a negative picture (-1,048,667,238 tenge), although the dynamics of income without investment income compared to the previous year is

68% at an oil price of $ 70.86 per barrel. According to the cash flow (Table 1), another indicator that influenced the negative dynamics is the share of expenditures in revenues, which amounted to 133.87%. **Therefore, an important reason that influenced the negative dynamics was the excess of expenditures over income.**

Cash dynamics for 2022 be presented on September 1. According to the cash flow of the period, we see that due to the increase in oil prices ($105.36 per barrel) in the overall picture, the Fund stabilized its income and eventually achieved a positive result amounting to 692,028,935 tenge. However, losses from Fund management amounted to -13.58%, which was not even enough to compensate for the inflation rate of 17.7%. **Thereby, a high level of inflation may become a concomitant cause affecting the profitability of the Fund.**

4.3 EXPENDITURES

Considering the spending, the Norwegian government has a fiscal rule not to spend more than 3% of GPFG profitability annually. They use only the fund's return, not capital with the aim to gradually phase the oil revenue into the economy (Norges Bank Investment Management, n.d.). In this context, the Concept of formation and use of funds of the National Fund of the Republic of Kazakhstan (2016) regulates that in terms of the savings functions, an irreducible balance of 30 % of the projected value of GDP at the end of the corresponding year is maintained.

For comparison, to stabilize the economy, the NF allocates guaranteed and targeted transfers annually. According to the Law «About the guaranteed transfer from the National Fund of the Republic of Kazakhstan for 2022-2024» (2021) the following amount of guaranteed is allocated from the NF to the republican budget: in 2022 - 4030 billion tenge; in 2023 - 2,200 billion tenge and 2,000 billion tenges in 2024. At the same time, in 2021 the number of targeted transfers achieved 1 850 trillion tenges, which covers 71 points of expenses for social and infrastructural development, for instance, the development of the gas transportation system and social and engineering infrastructure of the suburbs of cities (Decree, 2020). Moreover, in 2009 in the framework of anti-crisis measures government announced to allocate of 10 billion USD, which is about 35% of assets at the decision-making moment (Kapparov, 2015). From this amount, 4 billion USD or 476 billion tenge was directed to rescue banks, especially to four biggest banks (BTA, Alliance Bank, Halyk Bank, and Kazkom). Moreover, 190 billion tenges from 10 billion USD were allocated to support infrastructure projects, for example, the reconstruction of the ski resort «Shymbulak» for the Asian Winter Games Overall, since 2008 in terms of anti-crisis measures 14 billion USD were allocated (Akhambayeva & Nurbatchanova, 2020).

In the context of SORAZ, Annually the transfers are included as a part of the government budget and presented for approval by Parliament. In a research paper, Veliyeva (2021) claims that recently every second manat (approximately 50%), which is spent in the state sector, is funded by transfers of SORAZ. In 2020, President approved the Law on State budget, where revenues are approved at the level of 24,134,500,0 thousand manats, expenses - 26,894,700,0 thousand manats. This is due to the global fall in oil prices, as well as a decrease in income from SORAZ asset management. Despite the decrease in the fund's income, transfers were increased due to the rejection of the budget rule to reduce the dependence of the budget on energy prices. (Veliyeva, 2021).

DISCUSSION

1. GOVERNANCE

Although the Norwegian Fund does not exist in the form of a separate legal entity, it fully implements its policy and strategy. However, the scenario of the SORAZ and the APFC is favorable for Kazakhstan, since the created separate legal entity promotes transparency and governance of the fund's management processes. Among the disadvantages, we can note that this will lead to the bureaucratization of processes and increase the operating costs of maintaining the staff. However, the ratio of increasing staff costs and improving the efficiency and profitability of the fund prevails in favor of the latter. If the autonomous legal entity consists of independent experts and specialists in the financial sphere, this will allow controlling all the processes of operation and ensuring impartiality in the distribution of funds. Currently, as we indicated above, the National Fund Management Council consists of top officials of the State. This may lead to a conflict of interest in the formation of the policy and implementation of the fund's strategy. At the same time, independent experts will not be subject to political pressure and bias.

2. TRANSPERANCY

Transparency is an essential key element in promoting sustainability and appropriate management and governance of wealth funds. Based on the Norwegian Fund, the Kazakhstan Fund does not fully follow role models. GPFG (Norway) is a vivid example of transparency. As a management organization, Norges Bank is obliged to provide quarterly reports to the Ministry of Finance of Norway. These reports are very detailed, they are published on an official website, where they are available to the general public. Despite the fact that the Concept of formation and use of funds of the National Fund of the Republic of Kazakhstan (2016) enshrines the principle of transparency and clearly describes the mechanism, the issue of transparency remains open. Moreover, the National Fund of the Republic of Kazakhstan is not a member of the International Forum of Sovereign Wealth Funds group, whose members are adherents of Santiago Principles. Therefore, the legislation and activity of the Fund contradict the «Generally accepted principles and practices».

Unlike Norway, Alaska, Azerbaijan, and other SWFs, our Fund has no own website. In this regard, due to LMTI ranking NF received 2 points in 2021. As we have provided the graph in previous section, the indicator of NF is a third lower than global average. Monthly, quarterly and annual reports with few tables and graphs are published on the website of the Ministry of Finance and the National Bank of the Republic of Kazakhstan. However, in order to find them, it is necessary to make an effort and search carefully in the tabs of their sites. Also, the need for a more user-friendly website interface was noted by respondents, which means that our hypothesis about transparency, in this case, is proved and the increase in financial literacy of the population is gaining even more relevance. Moreover, in these reports, just one paragraph highlights the remark that the necessary information about the activities of the National Fund is posted on the websites www.minfin.kz and www.gov.kz. The problem is possible due to the incorrect interface of the websites of government agencies. The biggest issue is the lack of an official website of the NF, where all information would be available to the public.

Currently, increased attention to the topic of the National Fund is caused by the Address of the Head of State. In September 2022, the President announced that 50% of the investment income will be directed to special accounts of children, which they can use upon reaching adulthood to solve problems with housing and education. The issue of transparency is important in order to increase clarity and accountability. Knowledge about the activities, including the investment Fund, from the side of the population, affects the responsible and transparent distribution of funds since there will always be social tension and pressure on the part of the population in case of irrationality and inexpediency of using money. In addition, the

Constitution of the Republic of Kazakhstan stipulates that all wealth and mineral resources belong to the people. Just the same, the revenues from the subsoil go to the NF.

Approving our statements, respondent A in the interview mentioned: «One of the important tools today, which I see as more applicable, is the development and support of local producers and the increase in the technological complexity of the goods and services produced. This will require investments aimed at the development of technology, innovation, and R&D. This measure would significantly improve the quality of domestic goods and services, which in turn increases Kazakhstan's competitiveness on the world stage and strengthens the socio-economic condition of citizens. The development and increase of finished goods and services in the share of the country's exports in comparison with the export of raw materials is more promising in the long term. Accordingly, in this scenario of economic development, the expected budget revenues will be higher, which will affect the reduction of transfers from the National Fund. After all, the stable socio-economic situation of the country's population will not require urgent and often unplanned measures to extinguish the «social fire».

Respondent B claimed that «Of course, any citizen of Kazakhstan has the right to know how, since the last change «everything belongs to the people», it is written in black and white in the Constitution – a red line. The active participation of young people, any citizen of Kazakhstan in all levels of socio-economic development is very important. Let it be through volunteering, let it be through representative authorities, there are maslikhats, all levels, Majlis, Senate, and so on. Namely, in the discussion of certain projects, any draft Law, or regulatory legal act is subject to official publication and approval. Any citizen of Kazakhstan has the right to express his point of view through some associations, business associations, some political platforms. But, definitely, we need active participation, and promotion of the Kazakhstani brand, Kazakhstani goods, and services, and this is very important».

3. PROFITABILITY

3.1 GENERAL OBSERVATIONS ON THE MOVEMENT OF CASH TO THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

The accumulations of the NF are based on both raw and non-commodity resources. However, the share of raw material inflows prevails over non-commodity ones many times greater. Despite certain aspirations and innovations towards alternative resources of foreign countries, the economy of Kazakhstan is not ready in the next 10 years, say, to switch to an alternative source of energy and income. This requires certain prerequisites, and the topic of cosmic energy, for example, which was touched upon by one of the respondents during the interview, is understudied. Of course, one cannot deny the need for industrialization of the economy for the transition from a raw material to an industrial one, but in our work, we draw conclusions based on the current situation of the Fund. To do this, we have identified data and built the cash flow of the NF for the last 10 years, reflected in Table 1. We stopped at the most, in our opinion, important data, which we highlighted in red. When analyzing the cash flow, we pursued the goal of finding factors affecting profitability and thus proving the hypothesis that the profitability of the NF affects its sustainable development.

3.2 ANALYSIS OF CASH FLOWS OF THE NATIONAL FUND OF THE REPUBLIC OF KAZAKHSTAN

As revealed from the analysis of cash flow data for a given period, there are several factors affecting the positive dynamics of the Fund. These factors are the price of oil per barrel, the dollar exchange rate against tenge, the inflation rate, and the ratio of expenses to income. Despite the fact that this seems to be a logical finding, there is no official data that would accurately indicate these factors, and moreover, a comparative analysis of data on the dynamics of cash flow for a certain period of time cannot be found on official sites. The data provided for a certain period of time fragmented can be found in articles about finance, but not in the official reports of the NF.

A greater extent of inflows to the NF mainly comes from revenues from raw materials, then in years when the **price of oil** decreases, the profit of the Fund decreases accordingly. The price of oil over the past 10 years has varied from the lowest at $41.96 in 2020 to $111.57 in 2012 per barrel. However, the analysis of 2017 shows that if the oil price is not lower than $ 54.71, the cash inflow will have a positive trend. But at the same time, there should be no sharp jumps in other related factors.

Since the base currency of the NF is the US dollar, when converting into tenge, the **exchange rate** difference is of great importance in calculating the inflow of cash to the Fund. Especially in the calculations of investment returns. As the analysis of investment income in 2015 shows, with a sharp jump in the dollar exchange rate against tenge, net income may not just be zeroed out, but even go into a negative balance.

Comparing the annual investment return we could highlight that the investment strategy is right. The findings of comparative analysis of the investment portfolio of NF with other SWFs the geography and asset allocation also correspond to global trends and are similar to leading funds. However, there is a great opportunity to receive more investment returns if to consider investing in companies under the global investing indexes like Dow Jones Industrial. Our calculations of real investment return also pinpointed the need of distinguishing it from the inflow from the exchange rate difference otherwise it looks like a manipulation of the data to show that we gained when we in fact lost.

An analysis of 2022 cash flows shows that, despite positive trends in commodity income, **inflation** also affects the sector. As the analysis shows, in order to have positive dynamics in the ending balance, the income from managing the Fund, or in other words, investment income, should at least cover the inflation rate. Otherwise, there is a risk that, despite an absolute positive indicator, it may turn out to be negative with high inflation. However, an in-depth analysis of the Investment Rules of the National Fund of the Republic of Kazakhstan does not set out investment criteria in terms of where investment return should or should not outperform the inflation rate.

Last year's analysis (2022) showed that the positive dynamic also depends strictly on the **ratio between expenditures and revenues**. In fact, in the case of positive flows, managers should ensure that expenditures do not exceed revenues. Moreover, in years when incomes are low, spending should be moderated and alternatives found for their needs. Otherwise, there will be an imbalance in expenditures and revenues that will lead to siphoning off the revenues and depletion of assets of the Fund through transfers.

Hereby, we can see that mentioned factors are the driving factors of the profitability of the NF. It is impossible to affect the level of the oil price, the exchange rate, and the inflation with the open market economy in the country. This volatility lies on the shoulders of the market. However, we can control and make the level of spending less.

3.3 EXPENDITURE

Considering the allocated transfers of our fund in the period from 2008 to 2021, it can be noted that the allocated transfers for infrastructure development, including image projects, such as the Asian Winter Games in the mountains of Almaty, may affect the Fund's capital in the long term. As previously noted, in 2021, targeted transfers were allocated, for example, to increase the authorized capital of the non-profit joint-stock company «International University of Tourism and Hospitality» in the amount of 773,831 thousand tenges. Financing unprofitable projects may jeopardize the stability of the NF. Moreover, there are no clear selection criteria regarding the financing of non-funded projects, which is subject to the number of such projects, as well as there is no priority. Most of the projects can be attributed to this number and start financing all projects in a row, assigning them the status of non-funded and socially significant.

This will lead to the fact that money will be spent irrationally. Outflow dynamics are purely the ability of better management of the republican budget to eliminate transfers from NF. Also, we believe that spending in the lowest income years should also be reduced. According to the experience of funds of foreign countries, the management of the fund's assets is clearly regulated in regulatory legal acts in order not to expend funds inexpediently.

LIMITATIONS

The scope of this research paper has some limitations. One of those limitations refer to LMTI principles, which does not reflect financial statement and thus not ensure profitability of the Fund. Additionally, there is a lack of information on results of assessment of transparency and detailed report. Moreover, the paper does not discuss political side of the sustainability of the NF.

CONCLUSIONS AND RECOMMENDATIONS

The review of the existing materials on governance and transparency of the NF demonstrates their indirect effect to sustainability and indicate to the need of them to be tackled. The close look and calculations prove that the profitability of NF depends on oil price, exchange rate, the inflation rate and spending that can be partially managed.

Concluding the research paper and investigating our hypothesis, we have made the following recommendations:

1. To create an autonomous legal entity with the official website of NF with user friendly language and interface that will ensure the transparency of actions. It will also lead to control of all process, avoiding conflict of interests and to provide impartiality without any pressure. We believe that NF will gains the power and will really meets its previously set goals.
2. To create criteria for expenditures and define the priority of non-funded socially significant projects on a national scale. This kind of selection and prioritization will ensure a rational spending of money from the Fund and avoid inappropriate financing at its expense.
3. To include a special list of projects financed through targeted transfers of the National Fund in the Constitution of the Republic of Kazakhstan. This will make the process of expenditures transparent and accountable.

4. To revisit investment geography strategy towards companies with higher investment return like those accounted to Dow Jones Industrial Index.

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APPENDIX

Questions for the interview on National Fund of the Republic of Kazakhstan

About the National Fund

1. When was the National Fund founded and by whom was it initiated?

2. Who owns the National Fund? Who owns the income of the National Fund?

3. Do you know the total amount of the National Fund?

4. According to the Concept of the National Fund, its main functions are stabilization and savings. How is the division of the fund's shares into these functions in percentage terms?

About investments

1. In which projects does the Government invest money of the National Fund?
2. Are there certain criteria when investing? (maybe some certain percentage of profit? Or is there an indicator of the reliability of the project?)

About transfers

1. According to the Law on the National Fund, (the cash accumulated by the National Fund are used not only for investments of profitable projects, but also for social payments through guaranteed transfers and for stabilization of the economy through targeted transfers.)
By whom are they agreed and what stages of approval are they going through?
2. According to our data, until 2015, only 2 targeted transfers were allocated to stabilize the economy after the global crises of 2008 and 2014. However, as we have seen recently, targeted transfers are allocated almost annually to support state projects.
What do you thing are targeted transfers moderate and advisable?

About sustainable development of the National Fund

1. How well do you think the Fund is doing in performing a savings function to save savings for future generations?
2. Since the National Fund was created to increase savings for future generations. How do you think Kazakhstanis can contribute to the sustainable development of the National Fund and contribute to this function?
3. What other funds like the National Fund of Kazakhstan exist? And what do you think is their main difference from Kazakhstan? And what is there that Kazakhstan should learn from these countries?