

Strengthening financial ties

By **ALDERMAN MICHAEL BEAR**

LORD MAYOR OF THE CITY OF LONDON



MICHAEL BEAR studied Civil Engineering at the University of Witwatersrand in South Africa and holds an MBA from Cranfield University. He has 36 years' experience in the international construction industry and has been Managing Director of Balfour Beatty Property Ltd since 1993. He is Regeneration Director at Hammerson plc, a Non-Executive Director of Arup and a Fellow of the Institution of Civil Engineers and the Royal Institution of Chartered Surveyors. Alderman Bear was elected as the 683rd Lord Mayor of the City of London on 29th September 2010.

As a transcontinental country, Kazakhstan has been a vital gateway bridging European and Asian trading interests since the earliest pioneering journeys on the Silk Road.

But today Kazakhstan is an important player on the global stage in its own right, and one increasingly reflecting its standing as the ninth largest nation in the world. The decision to host the most recent OCSE summit in Astana was recognition of the country's significant progress over the past two decades. In welcoming leading political figures – including Deputy Prime Minister Nick Clegg and a senior UK delegation – this summit gave Kazakhstan the opportunity to show it is open for business to the world.

During the years of independence, Kazakhstan has made considerable progress in implementing difficult reforms to establish a politically stable market economy. These efforts were recently recognised by the World Bank's 2010 "Doing Business" report, which listed the country as one of the top reformers particularly when it comes to tax and customs codes.

Hosting a high-profile event like the OCSE summit will – I hope – add further impetus to the development of Kazakhstan. And it is clear that trade between our two nations will continue to play a vital role in delivering this vision of a strong, diversified Kazakh economy over the years to come.

The UK is one of the largest investors in Kazakhstan, having provided more than US\$6 billion since the country's independence in 1991 and we are currently the second largest provider of FDI. UK exports to Kazakhstan in 2008 were US\$309 million and imports from Kazakhstan totalled US\$164 million.

A visit by the late Lord Mayor Ian Luder and a financial services industry delegation in July 2009 helped to strengthen long-standing financial ties between our two countries. There are well over a hundred UK companies or joint ventures with British connections active in Kazakhstan, including the likes of HSBC, RBS, BG and Shell.

On the other hand, many local companies are turning to Britain for financial services expertise and capital raising. An increasing number of Kazakhstani companies are listing on the London Stock Exchange – often in partnership with the Kazakhstan Stock Exchange (KASE). Indeed, IPOs to a value in excess of US\$14 billion have taken place since 2005 and two firms are

now in the FTSE 100 – ENRC and Kazakhmys.

Of course, we cannot afford to be complacent. Following the financial crisis Kazakh companies have increasingly turned to the East and that is why the City needs to work hard to reiterate our established strengths: a broad investor base, deep capital pools, sophisticated markets and an unparalleled skills base. And although the Kazakh banking system – like others across the globe – has experienced difficulties since the crisis its capitalisation still exceeds US\$1 billion following rapid development over the past two decades.

It is clear, nevertheless, that Kazakhstan's natural resources will continue to be the key driver in ensuring the country continues to be a major regional, and indeed global, power house. The energy sector is a major success story, with Kazakhstan forecast to be among the world's top 10 oil-producing nations by 2015. In order to realise the President's target of pushing into the top 50 performing economies, however, there remains a need to diversify the country's economic and financial base.

Innovations such as the Special Economic Zone established in Astana will be crucial to encouraging additional foreign investment and attracting the range of firms needed to establish a cluster of any meaningful size. But like many other rapidly-developing markets, one of the main challenges for Kazakhstan's financial development is regulation.

The regulator AFN (Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations) has taken a number of measures intended to strengthen the sector focused primarily on increasing financial prudence, and addressing lessons from the financial crisis.

These included the improvement of risk management systems and corporate management in financial institutions; rebalancing the liability structure of banks; strengthening the requirements on the issuers of securities; improving the prudential regulation of cumulative pension funds and pension asset management organisations; strengthening the culture of investment. The AFN also ran programmes of financial literacy instruction and adopted the regulatory concept of counter-cyclicity as a measure of risk reduction.

These steps are welcome from the perspective of international investors and it is equally heartening that Kazakhstan has announced a 'Business Road Map to 2020', outlining plans for job creation and regional

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business development over the medium term. The City is particularly well placed to offer help specific to Kazakhstan's needs when it comes to accelerating the development of infrastructure and training.

As a world-leader in Public-Private Partnership infrastructure financing, with a proven track record around the world, the UK is a natural partner for Kazakhstan. In fact, we already have close ties in this field following the establishment of our PPP centre in Astana in 2008. On the training front, the Anglo-Kazakh Law Association has been established for four years following cooperation between the Bar Council and the Kazakh Bar Association, and further cooperation is envisaged in the near-term.

During the last Lord Mayor's visit in 2009 my predecessor emphasised the importance of conforming to International Accounting Standards and International Financial Reporting Standards. The City is home to a wide range of professional services firms that can play a vital role in developing the skills and structures needed to promote a transparent business environment valued by overseas investors.

Another sector that would benefit from bilateral partnership is insurance. Firstly, there is a lack of big name international life insurance companies in the region. There are currently many Kazakh insurance companies in the market and the Central Bank owns 90 per cent of the second largest pension provider. City firms are major international players in this market and there is significant scope for future collaboration.

The development of Islamic financial instruments in Kazakhstan also stands to benefit the domestic corporate sector. Kazakhstan adopted legislation on Islamic Finance in early 2009 and there is a real demand for such products. Recent announcements from the Minister of Finance on the subject of

sovereign sukuk and overcoming legal obstacles on Islamic bonds by early next year have set out a very encouraging timetable.

London is the home of Islamic Finance. The UK is well-placed to help with its development. We have been developing the Islamic Finance market in the UK for 30 years. There are 22 banks in the UK which offer Islamic finance services, including five which are fully Shariah compliant – more than in any other Western country. The UK is also the leading skills centre for Islamic Finance education, training and qualifications. Twenty law firms in the UK provide legal services in Sharia compliant finance and English legal experts have advised governments, regulators, and leading institutions on Islamic Finance architecture and product development. In other words, we are a natural fit when it comes to developing the capacity needed to meet domestic demand.

Of course, the cooperation between our two countries is not restricted to just financial and professional services. During the 2009 visit a Memorandum of Understanding was signed between TVET UK and Bradford and Loughborough Colleges to train 1,000 volunteers as hosts for spectators and competitors for the historic 7th Asian Winter Games, which will be held in Almaty next year.

Kazakhstan has taken great strides when it comes to delivering the reforms needed for future success, and now has the most sophisticated financial system in the region. The country is at a crossroads, however, when it comes to diversifying the economy and overcoming bottlenecks to future growth. By working together we can ensure that Kazakhstan's development continues to gather pace – and that the country is recognised for the foreseeable future as not only a gateway for trade but also a major economic player. **F**



Alderman Michael Bear on his election as 683rd Lord Mayor of the City of London