
TRAIN

Samruk

- the outsider's inside story

Kazakhstan's president, Nursultan Nazarbayev, has decreed the creation of a state holding company, roughly on Singaporean/Malaysian lines, to oversee and rationalize the country's lucrative but inchoate collection of state-owned companies and foster corporate governance. A British corporate warhorse, Sir Richard Evans, has been hired to pull the operation together. Eric Ellis **reports on a confrontation of cultures**

A BROAD CAROLINAS accent drawls out across the conference rooms of the Radisson Hotel in Kazakhstan's new capital, Astana. The American is teaching the basics of corporate governance to a seminar of youthful managers at Kazakhstan's just-born $40 billion state holding company, Samruk. Some are so young they have acne. "Guys, this part is important!"

The lecturer is a bald late-career consultant from Ernst & Young, doing his bit for post-Soviet reform and, doubtless, per his generous fee for this hardship post, his retirement fund. His frustrated southern twangs are translated into Russian, still the lingua franca here despite 17 years of Kazakh-led independence, and a reminder that Moscow's powerful bear still lingers covetously in the background here. "There are internal controls," he spells out, "risk management…." The Samruk executives scribble his western wisdom into their notepads.

As the young Samrukis are coming to learn, good book-keeping matters in capitalism. But so does keeping warm on the central Asian steppe, where outside the cosy classroom Astana is a snowbound 25 below zero. A canary yellow Porsche Boxster is aspirationally parked in the hotel lobby, improbably touting itself as a convertible. Outside, workers carve ice bricks from the frozen Ishim River, which divides Astana's wacky new centre from its stately old town, to fence a decorative promenade that's too damned cold to meaningfully stroll along until March. A continent away in tropical Bali, the world's good and great furrow brows over global warming but, wintering here in the world's chilliest capital after Mongolia's Ulan Bator, it's easy to understand why Kazakhstan didn't see an imperative to sign the Kyoto protocol.

Inside the Radisson, the temperature is rising over what's proving to be the vexatious topic of best practices within Samruk's 20-odd satellite companies and monopolies, for the 300,000 employees who run everything from airports, railways and electricity to the postal service, gold mining and the ubiquitous oil and gas many Kazakhs are getting rich quick on, few questions asked. "The whole purpose of this exercise," the exasperated American implores his bemused class, "is that you have to audit everything that comes across your desk. And I mean everything!"

The Samrukis are here at the insistence of their chairman who, unusually for the helmsmen of a huge government enterprise in the former Soviet Union, isn't a politician with his fingers dipped in the state spigot, or even a local. The man who notionally stewards as much as a third of Kazakhstan's economy is a pragmatic 65 year-old westerner called Sir Richard Evans, a hail-fellow-well-met - "call me Dick!" – Briton from Blackpool. Evans is a corporate warhorse best known – some in London say notorious – for his near-decade long stewardship of UK defence company BAE Systems. No stranger to challenging briefs, he has plied his trade in Nigeria, Saudi Arabia, the military dictatorships of South America and myriad outposts of despotism in the almost 40 years he spent at BAE and its predecessors. Indeed, it was his startling ability to eat sheeps' eyes that so impressed Saudi sheikhs, as they handed him Corporate Britain's biggest ever business deal, the $60 billion Al-Yamamah arms agreement that saved BAE from collapse. Evans began his career with the British Ministry of Transport in 1960, joining British Aerospace, BAE's predecessor, when it was still a government-owned statutory corporation. He left a long-privatized BAE Systems as its chairman in 2004, although he remains partly employed by his former company, banking a £300,000 a year "customer relationship" retainer.

xxxxxx

This is a man who knows how to serve politicians and Mammon – sometimes the same master – and navigate vast bureaucracies: skills he needs in spades at Samruk 18 months after its foundation.

Evans was tapped by president Nursultan Nazarbayev in 2006 to chair this new state enterprise he'd created by presidential decree, naming it after a mythical Kazakh bird symbolizing wisdom and strength. Nazarbayev had visited tightly controlled Singapore and Malaysia in 2003 and liked what he saw. He wanted Kazakhstan to have an enterprise in the image of Singapore's state-owned Temasek Holdings, which jealously protects the jewels of Singapore Inc – Singapore Airlines, SingTel, Capitaland, even the zoo – in a $120 billion portfolio, and Malaysia's Khazanah Nasional Berhad, which is closely linked to the ruling party in Kuala Lumpur. Temasek's relationship with the Lee family-led government had also impressed Nazarbayev, as did the Lee family's 50-year hold over power there.

(That Temasek inspired Nazarbayev is openly stated in Samruk's annual report, and while Evans acknowledges Temasek's role in Samruk's genesis, he thinks the more diversified Malaysia is emerging as more relevant for Kazakhstan than Singapore. "I wouldn't say the McKinsey report concluded definitively that Temasek was the model. I think people here have increasingly realized that the differences between here and Singapore are really much bigger than people may have first thought. As we evolve, you actually get a lot more people talking about the Malaysian model.")

There is another less charitable – but not entirely unrealistic – view of Samruk's emergence. Unlike the economy of its unavoidable Russian neighbour, Kazakhstan's is less burdened by what one diplomat described as "insidious oligarchies". Money in the former Soviet Union usually equates with power. In bringing under one umbrella Kazakhstan's critical money-earners – notably the dominant oil company KazMunaiGas (KMG), the fiefdom of a Nazarbayev son-in-law – Nazarbayev, says one analyst, has created a vehicle to neutralize alternative centres of power, "bringing his friends close but potential enemies closer". Interestingly, the idea of Samruk gathered momentum as world oil prices rose, and as another influential son-in-law, exiled to Austria as ambassador, was breaking with the family in considerable bitterness. Creating Samruk seems to address several dilemmas for Kazakhstan's leadership.

After Nazarbayev's southeast Asian trip, management consultants McKinsey were hired to advise on how Samruk could be structured. Corporate finance partner Richard Dobbs, then of McKinsey's office in London but now manning Seoul, shuttled between London and Astana through 2005-06 armed with comparative studies of modern state firms around the world, from Temasek and Khazanah through the oil funds that anchor the Gulf states, to the various reserve funds of Scandinavia.

In Kazakhstan, however, the task was deeper. Dobbs found here myriad moribund state enterprises that were politically charged and "competing with each other unnecessarily, often without even realizing it". Governance was a mess, he says. "Our intent was to create a centre of excellence that was suitably distant from government."

Setting up a state holding company would, first, "insulate these two stakeholders in the national economy from each other" and, second, "ensure the essential businesses are run in line with best corporate governance practices, and run on a sort-of contractual basis with their relationship to the formal state."

Nazarbayev also knew Evans, and had liked what BAE had done with Kazakhstan aviation. BAE had been crucial to the transformation of Kazakhstan's post-Soviet airline, later buying half of the new carrier, Air Astana (the government's share is now housed in Samruk). Nazarbayev was introduced to Evans by former British prime minister Tony Blair in 2001 when the Kazakh leader, an inveterate traveller, visited London. Five years and a new airline later, and Evans two years retired from BAE, Nazarbayev invited him to chair Samruk and transform its family of state monopolies. Evans says he was intrigued by a "fascinating" brief. "I thought the challenge here was enormous," he tells Euromoney. "Here is a chance to do something that is so important for this country's future." His fees were "adequate" – rumour has it that Evans's part-time job rewards in seven figures, and there is the possibility of IPO participation down the track. He baulked at relocating to one of the world's more remote, if not difficult, cities so Evans now jets in to Astana, sometimes by private plane, for a week every month to meet politicians, diplomats and staff, chair Samruk board meetings and "help try and put this thing into reasonable shape".

Some 14 months after his appointment, Evans admits that his presence has jolted many local Kazakhs. "I am a completely different creature to anything they've seen before. I engage with everybody, from the tea lady up, it's how you learn. I very rarely wear a jacket, I insist on going to other people's offices, to visit them rather than them me."

He signalled a big cultural change early on at Samruk's 100-strong head office, a snowball's throw from the Ak Korda, Astana's monumental presidential palace. At the very first Samruk board meeting he chaired, he moved his name card from the head of the table, swapping it and himself with the chair of a random minister-director on the sidelines. "There was quite a hoo-ha about it," he recalls. "They're telling me that I have to sit at the head of the table, you're the chairman. I said: 'No, I want to sit in the middle so I can hear and see what's going on.'

"These are little things, simple but important things. Because the Soviet system was so hierarchical, these things can be so shocking to people when they change. I ask people who the most important people who work here are – they say chief this and senior that, and I tell them it's the receptionists, telephonists, the first people that you come in contact with. If the telephonist is rude, keeps customers waiting for 20 rings, tells people to fuck off, these things are hugely important. It tells you a lot about the company."

Corporate governance is also high on Evans's to-do list, but low in priority the deeper one plumbs the Samruk empire. That has to change, he insists, if Kazakhstan is serious about economic reform, a message he says he laid down to a supportive Nazarbayev and his court. "The debate on any code of governance is a very intimidating process for people here, moving out of their comfort zone and asking what are the consequences when they do." Evans says. "People have to learn to be prepared to take ownership of their actions."

This is why scores of Samruk's executives have gathered in the Radisson to hear a foreign consultant talk about once-alien concepts such as transparency and independent directors.

xxxxxxxxxxx

Barely a generation ago, a gathering of Kazakhs – this lot's parents perhaps – might also have had an outsider lecturing them on what's right for Kazakhstan, except that it would have been an apparatchik from Moscow laying down the party line in the far-flung reaches of the Soviet empire, where openness was hardly encouraged. Some of Moscow's most appalling gulags were in Kazakhstan, when Leonid Brezhnev was party chief in the 1950s. Just east of Astana is the blighted wasteland of Semipalatinsk, where nuclear weapons were tested for 40 years until 1989.

But Kazakhstan has come quite a way since the USSR fell, when it got almost accidental independence. The resource-rich economy is thriving, with GDP growth forecast this year at a China-like 10.6%, according to the Asian Development Bank. Although the vast countryside is tough, poor and little changed from Soviet days, the cities are urgent with mobile phones, designer fashion and cash, Nazarbayev's impatience evident in the outlandish architecture of Astana, a most surreal city, where political pomposity and presidential vanity merge with science fiction on a scale of ambition rarely seen. Gliding through the almost Potemkin-like avenues of 'New

Samruk HQ

Astana' are the local elite's preferred transports; gas-guzzling Cadillac Escalades, Chevrolet Suburbans and Humvees with tinted windows – another reminder why Kyoto is a long way away.

Nazarbayev's elite answer to a democracy of sorts, or at least there are "elections" here, though not of a genus a west that Kazakhstan seems to desperately want to ape in most things would recognize. Genuinely popular, Nazarbayev, or 'Papa' as Kazakhs call him, dominates nearly everything that matters in Kazakhstan, the elephant in every conversation Euromoney had with Samruk's bosses. He's the only leader that independent Kazakhstan has known, securing the presidency in large part because he was the republic's Communist party secretary before the USSR broke up in 1991. Kazakhstan inherited the world's fourth-biggest nuclear arsenal, simply because it happened to be located on Kazakh soil, and Nazarbayev won friends in the west when he voluntarily dismantled the warheads. Now 67, he was re-elected president two years ago for another seven years in office with a claimed 91.5% of the vote in an election international observers described as "unfair". The party that backs him, Nur-Otan ('Fatherland's Ray of Light'), won all 98 seats in August's parliamentary polls, also described as rigged. Opposition critics have a disturbing tendency to be mysteriously killed in this elective dictatorship that Kazakhs generously describe as benevolent.

Like many modern-day leaders of the former USSR, Nazarbayev's family is heavily involved in business, and Nazarbayev himself has been described as one of ex-Soviet Central Asia's "original oligarchs", reportedly having salted away $1 billion in a Swiss bank account. (The Almaty newspaper that first published the claim was sent a decapitated dog with a message pinned by a screwdriver plunged into its carcass –"there will be no next time". The editor, who fled to Russia, later found the dead dog's head at her home.) The president is also embroiled in "Kazakhgate", an American criminal case against a US businessman, James Giffen, a former Nazarbayev adviser who is accused under the US Foreign Corrupt Practices Act of paying $78 million in kickbacks to Nazarbayev and associates to secure oil deals for US companies. State statistics show that Bermuda was Kazakhstan's third-biggest trading partner in the early 2000s.

Still, Kazakhstan gets generally good marks from western banks, diplomats and agencies for its economic reforms, although it's not all plain sailing for Nazarbayev's boom. In November, his prime minister, Karim Massimov (who also chairs the government committee overseeing Samruk), slashed the 2008 growth forecast from 9% to "no less than 5%", blaming Kazakh banks' exposure to the sub-prime meltdown in the US.

XXXXXXXXXXXXX

Kazakhstan's post-Soviet commercial legislation is widely regarded as the most enlightened of the former Soviet republics', which perhaps isn't saying much when viewed alongside neighbours Uzbekistan and Turkmenistan. But, aside from tiny Georgia and the Baltic states now in the EU, Kazakhstan is regarded as the most open of ex-Soviet economies. That Nazarbayev cannily presents a diplomatic foil to dominant Russia helps too. Kazakhstan's hotels and oilfields are awash with western oilmen, helping make Kazakhstan 60% of central Asia's economy. Kazakh companies can now be traded on stock exchanges from London to Shanghai and are starting to buy western assets, for example, last August's $550 million purchase of 10% of US nuclear power operator Westinghouse by Kazatomprom, Kazakhstan's state-owned uranium producer. "People are paying a lot more attention and understanding that some of these places are going to be the key economies for the 21st century," says Evans.

But some things are too hard to let go, even in thrusting new countries where words like privatization and business don't need transla-

~~"There are two divergent theories on the number of financiers a manager should have that swing in popularity. The first is to diversify as widely as possible, and the second,~~

Almasadam Satkaliev

tion. Astana still has a Lenin Street and since early 2006 Kazakhstan has had Samruk. Its annual report almost embraces Borat-speak to describe the enterprise, officially known as the "Joint Stock Company Kazakhstan Holding for the Management of State Assets," created by a Nazarbayev presidential decree in January 2006 to "enhance the efficiency of the national capital, transparency and attractiveness of the Kazakhstani economy for world investors".

Today, Samruk holds 20 of the government's most beloved enterprises, notably the monopolies in oil and gas (KazMunaiGas-KMG), telecoms (KazakhTelecom), railways (KTZ), the electricity grid (Kegoc) and the postal service, KazPost, the so-called Big Five that collectively make up 85% of Samruk, with KMG dominating the quintet. The other 15 comprise various airports, a goldmine and a Caspian shipping company. McKinsey values these state assets at about $40 billion, equating to about a third of the economy. McKinsey went through an intricate debate about whether to propose a single entity as the asset holding company, or two entities with the second one functioning as a sovereign investment fund. The government decided to create Kazina as the investment fund. Evans says that under Samruk's original charter, Samruk was not supposed to be an investor. "But it became apparent that was impracticable and so the articles were changed," he says, and SamrukInvest was formed.

The 2006 Samruk annual report, published in June 2007, values total assets at $30.45 billion, generating profits of $2.57 billion, overwhelmingly from KMG, the oil and gas monopoly that made Nazarbayev's 43 year-old son-in-law, Timur Kulibayev, a billionaire. Kulibayev was relieved of his post as Samruk deputy chairman in August, Samruk insiders say at the hand of his father-in-law in the wash-up of parliamentary elections. Another Kulibayev associate, former deputy prime minister Sauat Mynbayev, resigned as chairman of Samruk's management board at about the same time.

Evans is diplomatic about Kulibayev, known as the Godfather of KMG. "I think Timur by choice would have chosen to have gone by the time I arrived. I told him I wanted him to stay. He has got a lot of interests outside KMG. He created KMG from the original gas and oil business and I think it was time. If he was engaged in the politics of the country, I never saw it. I had lots of messages saying he might be a problem for me in the context of the rights of hire and fire but I think Timur was, in the context of guys who understand business prin-ciples, the best guy that we had in here. The only time I saw him was on KMG business." Evans has overseen a succession of moves from the senior management of Samruk's associates; the presidents of KMG, the railways and the postal service are all new. Evans is casting around for independent directors to fill as many as 50 board slots in the Samruk family.

The Samruk experiment is being closely watched by western diplomats and analysts. A senior western diplomat in Astana says: "Samruk was set up to accomplish three different goals; the first to separate policy and regulation from operations – and that they've done, they've been successful at that and for that almost alone it would've been worth setting Samruk up.

"The second was to put the state-owned companies on a business-like basis. But despite a lot of political will from the president and prime minister, that is proving to be a very difficult task and they are just barely getting traction on that. That is a long-term, multi-year process but a very important one.

"The third thing is to prepare some or all the companies for IPO, and that is going to have to wait under the second task is accomplished."

Samruk's deputy chief executive, Ulf Wokurka, says: "I would say it's at least a couple more years before anyone should seriously consider disinvesting."

xxxxxxxxx

Under the Nazarbayev's early reforms, many of its major state enterprises – inherited and housed under the various ministries formed from the Kazakhstan rump of the 1991 collapse of the Soviet Union – had been turned into so-called joint stock companies. But it was largely a token transformation – after 70 years in communism's steely embrace, the Sovietesque control instinct was hard to shake, and to a large extent still is. Notionally businesses, at their best the JSCs still functioned as executors of state policy, heavily influenced by an almost paternal role in shielding the economy from the inevitable side-effects of going cold turkey in the overnight leap from Stalinism to the free market. That's the generous interpretation. At their worst, the local nomenklatura and apparatchiks, would-be oligarchs in situ, could see more than a few bucks to be made for themselves in this not-so-shiny new Kazakhstan by staying put and working the system they already knew well from USSR days. Samruk's dominating five JSCs are so-called natural monopolies that had become fiefdoms or, as one Samruk insider described them "autonomous republics."

"The JSC corporatization was well advanced," says Samruk's Wokurka. "However, their link to their ministries was very close. There was no real distinction between politically minded decision-making in the ministries and the supposedly commercially minded running of the businesses."

Hailing from the former East Germany, Wokurka graduated from Moscow's prestigious State Institute of International Relations in 1989, just as the Berlin Wall was falling back home. He joined Deutsche Bank in Frankfurt from college and, a fluent Russian speaker, was moved to Almaty to initiate Deutsche's presence in the emerging Kazakhstan. Merchant bank Morgan Grenfell, bought by Deutsche Bank in 1990, had begun advising the former Soviet republics on reforms and privatizations. Wokurka repped for Morgan Grenfell alongside his Deutsche duties, advising on oil and gas deals that first brought him in contact with the Kazakh government officials who would later push for the creation of a state-owned holding company. Wokurka joined Samruk in 2006 almost at its outset and, as deputy CEO, is its second-longest-standing employee.

"I decided to leave my warm and nice place beside the fire in Frankfurt and wanted to face the wind," says Wokurka, to good-natured taunts of 'Fool! Fool!' from Sir Richard. "Why? Because I genuinely think it's a really exciting challenge, it's fascinating. The financial side is adequate to the challenge. They have made a conscious effort here not to breed among themselves too much, to bring in fresh blood from outside, different views, different traditions, styles and methods."

Arm's-length directorships are a new notion here. "You've got to tell the guy from the economics ministry that I'm sorry, under the terms of the code, you are not independent," he says. "You can stay on the board but you are not independent. I think it's important to have these people around because of their inputs but you've got to be realistic about it – they are not independent directors. We get complaints from government, because although the transition has taken place legally, that doesn't mean to say it's happened up here (pointing to his head). This has to change, people have to get in line with the law."

Another pressing concern was slow-changing mindsets among government functionaries. "There is a long tradition of central planning here," Wokurka says, "and the mentality, the corporate culture, was not changing."

"We are talking about people who have grown up in a certain system, 70 years of Sovietization. The management in these companies are not 70 years old, most are young and dynamic, but they are children of a tradition which has 70-year-long roots."

Evans and Wokurka view Samruk as a standard-bearer for the next stage of reform in Kazakhstan. "The main challenge [of Samruk] is not only to introduce or impose western-style governance and methods," says Evans, "but also to launch this change of culture. And sometimes this takes longer than patience, or the expectation of results."

Almasadam Satkaliyev is the 37-year-old president of Kegoc, Kazakhstan's monopoly electricity grid. His CV describes him as an "honoured powerman of the Commonwealth of Independent States". He joined Kegoc in 2001 as finance director, then became a vice-minister of energy before being assigned his present job as the grid's president in September. He says KEGOC's employees were sceptical about Samruk's initial emergence but "some real results" had dissipated resistance. "Forming a board with independent directors, this is a new approach, it's good practice."

Kazakhstan Temir Zholy, the state railway, exemplifies the challenge facing Samruk in balancing business imperatives with the social responsibilities of a state weaning itself off Soviet ways. KTZ was carved from the extant rump of the Soviet rail network on the USSR's collapse in 1991, suddenly having to service one of the world's biggest – and most sparsely populated – landmasses. Around 140,000 Kazakhs draw a salary from KTZ, the country's biggest single employer, and, unusually for a national train service, it earns 75% of its revenues from freight, not passenger services. Kazakh oil tends to be moved by train, putting higher-than-normal stresses on infrastructure and rolling stock, particularly in these boom times. It's unsurprising, then, that a former deputy chairman of the oil and gas monopoly, KMG, is president of the railways, whose job it now is to get KTZ's bills paid by his former employer, KMG, to sustain the service. But getting paid in the new Kazakhstan can be tricky, when those whose freight KTZ and its predecessors has long carried for free in the socialist paradise – notably the oil company – are suddenly asked to pay for the service. KTZ turned a profit of $181,000 last year – its first – on revenue of almost $4 billion.

xxxxxxxx

KTZ president Zhaksybek Kulekeyev attributes the modest profit to his massive recent restructuring of a monolithic service many Kazakhs regard as a state within a state, with its free housing, shops and schools and jobs for life. "We had to lay off our social services," he says. "Before this restructuring, we had over 300,000 employees. Some people liked it, many people suffered from it."

Evans realized the extent of the task before him this year when he examined a state agreement to build a second 3,000km railway and pipeline to carry oil from the Caspian Sea in the west across Kazakhstan to China. The project requires a service road, and electricity to power the railway. "I asked people how the build was going to be managed, which really means who is going to manage it. There was a long silence before anyone answered," he says, laughing.

Samruk owns the power monopoly, the oil company and the railways, so Evans proposed treating it as a single project, using a single contractor with specialized inputs from the three offshoots. "We got those responsible in a room here to discuss it and I quickly realized it was the first time any of them had met."

"It suddenly struck me that you don't need to slash and burn to get the profits of these companies up – it's much more comfortable to get them working together."

Such cooperation is anathema to hangover Sovietesque methods. "It is because you've got gas and oil, the new generation, then the railways, which is a state within a state with its own schools and shops and houses, very much a self-contained operation, so the thought of engaging with the government, let alone with a company that happens to be part of the Samruk portfolio, is just unimaginable," says Evans.

"I knew there was a silo mentality but I sat there just thinking to myself that this could not happen in any sort of sensible place. That was when the light went on for me [on the magnitude of the task]." EM