RESEARCH & KNOWLEDGE MANAGEMENT

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Overview of investment attractiveness of Central Asian countries

FOR TARGETED RECIPIENTS ONLY

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Objective of analysis is to assess investment attractiveness of Central Asian region

Objectives

- **Assess investment attractiveness of Central Asian region.**
- **Compare investment attractiveness of Kazakhstan vs. peer countries.**
- **Recommendations for improving investment attractiveness in Kazakhstan.**

Topics covered in presentation

- ✓ Global foreign direct investments (FDI) and factors, affecting investors' decisions.
- ✓ Historical FDI inflows to Central Asian countries, economic sectors, main countries-investors, key projects.
- ✓ Doing business ranking by the World Bank. Measures and reforms implemented aimed at improving business climate and investment attractiveness in Central Asia.
- ✓ Factors constraining investment attractiveness of the Central Asia region.

Central Asian countries

Kazakhstan

Uzbekistan

Turkmenistan

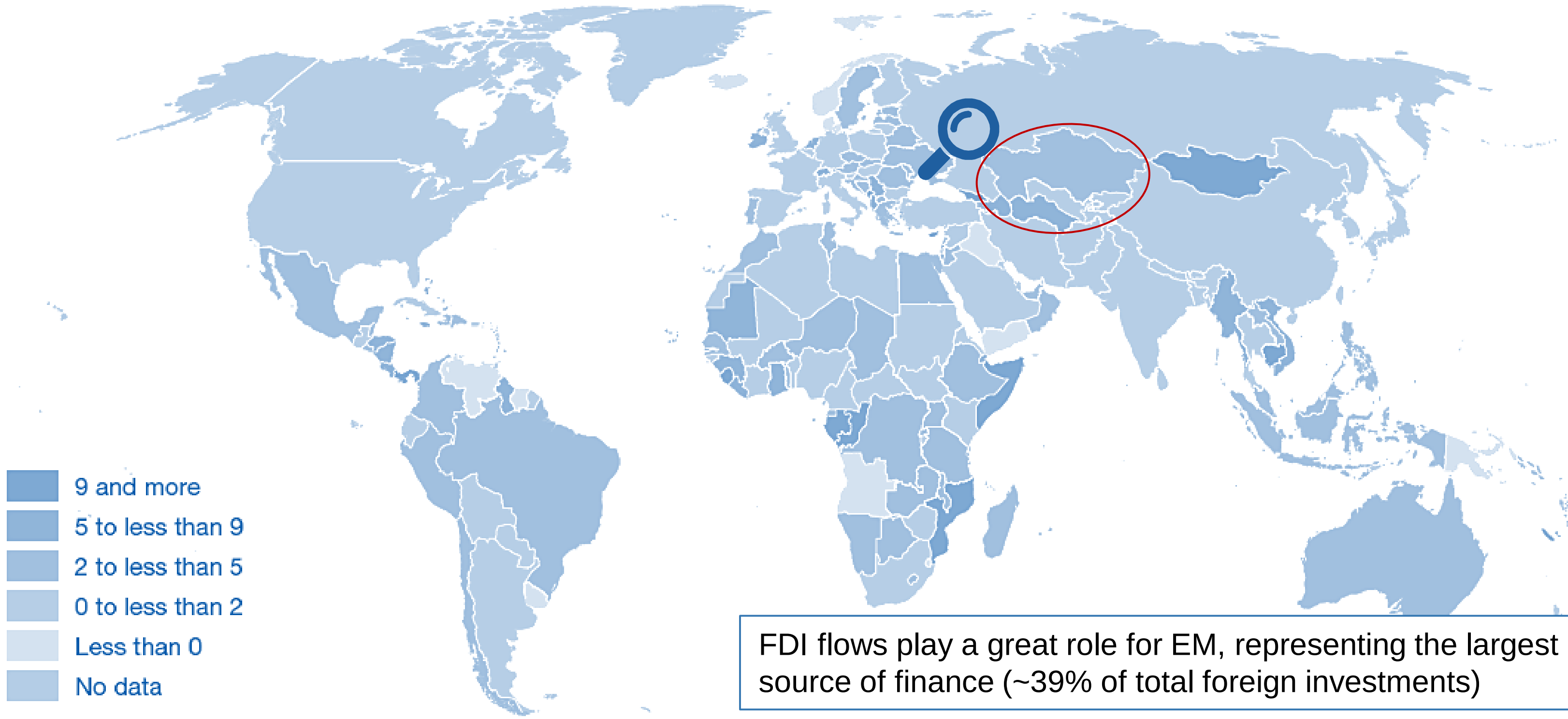
Kyrgyzstan

Tajikistan

Content

Globally, FDI inflows showed a decline in 2017, while inward FDI to Central Asia is lower vs. peers

FDI inflows as a % of GDP (2017)



FDI flows play a great role for EM, representing the largest external source of finance (~39% of total foreign investments)

- In 2017, world FDI inflows decreased by 23% YoY to USD1.43tln, after peaking at USD1.92tln in 2015.
- In developing economies, **FDI inflows amounted to USD671bln**, almost double the value of FDI outflows (USD381bln).
- In 2017, **developed economies' share of global outward FDI** remained unchanged at **71%**. US, Japan, China, UK, Hong Kong have the highest FDI outflows globally.
- In **Central Asia**, the **share of FDI to GDP lower vs. other developing regions**, with **total FDI in non-primary sectors accounting for 18.2% of the region's average annual GDP in 2008 – 2016**, according to BCG's estimates. This compared to the North African region (26.8%), Central America (35.9%), and the Balkan region (47.2%).

Source: United Nations Conference on Trade and Development, Boston Consulting Group

Uncertain global economic outlook and escalating trade disputes rein in foreign investments

Factors affecting FDI globally

- In 2017, **65 countries and economies adopted at least 126 investment policy measures**, of which **84% were favorable to investors**.
- These countries **liberalized entry conditions** in a number of industries including transport, energy, and manufacturing.
- They promoted and facilitated investment by **simplifying administrative procedures, providing incentives and establishing new special economic zones** (SEZs).
- Investment policies (in particular FDI policies) are viewed as a **key instrument of industrial policies**.
- From 2 June 2017 to 1 May 2018, **128 economies** implemented **a record 314 regulatory reforms improving the business climate** (World Bank's Doing Business ranking 2019).

- **Uncertain global economic outlook**, clouded by risks of trade and investment protectionism and geopolitical risk.
- **Escalation and broadening of trade tensions** could negatively affect investment in global value chains.
- **Tax reforms in the US and greater tax competition** are likely to significantly affect global investment patterns.
- **The global average return on foreign investment is at 6.7%, down from 8.1% in 2012**. **Return on investment showed a decline in all regions**. The lower returns on foreign assets may affect longer-term FDI prospects.

Source: United Nations Conference on Trade and Development, World Bank

Key factors affecting investors' decisions to invest

Factors affecting investment decisions

- ✓ **Political stability and security**
- ✓ **Legal and regulatory environment**
- ✓ **Large domestic market size**
- ✓ **Macroeconomic stability and favorable FX rate**
- ✓ **Available talent and skill of labor**
- ✓ **Good physical infrastructure**
- ✓ **Low tax rates**
- ✓ **Low cost of labor and inputs**
- ✓ **Access to land or real estate**
- ✓ **Financing in the domestic market**

Key highlights

- Investment incentives or investment guarantees are frequently used to bolster competitiveness or investment viability for specific projects or sectors, **but investment climate weaknesses must be addressed first.**
- Investors consider a broad range of factors in their decision to invest with **political stability and a business-friendly regulatory environment** are most important in investors' decision making.

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"If fundamental elements at the country level are lacking, investors are unlikely to respond to even the most generous incentive packages or such incentives may only attract unviable investments".

Source: World Bank

Spillover effect of FDI inflows on the economy

- **Companies receiving FDI contribute to GDP, exports, tax revenues, and employment. In addition, FDI has a significant potential to transform economies through innovation, enhancing productivity, and creating better-paying and more stable jobs in host countries, in sectors attracting FDI.**

Positive spillover effects from FDI

Linkages between foreign firms and local partners or suppliers can promote transmission of foreign firms':

- Technology
- Knowledge
- Practices
- Requirements

Resulting in positive productivity spillovers

Demonstration effect, in which domestic firms imitate foreign technologies and managerial practices either through observation or by hiring workers trained by foreign companies.

Local firms apply foreign technologies and processes to improve productivity, thereby dampening the competitive impact of rivalry with foreign-established firms.

It is worth noting there are different types of FDI, each with different potential social, economic, and environmental effects. In certain countries, FDI inflows might crowd out local competition, result in limited linkages, negatively affect labor and environmental standards.

Source: World Bank

Summary

- **Global FDI inflows declined by 23% YoY to USD1.43bln** after peaking at USD1.92bln in 2015. A **lower global average return of foreign investments** at 6.7% in 2017 vs. 8.1% in 2012 **and the uncertain global economic outlook** constrain foreign investments globally.

- Meanwhile, **128 economies of the world implemented a record 314 reforms improving business environment** from 2 June 2017 to 1 May 2018. FDI has significant potential for transforming the economy through innovation, increasing productivity and creating better paid and more stable jobs in host countries/sectors attracting FDI

- **Investors take into account a wide range of factors** when making investment decisions, considering political stability and a business-friendly regulatory environment as the most important factors for investment decisions.

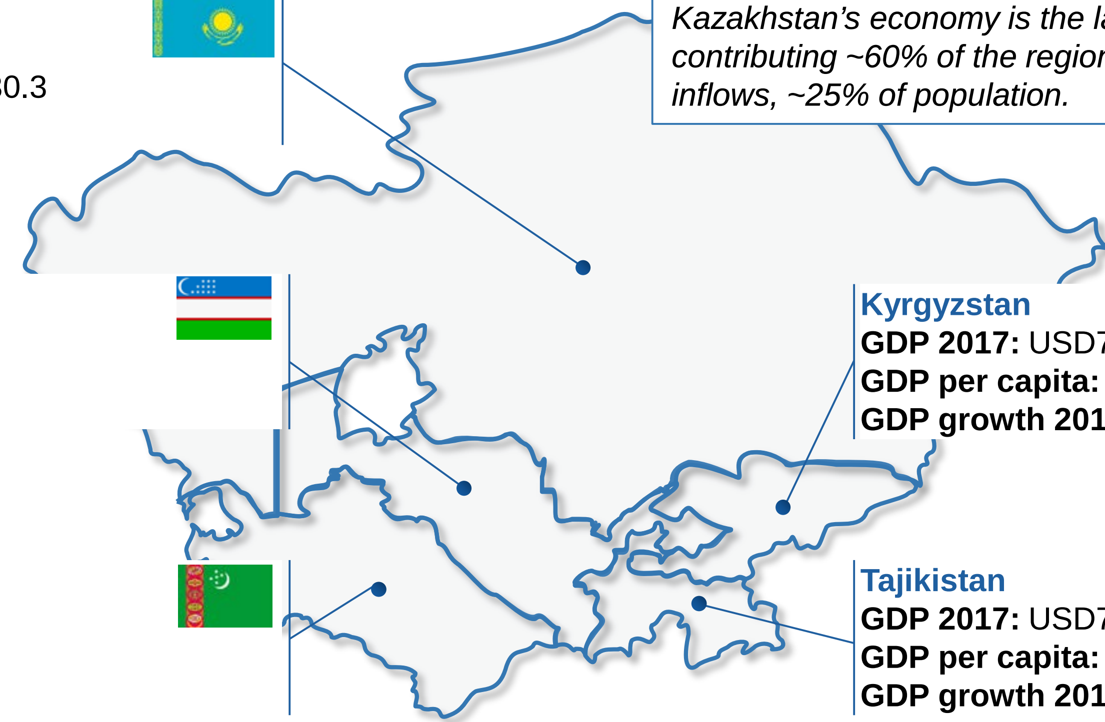
- **In a global context, the share of FDI in Central Asia's GDP is lower vs. to other developing regions.** According to BCG estimates, total FDI in the non-primary sector of Central Asia accounted for 18.2% of the region's average annual GDP in 2008–2016 (North Africa: 26.8%, Central America: 35.9%, and the Balkans: 47.2%).

Snapshot on macroeconomic development of Central Asian countries (I/IV)

Economic development of countries in the Central Asia (2017)

Kazakhstan
GDP 2017: USD162.9bln
GDP per capita 2017: USD9,030.3
GDP growth 2018: 4.1%

Kazakhstan's economy is the largest in Central Asia, contributing ~60% of the region's GDP, ~70% of FDI inflows, ~25% of population.



Uzbekistan
GDP 2017: USD48.7bln
GDP per capita: USD1,504
GDP growth 2018e: 5.9%

Kyrgyzstan
GDP 2017: USD7.6bln
GDP per capita: USD1220
GDP growth 2018e: 2.7% (EBRD)

Turkmenistan
GDP 2017: USD42.4bln
GDP per capita: USD7,356
GDP growth 2018e: 6.2%

Tajikistan
GDP 2017: USD7.1bln
GDP per capita: USD801
GDP growth 2018e: 6.1%

During 2000–2017, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan grew by an average of ~7.6%, underpinned by minerals exports (Kazakhstan, Turkmenistan, Uzbekistan), and labor* (Tajikistan, Kyrgyzstan, followed by Uzbekistan).

**Remittances from labor migrants account for 4.6% of Uzbekistan's GDP, 25.7% of Kyrgyzstan's GDP, 28.8% of Tajikistan's GDP, according to WB's estimates.*

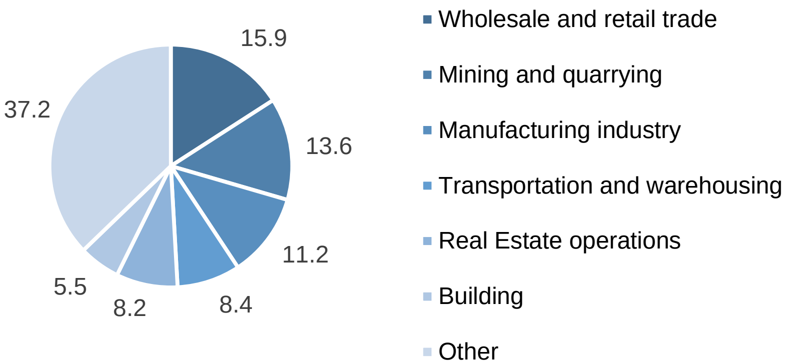
Source: Statistics Committee of Kazakhstan, World Bank, various market sources

Snapshot on macroeconomic development of Central Asia countries (II/IV)

Kazakhstan
GDP growth 2017: 4.0%
2018: 4.1%

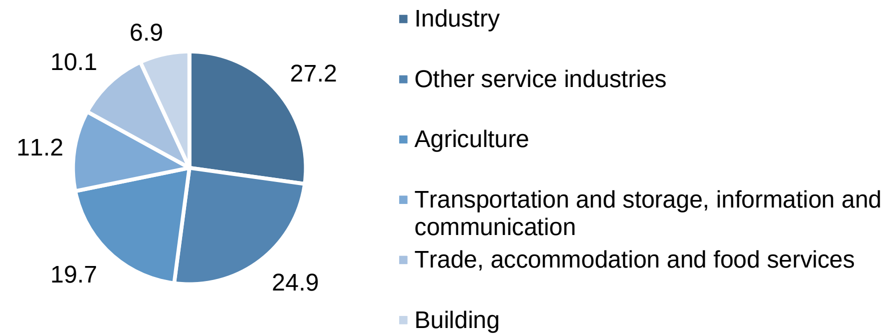
Uzbekistan
GDP growth 2017: 5.3%
6M18: 4.9%

GDP structure* (2017)



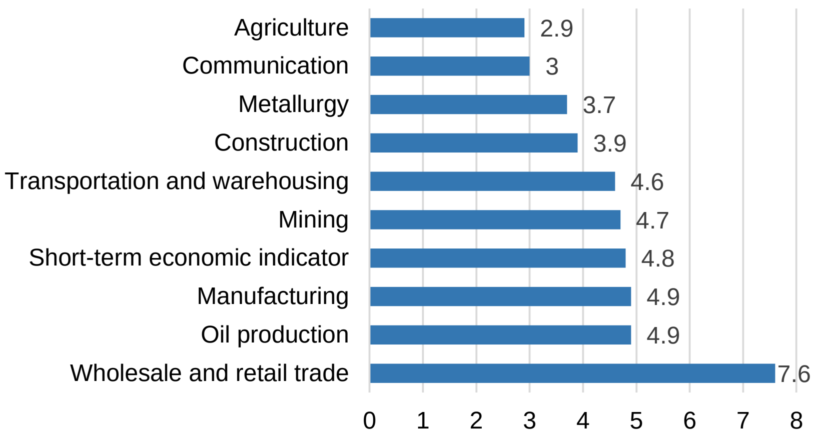
** Oil production (11.1% of GDP) is within "Mining and quarrying" sector*

Gross value added structure* (2017)

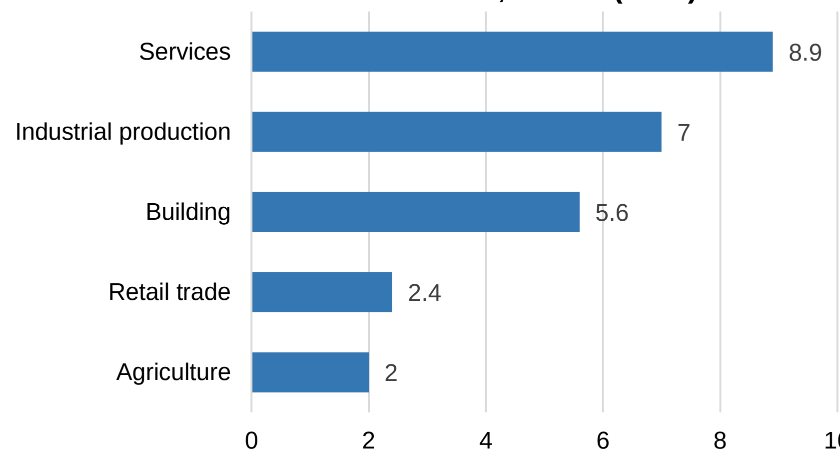


**GDP data is not available. Gas production is categorized as "Industry".*

Economic sectors, % YoY (11M18)



Economic sectors, % YoY (2017)



Source: Statistical committees of Central Asian countries

Snapshot on macroeconomic development of Central Asia countries (III/IV)

Turkmenistan
GDP growth 2017: 6.5%
10M18: 6.2%

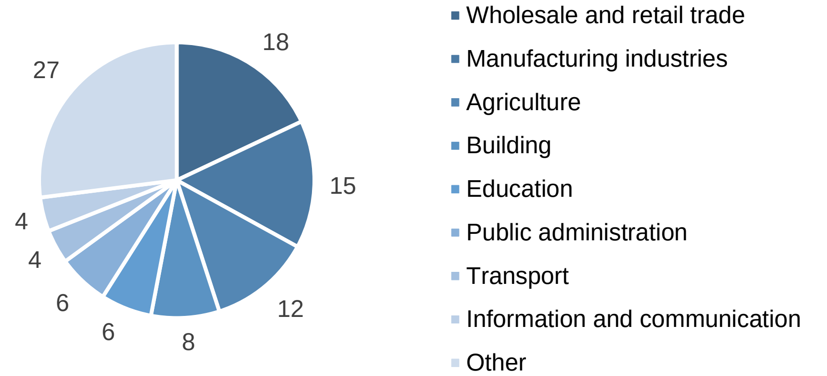
Kyrgyzstan
GDP growth 2017: 4.5%
10M18: 3.1%

Industrial production growth* (2017)

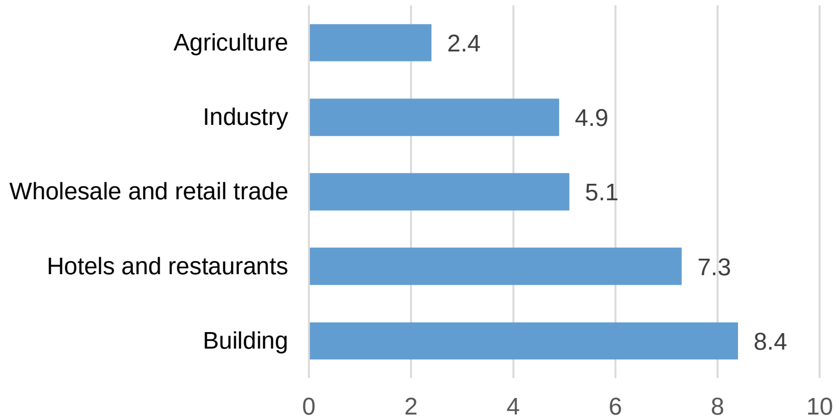
Production	Growth, %
Mazut	20.2
Cotton fiber	16.5
Canned vegetables	9.9
Leather	6.6
Pipes from plastic and fiberglass	6.2
Pasta	5.3
Flour	4.2
Cotton yarn	3.5
Sewing and knitwear	3.1
Dairy products	3.0
Processed and canned fish and fish products	2.8
Butter	2.4
Petroleum	2.2
Gas output	2.0
Pharmaceuticals	1.9
Oil refining	0.5
Polypropylene	0.1

**GDP structure data is not available in open sources.*

GDP structure (2017)



Economic sectors, % YoY (11M18)

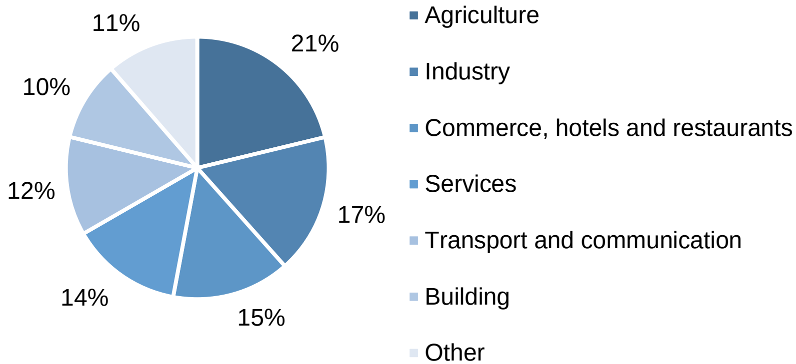


Source: Statistical committees of Central Asian countries

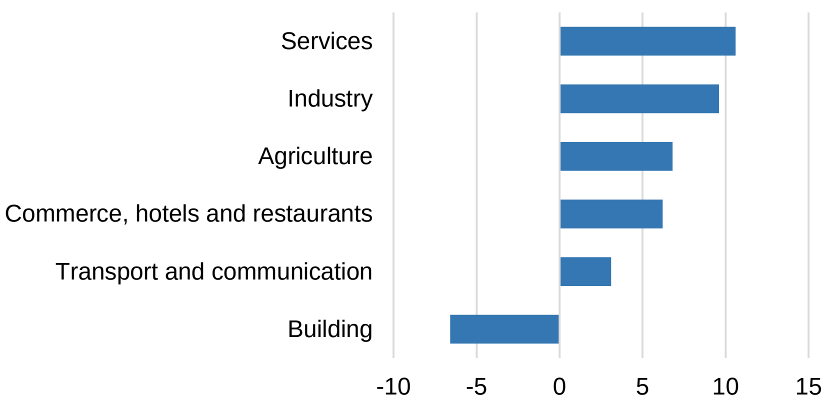
GDP growth in Central Asia countries was mainly supported by recovery in commodity prices and/or remittances

Tajikistan
GDP growth 2017: 7.1%
9M18: 7.0%

GDP structure (2017)



Economic sectors, % YoY (2017)



Key drivers of economic growth

Kazakhstan
- Oil production growth (Kashagan oil field);
- Positive growth dynamics of service sectors

Uzbekistan
- Development of service sector;
- Growth of agriculture;
- Growth of industries.

Turkmenistan
- Growth of gas exports to China;
- Growth of gas prices.

Kyrgyzstan
- Exports of migrant workers (remittances contributed to growth of domestic consumption and services);
- Gold mined in a large deposit;
- “Bazaar trading” based on import and re-export.

Tajikistan
- Exports of migrant workers (remittances);
- Growth of the mining industry boosted net exports and GDP growth.

Source: Statistical committees of Central Asian countries

Stock markets and banking sector of Central Asian countries

- **Uzbekistan will issue USD500mln Eurobonds in 1H19 for the first time.** The issue will be led by JP Morgan, Deutsche Bank, Citi and Gazprombank
- **Uzbekistan received the first sovereign credit ratings** from Fitch and S&P at BB-, Stable outlook.

Source: gazeta.uz, 22 December

- **In Uzbekistan, state-controlled banks have a market share of ~ 84% of the total assets of the sector.** Directed lending in the economy distorts competition of the banking sector. **Loans** denominated in **foreign currency** make up **~57% of total loans** in the banking sector.

Source: S&P, 31 December

- **In Uzbekistan, the government decided to list Kokand Mechanical Plant** as the country embarked on privatization spree.
- It is planned to sell 2.2 mln shares in SPO, effectively reducing Uzneftegazmash's stake to 64.08%.

Source: gazeta.uz, 29 November

- In **Kyrgyzstan, the stock market is at an early stage of development.** Transactions on the stock exchange amounted to ~KGS10bln in 2017, reflecting some banks' share issues as per request of the National Bank of Kyrgyzstan, according to Almaz Shabdanov (Member of the Board of Directors of the Kyrgyz Stock Exchange).

Source:rus.azzatyk.org, 23 October

- **Uzbekistan's Republican Stock Exchange Tashkent** and **Tajikistan's Central Asian Stock Exchange** signed a memorandum of understanding, aimed at forming a foundation for cooperation (exchange of experience in securities transactions).
- In **Tajikistan,** the Central Asian Stock Exchange is linked to other international exchanges in Moscow, New York, London, Hong Kong, and other countries.

Source: sputniknews.ru, 6 June

- In **Tajikistan**, the efficiency of monetary policy remains limited due to the **weak banking sector**. Debts overdue by more than 30 days accounted for **35.8%** of total loans in 2017 on the back of unstable economic and financial conditions in the region.

Source: S&P, 24 August

Source: various market sources

Overview of FDI in Central Asia

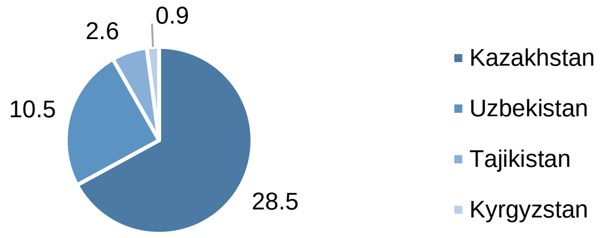
FDI in Central Asian countries

Kazakhstan
Stat. committee FDI 2010-2017: USD182.5bln
2008 – 2017 FDI in new projects: USD82bln
2008 – 2016 FDI in non-primary sectors: USD28.5bln
Main economic sectors for investments:
Oil and gas, coal, metals.

Uzbekistan
Stat. committee FDI 2010 - 2017: USD10.3bln
2008 – 2017 FDI in new projects: USD18bln
2008 – 2016 FDI in non-primary sectors: USD10.5bln
Main economic sectors for investments:
Oil and gas

Turkmenistan
2003 – 2016 FDI in new projects: USD12bln
From 2009 extracting industry accounted for 78% of FDI in new projects (fDi Intelligence).

FDI in non-primary sectors, USDbln (2008 - 2016)



Kyrgystan
Stat. committee of all foreign investments*
2010 – 2017: USD39.9bln
2008 – 2016 FDI in non-primary sectors: USD0.9bln
Main sectors of economy for investments: Mining, construction and construction materials

Tajikistan
Stat. committee of FDI 2010 – 2017: USD2.8bln
2008 – 2016 FDI in non-primary sectors: USD2.6bln
Main sectors of economy for investments:
Gold and aluminum mining

- *Kazakhstan has a potential to attract FDI in the amount of USD100bln (non-primary sectors: USD40bln)*
- *According to BCG estimates, Kazakhstan accounts for 70% of FDI inflows into Central Asia.*

**Including FDI*

Source: Boston Consulting Group, FDI Markets (includes data only for recent investments), fDi Intelligence, statistical committees

Large-scale positive changes improve attractiveness of Central Asia for potential investors

Factors attracting foreign investors' decisions to invest in Central Asia countries

1. Natural resources
2. New markets for non-trade sectors
3. Macroeconomic stability
4. Significant size of domestic market
5. Low labor costs
6. High growth potential of economic sectors
7. Improvement in business climate

The Central Asian region's inward FDI has a high potential of USD170bln with USD40-70bln attributable to non-primary sectors. The Central Asian market is estimated at a high of USD150bln in 2017, according to BCG's estimates.

Source: Boston Consulting Group

However, FDI inflows to Central Asia remain sporadic and volatile, reflecting schedules for large investment projects

- **Kazakhstan accounts for 70% of FDI inflows into Central Asia, while Uzbekistan and Turkmenistan account for 16% and 8%, respectively. Kyrgyzstan and Tajikistan make up 6% each, according to BCG (data reflects only new projects in 2008–2016).** Kazakhstan and Turkmenistan have been able to attract significant inflows of FDI, reflecting abundant energy resources. Turkmenistan's gas reserves are estimated to be the fourth largest in the world, accounting for ~10% of world reserves. In 2015–2016, FDI in Kazakhstan's oil and gas industry accounted for 17% of global investments in the sector. The EU, China, and Russia are key investors in Central Asia.

- In WB's Doing Business, Kazakhstan ranks 28th, while Tajikistan takes 126th, with the **current pace of reforms in Kazakhstan and Uzbekistan (76th) is likely to further increase this gap**. This takes Kazakhstan and Uzbekistan in a completely different category in the eyes of potential investors (BCG).

- Meanwhile, the quality of FDI is a key determinant for positive developments. Although FDI inflows contributed to the development of economic sectors related to energy and natural resources, **pronounced positive spillover effect on other industries remains limited**.

- While evidence suggest there is a positive long-term correlation between FDI and GDP in Central Asia (exports & taxes), the **impact of FDI inflows on employment is limited, as FDI is directed mainly to capital-based, rather than labor-intensive industries**.

- **Agriculture and labor-intensive industries receive limited foreign investments, while Central Asia's participation in global value chains is limited to supplies of natural resources and labor** (WB). This can be explained by well-known lack of regional cooperation, weak transport infrastructure and challenged at border crossings/customs.

Source: Boston Consulting Group, World Bank

Factors negatively affecting investors’ decision to invest in Central Asia

The outlook on Russia’s economy remains unclear considering potential new sanctions on the country. This might negatively affect all Central Asian countries.

Countries face foreign exchange shortages and high volatility in FX rates. Some countries put in place restrictions on FX conversion.

The states retains direct and indirect controls in many economic sectors, creating an unequal field for other players.

Risks attributable to close proximity with Afghanistan are drug trafficking, political / religious extremism, possibly even terrorism.

GDP growth of countries was mainly supported by (1) recovery in commodity prices (Kazakhstan, Uzbekistan) or/and (2) remittances (Tajikistan, Kyrgyzstan), implying a **high vulnerability to external shocks.**

- **Unpredictable and non-transparent regulatory environment.**
- **Rule of law problems.**
- **Corruption.**
- **Kyrgyzstan: political instability.**

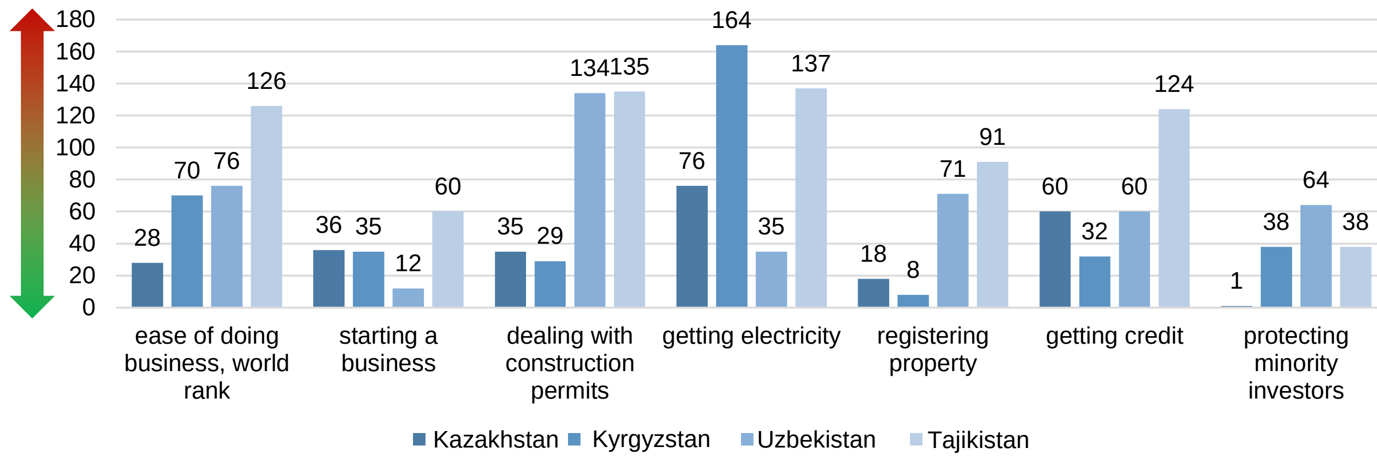
Source: World Bank, BCG

Snapshot on international rankings and indexes of Central Asian countries

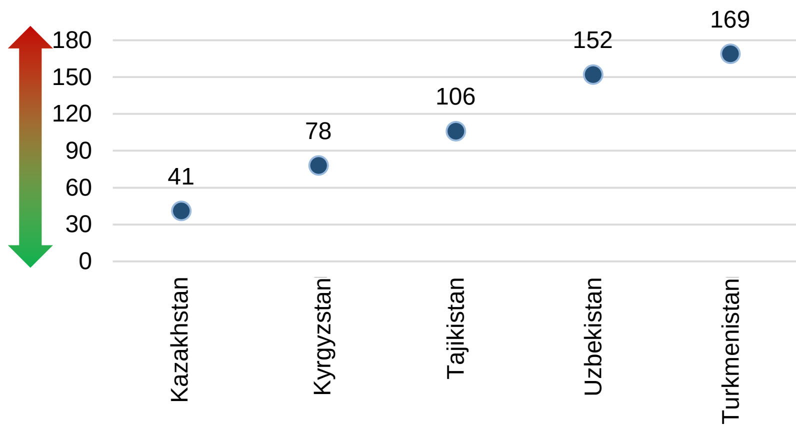
Country and Doing business ranking 2019 (WB)

- **Kazakhstan 28 (2008: 71)**
- **Uzbekistan 76 (2008: 138)**
- **Kyrgyzstan 70 (2008: 94)**
- **Tajikistan 126 (2008: 153)**

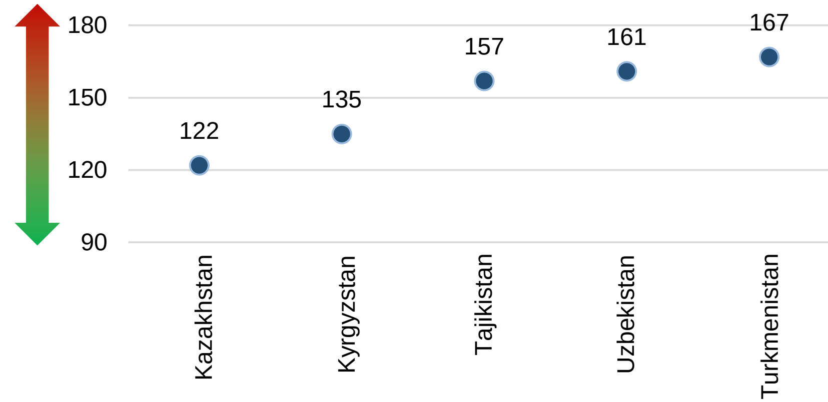
Doing business ranking 2019 from World Bank



Index of economic freedom* 2018



Corruption perception index* 2017



**Index of Economic Freedom measures economic freedom of 186 countries based on trade freedom, business freedom, investment freedom, and property rights. The Corruption Perceptions Index (CPI) is an index published annually by Transparency International since 1995 which ranks countries "by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys."*

Source: World Bank, BCG, 2018 Index of Economic Freedom

Summary

- During **2000–2017 the economies of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan showed an average growth of ~7.6%,** which was due to the export of mineral resources (Kazakhstan, Turkmenistan, Uzbekistan) and labor resources (Tajikistan, Kyrgyzstan, then Uzbekistan).

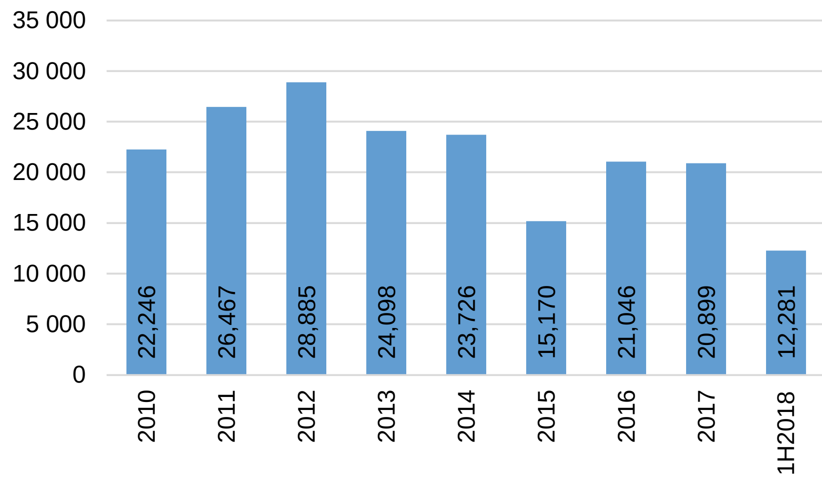
- Kazakhstan's economy grew by 4.1% in 2018, reflecting higher oil production and positive growth dynamics of other economic sectors (expected growth for 2018 for other countries Kyrgyzstan: 2.7%, Uzbekistan: 5.9%, Tajikistan: 6.1%, Turkmenistan: 6.2%). That said, **Kazakhstan's economy is the largest in Central Asia**, accounting for ~60% of the region's GDP with a population accounting for ~25% of total CA population.

- **The Central Asian region's inward FDI has a high potential** of USD170bln with USD40-70bln attributable to non-primary sectors. In Kazakhstan, **FDI in non-primary sectors in 2008–2016 amounted to USD28.5bln** (Uzbekistan: USD10.5bln, Kyrgyzstan: USD0.9bln, Tajikistan: USD2.6bln).

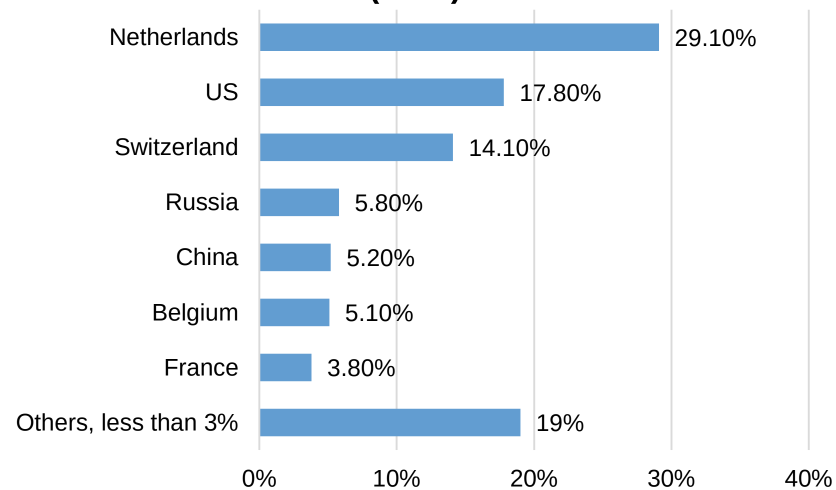
- Factors constraining investment attractiveness of CA include uncertainty over Russia's economic outlook, high share of states in the economies, unpredictable and non-transparent regulatory system, the rule of law problems and corruption. The banking sector might experience asset quality deterioration, putting downward pressure on investment attractiveness.

Kazakhstan: foreign investment statistics

Dynamics of gross FDI inflows in Kazakhstan



Investments in Kazakhstan by countries, % (2017)



- Over the past 13 years (2005 - 1H18), inward gross FDI in Kazakhstan amounted to USD277bln. In 1H2018, the volume of gross FDI showed an increase of 15.4% and amounted to USD12.3bln.

- The most active investors are the Netherlands (the country's share was at 29% of total FDI), the USA (18%), Switzerland (14%) and Russia (6%).

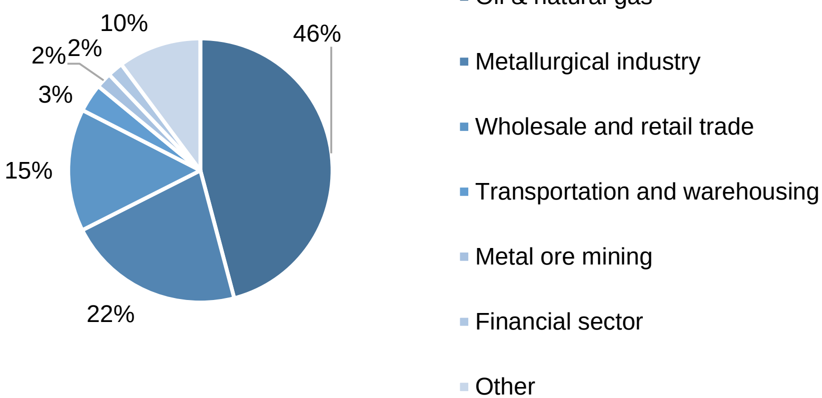
Reinvested income represents an unusually low proportion of total FDI inflows in Kazakhstan. This may reflect several factors, including but not limited to:

- high repatriation
- certain obstacles in retaining foreign investors, which prevent them from continuing activities and expanding presence in the country.

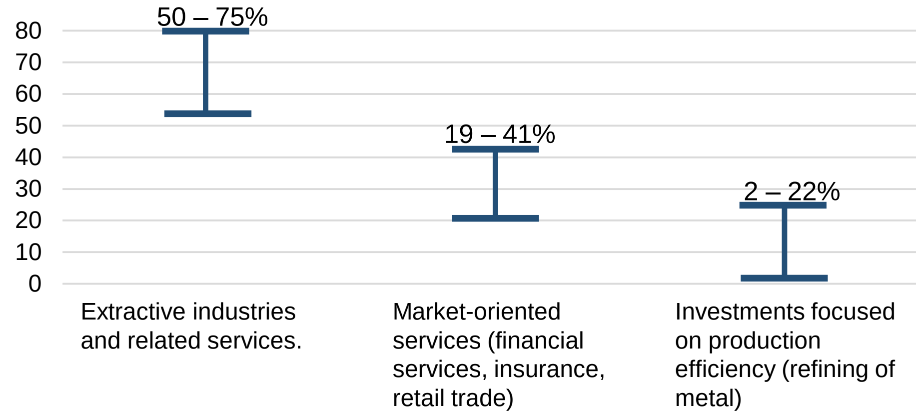
Source: National Bank of Kazakhstan, World Bank

Kazakhstan: foreign investment projects

Foreign investments in Kazakhstan by sectors in 2017



Historical shares of economic sectors in FDI structure in Kazakhstan,, %



- In 2018, 29 projects were implemented with the participation of foreign investors (USD3.45bln), with the creation of 6ths jobs, of which 8 projects with the participation of TNCs (USD604mln, 1.3 ths jobs).

- Historically, the structure of FDI flows to Kazakhstan has not undergone significant changes over the past decade. **Kazakhstan has a significant dependence on resource-oriented FDI (extractive industries), which implies a significant risk given an insufficient diversification of the economy.**

Source: National Bank of Kazakhstan, World Bank

Government's newly implemented measures are reflected in Doing Business ranking (28th ranking)

Improvement of investment environment

- **The government carried out a strong deregulation reform and dramatically reduced administrative pressure on business.** Control and supervisory functions were reduced by 30%, and the number of requirements - by 56%.
- **New tax and customs regulations which meet advanced international standards were introduced.**
- **The Subsoil and Subsoil Use Code came into force, based on the principle of "first come, first served".** From 1 July 2018 subsoil use rights are granted in a simplified manner using the Australian method.
- **Simplified procedures for planning projects in a form of public-private partnerships.**
- **Improved migration and labor laws. Simplified procedure for attracting foreign labor.**
- The Department of Energy plans to submit a **revised version of the Environmental Code**, which meets OECD standards.
- **There are 170 projects in 11 special economic zones as of July 2018.** The special economic zones offer a corporate income tax reduction by 100%, a land tax of 0, a value-added tax at a rate of 0 for suppliers, a property tax of 0%, etc.

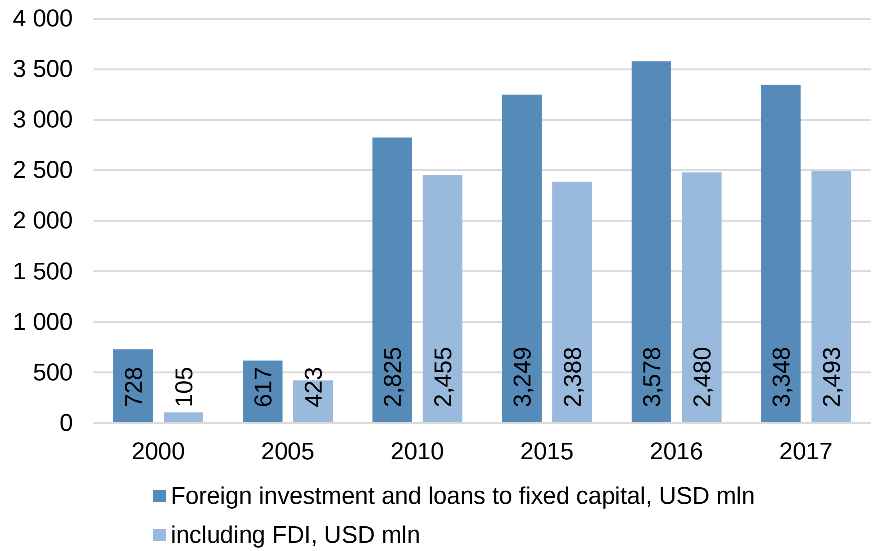
Investors' tool package

1. Exemption from customs duties when importing technologies
2. State in-kind grants
3. Tax preferences
4. Investment subsidy
5. Loan interest subsidies
6. Provision of necessary infrastructure
7. Granting subsoil use rights via direct negotiations

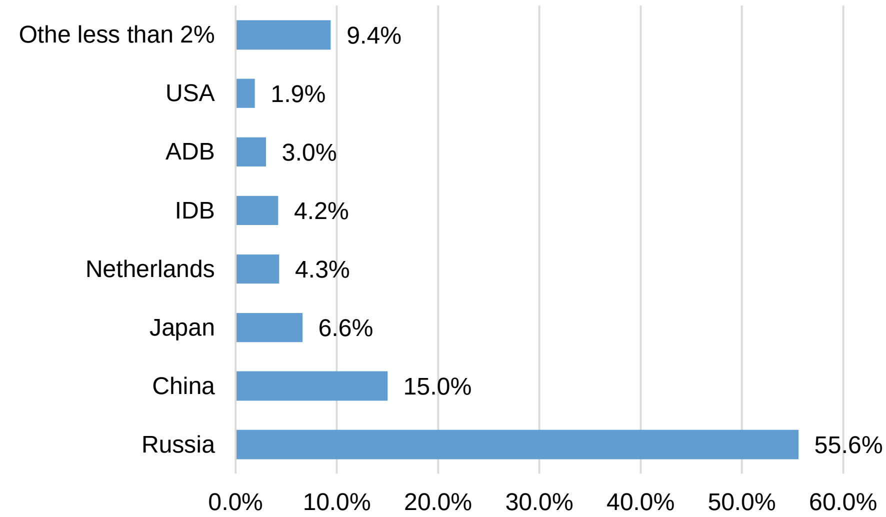
Source: World Bank, speech of Bakytzhan Sagintayev at the investment forum Kazakhstan Global Investment Roundtable 2018, open sources

Uzbekistan: foreign investment statistics

Dynamics of foreign investments in Uzbekistan



Foreign investments in Uzbekistan by investor, %



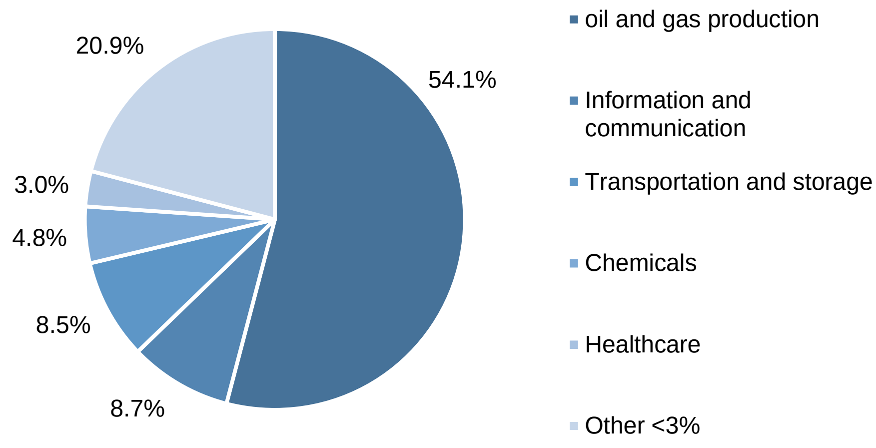
- In 2017, the volume of foreign investments and loans amounted to **USD3,348.2mln** – a decrease of 6.4% in USD terms, and 35% increase in soms.
- **Measures, implemented to form a favorable investment climate and improve investment attractiveness**, resulted in positive growth dynamics of utilized foreign direct investments and loans.

- **Russia** is a major foreign investor in Uzbekistan. Investment projects with investments from Russia include **oil and gas production (**9,016.3bln soms), **information and communications** (467.4bln soms), **production of non-metallic mineral products** (10.5bln soms), **metallurgical industry** (10.4bln soms) and many others.
- **China**'s investments include **rubber and plastic products** (458.8bln soms), **chemicals** (460.5bln soms), **natural gas production** (451.5bln soms), **communications** (544bln soms), and others.

Source: State Statistics Committee of Uzbekistan

Uzbekistan: foreign investment projects

Foreign investments in Uzbekistan by industry in 2017



In 2017, the following large-scale investment projects were financed by foreign investors and were **secured by the government**:

- ✓ electrification of the Karshi-Termez and Pap-Kokand Andijan railway sections,
- ✓ construction of a new TPP with a capacity of 900 MW,
- ✓ construction of a complex for polyvinyl chloride, caustic soda and methanol production,
- ✓ reconstruction of 58 km of the A-373 “Tashkent-Osh” highway,
- ✓ development of digital terrestrial television in Uzbekistan and other projects.

Moreover, the following major investment projects were financed **with direct investments and other types of foreign investments and loans**:

- ✓ construction of gas processing complex and production facilities at Kandym group of fields (phase 1),
- ✓ development fields and hydrocarbon production on the territories of Gissar investment block and Ustyurt region,
- ✓ textile complex in Karshi district (phase 2),
- ✓ cellular network expansion,
- ✓ creation of a network of a national mobile operator and others.

Source: State Statistics Committee of Uzbekistan

Uzbekistan provides extensive incentives to foreign investors

Government incentives for foreign investors

Benefits and preferences for enterprises with participation of foreign capital are covered in laws of Uzbekistan "On foreign investments", "On investment activity", "On guarantees and measures of protecting rights of foreign investors", "On free economic zones" and etc.

Reduction of taxable income: taxable income of legal entities is reduced by the amount of funds allocated for modernization, technical and technological re-equipment, repayment of loans received for these purposes as well as lease repayment etc.

Exemptions from payment of VAT: import of technological equipment and property imported as investment obligations.
Benefits for tax on property: taxable base is reduced by annual residual value for property tax calculating purposes.
Property tax exemption for newly established legal entities during 2 years since incorporation.

The following are exempt from customs duties: property and goods imported in Uzbekistan by enterprises with a share of foreign investments / by foreign investors etc.

Guarantees for newly created enterprises with foreign investments: regulation and taxation valid as of incorporation date will be applicable for 10 years of entity operation; for projects with investment value >USD50mln and foreign investment >50% construction of the necessary external engineering networks is carried out at expense of budget.

Doing business improvements made in 2018

- **Protecting minority investors.** Uzbekistan strengthened minority investor protections by clarifying the ownership and control structures of listed companies.
- **Paying taxes.** Uzbekistan made paying taxes less costly by introducing new classification criteria for enterprises. The new classification allows small enterprises to pay a single social contribution at a fixed rate, but not less than 65% of the minimum wage for each employee.
- **Trading across borders.** Uzbekistan made trading across borders faster by introducing an electronic application and payment system for several export certificates, reducing the time for export documentary compliance.

Source: World Bank, State Investment Committee of Uzbekistan

Turkmenistan has weaker investment climate across Central Asian countries

- **Turkmenistan has significant potential in energy, chemicals, and construction sectors**. The country is rich in natural gas, cotton, petroleum, sulfur, iodine, salt, bentonite clays, limestone, gypsum, and cement.

- China remains the largest market for Turkmenistan's hydrocarbon exports. In order to diversify gas exports, the country embarked on the construction of the Turkmenistan-Afghanistan-Pakistan-India pipeline (TAPI) and is considering the Trans-Caspian Pipeline.

- Turkmenistan has expressed a desire to attract more foreign investors and diversify investment inflows in sectors, such as construction, chemical industry, agriculture, healthcare, transport and communications, logistics, financial services, and insurance. **Foreign investments were at ~USD1,538.30 in 2017.**

- However, **certain fundamental factors constrain Turkmenistan's investment climate**:

1. The **limited access to foreign exchange** is likely to suppress consumer goods imports and constrain FDI inflows.
2. The **government controls all key economic sectors**, with SOEs producing and exporting oil, gas, electricity, raw cotton, petroleum products and other raw materials and semi-finished products, as well as most of the products in the manufacturing sectors.

CNPC
Operations at Bagtyyarlyk (natural gas fields)

CNPC Petrofac
Operations at Galkynysh Gas Field (natural gas fields)

LG International ITOCHU HYUNDAI ENGINEERING CO., LTD.
Plant for the production of synthetic liquid fuels by processing natural gas in the Ahal velayat. Plant for the production of polyethylene and polypropylene with the installation of cracking of ethane in Dashoguz velayat.

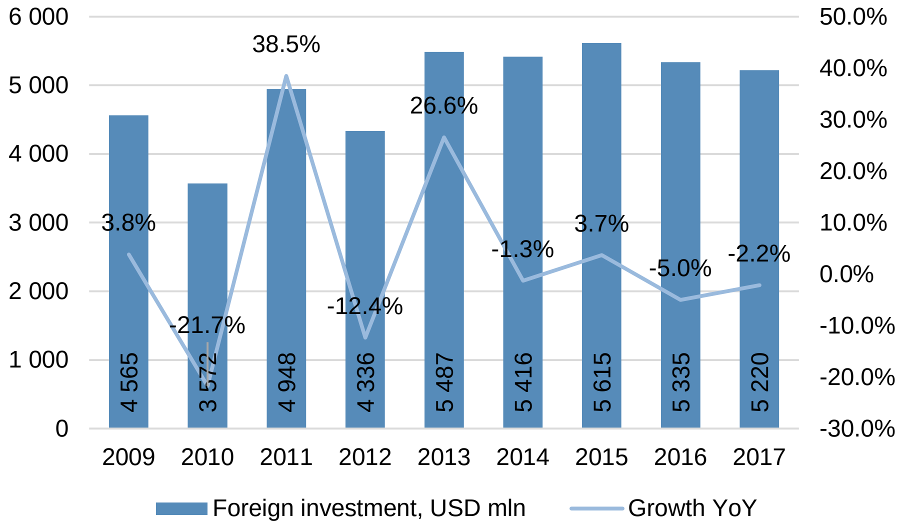
Kawasaki Powering your potential RÖNESANS HOLDING
Production of fuel from natural gas in Ahal velayat.

TOYO ENGINEERING LG International HYUNDAI ENGINEERING CO., LTD.
Construction of gas chemical complex

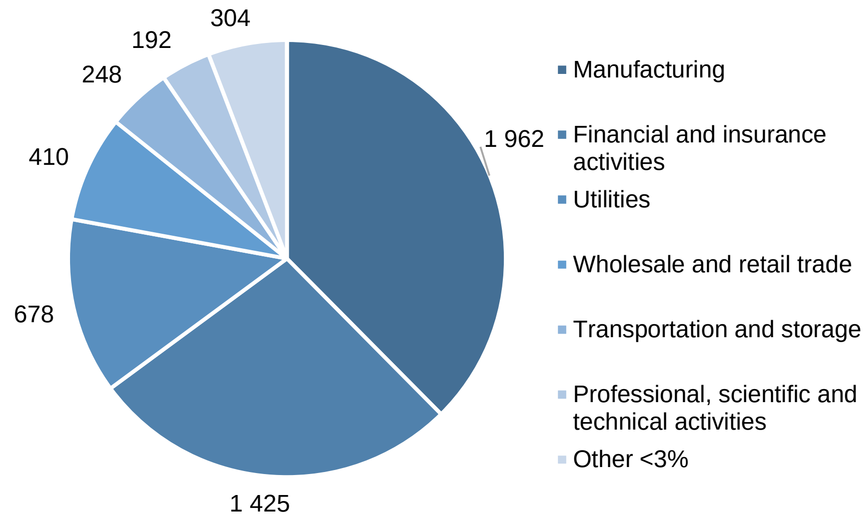
Source: World Bank

Kyrgyzstan: foreign investment statistics

Dynamics of foreign investments in Kyrgyzstan



Foreign investments in Kyrgyzstan by industry in 2017



- In 2017, FDI inflows in Kyrgyzstan amounted to USD5,220mln, down by 2.2% YoY.
- According to the country's Statistical Committee, there was a decrease in the volume of all types of foreign investments, except for trade credits.
- In 1H18, FDI from non-CIS countries declined 1.7 times. China accounted for 39.1% of total FDI inflows (the Netherlands: 9.3%, Turkey: 7.8%, Switzerland: 6%, Great Britain: 5.7%).
- FDI from CIS countries rose 1.9 times due to the growth of investments from Russia (by 3.3 times), and from Kazakhstan (+12.7%). At the same time, investments from Uzbekistan decreased by 4.6%.
- Investments in mining, manufacturing, geological exploration, financial intermediation, and insurance, as well as information and communication accounted for 84% of total FDI.

Source: State Statistics Committee of Kyrgyzstan

Kyrgyzstan provides extensive incentives to foreign investors

Government incentives for foreign investors

Liberal **investment legislation** of the country, providing foreign investors with the national regulation and taxation regime, which is applicable to legal entities and individuals in Kyrgyzstan.

The country has concluded a **number of bilateral international agreements on mutual support**, promotion and protection of investments, including with China, Turkey, France, Great Britain, France, Germany, India, Kazakhstan, and Denmark.

Dividends of a foreign organization that is not permanently incorporated in Kyrgyzstan, received as part of profit are subject to income tax at a rate of 0%, are taxable at the source of payment at a rate of **0%**.

The possibility of making investments in any form in any objects and activities, which are not prohibited by the legislation of Kyrgyzstan, **including in licensed activities**.

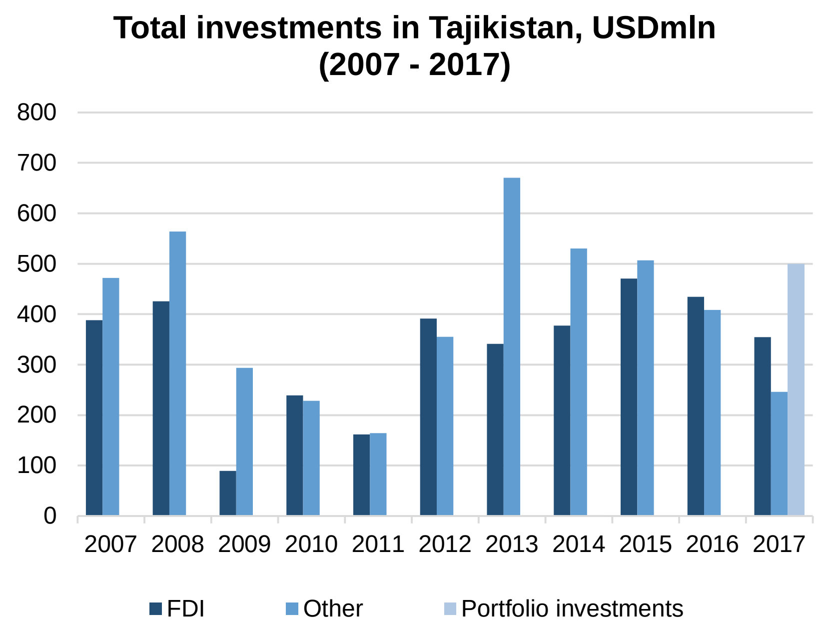
Rights and guarantees: including guarantees of export or repatriation of investments, property and information from Kyrgyzstan; guarantees of protection against the expropriation of investments and compensation for losses to investors; guarantees of freedom of cash transactions, etc.

Doing business improvements made in 2018

- **Protecting minority investors.** Kyrgyzstan strengthened minority investor protections by increasing shareholders' rights and role in major corporate decisions, strengthening the independence of boards of directors.
- **Trading across borders.** Kyrgyzstan made trading across borders easier by streamlining exports within the Eurasian Economic Union.
- **Enforcing contracts.** Kyrgyzstan made enforcing contracts easier by introducing a pretrial conference as part of the case management techniques in court and adopting a consolidated law on voluntary mediation.
- **Resolving insolvency.** Kyrgyzstan made resolving insolvency easier by facilitating the continuation of the debtor's business during insolvency proceedings and granting creditors greater access to information on the debtor's financial situation during the proceedings.
- **Strengthened creditors' rights.** Kyrgyzstan granted an individual creditor the right to access information about the debtor's business and financial affairs.

Source: World bank, Investment promotion and protection agency of Kyrgyz Republic

Tajikistan: foreign investment statistics



Total foreign investments in Tajikistan by investors

№	Countries	Amount, USDmln	Share, %
1	**China**	303	28%
2	**US**	209	19%
3	**Austria**	179	16%
4	**UK**	136	12%
5	**Russia**	81	7%
6	**Luxembourg**	34	3%
7	**Philippines**	32	3%
8	**Netherlands**	26	2%
9	**Saudi Arabia**	21	2%
10	**Belgium**	14	1%
-	**Other**	65	6%
-	**Total**	1100	100%

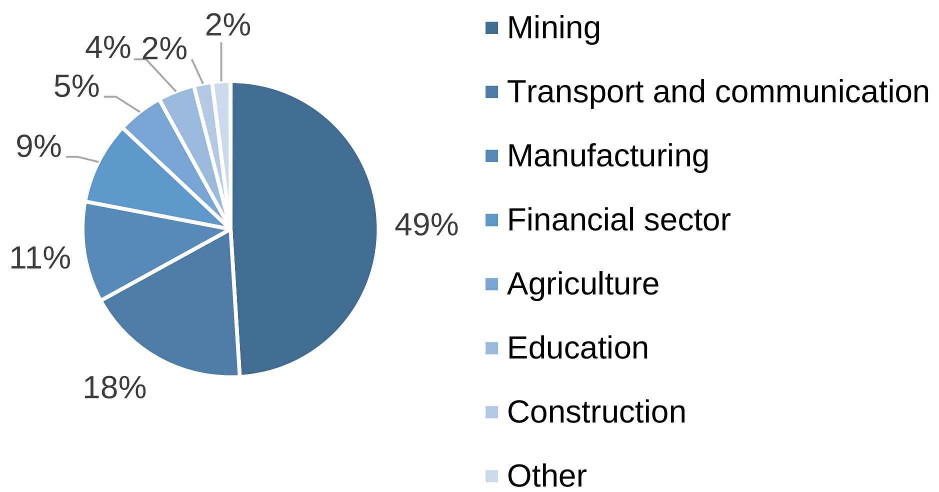
- 67 state investment projects worth USD2.8bln and 10 investment projects involving foreign direct investments worth more than USD1.8bln are being implemented in Tajikistan. In 2007-2017, FDI to Tajikistan amounted to USD3.7bln.

- China has invested mainly in financial services, industry, transport, communications, geological exploration and production, construction, agriculture, and etc.
- The US has invested in education, financial services, etc.
- The UK invested mainly in financial services, industry, geological exploration, and mining.

Source: State Committee on investment of Tajikistan

Tajikistan: foreign investment projects

Inward FDI by sectors, % (2017)



- In 2007 - 2017, foreign direct investments translated to energy (16%), communications (11%), construction (10%), financial services (11%), mining, (26%), industry (12%).

- (1) Coca-Cola Drinks of Tajikistan LLC, (2) Tajik-Sino Mining Company, (3) Huaxin Gayur Cement, (4) Tajik-Chinese joint venture Chzhungtsai Mohir Cement, and (5) enterprise for non-ferrous metals processing - Pokrud LLC are key companies with foreign ownership in Tajikistan.

Business climate remains restrictive considering the following factors: (1) construction of the Rogun HPP entails serious economic and social risks; (2) external debt at 67% of GDP in 2016 (WB) and low FX reserves; (3) high NPL in banks; (4) vibrant private sector, (5) borders with Afghanistan. Private sector activity is hampered by an unpredictable regulatory environment, an unequal playing field, high cost of tax compliance, limited access to longer-term loans, erratic electricity supply, high transport cost, foreign exchange shortages.

Source: State Committee on investment of Tajikistan

Tajikistan works on improvement in business climate

Government incentives for foreign investors

Tajikistan and Uzbekistan signed an agreement on the organization of simplified customs procedures for goods traded between the two economies. This agreement introduced the Simplified Customs Corridor, which streamlined customs clearance between Tajikistan and Uzbekistan on several types of goods.

The Single Center for providing services to entrepreneurs and investors is to be established in Tajikistan. The Center simplifies business activities and can contribute the attracting domestic and foreign investment and activating the external economy (Nov 18).

The Government has endorsed the Tajikistan Food Security Program designed for 2019-2023. In all, 72.5 mln somoni (~USD8mln), including budgetary funds, investments (grants) attracted from domestic and foreign organizations as well as other sources, are expected to be allocated for implementation of this program (Nov 18).

From 1 January 2013, the new version of the Tax Code entered into force, according to which the list of taxes was reduced from 21 types to 10. In January 2017, the number of taxes was reduced to 9 types.

Doing business improvements made in 2018 and 2017

Trading across Borders: Tajikistan made trading across borders easier by streamlining customs clearance with Uzbekistan through the Simplified Customs Corridor agreement.

Starting a Business: Tajikistan made starting a business easier by raising the revenue threshold for mandatory value added tax registration.

Registering Property: Tajikistan made registering property easier by eliminating a procedure and reducing time as the registration of the sale purchase agreement at the city government is no longer practiced. At the same time, fee increases raise the cost of transferring property.

“However, there were no improvements in other indicators, implying that Tajikistan would need to reform more and faster not only to improve its overall ranking in the Doing Business report but also—and most critically—to provide the private sector with an environment that creates a perspective, instils confidence, and encourages a faster pace of investments, innovation, and employment creation” - World Bank’s Doing Business ranking 2019.

Source: World Bank

Tajikistan faces fundamental challenges in attracting FDI

- Tajikistan's National Development Strategy 2030 (which requires USD118bln for full implementation) identifies a construction of the 3,600 MW Rogun Hydropower Plant as the de facto centerpiece of the Strategy. **Given continued borrowing for the Rogun HPP, this could risk debt sustainability and threaten the country's economic and social stability unless managed very well**.

- **The regulatory environment is unpredictable and nontransparent**, as reforms have often just remained "on the books" without generating marked gains in the business environment.

- Although Tajikistan's trade regime is open in theory, **importing goods into Tajikistan is still complicated** due to the high degree of physical inspections, corruption and patronage networks, which make access to foreign inputs and modern technology more difficult.

- **Competition policy is often ignored**, hurting private sector development and the economy's competitiveness. Real market competition is present only in some segments of the economy, with vested interests still restricting competition. Legislative and procedural rules regulating market competition are often neglected, shielding SOEs and politically connected firms from robust market competition.

- The private sector (domestic and international) has increasingly indicated uneasiness with **ongoing distortive tax collection practices** and the ad hoc interpretation of the tax code to achieve revenue targets.

- Numerous indicators confirm that access to finance is one of the top obstacles in doing business in Tajikistan. **Getting loans is difficult** due to several reasons: (i) distortion in resource allocation due to directed lending, including to loss-making SOEs; (ii) low financial inclusion; (iii) limited long-term funding sources; (iv) absence of benchmark yield curve for government bonds; (v) poor enforceability of loan repayment due to the weak judiciary system.

Source: World Bank

Investment Promotion Agencies in Central Asian countries

Investment Promotion Agencies

Kazakhstan has developed National investment strategy. **Kazakh Invest** (within the Ministry of Foreign Affairs) represents IPA in Kazakhstan.

State Investment Committee was established aimed at developing and implementing investment promotion policies. In Uzbekistan, IPA is called **Uzinfoinvest**. The **Chamber of Commerce and Industry** participates in investment attractions.

In Kyrgyzstan, work is underway to develop a sectoral strategy for attracting investments. In 2014, the **State Agency for the Promotion of Investment and Export** was established under the Ministry of Economy of Kyrgyzstan. There is an investor support department, however, post-investment services are not fully provided.

The IPA of Tajikistan is **Tajinvest**. The **Chamber of Commerce** and other organizations are engaged in attracting investments in Tajikistan. The Ministry of Labor, Migration, and Employment is working to increase the volume of remittances.

"Investors value IPAs' help in handling issues and resolving issues with governments, information, and assistance in setting up, and business advocacy efforts to improve the business environment. However, services investors typically receive from IPAs are more focused on the start-up phase" – WB.

Source: OECD

Summary

- All CA countries intend to increase FDI inflows to strategic economic sectors. Currently, there is a significant concentration of investments in extractive industries.
- That said, FDI inflows to Kazakhstan have been concentrated in extractive sectors and related services (50–75% of total FDI), making **Kazakhstan largely susceptible to fluctuations in commodity prices.**
- In Kazakhstan, there is also an “unusually” low reinvested income as a share of total FDI inflows, which can potentially be associated with a high level of repatriation of profits and certain obstacles in retaining foreign investors, which prevent them from continuing their activities and expanding their presence in the country.
- Regarding other CA countries, foreign investment in the oil and gas sector (especially gas production) in Uzbekistan accounted for 54% of total FDI inflows in the country in 2017. Investments in Turkmenistan and Tajikistan are also concentrated in the mining sectors.
- Despite CA improved positions in Doing Business ranking (WB) as a result of more focused measures implemented by the governments, business environment remains constraining. This implies a need to accelerate the development and implementation of reforms in order to provide the private sector with an investment-friendly environment which would subsequently bolster innovation and job creation.

FDI inflows sourced from privatization and PPP with foreign investors represent a high potential for diversification of Kazakhstan's economy

Globally, the share of FDI in Central Asia's GDP is significantly lower compared to other developing regions. **Agriculture and labor-intensive industries receive limited foreign investments, while Central Asia's participation in global value chains is limited by the supply of natural resources and labor.**

According to the analysis, **Kazakhstan** is rated as the country with **the most attractive investment climate** in comparison with other countries of Central Asia. However, according to the FDI Restriction Regulatory Index (OECD), Kazakhstan is still more constraining than most OECD countries.

- ✓ Similar to other Central Asian countries, Kazakhstan has problems related to **the problems of the rule of law**, and **corruption** remains the main restriction for starting a business in the country. The government needs to (1) demonstrate significant improvements in the rule of law by ensuring **transparent, consistent and predictable rules and regulation**, (2) reduce the risk of failing investment projects by **providing a regulatory environment free from non-market risks.**

- ✓ **Public enterprises have privileged access** to resources, markets, licenses, and finance, which puts private companies at a disadvantage and undermines efforts to promote economic diversification, FDI and productivity**. As identified in Samruk-Kazyna's Development strategy 2018-2028, the Fund's active participation in Privatization Program** will reduce the share of public sector in Kazakhstan's economy, stimulating the development of the country's stock markets, strengthening corporate governance and developing private equity.

- ✓ Kazakhstan has a **significant dependence on resource-oriented FDI** (which relates to the extractive industries), which implies a significant risk due to insufficient diversification of the economy. **In order to successfully implement the Fund's Development Strategy 2018-2028, it is necessary to attract strategic partners** that will contribute to diversification and productivity.

The strategic involvement of knowledge-based, export-oriented FDI is important for Kazakhstan. Kazakhstan needs to seek investments that are (1) export-oriented, (2) labor-intensive, (3) efficiency-focused, and (4) supportive for diversification and transformation of the economy. This will subsequently open up access to new technologies, expertise, and competencies, as well as ensure access to new markets.

Source: World Bank, The Organization for Economic Cooperation and Development, Asian Development Bank.

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