U.S.-Kazakhstan Public-Private Economic Partnership Initiative

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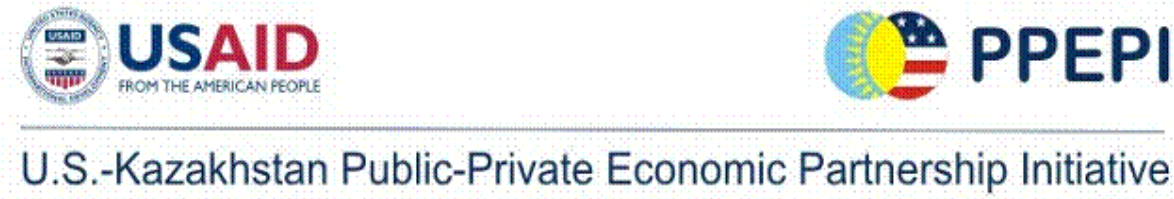
Cooperative Agreement Number: 115-A-00-09-00014-00

Final Report

March 1, 2009 – February 28, 2010



U.S.-Kazakhstan Public-Private Economic Partnership Initiative
PPEPI
Final Report
May 2010

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PPEPI HIGHLIGHTS: QUARTERLY TASKS/ACTIVITIES EXECUTIVE SUMMARY

The PPEPI Program was developed as a policy reform initiative in order to promote on-going dialogue between senior-level government officials and leaders in the business community. Through its five Working Groups, Roundtables, and Executive Exchange Program PPEPI has fostered discussion and provided recommendations on many of the key challenges that Kazakhstan faces as it strengthens and diversifies its economy.

The Working Groups, which were formulated around the five PPEPI Pillars of Anti-Corruption/Rule of Law, Transparency/Economic Efficiency, Economic Diversification/ SME Development, Regional Economic Integration/Trade and Customs, and Cooperation in Science and Technology, met monthly during the program's first year in order to develop recommendations for the government of Kazakhstan. The diversity of the groups, consisting of members of the public and private sectors and both multinational and local businesses, fostered a dynamic atmosphere that brought together an array of opinions on the problems facing the private sector. The process has stimulated keen government interest in the program and resulted in a high-level of receptivity to the White Paper recommendations.

The final product of the Working Groups was 2 series of White Papers that contained the Groups' proposals to the Government. The first five papers—one for each Working Group—were presented to the Deputy Prime Minister's office in July 2009 and were well received. The second set was presented in March 2010 and the Government met in May to review the papers, and discuss their implementation. The government has requested that in the next phases PPEPI assist with legislative changes and specific projects that move forward the recommendations in the White Papers.

Additionally, PPEPI hosted four public Roundtables in Almaty, Astana, and New York that fostered dialogue and debate on the five PPEPI pillars. Each event consisted of two half-day sessions that were well attended by members of the business community, the US and Kazakhstan Governments, and PPEPI's partners. They also attracted significant media attention from leading television channels, business newspapers, and electronic media.

The PPEPI Executive Exchange Program awarded seven local executives with travel grants to complete programs of study with overseas partners. Participants traveled to countries including the U.S., the Netherlands, and Thailand to pursue projects on agriculture, animal husbandry, and transportation logistics. The program allowed the executives to study best practices in their field, form international partnerships, and further develop their business through signing Memorandums of Understanding, and arranging for the export of equipment to Kazakhstan.

The Secretariat has actively promoted PPEPI throughout the pilot year through a broad-based media campaign that utilized AmCham's own publications and local media. PPEPI was a regular feature in both the ***AmCham Newsletter*** and ***Investor's Voice***, which in addition to regular articles, dedicated its November 2009 and February 2010 issues to the program. The magazine, along with the PPEPI brochure, was made available at each of the Roundtables in order to draw greater attention to the program.

SIGNIFICANT MEETINGS AND ACTIVITIES

PPEPI Working Groups

PPEPI's five Working Groups met monthly throughout the pilot year in order to discuss and draft the White Papers to the Government of Kazakhstan. In all, each Working Group met a minimum of ten times and conducted numerous exchanges outside of official meetings through email correspondence and smaller break-out groups that focused on specific aspects of their White Papers. The Chairs of each Working Group also met periodically to discuss overall progress and to coordinate between groups. Working Groups for the first set of White Papers were established based on recommendations from the six PPEPI Partners that came out of the first Coordinating Committee meeting. These groups were formatted to contain one member from each of the six partners.

The Working Groups, which constitute the heart of PPEPI, were renewed in August 2009 after the first set of White Papers was presented with the aim of incorporating broader private sector participation. At this time, the size of the groups was increased in order to provide greater diversity of ideas and to ensure stability of the Groups, given the heavy travel schedules of members. The expansion also enabled AmCham to recruit additional members from local businesses to ensure that Kazakhstani interests were well represented.

Leading members of the Kazakhstani business and public policy community such as Nurlan Kapparov, Chairman of Lancaster Holding Company; Gafur Iksan, Chairman of Tranco; Eldar Abrdrazakov, Chairman of Centras Securities; and Meruert Makhmutova, Executive Director of the Public Policy Research Center joined the group. At this time, several of the groups adopted new Chairmen to replace Chairs who stepped down due to increased work obligations.

Government participation in the Working Groups was uneven throughout the year, but as a result of strong support by Deputy Prime Minister Yerbol Orynbayev and the comprehensive ministerial review of the first set of White Papers, Ministry-level participation in the program increased dramatically after September 2009. The Government of Kazakhstan made substantial contributions to each of the White Papers.

Officials such as Zhanar Aitjanova, Deputy Minister of the Ministry of Industry and Trade and Chief Negotiator for Kazakhstan's WTO Accession; Serzhan Duisebayev, Deputy Chairman of the Customs Committee; and Marat Beketayev, Deputy Minister for the Ministry of Justice were significantly involved in the development of the White Papers. As a result of the PPEPI program, AmCham has considerably strengthened its relationship with the Government of Kazakhstan and is working with the Deputy Prime Minister's office to assist with policy reform outside the scope of the PPEPI Working Groups.

A list of PPEPI Working Groups and their Chairmen follows. A full list of Working Group members has been attached to this report.

- **Anti-Corruption/Rule of Law**
  Chair (White Paper 1)**: Kenneth Mack,** Chadbourne and Parke
  Chair (White Paper 2): **Walter Daniel,** White & Case

- **Transparency/ Economic Efficiency**
  Chair (White Paper 1): **Steven Wermert,** Asian Development Bank
  Chair (White Paper 2)**: Nurlan Kapparov**, Lancaster Group

- **Regional Economic Integration/Trade & Customs**
  Chair: Michael Jopson, Nestle

- **Economic Diversification/SME Development**
  Chair (White Paper 1): **Ulf Hindstrom,** European Bank for Reconstruction and Development (EBRD)
  Chair (White Paper 2)**: Tomas Bravenec,** EBRD

- **Cooperation in Science and Technology**
  Chair: Kanat Shakenov, Civilian Research and Development Fund (CRDF)

White Papers (10)

Each of the five Working Groups produced 2 sets of White Papers, equaling ten papers in total. The White Papers were edited by Robert May, Managing Partner of the R. May Group based on detailed minutes of discussions during Working Group meetings, contributions from members, and extensive consultations with both Group Chairs and Group members. Drafts of the papers then underwent revision as Groups refined and narrowed their topics, expanded on ideas, and conducted additional research.

The first set of policy papers – the Summer 2009 White Papers - was presented to the Deputy Prime Minister's Office in draft form in July 2009 where they generated considerable interest. The relevant government departments reviewed these drafts during meetings with the Working Group Chairmen in August and suggested additions or changes to better reflect on-going government initiatives. These comments were incorporated into the Appendices of the July White Papers, and a formal government review process was added to the schedule for the second round of White Papers. The government review of the White Papers drew significant attention to PPEPI, resulting in increased government participation during the second round.

The Winter White Papers were presented to the Deputy Prime Minister in March 2010. An official government consultation was conducted in mid-May, during which Ministries and Departments relevant to the topics covered by the White Papers gathered under the guidance of Deputy Prime Minister Orynbayev to discuss the ideas presented and the next stages for implementation. The government was pleased with the Papers and their recommendations, and has proposed that PPEPI take a role in implementing recommendations in 2010 and beyond. Moving forward, each group has selected a specific project that they will tackle, including legislative changes, seminars and trainings, and organizational strategy issues that were raised during PPEPI.

Topics of the Summer 2009 and Winter 2010 White Papers are as follows:

Anti-Corruption/Rule of Law

- **White Paper 1 Theme:** ***Improving the Effectiveness of Anti-Corruption Efforts***

The July 2009 AC/RL White Paper advanced proposals for improving the effectiveness of the GOK's anti-corruption efforts by recommending aligning existing legislation with international best practices, better engaging civil society, and forming an independent body to assess corruption as it exists in Kazakhstan. The goal is to address the country's key challenges relating to corruption: lack of an agreed-upon definition, disparities between Kazakh law and international standards, lack of an independent judiciary, and media silence on the issue. Additionally, the White Paper cites the need to establish an effective monitoring system that allows for independent auditing of government operations.

- **White Paper 2 Theme:** ***Strengthening Kazakhstan's Rule of Law Efforts***

In December 2009 the Anti-Corruption/Rule of Law Working Group acquired a new Chairman, Waltr Daniel, a Partner at White and Case. Under his leadership, the March 2010 White Paper focused on Rule of Law as a way of reducing corruption. In this regard, the paper looks at (1) simplifying laws and regulations to eliminate opportunities for corruption and (2) empowering civil society in the anti-corruption campaign. The group analyzed common problems in tax legislation that increase the burden of compliance for businesses and create opportunities for power abuse by bureaucrats. Additionally, the group put forward proposals on de-criminalization of offenses, enforcement of court judgments, and Anti-Money Laundering/Counter-Terrorism Financing (AML/CFT) law. The paper's second focus is directed at increasing citizens' awareness of legal rights and use of the court system in order to develop trust in legal mechanisms.

Transparency/ Economic Efficiency

- **White Paper 1 Theme:** ***Promoting Transparency in Government Procurement***

The July 2009 White Paper of PPEPI's Transparency Working Group sets out recommendations to promote transparency, competitiveness, accountability, and efficiency in government procurement. The paper recommends that the GoK focus its efforts on encouraging broader participation in the procurement process and taking action to simplify the process and reduce corruption. The group proposed a gap analysis be conducted to evaluate Kazakhstan's current and ideal status in regards to procurement and that international best practices be adopted to achieve these goals. Furthermore, the group raises the need for a centralized Government Procurement Office and an independent body to serve as ombudsman in issues relating to procurement. Additionally, it is recommended that the GoK clarify procedures for tenders, establish a complaint mechanism, and institute skills trainings for procurement specialists and practitioners.

- **White Paper 2 Theme:** ***Improving Transparency through Better Regulation of Corporate Lending***

In September 2009, the Transparency/Economic Efficiency Working Group acquired a new chairperson, Nurlan Kapparov, Chairman of the Lancaster Group, who changed the group's topic from government procurement to banking regulation, a topic more inline with his own expertise. The group advocated for promoting greater transparency

in Kazakhstan's economy through improved regulatory oversight of existing corporate lending practices. The March 2010 White Paper takes a multi-phase approach to improving the regulatory environment that includes (1) a comprehensive, short-term assessment of a bank's current assets and loan portfolio, (2) medium-term adjustments to regulation regarding capitalization and lending criteria and processes, and (3) longer-term regulatory and mentality changes that shift the focus of lending institutions from prescriptive compliance toward an effective risk assessment and management model.

Regional Economic Integration/Trade & Customs

- **White Paper 1 Theme: *Improving Trade and Customs Practices***

The July 2009 REI/TC White Paper advocates the GoK take tangible steps to remove administrative and tariff barriers which have made Kazakhstan one of the most expensive countries with which to trade. The White Paper cites the need for the diversification of trade partners and the implementation of trade practices that facilitate the flow of goods. It recommends the GoK establish a task force of a diverse group of shareholders that would be charged with assessing existing documentation and the regulatory regime as well as providing recommendations to adopt international best practices. Other proposals include removing discrepancies from overlapping trade agreements, reevaluating tariffs and duties on imported goods, and improving logistics coordination throughout Kazakhstan.

- **White Paper 2 Theme: *Improving Customs Procedures***

The March 2010 White Paper of the Regional Economic Integration/Trade & Customs Working Group sets out recommendations for improving existing customs oversight, procedures and practices in Kazakhstan, focusing on how the country can reduce delays and costs as well as cut inefficiencies for importers. The paper centers around three primary recommendations that aim to create more simplified and efficient customs rules and procedures as well as improving coordination among the various actors. Recommendations include (1) a one-window system that would simplify procedures and documentation, (2) a more transparent mechanism for conditional pricing, and (3) recommended improvements on customs classification of personal effects and cargo held in storage under protest. The paper does not deal with the Customs Union between Russia, Belarus, and Kazakhstan because of the lack of detailed public information available during the development of the White Paper.

Economic Diversification/SME Development

- **White Paper 1 Theme: *Promoting the Development of the SME Sector***

In its first White Paper, the ED/SME Working Group proposed that the GoK intensify its efforts to develop non-natural resource extraction sectors in order to create a competitive, diversified, resilient economy. The goals of the proposals are to increase government support of SMEs, remove administrative red tape inhibiting SME development, improve communication between the government and SMEs, and create opportunities for SMEs to provide services to state enterprises. Included among the specific recommendations are developing clear and unified objectives and measurement criteria for the seven priority diversification clusters, engaging the private sector in the form of Public Private Partnerships, enhancing current credit programs, and developing Kazakhstan's workforce.

- **White Paper 2 Theme: *Competitiveness: Key Drivers and Impediments***

In October 2009 the ED/SME Group acquired a new Chairman, EBRD Senior Banker Tomas Bravenec, when Ulf Hindstrom, also of EBRD, was assigned to a new post outside Kazakhstan. The second Economic Diversification/SME Development White

Paper examines more closely the challenges that inhibit SME development. The paper puts forward proposals on improving the competitiveness of Kazakhstan enterprises, particularly Small and Medium-sized Businesses (SMEs) and advocates that the GoK address key challenges that companies face in becoming competitive, specifically costs of doing business and qualitative factors such as professional and vocational education. A key recommendation proposes creating a single Agency for Enterprise Development that will support the development of SMEs and assist entrepreneurs in starting and operating their businesses. Additional recommendations center on simplifying the tax regime, restating the definition of an SME to reflect the reality in Kazakhstan, and addressing the shortage of qualified personnel in Kazakhstan through the establishment of a National Qualifications Framework.

Cooperation in Science and Technology

- **White Paper 1 Theme: *Promoting the Development of Science and Technology in Kazakhstan***

The July 2009 CST White Paper prioritizes the development of infrastructure and human capacity in science and ICT. The specific challenges the sector faces include the lack of methodologies to move products from lab to market, minimal promotion of Kazak research institutes, and business' preference in importing technologies from abroad. The proposal calls for these challenges to be addressed through six principal recommendations: (i) Enhancement of global cooperation and the establishment of international standards; (ii) Improvement of the use of GoK funding and support; (iii) Improvement of the categorization, ranking, and promotion of domestic research institutes; (iv) Engagement of the non-profit sector in funding programs; (v) Development and improvement of human capacity; and (vi) Prioritization of development of ICT sector.

- **White Paper 2 Theme: *Promoting Innovation in Science and Technology***

In its March 2010 White Paper, the Cooperation in Science and Technology Working Group recommends that the Government of Kazakhstan align its policy and practical programs in order to drive research and development. This White Paper focuses around three recommendations that aim to align a wide range of policy and programs related to innovation. The paper advocates that the GoK redefine the current structure of policy coordination and remove duplication between the various agencies by creating a coordinating body that oversees implementation of all innovation activities conducted by government agencies. Additionally, the paper promotes realigning policy to meet a long-term goal of shifting industry-related innovation into the private sector.

Coordinating Committee

PPEPI held two Coordinating Committee meetings in Astana – April 1 and July 17, 2009 - during which the Committee set the overall policy and strategic goals for PPEPI. During this time, group membership along with PPEPI's annual workplan was established to guide the White Paper process. The meetings were attended by the most senior representative of each of PPEPI's six partners:

- **Deputy Prime Minister Yerbol Orynbayev**
- **U.S. Ambassador Richard Hoagland**
- **AmCham President Kenneth Mack**
- **U.S.-Kazakhstan Business Association Executive Director William Veale (represented by Konstantin Nazarov, GE Kazakhstan)**
- **Atameken Union Chairman Azat Peruashev**

- **Forum of Entrepreneurs Chairman Raimbek Batalov**

During the second Coordinating Committee meeting, the interim White Papers were presented to Deputy Prime Minister Orynbayev. The White Papers were then opened to revision in August so that the Government of Kazakhstan could offer feedback. Additionally, the first meeting laid out PPEPI's timeline for the remainder of the year.

PPEPI Roundtables (4)

During its Pilot Year, PPEPI sponsored four Roundtables that brought together experts from the business and policy communities in Kazakhstan in order to raise awareness and promote discussion of the issues central to PPEPI's main objective: improving the business environment in Kazakhstan for foreign and local investors alike. Through their focus on the five PPEPI pillars, the Roundtables successfully stimulated thinking on these critical subjects and contributed to on-going dialogue regarding key development challenges that Kazakhstan faces. Roundtables were held in Astana, Almaty, and New York and were well attended by AmCham member companies, the U.S. and Kazakhstan governments, foreign embassies, NGOs, PPEPI partners, and the media.

Although the Roundtable in Almaty received the best attendance due to its proximity to the business community, the Astana Roundtables benefited from participation by officials in the Government of Kazakhstan, including Deputy Prime Minister Yerbol Orynbayev and Supreme Court Justice Aueznur Kazhenov, as well as Deputy Minister Aidar Zhakupov from the Ministry of Education and Science, Dr. Almaz Sharman, CEO of the National Medical Holding, and Aslan Sarinzhipov, President of New Astana University. Through AmCham's connections with local media outlets, both print and television reported on each event, with panelist interviews rounding out the coverage. Stories appeared in publications such as the *Silk Road Intelligencer, Khabar, Astana, Kazinform, Novoe Pokolenie, Respublika, Panorama,* and *Megapolis*.

AmCham-sponsored PPEPI Sundowners were held after each of the Astana Roundtables for all speakers and guests. These Sundowners provided an excellent opportunity for guests to exchange views and continue discussions in informal surroundings.

Astana July 2009 Roundtable

The first PPEPI Roundtable, held in Astana on July 16 2009, devoted the morning session to Anti-Corruption/Rule of Law and the afternoon session to Transparency/Economic Efficiency. Panels were chaired by AmCham President Kenneth Mack, Managing Partner of Chadbourne and Parke, and Steven Wermert, Kazakhstan Country Director for the Asian Development Bank. Notable speakers included Supreme Court Justice Aueznur Kazhemov, World-Check Consultant Michail Borisiewicz, and Senior Banker for the European Bank of Reconstruction and Development (EBRD), Tomas Bravenec.

The day-long Roundtable delivered a series of thought-provoking presentations on topics such as judicial ethics, business disputes in the court system, money laundering in Kazakhstan, and transparency in the social sector and the state tender process. The first set of White Papers was presented to the Government of Kazakhstan at the PPEPI Coordinating Committee meeting the following day.

Almaty November 2009 Roundtable
Following the format established by the July Roundtable, PPEPI's November 2009 Roundtable consisted of two half-day sessions: a morning session dedicated to Economic Diversification/SME Development and an afternoon session devoted to Regional Economic Integration/Trade and Customs. More than 120 participants from diverse fields registered to listen to discussions on the challenges of SME development in Kazakhstan and the roles that natural resources, health, and infrastructure play in economic diversification.

Speakers during the afternoon panel examined topics on the themes of transportation logistics and cross-border trade. The panels were chaired by Nurlan Kapparov, Chairman of the Lancaster Holding Company, and Tomas Bravenec, Senior Banker for the European Bank for Reconstruction and Development (EBRD). Notable speakers included Meruert Makhmutova, Executive Director of the Public Policy Research Center, Raimbek Batalov, Chairman of the Raimbek Group, and Siddique Khan, President and CEO of Globalink Logistics.

New York November Roundtable
At the suggestion of Deputy Prime Minister Yerbol Orynbayev, AmCham organized a special PPEPI Roundtable on Economic Diversification at the Harvard Club in New York City on November 24, 2009. The event was held in conjunction with the annual Kazakhstan-US Investment Forum, a promotional trade event that brought together over 200 CEOs, investment bankers, policy analysts, and diplomats.

The PPEPI Roundtable took the form of a four-person panel composed of prominent speakers with a thorough knowledge of both Kazakhstan and its business climate, including Dr. Dennis DeTray, former Central Asia Regional Director for the World Bank, now consultant to the Government of Kazakhstan on the government's economic development strategy, and Ralph DeHaas, Senior Economist for Kazakhstan at the EBRD in London. The panel was moderated by AmCham President Kenneth Mack. Welcomes were provided by U.S. Ambassador to Kazakhstan Richard Hoagland, Kazakhstan Ambassador to the U.S. Yerlan Idrissov, and by Kazakhstan's Deputy Minister of Foreign Affairs, Kairat Umarov.

February Astana Roundtable
The final PPEPI Roundtable was held in February 2010 in Astana and was devoted to the remaining PPEPI pillar—Cooperation in Science and Technology. Panelists from diverse backgrounds explored the role in which stimulating investment in science and technology can play in economic development. As with the other Roundtables, this event was divided into a morning Scientific Collaboration session chaired by Kanat Shakenov, Country Director for the Civilian Research and Development Foundation (CRDF) and an afternoon Technological Collaboration session chaired by Guenter Dahm, Country Director for Microsoft.

The Deputy Prime Minister's office took a particular interest in this Roundtable, arranging for keynote speeches from Deputy Minister Aidar Zhakupov from the Ministry of Education and Science and Aslan Sarinzhipov, the President of New Astana University. Panelists included Dr. Almaz Sharman, CEO of the Kazakhstan National Medical Holding, Richard Bregonje, Tax Services Director at PricewaterhouseCoopers, and Askar Nauryzbaev, Director of the Astana branch of GSM Kazakhstan/Kcell among

others who spoke on diverse topics related to innovation and technological development in Kazakhstan.

Executive Exchange Program

The PPEPI Executive Exchange Program was designed to send Kazakhstani executives abroad in partnership placements in order to promote business development and expose participants to best practices in their fields. Seven executives received travel grants under the program and six completed programs of study in countries such as the U.S., the Netherlands, and Thailand. The remaining Executive Exchange Winner was unable to complete his intended agenda due to unforeseen health problems. Each participant designed a customized program based around his areas of expertise that integrated one or more of PPEPI's five pillars. Projects primarily targeted animal husbandry, business development, agriculture, and trade and customs.

Although PPEPI initially intended to sponsor ten Executive Exchange winners, the program suffered due to the lack of promotional support by Atameken and the Forum of Entrepreneurs whose members were expected to comprise the majority of participants. Furthermore, the program overlapped with several other similar programs sponsored by the U.S. Embassy or NGOs who, in addition to funding, provided programmatic and technical support, which the PPEPI Executive Exchange Program was not intended to do.

Nevertheless, AmCham increased its marketing activities reaching out to both AmCham and PPEPI members through its own networks, other business associations, the U.S. Commercial Services, Embassy events, and Executive MBA programs from leading universities in order to attract executives with dynamic ideas and programs. All PPEPI grant recipients reported that the program provided them with invaluable professional experiences during which they were able to forge business relationships, sign Memorandums of Understanding, study best practices, and research the latest technologies. In all, the program enabled these executives to expand both their professional skills and their businesses.

Communications Strategy

Throughout PPEPI's pilot year, AmCham pursued a broad-based media campaign through newsletters, brochures, publications, and panel discussions. These tools were used to promote PPEPI by generating news coverage on its primary activities: the five Working Groups and the four Roundtables. PPEPI Communications primarily took the following forms:

Investor's Voice

Investor's Voice, AmCham's bi-monthly magazine, possesses a readership upwards of 3,000 worldwide. Each issue during the pilot year contained a PPEPI Working Group update. Additional articles covered events, such as the Roundtables, pertaining to the PPEPI program. The July 2009 and February 2010 issues of the magazine were devoted entirely to PPEPI, with full-length articles focusing on PPEPI's key themes. These issues were distributed at the November and February Roundtables in order to increase program visibility and spark discussion on these issues. The publications are also made regularly available at AmCham events.

PPEPI Brochure & AmCham Newsletter
AmCham developed a special brochure to highlight PPEPI and its importance to the business community. This brochure was distributed at PPEPI Roundtables and made available at AmCham events. Additionally, PPEPI features prominently in AmCham's bi-weekly electronic newsletter which promotes upcoming PPEPI events and keeps members informed about PPEPI's progress.

PPEPI Roundtables
In addition to promoting dialogue between the public and private sector, the PPEPI Roundtables served as an effective tool for promoting the program as a whole. Through heavy advertisement, well over 70 participants attended each Roundtable. Media coverage of the events resulted in reports from major news sources reporting on Kazakhstan such as the *Silk Road Intelligencer, Khabar, Astana, Kazinform, Novoe Pokolenie, Respublika, Panorama,* and *Megapolis*.

Special Events
AmCham further promoted the PPEPI program through presentations, press conferences, and award ceremonies. In the process of recruiting for the Executive Exchange Program, presentations on PPEPI were given to groups as diverse as university students and the British Embassy. A post-Coordinating Committee press conference attracted around 40 journalists from both print and television who covered speeches by Ambassador Hoagland, AmCham President Kenneth Mack, and Atamaken Chairman Azat Peruashev. During the second Coordinating Committee meeting, AmCham presented the AmCham Public Service Award to Deputy Prime Minister Orynbayev for his support of PPEPI. The Award Ceremony was attended by the press corps on hand for the subsequent Press Conference and the award was also announced during AmCham's May Awards Ceremony.

The Learning Curve

- Maintaining PPEPI's initial 6 partner structure proved limiting in practice. In the initial phases of the program, lack of participation from PPEPI's partners representing the Kazakhstani private sector (Atameken and the Forum of Entrepreneurs) inhibited the functioning and scope of enquiry of the Working Groups, leading to under-representation of local business interests in the groups.

  As a result, beginning in August 2009 AmCham sought and successfully obtained substantial private sector representation using its own connections in the business community, as well as recommendations from business leaders, and the Deputy Prime Minister. The Working Groups expanded into dynamic groups possessing diverse, comprehensive knowledge about Kazakhstan's business environment and economic development.

- As a result of the heavy travel schedules that PPEPI Working Group members typically carry, not all members were able to consistently attend each meeting. Groups larger than 6 proved more stable, ensuring adequate attendance and spreading out the drafting of White Papers more evenly. Breaking away from the six-partner structure also enabled the Secretariat to customize Working Group membership to meet the groups' specific needs. The Economic Diversification

group, for example, requested more substantial representation from local businesses because of the nature of their topic.

- During the first set of Working Group meetings, the PPEPI Secretariat provided interpretation during meetings through the in-kind contributions of its partners. As participation from the Government of Kazakhstan and local businesses increased, access to professional interpreters became essential to provide accurate interpretation on detailed and technical subject matters. Non-professional interpreters were unable to cope with the topics during meetings, thus inhibiting group communication and progress. Additionally, funds were required for translation of documents produced by group members throughout the Working Group process. With members submitting ideas and research in both English and Russian, quick translation of these documents was critical to facilitating communication and team development. Interpreting and translation proved to be essential services for conducting PPEPI communications between all partners.

- The decision to have Robert May, a consultant with a background in government relations (R. May Group), the public sector (US Commerce Department), the private sector (Philip Morris), and commercial law, act as a 'scribe' in assisting each WG produce a polished, sophisticated White Paper, structuring their ideas for review and approval, proved a wise approach. The CEOs in the Groups do not have the time – or in many cases, the professional writing skills – to produce a series of drafts of the Papers, of the quality needed to present to high-level officials in the Government of Kazakhstan. Bob May worked closely with all the WGs to ensure, through continuing revision of their drafts, that the final White Papers faithfully reflected their collective views and recommendations.

- Achieving strong support from the highest levels of the Kazakhstan Government proved critical for the success of the partnership. Although the Prime Minister and Deputy Prime Minister gave PPEPI their full support from the very beginning, it took time to develop the same strong relationship with the ministries. In the initial meetings, government involvement was often less than expected due to a lack of information about PPEPI. Participation increased during the second round once Deputy Prime Minister Orynbayev issued written instructions to the ministries and individuals who needed to participate in the program. With his backing, the Deputy Ministers made PPEPI a greater priority and provided information on government initiatives and thinking that lent depth to the White Paper process.

- Although an excellent range of candidates was eventually identified for the Executive Exchange Program, this PPEPI component experienced some difficulty in getting underway. In addition to suffering from a lack of support from key PPEPI Partners – notably their neglect to inform their members about the program - the Executive Exchanges occupied an unusual niche that made it difficult to find appropriate applicants.

  Discussions with potential applicants revealed that companies that already possessed international partners often also had the means to pay for their international travel and did not need a travel grant. On the other hand, companies that needed funding to support their international travel usually lacked contacts abroad and needed support identifying potential partners and developing programs of study. Because the PPEPI Exchanges only provide funding for international travel, the program fell between these two market groups. Additionally, because similar,

better known U.S.-sponsored programs already exist, many applicants opted to apply for one of these programs over PPEPI.

FEDERAL FINANCIAL REPORT

(Follow form instructions)

1. Federal Agency and Organizational Element to Which Report is Submitted	2. Federal Grant or Other Identifying Number Assigned by Federal Agency (To report multiple grants, use FFR Attachment)	Page	of
USAID/CAR Regional Mission, Almaty	115-A-00-09-00014-00 03/01/2009	1	1 pages

3. Recipient Organization (Name and complete address including Zip code)
Representative office of The American Chamber of Commerce in Kazakhstan, Inc
29/6 Satpayev St. Office Tower, 10th floor, 050040 Almaty, Kazakhstan

4a. DUNS Number	4b. EIN 30-0052567	5. Recipient Account Number or Identifying Number (To report multiple grants, use FFR Attachment)	6. Report Type	7. Basis of Accounting
			☐ Quarterly ☐ Semi-Annual ☐ Annual x Final	x Cash ☐ Accrual

8. Project/Grant Period From: (Month, Day, Year)	To: (Month, Day, Year)	9. Reporting Period End Date (Month, Day, Year)
01 March, 2009	**February 28, 2010**	**February 28, 2010**

10. **Transactions**	Cumulative
(Use lines a-c for single or multiple grant reporting)	
Federal Cash (To report multiple grants, also use FFR Attachment):	
a. Cash Receipts	**$141 962,00**
b. Cash Disbursements	**$129 360,00**
c. Cash on Hand (line a minus b)	**$12 602,00**
(Use lines d-o for single grant reporting)	
Federal Expenditures and Unobligated Balance:	
d. Total Federal funds authorized	**$205 000,00**
e. Federal share of expenditures	**$129 360,00**
f. Federal share of unliquidated obligations	**$75 640,00**
g. Total Federal share (sum of lines e and f)	**$205 000,00**
h. Unobligated balance of Federal funds (line d minus g)	**$0,00**
Recipient Share:	
i. Total recipient share required	**$405 000,00**
j. Recipient share of expenditures	**$520 190,00**
k. Remaining recipient share to be provided (line i minus j)	**($115 190,00)**
Program Income:	
l. Total Federal program income earned	
m. Program income expended in accordance with the deduction alternative	
n. Program income expended in accordance with the addition alternative	
o. Unexpended program income (line l minus line m or line n)	

11. Indirect Expense	a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share
				g. Totals:			

12. *Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation:*

13. Certification: By signing this report, I certify that it is true, complete, and accurate to the best of my knowledge. I am aware that any false, fictitious, or fraudulent information may subject me to criminal, civil, or administrative penalities. (U.S. Code, Title 218, Section 1001)

a. Typed or Printed Name and Title of Authorized Certifying Official	c. Telephone (Area code, number and extension)
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b. Signature of Authorized Certifying Official Doris Bradbury	e. Date Report Submitted (Month, Day, Year) **05/28/2010**
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U.S. – Kazakhstan Public-Private Economic Partnership Initiative - PPEPI

White Paper to the Government of Kazakhstan on Anti-Corruption and Rule of Law

Submitted by the PPEPI Working Group on Anti-Corruption and Rule of Law

March 2010

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Anti-Corruption and Rule of Law Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of the Republic of Kazakhstan (GOK) on how to improve the effectiveness of its anti-corruption efforts and the sanctity of rule of law principles in the country. This White Paper is the second White Paper delivered to the GOK by the Anti-Corruption and Rule of Law Working Group.

The first White Paper delivered in July 2009 (White Paper No. 1) concentrates on creating an infrastructure for effectively pursuing anti-corruption initiatives and recommends that Kazakhstan:

- Examine the key types and impact of corruption in Kazakhstan;
- Align Kazakhstan's anti-corruption laws with international standards;
- Establish an effective monitoring system; and
- Empower civil society in the anti-corruption campaign.

The key thrusts of this White Paper are (1) improving rule of law by simplifying laws and regulations (and making legal amendments) in order to eliminate opportunities for corruption and develop the free market, and (2) empowering civil society in the anti-corruption campaign by arming Kazakhstan's citizens with legal advice and redress.

On the rule of law side, the key areas addressed are (i) eliminating arbitrariness in the imposition of tax-related penalties, (ii) regulating the powers of tax authorities to freeze bank accounts, (iii) eliminating the criminalization of minor offenses, (iv) reducing opportunities for corruption by reducing contact between tax police and residents, (v) improving the enforcement of court judgments, (vi) introducing transparency in lawmaking, and (vii) improving money-laundering legislation.

On the civil society side, this White Paper proposes greater use of legal support centers, student legal clinics, civics education and mass media and transparency in the courtroom in order to create stakeholders in the rule of law in Kazakhstan society.

By pursuing this two-pronged approach to anti-corruption and rule of law, Kazakhstan can advance significantly in making the link between its policy vision and reality. While the potential benefits include greater societal trust and acceptance of laws and institutions, it can also accelerate the economic development of the country.

II. Introduction

White Paper No. 1 states that since "independence in 1991, Kazakhstan has made tremendous progress in developing its economy, integrating with the international community and setting its agenda for long-term development and growth. However, one area that has challenged the GOK, and its reputation in the international arena, is its efforts to curb the levels of corruption in the country and to make systematic advances in concepts of rule of law."

White Paper No. 1 also acknowledges the GOK's successful implementation of an anti-corruption legal framework. However, White Paper No. 1 points out that "despite all of these policy and institutional reforms, global ratings, surveys and analyses continue to score Kazakhstan very poorly in terms of the existence of high levels of corruption in society. In short, the rankings suggest that the GOK has yet to fully master making the link between policy and practice in its fight against corruption."

The fundamentals and core institutions are in place in Kazakhstan on which to build and support the GOK's efforts to fight corruption. There is also a desire among businesses and citizens to see improvements in both the concepts and practices of rule of law in the country. To be successful, the GOK must address both the systemic and societal aspects in order for rule of law to truly take root in the country.

Rule of Law

In order to reduce corruption, Kazakhstan must encourage the rule of law by simplifying and eliminating certain laws and bureaucracy. Kazakhstan should focus on free-market legal reforms that improve the climate of economic freedom (thereby lessening bureaucratic oversight and the related potential for corruption).

Improving and measuring the accountability of government agencies and officials in Kazakhstan is challenging. A corrective measure is to remove unnecessary civil service positions (and the related legislation that requires their presence). In most cases it reduces the number of potential recipients of bribes or influence and renders it easier to place greater accountability on a lesser number of officials. This can be coupled with an increase in salaries of the remaining officials in an effort to reduce the need or temptation to take bribes.

Some laws and administrative regulations in Kazakhstan have inherent windows of opportunity for corruption by placing too much discretion in the hands of the enforcement bodies. A number of minor amendments can remove the possibilities or temptation for corruption and instill greater transparency in the system. Better use of technology is also prescriptive for improvement of transparency and the reduction of corrupt practices.

Furthermore, implementing pro-free market legal reforms not only eliminates opportunities for corruption but also improves the economic climate of the country.

Civil Society

White Paper No. 1 advises that one "approach that has been particularly effective in addressing corruption is to engage civil society in the process where it can play an active but objective role."

Karla Hoff, a World Bank economist, and Joseph Stiglitz, a professor of economics at Columbia University (USA), are among many academics who say that citizen-demand is the key to rule of law. Though writing about Russia, the same could hold true for other post-communist countries. "Putin may sincerely want to introduce the rule of law. He may repeatedly announce that he is going to create it. …These subjective intentions are irrelevant, however. The rule of law is going to emerge only if there are strong constituencies supporting it." Hoff and Stiglitz also warn that actors have adapted their behavior to lawlessness, making it harder to introduce the rule of law, in effect creating constituencies for lawlessness.[1]

In increasing the demand-side of rule of law, Kazakhstan needs to take further steps to overcome its Soviet legacy of citizens perceiving themselves as powerless vis-à-vis the state. Kazakhstan has made great strides, but improvements can still be made. In the World Bank's Governance Indicators, though Kazakhstan was better than nearly all of its neighbors, it nevertheless was in the 23rd percentile worldwide, and it has made limited progress since independence.[2] In the World Bank's "Doing Business" survey, Kazakhstan ranks 63rd of 183 countries surveyed; in this rating Kazakhstan has made substantially more progress since independence.[3]

III. Issue Statement

High levels of corruption remain endemic to Kazakhstan's social, business and cultural fabric, partially due to its historical affiliation with peculiarities of the former Soviet Union. While the country has taken steps to accept societal norms based on principles of rule of law traditionally entrenched in most developed nations, full implementation continues to remain out of reach. As a result, Kazakhstan currently remains centered between two competing forces – the old and more familiar practice of operating in an environment governed by a strong but undeveloped state with bureaucracy and corruption as a way of life versus the new, more visionary model of an open and transparent society resting on a foundation of rule of law as the norm. To accelerate the pace of the transition to the new model requires both systemic and institutional improvements, as well as a societal shift in mentality. By

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[1] Hoff, Karla and Stiglitz, Joseph, "Exiting a Lawless State," Policy Research Working Paper #4520, The World Bank, Development Research Group, Washington, D.C. February 2008.

[2] Worldwide Governance Indicators Project, (The World Bank) http://info.worldbank.org/governance/wgi/index.asp, accessed February 15, 2010.

[3] "Doing Business 2010," (The World Bank), http://www.doingbusiness.org/economyrankings/, accessed February 15, 2010.

approaching these two issues in parallel, and engaging civil society in the process, Kazakhstan has the potential to benefit from clear and measurable results of linking policy vision with practice.

IV. Current Role of the GOK

White Paper No. 1 has described the extensive array of policies, programs and institutions that have been created in Kazakhstan over the past two decades. The President and the GOK continue to emphasize the importance of fighting corruption in the country. There continue to be high profile arrests of government officials and leading businessmen on corruption charges. The GOK appears to be taking a serious view towards rooting out corruption. However, it needs assistance in implementing its policies, and similarly in engaging civil society in the process.

The GOK is already taking some positive steps to increase use of the law.

- Civics education taught in schools and universities helps citizens better understand their rights and responsibilities.
- Via social procurements, the GOK is funding NGOs to provide free legal aid to socially vulnerable people in Astana, Almaty, Shymkent, Ust-Kamenogorsk, Aktobe, Kostana and Pavlodar.
- Several state universities in Almaty, Astana, Taraz, Kyzlorda and elsewhere have student legal clinics which provide legal advice to citizens. These clinics often have agreements with law enforcement agencies, courts, prosecutor's offices and justice departments, which recognize their value in training future lawyers and government officials.

This White Paper seeks to provide guidance and assistance to the GOK in support of its efforts through dialogue and recommendations.

V. Policy Opportunity

Although tackling corruption directly through enactment and enforcement of anti-corruption laws is important, of equal, if not greater, importance is simplification of existing laws, regulations and bureaucratic structures to make (i) compliance easier and more straightforward and (ii) Kazakhstan more competitive in the world economy by strengthening the pro-free market aspects of its legal system.

Increasing awareness of legal rights and use of the courts is a key component in promoting the rule of law in Kazakhstan. At the heart of rule of law is equal awareness by all of the law and equal ability to use the courts. Citizens, businesspeople and other non-government actors need to be able to make use of the laws and the legal system on an equal footing with government officials. In disputes between government officials and businesspeople, or other citizens, all sides should

believe they can defend their interests legally, with the courts acting as a fair and independent arbiter.

Developing trust in and use of legal mechanisms (i.e. creating "demand" by citizens for the rule of law) will do much to prevent corruption and increase investor confidence in Kazakhstan.

VI. Policy Recommendations

In order to have a measureable impact at the practical level in the fight against corruption, this White Paper recommends policy adjustments in Kazakhstan in two core areas including **(1) improving Rule of Law** by simplifying laws and regulations in order to eliminate opportunities for corruption, and **(2) empowering civil society** in the anti-corruption campaign by arming Kazakhstan's citizens with legal advice and redress.

The recommendations in this White Paper focus on improving the practice side of the matter. By arming Kazakhstan's citizens with knowledge of the laws, and by making Kazakhstan's laws more user-friendly, the practice, i.e. the reality of life in Kazakhstan for the average business and Kazakhstan citizen, can be improved.

It is important to note that several of the policy recommendations in this White Paper require additional government expenditure. It may be asserted that strengthening the rule of law also strengthens the economy (and hence government tax revenues) by protecting property rights, enforcing contracts and making the "rules of the game" clear-cut and not prone to abuse. Hence additional funding to implement the policy initiatives in this White Paper may be seen as seed investment for future economic growth in Kazakhstan. Regardless of funding levels, some of the proposals (especially with respect to improving the rule of law by simplifying legislation) could still be implemented.

1. Improving Rule of Law

A. Taxation

A common problem with tax legislation not only in Kazakhstan but throughout the world is the burden of compliance. Sophisticated tax legislation requires administrative oversight and is subject to differing interpretations, increasing the opportunities for abuse of power by bureaucrats. Issues left to the discretion of the tax authorities create opportunities for the solicitation of improper payments.

- **Administrative Violations Code –** One of the most arbitrary areas of practice in taxation relates to the imposition of administrative fines under the Administrative Violations Code (Code No. 155-II of the Republic of Kazakhstan on Administrative Violations, dated 30 January 2001).

- **Article 209.1 (Understated Tax Declarations)** – Article 209.1 of the Administrative Violations Code permits the tax authorities to impose an administrative fine in the amount of 50% of any tax that is understated on a tax declaration. The fine does not depend on the nature of the tax understatement, and the law does not distinguish between a reasonable taxpayer position and a frivolous taxpayer position. In other words, if a tax understatement results because the tax law is unclear and the taxpayer was forced to interpret tax law and took a position that the tax authorities subsequently disagreed with, the fine can be imposed even if there was a reasonable basis for the taxpayer's position. The applicability of the fine also does not depend on the amount of the tax understatement. It is left to the discretion of the tax authorities.

- **Policy Recommendation:** One solution for eliminating the arbitrariness is to impose the fine on a sliding scale that depends on the amount of the tax understatement.

- **Policy Recommendation:** The fine should not apply in cases where a tax was fully paid but not correctly reported or where one tax was inadvertently reported as another type of tax and the government suffered no loss of revenues but merely experienced an incorrect classification of the type of tax it had received.

- **Article 209.1 (Tax Agent Withholdings)** – Article 209.1 of the Administrative Violations Code permits the tax authorities to impose an administrative fine if a tax agent fails to properly withhold taxes or under-withholds taxes. The fine can be up to 50% of the amount of tax that was not properly withheld. The fine has even been imposed in cases where a tax agent realized it had failed to withhold a tax and paid the tax at its own expense.

- **Policy Recommendation:** As discussed above, to eliminate arbitrariness, the fine should not be imposed in cases where the tax has been properly remitted and the government has not suffered any lost tax revenues. We also believe that this fine should never be imposed in conjunction with the fine for understating a tax. The former fine represents sufficient sanctions for the failure to withhold a tax, and there is no need to impose another arbitrary fine for the same violation of tax law.

B. Powers of Tax Authorities to Freeze Bank Accounts

- **Freezing Bank Accounts –** Tax authorities in Kazakhstan currently have the right to unilaterally decide to freeze a taxpayer's bank accounts for alleged tax arrears. This power is arbitrary (and thus detrimental for business) and increases opportunities for tax officials to engage in corruption and abuse of power.

- **Capital Flight –** There are currently no limitations on the way such arbitrary actions are undertaken, nor any warning, and the amounts disputed might be

trivial compared to the amounts being frozen. This is one of the key reasons why large corporations, especially in the extractive sector, prefer to keep most of their available funds overseas, with funds being provided to the Kazakhstan subsidiary (or the Kazakhstan bank accounts of such corporate) on a „just in time' basis.

- **Policy Recommendation:** It is recommended to restrict the right of tax authorities to freeze a bank account only upon probable cause and a preliminary ruling of a court that a credible risk exists that funds may be intentionally withdrawn to avoid paying tax.

- **Policy Recommendation:** We further recommend that the regulations are changed so that only the disputed amount would be blocked, rather than stopping all transactions on a company's bank accounts.

C. Criminalization of Offenses

In general, Kazakhstan's civil legislation protects free enterprise; and a large number of laws provide details on all of the various elements underpinning a viable market economy, including laws on banking, finance, corporations, land ownership, secured transactions, bankruptcy, and stock exchanges.

However, the Criminal Code and the Administrative Code, the two main enactments setting forth punishments for offenses, have not been reformed to the same extent as the Civil Code and related civil laws. More importantly, there has been little paradigmatic shift in the outlook of the law enforcement officials entrusted with policing the system.

- **Establishing Intent** - From a textual standpoint, the majority of Criminal Code articles, including the chapter on "economic crimes," require that, in order for an individual to be held personally liable, the state must prove that he or she acted with intent to commit the act prohibited by a specific article. The requirement of proof of intent is a common feature of the criminal laws of most western legal systems. In most developed countries, the burden of proof placed upon the state to establish intent is a strict requirement, for otherwise the individual is left at the mercy of law enforcement agencies.

- **Foreign Investor Risks** - Administrative and criminal actions are often brought against foreign investors in Kazakhstan when the issue has more of a civil nature. It is often noted that the courts are unreceptive to arguments of the need to establish intent. In some cases there are indications that local courts may be acting together with local administrative authorities.

- As an example, let us examine the treatment of foreign investors by the tax and other administrative authorities which, from the point of view of the foreign investor may be a significant rule of law challenge facing Kazakhstan.

- In Kazakhstan, as in Russia and other CIS countries, the financial police, prosecutor's office, and other administrative and law enforcement authorities, bring enforcement actions against investors in circumstances in which such actions would not be taken – at least not so quickly - in the west. The authorities may incorrectly apply the tax laws in reaching a finding of underpayment or nonpayment of tax. Even in those cases in which the authorities have accurately identified an underpayment, the foreign investor may not have intentionally failed to pay.

- A disquieting element in such situations is that senior corporate officials are subject to personal administrative and criminal liability. A criminal investigation is normally opened if the value of the alleged underpayment reaches approximately $17,000, a relatively low threshold that may expose corporate officers and the chief accountant to risk of prosecution.

- **Policy Recommendation:** It is recommended to eliminate criminal prosecution and liability for tax claims until after a final and binding civil judgment has been rendered.

- **Policy Recommendation:** It is recommended to significantly increase the amount of alleged underpayment threshold for the triggering of a criminal investigation.

D. Enforcement of Court Judgments

Use of legal remedies has increased in recent years in Kazakhstan, yet increasingly citizens are experiencing difficulty getting access to justice. Court proceedings are lengthy and expensive, and enforcement of decisions can take even longer.

- **Policy Recommendations:**

- A key aspect of enhancing the rule of law is to ensure that court judgments are quickly enforced. An inability to enforce judgments permits lawlessness, for property and contract rights and the principles of Kazakhstan's legal system are ignored.

- Bailiffs, like judges, should receive adequate compensation to reduce the incentive to use their position to receive bribes (a bailiff may refuse to enforce a judgment unless paid by the proponent seeking enforcement).

- Bailiffs should be measured statistically on the number of judgments they enforce (the government is already doing this). Enforcement of a significant number of judgments (and reducing a backlog of judgments) could be grounds for a financial reward (bonus pay) from the state.

- Bailiffs should be provided with the legislative authorization to do what it takes to enforce judgments (i.e., seize property, evict occupants, freeze bank accounts,

etc.). Furthermore, they should be provided with paramilitary and police backing as necessary for dangerous assignments.

- Understaffing and overwork of bailiffs is a primary cause of non-enforcement of judgments, and additional numbers of bailiffs should be hired and trained.
- The current complaints procedure in place with the Ministry of Justice should be formalized and expanded to ensure that all stakeholders in Kazakhstan can freely complain about the performance of bailiffs and judges.
- The proposed draft Law "On the introduction of the institution of private bailiffs", which, in our understanding, will allow for private sector bailiffs is in theory an excellent policy proposal, and we applaud the government for this approach. Although we have not reviewed this draft law, we are, in general, in favor of allowing for private bailiffs that will enforce judgments in exchange for a fee (or a portion of the proceeds). Provided that Kazakhstan court-users are also given the option of using government bailiffs, and provided that the government continues to try to improve the work of its own bailiffs, we endorse giving more choice to civil society.

E. Transparency in Lawmaking

- **Policy Recommendations:** Provide the public greater access to information.
- Normative legal acts of any kind, except in cases of emergency, should be made publicly available (via posting to the Internet and published in the mass media) and subject to a public review and comment period for at least 30 days before their enactment (in the case of non-legislative acts) or the first reading in Parliament.
- Comments on normative legal acts could be posted to a website, and government official(s) with responsibility for the drafting of the normative legal act should be obliged to read such comments.
- Public hearings could be held for certain pieces of legislation that trigger a large outpouring of public comment.

F. Money Laundering

Kazakhstan will be a pioneer in Central Asia with its Anti-Money Laundering / Counter-Terrorism Financing – (AML/CFT) Law coming into force on March 9 of this year (the Anti-Money Laundering Law). As a member of the Eurasian Group on combating money laundering and financing of terrorism (EAG), Kazakhstan is to undergo a mutual evaluation by the EAG countries of measures taken and implemented in combating money laundering and the financing of terrorism. The recommendations made to Kazakhstan will be published on the EAG website once the evaluation is completed.

Members of the Working Group monitor the status of AML/CFT developments throughout the region and have analyzed impending legislative acts by the governments of EAG and the Egmont Group of Financial Intelligence Units (the "Egmont Group") targeting AML/CFT. Our analysis of Kazakhstan's new AML/CTF law and related recommendations are below.

- **PEP Definition:** The working definition of Politically Exposed Person (PEP) is restricted to foreign officials only, but this definition should be broadened to include both Kazakhstan and foreign officials. The PEP definition of the Financial Action Task Force (FATF) refers to those that "are or have been entrusted with prominent public functions in a foreign country". Although regulators in Kazakhstan have assumed this wording, the interpretive note to FATF Recommendation 6 states that: "Countries are encouraged to extend the requirements of Recommendation 6 to individuals who hold prominent public functions in their own country." According to the Money Laundering Typology Report by FATF, 2003/4: "… PEPs that come from countries or regions where corruption is endemic, organized and systemic seem to present the greatest potential risk; however, it should be noted that corrupt or dishonest PEPs can be found in almost any country." Those corrupt or dishonest local PEPs are omitted by the Anti-Money Laundering Law, but represent risks for banks. Local PEPs require the same attention that is paid to foreign PEPs. The regulators in EAG and several Egmont Group countries recommend inclusion of local PEPs in the banks' compliance procedures. The PEP definition should also include defined family members (spouse, sibling, grandparent, parent, child or grandchildren).

- **Opening an Account:**

- The Anti-Money Laundering Law requires banks to obtain the approval of the government before opening an account for any person on a black-list (which is to be provided by the government). The current version of the Anti-Money Laundering Law provides that if the government does not respond to a bank within 1 day, the bank may proceed with opening the account. It is unlikely that the responsible bureaucrats in the government will ever approve the opening of an account for fear of retaliation if the account is indeed used inappropriately. Since it is unlikely that the government will ever respond, the requirement merely lengthens the time necessary to open an account. However, even more importantly, the person opening the account may be "tipped-off" by the delay. The banks are not allowed to advise the person that his or her name is on a black-list and that the bank is waiting for approval from the government. However, the person may surmise what is happening and be forewarned, or a worker at the bank may inadvertently let slip the information. Hence, the requirement contradicts the very reason for having the Anti-Money Laundering Law. AML/CFT legislation worldwide is designed to report money-laundering to the authorities, which can then take appropriate action. In addition, why would the government want all of the banks to know the persons on the black-list? Such

information could get leaked. The black-list would normally be a highly confidential document known only to the state security apparatus.

- All that should be necessary is for banks to immediately advise the government upon opening an account, as is already required under the law. In addition, banks should only need to provide the tax identification number of the person or entity opening the account. Kazakhstan law already requires anyone opening a bank account in Kazakhstan to have a tax identification number. Hence, the identification of anyone opening a bank account in Kazakhstan will already be on file with the government. When the bank provides the tax identification number of the person or entity opening the account, the government should be able to check its own records and draw its own conclusions. The fact that the person on the black-list would be able to open an account quickly (without suspecting that he or she was on a black-list) would actually be beneficial for the government because the government could then start tracking such person's usage of funds without such person having any reason to be suspicious.

- **Reporting Requirements:**

- The Kazakhstan regulator does not offer a supporting information system with respect to transaction screening, and hence the subjects of financial monitoring have to bear all the risks and costs of designing and deploying specific data-mining systems that reflect legislative requirements. Banks will individually search for compliance solutions or develop their own software to deliver the required information. Regulators in countries of the EAG and Egmont Group use their central bargaining power and, in coordination with local banking associations, help local banks negotiate favorable subscription conditions with suppliers of automatic screening technologies, due diligence services and online checking tools. A centralized approach to acquisition of compliance technologies and services gives access to both regulators and banks to the best practices and industry knowledge embedded into standard service packages available on the market. It is recommended that the GOK work with banks operating in Kazakhstan to develop one system for transaction screening which, once agreed, will be mandated for all of Kazakhstan. The GOK, in coordination with local banks, can then negotiate with vendors to develop the most cost-effective and comprehensive software system.

- Another major burden is the extent of the reporting to the Committee on Financial Monitoring (CFM). Under the Anti-Money Laundering Law, there are several different reporting requirements (on a suspicious transaction before making the transaction, on a suspicious transaction after its consummation, on transactions falling beyond the set thresholds, etc.) which will require mainly manual review and manual data-capturing as no automation currently exists. The timing of such reporting is also an issue – timing varies from three hours after the transaction is made/identified to three days. A standardized and computerized reporting system

(based on tax identification numbers and not requiring unnecessary data inputting) will ease the burden on banks while still providing the government with necessary information.

- The level of detail which seems to be required under the Anti-Money Laundering Law is extensive and to some extent unavailable (e.g. if a customer remits funds to a company in the UK, the local bank seems to be expected to report on the ultimate owners of the beneficiary, which is not possible). Also for local companies or persons no reporting should be required, as banks already do reporting by tax identification number, and this information could (and should) be available at a more centralized level, rather than having to be reported at a transaction level.

- **Transaction Screening:** The Anti-Money Laundering Law requires banks to obtain the approval of the government before facilitating a suspicious transaction. The current draft of the Anti-Money Laundering Law provides that the CFM must reply within a 24-hour period, and if the CFM does not reply, then the transaction may proceed. It is unlikely that the CFM will ever approve a transaction for fear of the retribution that may arise in the event that such transaction does indeed involve money-laundering. Hence, no allegedly suspicious transaction will be approved, meaning that all suspicious transactions will be subject to delay. In practice this will mean ongoing delays in payment processing. Banks will have to explain this delay to their clients by lying to them because explanation that a transaction is being checked by CFM is not allowed under the Anti-Money Laundering Law. However, clients may quickly surmise that their transactions are being delayed because they are being checked by the CFM. Hence, the very fact of the delay would be enough to "tip off" a client. This contradicts the very purpose behind having AML/CFT legislation to begin with. AML/CFT law worldwide is designed to report specific transactions to the authorities, not to use the banks as an arm of law enforcement to stop transactions. Once a specific transaction is reported, the authorities can investigate and press charges if the evidence shows money-laundering.

G. Arbitration

Current Kazakhstan law does not permit two Kazakhstan persons or legal entities to agree to international arbitration in contracts between them without a foreign counterparty.

- **Policy Recommendation:** It is the opinion of certain, but not all, members of this Working Group that Kazakhstan persons or legal entities should be allowed to freely contract for international arbitration. An analysis of the issue is attached as the Appendix so that the reader of this White Paper has the benefit of the analysis. Please note that the proposals in the Appendix do not constitute a formal recommendation of this Working Group. However, no Working Group

member representing the private sector appears to be opposed to the proposals in the Appendix.

2. Empowering Civil Society to Promote the Rule of Law

This White Paper's second focus area examines ways in which the Government of Kazakhstan can empower civil society to engage stakeholders in rule of law in Kazakhstan. The following policy recommendations could serve to increase awareness of legal rights and responsibilities, increase access to justice and use of the law, and monitor compliance with the law

A. Legal Support Centers

- The free legal assistance currently supported by social procurement should be expanded geographically, to encompass cities and rural areas, and to provide adequate coverage in larger cities. The range of services should include simple legal advice. It might also include representation in court, in particular in cases of serious abuse or which illustrate common problems in society. As a comparison, in Kyrgyzstan, the Legal Assistance to Rural Communities (LARC) project has 24 offices in a far smaller country, plus LARC has supported "mobile clinics" to reach additional remote villages; with these, LARC lawyers assist more than 6,000 people a year.
- Legal support centers can be a method by which citizens without the funds to pay for lawyers can receive legal advice on various important matters impacting their lives.
- Legal support centers could provide night–classes to interested parties on Street Law concepts (see *Civics Education* below).
- Legal support centers could provide toll-free hotlines during certain periods for Kazakhstan residents to call from anywhere in the country for advice. This will enable Kazakhstan residents who do not reside near a legal support center to still obtain legal advice.
- Free access to an electronic legal database or law library of all Kazakhstan normative acts should be made available at legal support centers.

B. Student Legal Clinics

- Student legal clinics attached to law schools offer another way to increase access to legal assistance, while giving students real life experience. However, to strengthen their use, universities should make them a part of the academic curriculum, by giving students credit for participation, and by assigning faculty to give the students close oversight. The clinics might also specialize in certain

legal areas, including small business. Students could be used in the court system as court secretaries or judicial assistants as part of such a program (not a one or two month practice program, but for an entire semester or academic year as part of such law student's curriculum).

C. Civics Education

- To increase awareness, Kazakhstan's existing civic education can be bolstered by internationally recognized programs like Street Law (streetlaw.org), which uses an applied methodology and cases drawn from real life to provide legal education to teenagers and students. Street Law has a textbook and syllabus approved by the Ministry of Education, but no funds to disseminate it.

D. Mass Media

- The government should pass the law currently under discussion positively guaranteeing citizens the right to request and receive information. Access to information is crucial if citizens are to access the law and their rights on an equal basis with government officials.

- In many countries, mass media are a key partner in increasing the transparency of legal proceedings. Journalists and the general public should be allowed to attend and cover trials (See *Transparency in the Courtroom* below).

- Legal protection of media itself needs to be strengthened. If journalists feel vulnerable to reprisal, the benefit they can bring to encouraging rule of law by independent and fulsome reporting will be limited.

E. Transparency in the Courtroom

- All court proceedings, with certain limited exceptions relating to national security (as per a Presidential or Prime Ministerial resolution, for example), be video-taped and made publicly available (downloadable off the Internet and, for a small fee, copied from the archive of the Ministry of Justice).

- Television should be permitted in the courtroom for all court proceedings, with exceptions relating to national security as described above.

- All court records (including not only judicial decisions but filings by litigants) should be made publicly available (downloadable off the Internet and, for a small fee, copied from the archive of the Ministry of Justice).

The foregoing recommendations are designed to make court proceedings as transparent as possible and also reduce the willingness to engage in corruption. The recommendations, if implemented, may also increase civil society interest and trust in the mechanism of the rule of law. Although bribery does not happen in the courtroom, the fact that the entire court proceeding and records will be completely transparent will have a sobering effect on judges and litigants. The fact that a judge's

or litigant's position could be subject to analysis and possibly investigation could eliminate more egregious forms of corruption.

F. Court Personnel

- Judges, court secretaries and bailiffs (as well as judicial assistants, as described below) should be paid a significantly higher wage in order to create more longevity and professionalism in this position. A higher wage will also lessen the willingness to engage in corruption. One benchmark for judges could be salaries equal to, or a higher multiple of, the salaries of the members of the Majlis. Perhaps court secretaries should receive salaries that are equal to, or a higher multiple of, the salaries of senior staff to Majlis deputies.

- An additional position of judicial assistant could be created – in effect a "quasi-judge" working as a judge's junior lawyer – to assist a judge with analyzing laws and legal arguments, organizing the caseload and writing decisions. Such a position would require adequate compensation. In the United States, a position of "judicial clerk" exists for newly-minted graduates of law schools. The positions are very prestigious and usually are only offered to the top graduates of law schools. The positions are usually only held for one-to-two years, after which the judicial clerk moves on (into public or private practice). A similar program could be developed in Kazakhstan.

VII. CONCLUSION

The propositions of this White Paper seek to improve the rule of law to not only reduce corruption but also to promote economic growth and Kazakhstan's international standing.

We acknowledge that budgetary funds are limited in Kazakhstan, and some of the policy recommendations herein will involve competition for scarce resources. Other policy recommendations, particularly regarding legal changes, will require little if any expenditure to have an impact. It is important to recognize that if the civil society of Kazakhstan – the human potential of Kazakhstan – does not believe in the fairness, efficiency and professionalism of the court system, they will lack the incentive to invest or start a business in their own country. In the absence of an effective judiciary coupled with a pro-free market legal system, economic growth will be driven largely by mega-projects in the natural resources sector. If laws are contradictory, onerous or subject to abuse by officials, then investment and business transactions are restrained.

Unprofessional and biased proceedings in the courts may have many different adverse consequences for Kazakhstan. One of them, which effects Kazakhstan's international reputation, is the possibility of infringement of the bilateral investment treaties ratified by the Parliament. One of the protections often offered to a foreign investor under those treaties is the right to fair and legal treatment in the local

courts. Therefore, ensuring proper legal proceedings in the local courts in addition to fighting corruption would not only protect the international image of Kazakhstan but also eliminate potential arguments by aggrieved investors arising under Kazakhstan's bilateral investment treaties.

VIII. Appendix

Analysis of the Benefits of International Arbitration

Current Kazakhstan law does not permit two Kazakhstan persons or legal entities (hereinafter "Kazakhstan Persons") to agree to international arbitration in contracts between them without a foreign counterparty.[4] Kazakhstan Persons contracting only among each other must submit to the Kazakhstan courts or special Kazakhstan arbitration pursuant to the Kazakhstan arbitration law. Other normative acts require certain key parties (such as "dominant market participants") to only agree to use the Kazakhstan courts or local Kazakhstan arbitration in their contracts generally.

There are three main arguments in favor of permitting Kazakhstan Persons to contract for international arbitration:

- *Expertise and Neutrality:* An international arbitration panel, typically selected on the basis of unique professional backgrounds, usually has expertise superior to a court (of any country) with respect to the matter at issue. International arbitration also serves to provide a truly neutral forum free from political and other pressures in the home country.
- *Easing Pressure on Kazakhstan's Courts:* International arbitration allows persons to "opt-out" of the Kazakhstan court system. This eases the burden on the Kazakhstan court system and the ensuing drain on the resources of the country.
- *Encouraging Investment:* Permitting Kazakhstan Persons to freely contract for international arbitration facilitates investment. Many foreign investors use the Kazakhstan limited liability partnership or joint stock company corporate form as the vehicle for their investments in the country, yet these legal entities are prohibited in contracting for international arbitration with a Kazakhstan Person. This puts Kazakhstan at a disadvantage in the competition with other countries for investment because the freedom to resolve disputes in the manner best fitting a particular commercial situation is restricted.
    - The current law has a negative impact on project finance in Kazakhstan: banks may be unwilling to finance a project that is supported by contracts that do not contain effective dispute resolution provisions. Often banks require all contracts supporting a project financing (engineering,

[4] Article 6.4 of the Law of the Republic of Kazakhstan No. 23 "On International Commercial Arbitration" dated 28 December 2004.

procurement and construction contracts, operations and maintenance contracts, supply contracts, off-take agreements, etc.) to contain uniform and consolidated international arbitration provisions, but this may not be permitted in Kazakhstan depending on the jurisdiction of incorporation of the contracting parties (i.e., if they are Kazakhstan Persons).

Current Kazakhstan law, by not allowing Kazakhstan Persons to freely contract for international arbitration, overburdens Kazakhstan's courts, hampers fair and effective resolutions of disputes and discourages foreign investment and commercial activity.

Other jurisdictions permit their subjects to contract for international arbitration. For example, the US State of New York, boasting one of the most sophisticated commercial legal systems in the world, permits New York legal entities (or persons) to contract for international arbitration in New York-law governed contracts that will be performed in New York.[5]

The laws of England, again one of the most sophisticated commercial legal systems in the world, also permit English legal entities (or persons) to contract for international arbitration in English-law governed contracts that will be performed in England.[6]

The laws of France permit French legal entities to contract for international arbitration in French-law governed contracts that will be performed in France if such contracts relate to international trade (a concept that is interpreted broadly).[7]

By forbidding Kazakhstan Persons from contracting for international arbitration in contracts among them, Kazakhstan inhibits commercial activity and foreign investment within the country, and Kazakhstan also overburdens its emerging court system. The rule of law is thus detrimentally impacted.

It is recommended that all Kazakhstan Persons, and all other legal entities or persons operating in Kazakhstan, be permitted to freely contract for international arbitration.

Certain exceptions to this recommendation could be made for targeted public policy reasons or disputes under a certain amount. Alternatively, a weaker, though still welcome, legislative amendment would be to allow international arbitration among Kazakhstan Persons when such Kazakhstan Persons have foreign ownership.

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[5] New York Civil Practice Law and Rules, 2010 Edition, LexisNexis §7501. New York Jurisprudence 2d; Arbitration and Award §68.

[6] England Arbitration Act 1996.

[7] Poudret, Jean-Francois & Sebastian Besson. *Comparative Law of International Arbitration*. 2nd ed. Trans. By Stephen V. Berti and Annette Ponti. Sweet & Maxwell, London, 2007.

U.S. – Kazakhstan
Public-Private Economic Partnership Initiative
PPEPI

White Paper
to the Government of Kazakhstan
Anti-Corruption and Rule of Law

July 16, 2009
Tracked Version – September 2009

I. Executive Summary

The Anti-Corruption and Rule of Law Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to improve the effectiveness of its anti-corruption efforts and the sanctity of rule of law principles in the country.

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international and national studies and surveys, as well as on analysis, data and commentary by the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), Organization for Economic Co-Operation and Development (OECD), the World Bank (WB), Transparency International (TI), the Gallup Organization, the Global Integrity Report and USAID.

The Working Group proposes several areas for further consideration by the GOK. The primary challenge for the GOK is how it can make the important step of taking the extensive framework of government anti-corruption policies, international agreement provisions and broad legislative and regulatory bases and applying them in a systematic and effective manner at the day-to-day level in Kazakhstan society. While the legislative and policy base in place in Kazakhstan is quite comprehensive, the country continues to consistently rank low on all international surveys, studies and assessments that rank countries in terms of their capability and success in rooting out corruption.

First of all, the White Paper proposes the GOK to make a comprehensive review of existing legislation, regulations and international commitments to conventions and align this framework with best international practices and provisions. The goal is to achieve greater clarity in the anti-corruption tool kits available to enforcement bodies and the judiciary in order to attain a higher success rate in the areas of prevention and enforcement.

Secondly, the White Paper encourages the GOK to better engage civil society in its efforts to fight corruption in the country. A wide range of programs and activities are proposed including the creation of an independent, non-confrontational Council on Corruption empowered to monitor government programs and institutions on corruption-related issues. The Council's role would also include making recommendations on areas and initiatives that enhance campaign effectiveness, acting as an axis between government, the private sector and the business community and making available to the public important information about corruption and its economic and societal impact in Kazakhstan. However, the Council is not intended to assume any State function, nor would it have the power to dictate or otherwise override the role of the State or the criminal justice system.

A third proposal for consideration is for the GOK to commission an independent body to conduct an assessment of the key areas and types of corruption present in society and to report back to the GOK and to the population. Those findings can be used for the development of more targeted initiatives to address core areas of corrupt activities. The independent body should quantify the economic impact on Kazakhstan. The group could also be used as a conduit for creating public awareness campaigns and forums for open discussion on corruption and rule of law concepts and for defining solutions to be considered and implemented by the GOK.

This White Paper mentions but does not specifically address other areas of importance to these sectors covered more broadly by other Working Groups under the PPEPI initiative, including transparency and efficiency issues.

II. Introduction and Statement of Purpose

Since its independence in 1991, Kazakhstan has made tremendous progress in developing its economy, integrating with the international community and setting its agenda for long-term development and growth. However, one area that has challenged the government, and its reputation in the international arena, is its efforts to curb the levels of corruption in the country and to make systematic advances in concepts of rule of law.

For over a decade, President Nazarbaev and the GOK have been persistently vocal in their commitment to fighting against corrupt practices in Kazakhstan. Together they have been strident in their efforts to pursuit institutional reform and to adopt a framework of legislative and legal principles that match some of the most comprehensive in the world and mirror international standards.

For example, in May 2008 the Kazakhstan Parliament ratified the United Nation's 2003 "Convention against Corruption". Along with ratification comes a commitment of the government to implement a series of legislative and juridical changes to the country's laws and procedures in order to comply with the Convention.

Prior to this, the GOK adopted its national Program for the Fight against Corruption 2006-2010 which was confirmed by Decree of the President of the RK. The GOK also created the Agency of the RK for the "Fight against Economic and Corruptive Crime", commonly referred to as the Financial Police, to enforce anti-corruption measures and to investigate economic crimes.

President Nazarbaev also created and personally oversees the "Commission for the Fight against Corruption" which is controlled by the Administration of the President. Its purpose is the monitoring and analysis of activities aimed at preventing and enforcing corrupt practices.

Most recently, on April 22, 2009, President Nazarbayev issued Decree No. 793 "On additional measures to strengthen the fight against corruption and the further protection of constitutional rights in Kazakhstan". The decree aims to further engage all branches of government in their anti-corruption efforts and it identifies a number of new tools to better unify their forces, including utilization of centralized electronic databases and a host of other measures.

Numerous other ancillary laws, decrees and orders ranging from the criminal, civil and administrative codes to federal and regional regulations have been put into place empowering a wide range of ministries and agencies to fight corruption.

Yet despite all of these policy and institutional reforms, global ratings, surveys and analyses continue to score Kazakhstan very poorly in terms of the existence of high levels of corruption in society. In short, the rankings suggest that the GOK has yet to fully master making the link between policy and practice in its fight against corruption.

For example, Transparency International's 2008 Corruption Perception Index (CPI) rated Kazakhstan at number 145 out of the 180 countries in the study with an extremely low CPI score of only 2.2 out of a possible score of 10.

The IRI Polls conducted under the Gallop Organization attribute a significant portion of corruption to illegal bribes paid to traffic police, healthcare workers, teachers and educational institutions, local police and Customs officials, in descending order. The poll's tracking of perceptions infer that the highest levels of corruption exists among Customs authorities, universities, the court system, banks, the military and among Kazakhstani companies, in descending order.

The World Bank's Report "Governance Matters 2009 Worldwide Governance Indicators, 1996-2008" evaluates Kazakhstan at the extremely low 16th percentile out of a possible 100 in its efforts to control corruption in 2008 and at the 24th percentile for its adherence to rule of law principles.

The 2008 Global Integrity Report had a more mixed evaluation of Kazakhstan. On its overall Integrity Indicators Scorecard, Kazakhstan received a score of 76 out of a possible 100 – which is considered to be in the moderate range of ratings. It scored relatively high on anti-corruption and rule of law, with certain exceptions. For example, while it scored an 80 for the existence of a solid legal framework, it scored only 69 in terms of its success in implementation. It also scored low on government and judicial accountability. Other relevant scores were a 75 rating on whether law enforcement agencies are protected from political interference and a 50 rating on whether appointments to law enforcement agencies are made according to professional criteria. Kazakhstan received an extremely low score of zero for contributions to political parties and the same zero score for access to information by the public on contributions made to politicians and political parties.

Of course, Kazakhstan is not unique since corruption is considered to be a global issue. Nor is corruption limited to developing countries or economies in transition. However, its rankings are disturbingly low on a consistent basis over the past 15 years. What is clear is that it has a significant negative impact on the economy and on the social fabric of a nation's people. The World Bank estimates the global cost of corruption at $1 trillion per year.

An extremely wide range of programs and tools have been tried across the globe to combat corruption. International organizations are of the opinion that oversight agencies, laws and awareness campaigns have not been particularly effective, and they concur that corruption globally is not in decline. The trends in anti-corruption efforts suggest that the enforcement focus has shifted from petty levels of corruption to higher, more sophisticated forms of corruption.

While many countries have enjoyed varying degrees of success in their anti-corruption campaigns, there are a few that stand out in terms of the scope of their efforts and the commitment of their governments. One example is Georgia. In the early stages of its campaign against corruption the Georgian government began high-profile prosecutions and pleas bargaining with corrupt government officials in an effort to return stolen revenues to the budget. Coupled with this was the downsizing of the number of ministries and agencies, a reduction of the number of activities that required licenses and an increase in the salaries of civil servants. In 2004, the government fired almost the entire traffic police force and replaced it with a new police patrol. Higher salaries, new uniforms, cars and other changes were also made to improve the traffic police force's image.

Georgia also addressed other sectors of society to root out corruption. It instituted a Unified Admissions Exam for university students and created school boards to review admissions criteria and selections. Extensive reforms to the legal framework were instituted with a new Criminal Code and a greater, formal separation of powers was put into place in the judicial, executive and legislative branches. The government amended legislation on media and media reporting which created a more open press with the ability to highlight corrupt practices and better monitor government accountability. Surveys by TI and IRI three years after the beginning of the campaigns indicated dramatic reductions in corruption and much more positive perceptions of institutions and the rule of law.

Institutional reform played an important role in Georgia's progress against corruption. It relied on support from international donor organizations such as GEPAC, USAID and the World Bank, as well as other international organizations and civil society. Georgia ratified the United Nations Convention against Corruption (UNCAC) to assist the government with the implementation of a national anti-corruption strategy and its anti-corruption action plan, adopted in June 2005 and March 2006, respectively. A team of experts prepared a comprehensive treatise on harmonizing domestic legislation with the provisions of UNCAC, which is a prerequisite for ratification. In June 2008, the Organization for Economic Cooperation and

Development (OECD), the Organization for Security and Cooperation in Europe (OSCE), and the government of Georgia, organized the seventh general meeting of the OECD Anti-Corruption Network (ACN) for Eastern Europe and Central Asia.

Indonesia is another example where the government is making a conscious effort to address corruption. In a country with endemic corruption that ranks next to Kazakhstan on TI's CPI Index, Indonesia has embarked on a comprehensive and ruthless campaign to combat corruption at all levels. The anti-corruption drive has seen unprecedented numbers of convictions of politicians and high-ranking government officials including five members of parliament, a former national police chief and ambassador to Malaysia, a senior government prosecutor, and three central bank officials, including the governor. Indonesia established a special Corrupt Crimes Court (CCC) to prosecute offenders. While much work still needs to be done, progress is clearly underway.

What these examples show is that regardless of how embedded corruption may be in a society, if the government has an unwavering will and commitment to address the issue head on, it can be successful.

Perhaps the first challenge in fighting corruption in Kazakhstan is defining what it is. Globally, it is interpreted differently and traditionally appears in two broad categories: Illegal corruption that includes bribes, diversion of funds and abuse of power, and Legal corruption that includes collusion, legal lobbying, favoritism in procurement and undue influence on policy, law and regulation development. The conventional definition is "the abuse of public office for private gain." The IMF uses a broader definition of "the abuse of power or confidence for private benefit" which encompasses both public and private forms of corruption. A constant factor in corruption is that it always involves two players: the supply side and demand side. Regardless of the definition, society is the ultimate loser.

The low ranking Kazakhstan receives in international surveys reflects the common perception that endemic corruption exists in Kazakhstan. However, there is an insufficient understanding and public dialogue about the real depth and scope of corruption in the country. Over 1,500 cases of corruption were registered in Kazakhstan in 2008 reaching all levels of the government. However, this number raises the question of whether these cases represent the core of the problem, or merely scratch the surface. If the GOK can establish better clarity in terms of the spheres and types of corruption most prevalent in Kazakhstan, it will be in a much better position to more effectively combat it.

Corruption isn't only about violating laws it's also about societal values. Endemic corruption can have an enormous negative impact on a country's moral fabric. It leads to public disillusionment in institutions and a loss of confidence in the system. Society develops the perception that the State is not fulfilling its role. It can also lead to a loss of credibility of the government and criminal justice system and can transcend into a "Culture of Corruption." In the end, it can fester into apathy and a lack of public morality. Some of the causes that

lead to this syndrome are a lack of enforcement, bureaucracy without a sense of civic responsibility, a lack of transparency and a lack of oversight.

Corruption also has a significant negative impact on the economy and is generally regarded as a key impediment to global economic development. Economic deficiencies are attributed to waste, inefficiency and poor spending controls and a loss of taxes, as well as the costs of trying offenders in court and of maintaining a police force or monitoring agency. In fact, high corruption levels negate the positive side of a country's investment potential. On a higher level, corrupt officials competing with each other to protect their respective interests are a detriment to the economy as a whole and to the long term legitimacy of democratic institutions. Moreover, public perception and criticism are equally damaging to the country's reputation as a place to invest or conduct business. It can lead to a severe reduction in business confidence.

So the challenge for the GOK is how best to rid corruption in Kazakhstan. First of all, Kazakhstan must fix its own problems. Relying on global conventions or oversight on their own is insufficient. It requires genuine political will and capacity and a need to look beyond simply combating corruption or compliance with anti-corruption laws. A starting point for the GOK is to assess the economic and societal impact corruption has in Kazakhstan. The learning's could become the real impetus for effective programs to stem the losses to its public coffers.

Addressing corruption requires a multi-prong approach that addresses both the legal framework and societal values. Focusing on accountability is a major component to success because people are sensitive to the results of their actions when those results are attributed to their actions. The population needs a higher level of awareness of corruptible behavior by the elite in order to discourage it and to insure that malfeasance is properly addressed.

One approach that has been particularly effective in addressing corruption is to engage civil society in the process where it can play an active but objective role. What is needed is the creation of a constructive partnership between government, the private sector and civil society. Together, they can more effectively focus on the four main anti-corruption pillars of prevention, enforcement, State building and instilling cultural values. It is not intended that civil organizations replace or supersede the role of the State. Instead, they merely acts as an independent source of information, support and engagement that can benefit the State in its anti-corruption and rule of law efforts.

What the engagement of civil society accomplishes is that it provides people with the means to impede and legitimize state action. It encourages transparency and increases scrutiny on government actions. It separates the state and society to avoid "self-policing" by interested parties. It also encourages public debate. But to be effective, however, the civil society approach needs to be nonpartisan and not politically confrontational.

Initial goals of civil society empowerment are to address small issues that are achievable instead of seeking to address the whole framework at once. In essence, address the roots and not just the symptoms. Punishment alone is not enough. Oversight bodies are also needed in parallel. The end game is to develop potential leaders who wish to serve higher ideals than personal gain.

There are numerous examples and a variety of approaches around the world where civil society initiatives have been embraced and they have shown promise and results. For example, India issues a "Citizen's Report Card" that reports violations to the public. In Korea and Thailand they work with the media to publicize refractions. South Africa has several groups including the Citizens against Crime Fund, the Business against Crime Association, and the National Anti-Corruption Council comprised of government officials, business representatives and civil society. Some countries have established local chapters of Transparency International.

In Kazakhstan, civil society currently plays an inadequate role in the fight against corruption. First of all, no independent body exists to monitor corruption and reliance on self-policing is not effective. There is a lack of information available to the public about transgressions and no reporting on the effectiveness of government anti-corruption initiatives. Little is known about offenses that were pursued and the result of those investigations. Moreover, there are minimal opportunities for business and media to play a role in or to liaise with the GOK's efforts to address the corruption issue.

By and large, the Kazakhstan media is particularly quiet when it comes to commenting on corruption. This may be due to a self-imposed code of conduct or from perceived repercussions based on past experiences of political pressure experienced by their colleagues when they spoke out. Finally, strong perceptions exist that highly publicized cases of corruption are primarily used in Kazakhstan as politically motivated tools to disparage an individual or organization.

Kazakhstan also needs to address the disparities that exist between its laws and international standards. First of all, global treaties, conventions and agreements on corruption have not existed for an extended period of time. The first major piece of legislation was the 1977 US Foreign Corrupt Practices Act, later to be followed by other global conventions such as the 1996 OAS international convention against corruption, the 1997 OECD Convention (criminalization of bribery of foreign officials), the Council of Europe Conventions (COE) (1998 and 2003) (criminalizes both public and private sector corruption), the 2003 African Union (AU) Convention (mirrors COE) and the 2005 UNCAC "Convention against Corruption" (combats international crime and terrorism). Thus, an assessment of Kazakhstan legislation vis-à-vis the provisions and best practices from these international standards could be a very useful exercise for the GOK.

Equally important in Kazakhstan's effort to reduce corruption is the need for an independent judiciary and embedded concepts of rule of law. Separation of powers is critical to prevent undue influence over the judiciary on claims or cases involving corruption. Currently, there is a perception in Kazakhstan that there is a lack of impartiality and transparency in the interpretation and enforcement of applicable laws. Moreover, the GOK needs to address both the real and the perceived perceptions of bribe taking by the judiciary. These perceptions, either real or perceived, remove credibility and transparency from the system. Thus, society has a lack of confidence in the institutional framework both from a standpoint of enforcement, as well as a legal tool to address legitimate disputes or allegations of legal violations.

Improving and measuring the accountability of government agencies and officials in Kazakhstan is challenging. This is partially due to the vast number of civil servants which multiplies the opportunities for corrupt acts. A corrective measure used in many countries is to simply remove unnecessary civil service positions. In most cases, it reduces the number of potential recipients of bribes or influence and renders it easier to place greater accountability on a lesser number of officials. This can be coupled with an increase in salaries of the remaining officials in an effort to reduce the need or temptation to take bribes.

Overall reforms in governance and public sector management are important in the fight against corruption. This issue is dealt with in greater detail by other PPEPI Working Groups. While black listing firms that are suspected of being involved in corrupt practices is another tool, it is only one of many. Engaging business in the development and amendment of legislation on corruption can be particularly useful for the GOK since these firms have first-hand experience dealing with Kazakhstan's institutions, officials and procedures.

In conclusion, the GOK faces a number of clear challenges to root out corruption in the country and to be a champion of principles of rule of law. But it is achievable. The clearest challenge, of course, is how best to implement and enforce its extensive legislative and policy framework and to restore society's faith in the government and its institutions. Through this White Paper, the Anti-Corruption and Rule of Law Working Group seeks to engage in dialogue with the GOK on a number of proposals that it believes can further advance the government's effectiveness in this important area.

III. Key Proposals and Discussion Points

1. Examine the key types and impact of corruption in Kazakhstan

Much has been stated about the presence of wide-scale corruption in Kazakhstan. However, clear data on the types of corruption and the economic and societal impact it has on the country has not been defined. In an effort to improve its success rate in addressing corruption the GOK could benefit from conducting a thorough assessment of the key

problems so that it can align its preventive and enforcement actions accordingly. In short, first define the problem in order to find the right solutions.

Discussion Points:

- **Organize a neutral body to manage the review process** consisting of a broad and diverse representation of society.
    - The group or task force could consist of recognized and trusted opinion leaders, respected business people and established civil organizations.
    - The group would require the policy backing of the GOK.
    - Its goals, processes and projected outcomes should me made clear and accessible to the public.
    - The group should be selected by its peers without government intervention.
- **Conduct a survey among key stakeholders** including the Government, the business community and the general population in order to achieve a broad cross-sectional overview of key areas of corruption.
    - The group or task force noted above can coordinate the survey process under the supervision of a board of advisors or committee.
    - The survey should include both quantitative and qualitative data in order to set the benchmarks for the state-of-play of corruption in the country and the estimated social and economic impact in Kazakhstan.
    - Strict survey criteria should be followed in order to achieve credible results and findings.
    - Government agencies should assist with the provision of economic data in order to more accurately assess economic impact categories.
    - The survey should have national and regional coverage to avoid generalizations and to provide clarity of issues in respective regions.
    - Business associations can assist with member surveys and anonymity.
    - Other respected civil organizations can play a role in the data collection process.
    - Independent agencies, working under strict guidelines can also support the data collection process on a broader geographic basis.

- **Identify and publicize the key findings** of the review in order to raise awareness in society and to use as a guide for preparing a targeted prevention and enforcement campaign.
    - The findings can be prepared in the form of a report to be issued and be made accessible on-line.
    - It should be distributed to the media.
    - The focus of the findings is not intended to identify individuals, but to highlight clear trends and specific problem areas.

- **Organize a seminar or forum to discuss the findings** and propose solutions involving the participation of key stakeholders, GOK representatives and recognized experts.
    - The findings should provide the basis for open discussion.
    - It should include local participation for discussing peculiarities of corruption in Kazakhstan, as well as international experts that can provide insight on how other countries have addressed similar situations.
    - Discussions can lead to refining problem areas and solutions.

- **Organize public relations campaigns against corruption** to highlight the harms to the economy and society and publicize GOK actions and results in its anti-corruption drive.
    - The public should clearly feel that the government is diligently working to address the corruption issue in the country.
    - The campaigns can tie in with the survey and seminar findings.
    - Success stories should be part of the awareness campaign.
- **A clear timeline should be set** for identifying the core issues and impacts. As this is a crucial first step to define and then address the issue, the PPEPI Coordinating Committee can discuss and establish the timeline.
    - A first step is securing a government commitment to support this initiative.
    - Timelines should be set for defining the group or task force.
    - The group or task force can then define the concrete steps and timelines to be followed to prepare for and conduct the survey.
    - Donor organizations should be identified that can assist with the preparation of the structure of the group, its processes, survey questionnaires, methodology and compilation of data.
    - If a committed effort is made to progress with this proposal, survey findings and social and economic impact results could be available for discussion and dissemination during Q4 2009.

2. Align Kazakhstan's anti-corruption laws with international standards

Kazakhstan has developed an extremely broad-based policy framework aimed at curbing corruption in the country. Ancillary to this framework is a host of laws and regulations in addition to its recent ratification of the U.N. "Convention against Corruption." In light of these significant policy and legislative developments over an extended period of time, the GOK could benefit from conducting a comprehensive assessment of this extensive base vis-à-vis international provisions and practices. Based on this review, global best practices could be defined and applied to gain clarity, consistency and effectiveness.

Discussion Points:

- **Set benchmarks to diminish disparities with international best practices** including treaties and national acts of the US, UN, European and other laws to ensure

that Kazakhstan's legislative and legal base is clear, effective and relies on best global practices in the area of anti-corruption measures.

  - Considerable comparative analysis has already been conducted by leading global educational facilities and international institutions. The GOK can conserve time by reviewing these international studies.
  - Due to the extended period during which Kazakhstan developed its policy framework, focus should be directed to the most effective and applicable provisions that best suit Kazakhstan's environment.

- Much work has already been completed in this area from international donor organizations. A review of their findings and the degree to which their recommendations have been applied should also be considered as a primary step in the review process.
- **Develop uniform, mandatory and enforceable legal requirements** that are clear and consistent and can be effectively employed against corrupt practices.
  - Potential overlap should be removed and/or clarified to determine prevailing provisions.
  - Provisions must be clear enough to be enforceable.
  - Consideration should be made regarding the enforcement institutions and processes for implementing key provisions of the international obligations.
- **Establish clarity in the system** by ensuring that implementing rules and regulations fully support legislative intentions and can be effectively applied.
  - A top to bottom review is required to identify loopholes, contradictions or overlap that hinder application of broad international commitments.
  - Rely on input from examples of challenges inherent in the system to support efforts to improve clarity.
- **Engage business and civil society in the review process** of legislation and regulations in an effort to receive a broader and more practical perspective of issues that affect the day-to-day practices of the business community and the general public.
  - A diverse list of business associations can provide consolidated practical examples of problem areas that should be addressed.
  - They can also make recommendations based on global practices utilized in other countries where they have an active business presence.

3. Establish an effective monitoring system

Reliance on self-policing has not been proven to be an effective deterrent or enforcement mechanism in national campaigns against corruption. The GOK may benefit by expanding its current legislative review to include a focused review on legislation that places greater emphasis on improving and regulating government accountability. Imposing greater accountability and measurement mechanisms on government agencies and officials could have a significant impact on how they carry out their public duties in terms of efficiency and transparency.

Discussion Points:

- **Allow for independent auditing of government operations** in an effort to impose greater accountability of government officials and institutions.
    - Kazakhstan could benefit from experiences of other countries where independent audits were conducted of government activities.
    - These audits are particularly useful when reviewing government expenditures on complicated or high-value projects.
- **Expand the GOK's current 10-year legislative review** to include further emphasis on anti-corruption and rule of law principles.
    - Incorporate certain benchmarks defined by PPEPI working groups in the GOK review process.
    - Strengthen whistleblower legislation and protections in an effort to encourage reporting and enforcement of corrupt practices.
    - Revise certain legislation and regulations that can be inappropriately used as political tools to disparage individuals and organizations under the guise of anti-corruption measures.
    - Remove provisions for prosecuting libel from the Criminal Code.
- **Monitor revenue transparency** through the validation of payments on government tenders.
    - Utilize independent assessors as necessary.
    - Review tender results from the perspectives of project plan compliance, full completion and quality-related criteria.
- **Monitor the government's success rate** in meeting its stated obligations under treaties, conventions, laws and decrees and prepare systematic reporting requirements.
    - Due to the extensive range of obligations and commitments to which the GOK has agreed, a tracking exercise of its progress should be conducted.
    - Measurement criteria should be defined and tracked.
    - Milestones should be defined, reviewed and raised with the GOK in the event compliance deadlines or requirements are not met.
- **Publish the results of monitoring activities** including audits, validation processes, accountability checks and the GOK's success rate on its stated obligations with international conventions.
    - Since the country's ratification or concurrence with international obligations is ultimately for the overall benefit of society and the country's pace of development, the population has a need and a right to know that obligations are being met.
    - Specific compliance landmarks and the impact of their completion on society should be packaged and communicated to the population.

4. Empower civil society in the anti-corruption campaign

Engaging civil society in national campaigns against corruption has proven to be useful in many countries throughout the world. In Kazakhstan, civil society plays a much reduced role in this area. The GOK could find that a non-confrontational engagement with civil society in its anti-corruption drive could prove useful to achieving its objectives. It would send a clear signal to society and to the international community that it is unreserved in its commitment and it could highlight the country as a practical model and reference point in the area of anti-corruption measures. Its success, however, will require clear, open and transparent GOK support for the initiative.

Discussion Points:

Establish an independent Council on Corruption that becomes an umbrella organization with a wide range of responsibilities in support of Kazakhstan's stated policy vision to address corruption in the country. The Council is not intended to replace the role of the State, nor would it have the power to dictate or override the State. It would not assume any government powers and would not have the authority to intervene in any criminal justice proceedings or other state functions. Instead, it would provide an important supplementary role that would assist both the government and society to better identify and address problem areas involving corrupt practices and to fill gaps in existing rule of law fundamentals.

- The Council, as a structure, should be fully independent of the government and it must be fully open and transparent in its activities.
- Its members and advisory board should be comprised of members of civil society, the private sector, and the business community.
- It should act as an axis between society, the government and law enforcement agencies.
- Its approach should be objective, independent and non-confrontational.
- Its activities should be encouraged and openly promoted by the GOK.
- It could act as a repository of information from citizens who report instances of corruption. The information can be direct references to corrupt practices or anonymous tips highlighting allegations of corruptions. This information can be used to identify patterns over time that can be compiled into periodic reports to be submitted to the GOK for further examination.
- It should receive diverse funding sources to avoid perceptions of bias or influence. As corruption impacts all facets of society, funding can come from a variety of sources including the GOK, international donors, the business community, associations and other third party organizations.
- The Council would require a professional staff, a clear structure, an advisory board and a clear set of objectives and areas of concentration.
- In addition to being a credible source of information on corruption in Kazakhstan, it would also serve as a center for analysis, research and data compilation that ultimately assists the GOK in its anti-corruption efforts.
- It should make recommendations to the government on measures to improve prevention and enforcement practices.

- It can measure government success rates on its policies and programs.
- It could prepare and review Standards of Conduct that can be utilized in a wide range of state and quasi-state agencies and organizations.
- The Council should publish periodic reports about results of studies, activities and other data consolidated for measuring issues and progress.
- It should play a pinnacle role in improving public access to information, including the media, on corruption and rule of law issues.
- It should publicize success stories and cases of infractions so that society can be kept informed of the commitment and results of government measures.
- The Council can also monitor regional and local government spending and provide data on how revenues collected from fines and penalties is later reintroduced into the budget to address the impact from such violations, for example, in the area of environmental protection.
- It can provide recommendations on improving the criminal and administrative codes and guidance on protecting the sanctity of rule of law. In this regard, it can also act as a repository of information and a beneficial liaison between the business community and the fiscal authorities on claims of abuse of authority or improper use of criminal and administrative codes in an effort to secure bribes from companies. Moreover, it could seek to alleviate the concerns regarding practices by fiscal police to elevate tax compliance issues to criminal offenses.
- The Council can also raise awareness of effective programs implemented in other countries and consider similar models for Kazakhstan.
- Overall, the Council can promote constructive dialogue to assist in modifying the current culture of acceptance of corruption as a way of life.

- **A clear timeline should be agreed** for the establishment of the Council on Corruption
  - It would first require support from the GOK to support the initiative.
  - A timeline can then be defined for outlining all of the steps required to create a functional and effective Council, taking into account the structure, personnel, clear objectives and guidelines, funding sources and reporting requirements.

- **Support the development of civil society organizations** and initiatives and provide assistance and information in order to keep them engaged.
  - Existing civil society organizations require support and protections from the GOK in order to carry out their activities.
  - Mechanisms that would allow them greater access to, and support from the government would be beneficial in assisting them in their efforts to improve society.

July 16, 2009

U.S. – Kazakhstan Public-Private Economic Partnership Initiative - PPEPI

White Paper to the Government of Kazakhstan on Improving the Competitiveness of Kazakhstan Enterprises, especially SMEs

Submitted by the PPEPI Working Group on Economic Diversification and SME Development

March 2010

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Economic Diversification and SME Development Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to improve the competitiveness of Kazakhstan enterprises, particularly Small and Medium-size Enterprises (SMEs).

The Working Group identified the competitiveness of domestic enterprises in a wider sense as one of the most important aspects influencing successful diversification of the economy. The Working Group members, drawing on their expertise, GOK policies and other publicly available information, analyzed the factors currently inhibiting and/or supporting the competitive edge of Kazakhstani enterprises. The benefits of the proposals are improved coordination and collaboration supporting measures to develop enterprises. These measures will allow greater clarity in sector prioritization and provide easier access to the support needed to improve the competitiveness of Kazakhstan's domestic enterprises.

Kazakhstan's progress in oil and gas and mineral resource extraction and production over the past two decades has been impressive. However, outside of these sectors, measurable economic development and innovation among the country's domestic enterprises has been marginal, according to world standards. Over this same period, the GOK has outlined several core development policies and it continues to announce new policy programs with impressive targets for the next 5-20 years. The core challenge, however, is transitioning these policies and programs into effective support to the end-users – the domestic enterprises.

This White Paper addresses selected key challenges Kazakhstan companies face in their efforts to become more competitive. The Working Group has focused on three areas where improvements are needed from the GOK, including:

1. Reduction of the overall cost of doing business in the country,
2. Improvement of qualitative factors – with focus on professional and vocational education, and
3. Improvements in the GOK's assistance and infrastructure for private enterprises, especially through creation of a unified Enterprise Support Agency.

While these adjustments can benefit all Kazakhstan enterprises, it is recommended that specific attention be paid particularly to SME development in the country.

First of all, the Working Group recommends some changes to the policy framework for Kazakhstan's enterprise assistance programs. This includes creation of a single Agency for Enterprise Development, as well as improving collaboration between core ministries and agencies responsible for policy development and implementation. It also lists a range of changes to current norms and practices that will reduce some of the costs and administrative barriers to doing business in Kazakhstan. This includes revision of the

definition of small and medium enterprises, tariff and tax reductions, reduction of documentary requirements and the creation of new incentive schemes.

Secondly, the White Paper recommends that more be done to improve the quality of Kazakh enterprises to enhance their competitive standing. The White Paper proposes that a long-term approach be pursued to improve training and vocational education and recommends the establishment of a National Qualifications Framework for supporting and measuring academic and educational excellence.

Third, as an overriding concern, the White Paper suggests that specific programs should be expanded and improved especially to support the development of SMEs in the country.
These proposals can go a long way in improving the competitiveness of Kazakhstani enterprises, and subsequently the country's overall socio-economic development.

II. Introduction

In order for Kazakhstan to enjoy sustainable economic growth, its enterprises must be competitive. There are many factors that influence competitiveness that are not limited to government assistance programs. A broad government policy program and the institutions and infrastructure to implement these policies are paramount to success. However, the enterprises themselves must take primary responsibility and initiative to develop through their own internal "self help" practices and utilize the range of resources available in the country (financial, economic, labor, technical, etc.) While larger enterprises have more resources to dedicate to improving their competitiveness, SMEs need additional GOK support to be successful.

This White Paper focuses on key factors to improve the competitiveness of enterprises in Kazakhstan. It takes the view that the successful development of competitive enterprises in KZ, whether "fully domestic", Joint Ventures or branches/subsidiaries of foreign companies, can all significantly contribute to the development of a diversified and sustainable domestic economy. The country's rich natural resources provide generic competitiveness to Kazakhstan companies active in these fields. However, companies active in non-extractive business spheres need to do considerably more to develop their competitive capacity and competencies, with or without Government support, in order to be able to sustain international competition.

To support competitive development in Kazakhstan in a general sense, this White Paper proposes improvements in three core areas:

1. Reduction of costs of doing business,
2. Improvement of qualitative factors, and
3. Unification of GOK policy and assistance programs for enterprise development.

In addition, a fourth area is recommended – the need to direct special attention to assisting the development and competitiveness of SMEs in the country.

Cost of Doing Business

Many factors impact the costs of doing business in Kazakhstan. First and foremost are taxes, import tariffs and the regulatory framework for trade. Due to vast territory but low population density in Kazakhstan, considerable costs are incurred on logistics alone. Added costs are incurred due to the low levels of infrastructure, including physical, informational and other forms. One underlying concern is the impact of the new Customs Union between Kazakhstan, Russia and Belarus. Some businesses believe that it will have a negative impact on their competitive capabilities due to lower costs of goods and supplies available in Russia and Belarus.

Access to and the cost of financing is particularly high in Kazakhstan. This includes debt financing (Banks, leasing) and equity (private equity funds, role of KZ Government sponsored funds (SK) and DBK). This impacts all enterprises, whether a new start-up or one seeking to expand.

Labor costs are consistently increasing in Kazakhstan even though the qualifications and skills of these professionals can be below standards needed by enterprises. If the qualifications are inadequate, enterprises may resort to using more expensive foreign experts. Other costs to be considered include the standard costs of starting and closing a business. Here, the regulatory framework should be reviewed to minimize these costs and procedures.

Qualitative Factors

Quality, as a factor in competitiveness, encompasses a wide range of issues – some consisting of long-term factors that require immediate attention. Since some of these factors, like education and skill base, can only be improved over time, it is important that the GOK provide the focus and drive the process to ensure that the country's quality standards increase and not stagnate.

The transfer of technology and know-how is a critical area for accelerating quality improvements. This includes access to up-to-date developments in industrial spheres, the use of modern technologies and management principles. Here, Kazakhstani enterprises can benefit more from close cooperation with international investors and institutions. In this regard, a realistic and critical assessment of Kazakhstan's investment climate and framework would be beneficial in order to define what can and should be improved. This analysis however is beyond the scope of this White Paper.

An area that demands considerable attention is the quality and availability of qualified workforce in Kazakhstan. One of the most noted challenges raised by the private sector is

the difficulties they face finding qualified professionals in the country to fill key positions in their enterprises. Here, real focus is needed to assess the status and role of higher education and vocational schools in Kazakhstan, their strengths and weaknesses, and the links between universities and research organizations as well as the application of their work in the real economy. There is a serious shortage of qualified technical specialists in the market. New professional standards should be pursued to prepare Kazakhstan for the future.

Support SME Development

It is well recognized globally that SMEs play a critical and commanding role in the economies of the most developed countries. These enterprises can define the future competitiveness and sustainability of the country. The Department of Enterprise Development (DED) of the Ministry of Economy and Budget Planning (MEBP) already plays a critical role in overseeing the development of SMEs in Kazakhstan. SMEs face many barriers that are endemic to the problems facing all enterprises in Kazakhstan, which are:

- Reduction of administrative barriers related to unnecessarily costly requirements of conducting business (time and financial resources);
- Shortcomings in legislative language that allow for discretionary interpretation by government inspectors and enforcement agencies;
- A need for the development of competitive knowledge and skills in the business environment for manufacturing competitiveness in the domestic and global markets for goods and services;
- Creation of a legal and economic environment for businesses with qualified personnel; and
- More assistance and investments in SMEs and financing for the implementation of innovative, export-oriented projects.

For SMEs to become competitive, they require basic support such as new and improved processes in the areas of accounting, engineering, budget planning, marketing and sales.

III. Issue Statement

Kazakhstan's domestic enterprises outside of the oil and gas and mineral extraction industries are unable to effectively compete on level ground with international companies active in the same industries. Part of the issue is due to inadequate levels of quality and innovation, including a shortage of qualified specialists in the country. Added pressure may be incurred once the new Customs Union between Kazakhstan, Russia and Belarus comes into full force. Kazakhstan needs to take a long-term approach to improving the competitiveness of its enterprises, including SMEs, if it intends to have a sustainable and healthy economy. Due to its relatively small population, export markets are critical to long-term growth. Therefore competitiveness of domestic enterprises – to international standards - is essential. Absent significant changes in the support of enterprise development,

Kazakhstan could find itself becoming more reliant on imports to the detriment of its domestic industry.

IV. Current Role of Central Institutions

There is no shortage in Kazakhstan of national long-range development plans and policy visions on innovation and enterprise and industrial development (Strategy for Industrial-Innovation Development 2015; Intelligent Nation 2015; Business Roadmap Strategy 2020; Strategy 2030, etc.) Nor is there a shortage of laws comprising a regulatory framework for enterprise development. The shortage, however, has been in the low level of effectiveness of these programs taking root in the country. Impressive long-range targets are being set, but the means to achieve these targets is not fully made available.

While success can be attributed to the formulation of these visions and frameworks, this partial success is due to the fact that these programs have only been partially implemented. To have real, measureable success in advanced enterprise development, two clear components are needed in Kazakhstan – better coordination of policy programs with clear delineation of responsibilities; and stringent implementation of the programs so that the benefits reach the intended end-users.

The Samruk-Kazyna Sustainable Development Fund has been earmarked to coordinate oversight and implementation of a large portion of the Innovative-Industrial Policy 2015. It also has authority over implementation of the "seven clusters" defined by the government as priority industries. KazAgro similarly has a major responsibility for economic development in the agricultural sphere. The DAMU Fund, originally set up to support SME development, has been used to channel Samruk-Kazyna funding through commercial banks as part of the anti-crisis measures. What is needed is a clear sense of direction and comprehensive collaboration and coordination among diverse state authorities and between state authorities and the private enterprises which they seek to support.

The laws on their own will not bring measureable results. For example, the July 17, 2009 Act included amendments to support private enterprise development and identified changes for monitoring those agencies responsible for this development to ensure implementation. However, the monitoring in practice is essentially voluntary. As a result, absent clear and mandatory enforcement, these programs will likely continue to be more visionary than practical.

The Department of Enterprise Development (DED) of the Ministry of Economy and Budget Planning (MEBP) is defined as the primary state body at the national level responsible for implementing public policy for SME development. The structure of DED was formed in accordance with the current priorities of state policy. It is the view of the Working Group that in light of the DED's intended role, proposals to improve policy should be directed to strengthening the MEBP and implementation should fall within the framework and remit of the DED.

V. Policy Opportunity

Kazakhstan is at a crossroads. It has successfully withstood the challenges of the global economic crisis and has mostly restored economic stability in the country. It is maximizing its long-term strategies to develop its extensive, but limited natural resources, and in 2010, it should achieve positive GDP growth. However, this prescription for economic development limits growth and technological advancements to industries concentrating on natural resources. This scenario also places non-extractive industries in jeopardy of economic stagnation, or worst case, actual decline.

The GOK has a broad vision for enterprise development and advancement in the non-extractive industries. Successful implementation of these policy programs is critical to the current and future competitiveness of Kazakhstan's domestic enterprises. By recognizing the needs of domestic enterprises, particularly SMEs, the GOK has an opportunity to improve their chances of success through more effective coordination of support programs. Moreover, by removing obstacles to starting and running a business, and providing incentives for innovation and quality improvements, Kazakhstan can become a much more competitive nation and a preferred source of high quality goods and services abroad.

VI. Policy Recommendations

While there are many factors that impact the competitiveness of an enterprise, and ultimately the country, this White Paper recommends improvements in three primary areas:

1. Reducing overall costs of doing business in Kazakhstan,
2. Increasing the quality of the fundamentals of enterprises - in particular in the field of professional education, and
3. Creating a unified enterprise support policy and a unified Agency for Enterprise development, (based on the existing DED within MEBP) which would coordinate, supervise and implement government policy programs for SME development.

I. Reduce the Costs of Doing Business in Kazakhstan

The Working Group has identified several areas that are within the scope of GOK. If implemented, these proposals will improve, directly or indirectly, the cost level and structure of domestic enterprises.

Simplified Tax Regime - The Kazakhstan Tax Code has a special tax regime consisting of a simplified declaration for small businesses. There exists a benefit to broadening this regime to include medium-sized industrial enterprises falling under the Law "On private entrepreneurship".

Redefine Medium Enterprises – It is recommended to change the definition criteria for medium-sized businesses. Change the criterion from average annual value of the assets to the value of annual turnover of not more than 10 million Euros (or 140 million MRP - monthly payment index). This would be in line with the EU recommendation / classification of small enterprises, taking into account the differing level of development of Kazakhstan's economy. The Working Group deems that measuring the size of a business by its sales volume is more reasonable than by the size of its assets. This measure will increase the number of enterprises eligible for simplified procedures, thus ultimately decreasing the cost of doing business for the entrepreneurs.

Social Tax Reduction - Since manufacturing enterprises tend to have a large number of production workers and engineering personnel, a significant portion of the cost of production enterprises are taxes on wages. It is recommended to reduce the social tax on wages of employees of industrial enterprises to 5%.

VAT Exemptions – The timing of VAT exemptions should better correlate with the pace of sales of an industrial enterprise's production.

Modernization and Innovation – State subsidies on the interest rate on loans and leases to manufacturing enterprises that are earmarked "for the modernization and innovation of existing production" should consist of the margin between the market interest rate and the credit refinancing rate.

Subsidies on Salaries - Government schemes to reduce or subsidize salaries for 1st year new hires (of certain professions) should be considered to encourage hiring as well as SME support. This is a model widely used in countries like Canada.

Cost of Financing and Access to Credit – This is one of the key factors influencing successful – and competitive – development of domestic enterprises, especially SMEs. As a result of the financial and economic crisis of 2008-9, the GOK has introduced a number of policies and measures to support the banking sector and re-start lending to the real economy. These steps are considered to be widely successful. However, in relation to SMEs, the resulting cost of funding provided – through DAMU and commercial banks was relatively high, impeding the competitiveness of the enterprises.

Going forward, the role of the GOK and the regulators needs to be focused on creating a simple and level playing field, without unnecessary micro-management, enabling and encouraging banks and other financial institutions to engage in new prudent lending and investments.

Supporting measures need to be taken to improve the development of domestic medium- and long-term capital markets, creating better opportunities to lend / borrow and invest in

KZT – in contrast to the recent past, dominated by FCY (mainly $ and EUR). Private and (in the short term) public equity will play an important role in the revival of real sectors of the economy.

Efficient functioning of the domestic banking and financial sector will in the medium term lead to a decrease of systemic risks and thus, to lower levels of financing costs for enterprises.

Optimization of Audits and Inspections – Much work has been done and continues to be done to reduce the burden on enterprises in the form of inspections and audits by enforcement agencies. Some programs are already underway and the extent of their success in reducing the burdens and administrative barriers to doing business will be measureable in the near future. Specific steps taken recently are described in Appendix I hereto.

II. Improve Qualitative Factors for Long-Term Enterprise Development

In order to be specific, the Working Group has focused on one area which was identified as the most critical for successful long-term development of local enterprises: availability and qualification of appropriate personnel. There exists a clear need for high professional standards in order to develop trained professionals and align the educational system with the needs and priorities of industry and other sectors.

Qualified Personnel – One of the biggest challenges for Kazakhstani enterprises is the shortage of highly qualified, professionally-trained employees. This impacts the quality of both the public sector organizations and the private sector enterprises. One proposed solution and practical mechanism to improve competitiveness and skills is the development and implementation of a National Qualifications Framework (NQF) for vocational education and training. The core components are set forth below, with an extended version described in Appendix II.

Establish a National Qualifications Framework (NQF) for Vocational Education and Training

- The NQF is a set of legal and institutional mechanisms for developing the skills and qualifications of individuals to meet the demands of the labor market and measure the qualifications from education and training institutions.
- It uses the European qualification structure as a tool for reforming the system of vocational education and training.
- It provides a tool that defines the principles of the national system of vocational education, its relationship with other levels of education and training, as well as the labor market.
- It introduces an internationally comparable system of qualifications. This system is important:

- For the workforce - to facilitate the recognition of qualifications, ensuring competitiveness and mobility.
- For training providers - providing the possibility of utilizing the experience of other countries.
- For employers - providing the possibility of understanding the profile and level of qualifications.

The NQF will support lifetime learning by integrating the education and vocational training systems and it will provide an easier way to obtain credit for learning.

Given the need to integrate Kazakhstan into the international educational arena as stated in the 2008-10 National Program of Technical and Vocational Education, it is important to develop and implement a national qualifications framework in line with international best practices, based on the characteristics of the labor market in Kazakhstan.

- Main objectives and benefits of the introduction of the NQF:

- The introduction of the Kazakhstan National Qualifications Framework is geared towards reform as well as towards existing legislation
- The goal is to improve the quality and relevance of vocational education and training.
- It will enhance vocational education and training, bringing back into line with the labor market.
- It will ensure recognition of the qualifications assigned to Kazakhstan in the international labor market.
- It will provide formal recognition of the results of informal and formal training and certification.
- It will develop and implement a National Classification of specialties that meet the real needs of the market.
- It will develop and implement (with the participation of employers) professional standards (specifications), which will include requirements for knowledge, skills and competencies.
- It will define classifications of specialties and qualifications of vocational education aligned with the classification training.
- It will be carried out through the development of modular training programs based on competencies.
- It will develop professional standards for the specification of education and improve its content, leading to higher educational standards.

III. Improve Infrastructure and Assistance for SME Development

To effectively support SMEs, the GOK needs to adopt policy reforms that address legal and procedural issues, and implement practical activities that will directly assist entrepreneurs in opening new businesses, expand existing ones and support their access to domestic and external markets.

Avoid Program Fragmentation – In order for Kazakhstan enterprises to become more competitive, they require a consistent framework of support from government programs. To do so, it is necessary to remove the fragmentation among the various ministries and agencies that are responsible for enterprise development programs. A lack of consistency in information sharing and program implementation is detrimental to the growth and quality improvements among Kazakhstani enterprises. These programs should be properly structured to provide support in a range of areas (road map, lending, investments, and non-financial support to non-extractive sectors); they should be properly monitored for implementation and effectiveness, and; they should have wide geographic coverage involving close cooperation between the republican and regional authorities.

Unified Agency for Enterprise Development – Existing public agencies need to be strengthened and possibly new agencies created to support SME development.

The Working Group recommends specifically that the Department of Entrepreneurial Development (DED) have the sole responsibility for the coordination and supervision of government policy programs that support and facilitate SME development. The GOK should position the DED as a one-stop shop for entrepreneurs and provide it with the authority and the resources it needs to effectively carry out its activities. The GOK should also consider creating a Committee for the Protection of Rights of Entrepreneurs, which would be responsible for monitoring the compliance of state bodies that are vested with regulatory, implementation and monitoring functions. The Committee should establish and protect the legitimate rights of employers and inform the Head of State and the GOK of violations by local and central authorities of RK legislation that regulates the activities of private enterprises.

Core Assistance Institutions – It is recommended to assess the resources available in Kazakhstan that can provide the most effective support in policy implementation and overall SME development. This includes foundations, research companies and institutions, educational facilities, business associations, consulting companies, investment companies, financial institutions and others. DAMU has made progress in supporting SMEs in a number of fields. However, additional support agencies and institutions are needed to address the extensive number of enterprises that need assistance.

Unified SME Development Strategy – A core group of public and private sector specialists should collaborate on the formulation of an innovative strategy for SME development. Their scope of work would include analysis and evaluation of the domestic market (and external markets for Kazakhstani goods and services); the investment attractiveness of sectors based on domestic business needs for goods and services; and the creation of a core mechanism for providing consulting and educational support to SMEs.

The following list of proposed activities is reflective of what is available in the United States for small- and medium-sized enterprises. Most of these activities are fee-based, but are

provided at a nominal cost to the entrepreneur or business; export consulting is free of charge. Ideally, the development and management of these activities should be housed within **a single government agency**, but they should be made available to businesses throughout Kazakhstan through branch offices in the regions and/or through Internet-based tools (webinars, distance learning, etc.).

- Assist entrepreneurs with developing a business plan and provide low-cost training courses that teach them how to manage, market and finance their businesses. In Kazakhstan, the government should use existing resources, such as microfinance institutions in the oblasts and vocational institutions where the "Know About Business" course is being taught now.

- Provide Internet-based training courses or consulting services to entrepreneurs; using Internet tools, such as "webinars" (web-based seminars), will reduce the overall cost of the training and allow more expert speakers to participate (no one has to travel to participate/speak on a webinar).

The Department of Entrepreneurial Development, in collaboration with the National Analytical Center and business associations, should initiate, develop, maintain and send out a monthly or quarterly newsletter to subscribers (businesses, business associations, universities, entrepreneurs) that would provide information on new or pending business legislation, microfinance institutions, the creation and location of "single windows", and any other information that would help them run their businesses more effectively and efficiently.

The National Analytical Center should be charged with conducting market research on key domestic and foreign industry sectors and posting that information on a national database that would be free for users/businesses to access. The database should also include information on upcoming trade events, trade shows, conferences, business seminars, etc.
Samruk Kazyna should hold seminars for domestic and foreign businesses on the national procurement process, what opportunities are available, how to write a winning bid for a tender, etc.

Regional Assistance – Public Policy and SME support programs should take into account their regional specificity, keeping in mind that such support should primarily be provided at the regional, district and city levels. Coordinated utilization and involvement of SPK's, as well as other regional agencies – in line with the new future unified Enterprise/SME support policy – will be beneficial.

Remove Administrative Barriers – Continue work on further improvements of the permit system, using international experience as a guide (minimum number of permits required from the state = maximum impact on entrepreneurial activity).

Definition of SME – The definition of an SME in Kazakhstan versus the definition in Europe is vastly different and should be reviewed and reconsidered.

Fighting Corruption – SMEs are regularly faced with corrupt practices at all levels of the business process. A more effective campaign is needed by the GOK, with the involvement of the business community, on proposals for changes and additions to legislation of Kazakhstan on combating corruption. For business development, it is very important to define such concepts as "corruption" and "raiding," as well as the formation of clear and transparent mechanisms for determining the characteristics of these concepts and ways to combat them.

VII. Analysis of Recommendations

Many of the issues and proposals in this White Paper may appear broad in nature or to be commonly heard concerns about problems enterprises face in securing support from government programs. Often the response from the GOK is that a law or an institution already exists to address a particular issue. The problem becomes self evident – the policy and the program exist but there is a broken link when it comes to implementation. By listening to the concerns of private enterprises that have faced these challenges, it becomes clear that more needs to be done in terms of raising awareness of Government policies and assistance programs, and secondly, in streamlining the processes to obtaining support. The more help that can be given to enterprises, the more successful they will be in improving their competitive stature. This is a benefit that flows over into all of Kazakhstan society and to the overall development of the economy.

VIII. Appendix

Appendix I

Reduction of Administrative Barriers

A number of steps were taken in 2009 to address the concern about excessive and frequent checks and inspections by controlling authorities on enterprises in Kazakhstan. The analysis below describes steps being taken or planned to be taken in 2010. The success of these reforms will be quantifiable later in 2010.

Reducing administrative barriers to entrepreneurship is being addressed in three primary areas: 1) improving the permit system, 2) optimization of inspections, and 3) improvement of the existing regulatory framework.

The approach to improvement of government regulation of business can be divided into 3 phases: 1) a qualitative and quantitative evaluation of permitting and monitoring activities will be conducted, 2) specification and simplification of permitting procedures, including reducing the frequency of scheduled inspections, and 3) (parallel to 2) practical implementation of reforms.

Results of the adoption in 2009 of the Law on the optimization of Inspections:

- In 2010, the exact number of audits to be conducted by state bodies will be set;
- In Q1 2010, 37 systems of risk assessment will be implemented in 35 state agencies;
- A reduction in the frequency of routine checks for law-abiding businessmen, whose business carries a high risk to society (in the field of taxation, customs, etc. - up to 3-5 times); (in the field of Surveillance, veterinary and phytosanitary control - up to 2 times);
- A reduction in the duration of audits: (Surveillance – twice); (veterinary, quarantine and plant protection, seed, grain and cotton market - six times).

- In addition, in the first half of 2010, a legislative bill will be introduced in the Majilis aimed at further improving the system of checks and inspections. MEBP, business associations and the General Prosecutor's Office will be monitoring the inspections conducted by state bodies to verify compliance with the rights of entrepreneurs and efficiency.

- The audit activity is expected to result in the reduction to 348 from 1,004 documents required for permits. In Q1, a legislative bill will be developed and submitted to the Majilis on simplification of the approval system, aimed at reducing the number of industries requiring permits, the gradual transfer of the licensing of certain types of professional competence to self-regulatory organizations, disseminating the principles of "one window" and "silence-assent" to all permits and all state bodies and the abolition of the mandatory notarization of documents. There will also be standards and regulations put in place providing public services to the private enterprise for all permits with the phased introduction of e-licensing on national and regional levels.

- State support of entrepreneurship will also be found in financial measures. In addition to measures of state financial support for implementation within the framework of the anti-crisis program, the introduction of new instruments is planned. Thus, in order to subsidize interest rates on loans, partial credit guarantee for small and medium enterprises and service support to business will be formed under a new budget program.

- Improving the legal and regulatory framework for business will be realized by introducing a preliminary analysis of the regulatory impact of the development of normative legal acts (ARVs).

- In the medium term, measures will be taken to begin the settlement of audits of law enforcement agencies, to develop modern methods of inspection controls on the basis of methods of technical regulation (i.e. without the participation of government agencies), and to implement a horizontal separation of powers

between state bodies. A shift to a graduated system of fines will require reform of the Code on Administrative Offenses.

Appendix II

Strategic Development and Implementation of a National Qualifications Framework (NQF) for Vocational Education and Training in the Republic of Kazakhstan

This strategy is a concept document. The development objective of this document is to provide comprehensive coverage of the roles and responsibilities needed to implement an effective system of qualification.

It recommends using the European qualification structure as a tool for reforming the system of vocational education and training.

The strategy for lifelong learning is the basis for the development of any economy. Therefore, this strategy has stimulated the process of learning and the introduction of the NQF in the EU. In the framework of joint EU activities the following strategic objectives were formed:

- Improving education and vocational training in the EU
- Facilitating access to vocational training for all citizens
- Open Systems education and training for the outside world

The EU experience is useful for Kazakhstan and provides benefits at the national level:

1. Provides a tool that defines the principles of the national system of vocational education, its relationship with other levels of education and training, as well as the labor market.

2. The introduction of an internationally comparable system of qualifications. This system is important:
   - For citizens - to facilitate the recognition of qualifications, ensuring competitiveness and mobility.
- For training providers - providing the possibility of extracting the experience of other countries.
- For employers - providing the possibility of understanding the profile and level of qualifications.

3. Support for learning throughout life by integrating education and training systems.

4. Easier way to obtain credit for learning.

The National Qualifications Framework is a tool for the process of reforming vocational education. International practice of the last decade shows that the quality assurance of vocational education works most effectively when setting national standards to:

- Knowledge, skills and skills of the trainees on the basis of professional competence
- The process of assessing the level of knowledge and skills requirements
- Expertise of Experts on the Evaluation of examiners.

The system, based on competencies, provides for a nationwide national qualification structure, which is characterized by:

- Established levels of qualifications
- Definition of general requirements for each skill level, regardless of the type of professional activity
- Continuity requirements for the transition from primary to tertiary level
- Mandatory registration of qualifications at various levels in the development of professional standards that define the necessary requirements for professional level employees

- Reflecting the level of skill in the performance appraisal documents based on the state sample.

Measuring the quality of knowledge and skills trained by using professional standards of qualification levels is provided by:

- Description of the elements of professional competence
- Indicators of criteria for mastery of these competencies
- Setting a range of competencies
- Lists of required certificates of professional competency
- Indicators of the requirements for the key knowledge and skills

Specific standards of knowledge, skills, and appropriate skill levels, are used to determine the learning outcomes that must be achieved to receive diplomas and certificates. At the same time, it takes into account each level of qualification certificates and diplomas obtained in formal and informal education as a result of (workplace learning, training, self learning, etc.).

The National Qualifications Framework includes the common quality assurance processes to measure knowledge and skills. The common standard requirements for the assessors (examiners) are designed to ensure the recognition, evaluation, certification and accreditation of professional competences and qualifications (education and learning outcomes). Thus, within the National Qualification System is a system of certification of qualifications.

Necessity and prerequisites to reform the vocational education system in Kazakhstan

Currently, Kazakhstan is making some steps to reform the process of training specialists for the national economy:

- Adopted the "State program of development of technical and vocational education in 2008 - 2010."
- The new Act "On Education" from 27 July 2007 introduced the Article: "the content of educational curricula on skill level technical and vocational education, including integrated educational programs; adult education; and the status of teachers."
- The assessment of the quality of training of qualified personnel was separated from the educational institutions. The Republican Center for confirmation and qualifications was established.
- Experiments on the preparation of professional standards. In connection with which was developed the modular educational programs focusing on competence.

The main public document is the classified list of specializations, which is mandatory for all sectors of the economy and is a document that is constantly upgraded.

Despite these positive developments, the training of skilled professionals remains a major problem. The market of educational services is not keeping pace with the labor market, which now requires professionals with knowledge of modern technology and a certain set of skills.

The main problems in the education system are:

- Lack of a clear system of training and retraining, internships in production and training of teachers of special subjects and masters of industrial education.
- Declarative essence of social partnership, the lack of presence of labor market actors in the process of establishing a system of training.
- No requirement available to assess basic and professional skills. The predominance of theoretical training and outdated data, lack of flexibility and continuity, and the inapplicability of the content of educational programs vis-à-vis the requirements of employers.

The above-noted problems lead to uncertainty regarding the requirements of training and as a result - a low quality level of education that is not relevant to the needs of employers. It leads to the low quality of

education, in general and to the uncertainty of their position and role in the labor market. All of this prevents an increase in employment and ultimately, does not benefit the economy in the country.

Therefore, the National Qualifications Framework can serve as a tool for modernization of vocational education, and begin the process of deep, meaningful reform.

The need to integrate Kazakhstan into the international educational sphere is expressed in the "State program of technical and vocational education in the years 2008-10." It calls for the development and implementation of a national qualifications framework in line with international practices, and taking into account the peculiarities of the labor market in Kazakhstan.

The main aims and objectives of the introduction of the NQF

The introduction of the Kazakhstan national qualifications framework is based on the needs of reform, as well as required by legislative acts. The purpose of the introduction is to improve the quality and relevance of vocational education and training.

- Bring the results of vocational education and training in line with today's requirements and future needs of the labor market.
- Ensure recognition of qualifications assigned to Kazakhstan in the international labor market.
- Provide formal recognition of the results of informal and formal training and certification.

Core Tasks:

1. To improve classifier training in the workplace.
2. Develop and implement National Classification specialties that meet the real needs of the market.
3. Develop and implement (with the participation of employers) professional standards (specifications), which will include requirements for knowledge, skills and competencies.

A. Classifier specialties and qualifications of vocational education aligned with the classifier training.

B. Carry out the development of modular training programs based on competencies.

C. Develop professional standards for the profile of education and to elevate the content to higher educational standards.

Expected results from the introduction of National Qualification System (NQF)

Creation and implementation of a national qualification system will ensure the following achievements:

- Introduction of generalist educational programs for technical and vocational education aimed at developing basic skills and competencies
- Modernization of the system of vocational education
- Simplify the complex training qualifications through the use of a universally agreed upon set of descriptions (descriptors), qualifications and performance
- Establish coordinated and coherent links between existing qualifications in the country and specific types of education
- Comparability of qualifications in Kazakhstan with the qualifications of the European countries
- Mutual recognition of certificates of education, which will facilitate labor mobility of citizens of Kazakhstan and attract qualified professionals in Kazakhstan
- Orientation of educational standards to the needs of the labor market
- A tool for social partners to develop their requirements for graduates of vocational training institutions
- Implementing a system of accreditation of technical and vocational education in accordance with international practice
- Ability to learn throughout life in both formal and informal learning settings

- Development of the NCC, and later as its modernization should be implemented with wide involvement of all stakeholders. Social partnership in this area is considered the main guarantee of success.

Analysis of Vocational Education and Training in Kazakhstan

Current Situation	What is needed	Changes underway
Market diploma	Market diploma qualifications based on competencies	+-
Descriptors programs based on input data	Descriptors programs based on results	+
Rigid transition from school to work	Need more ways to transition to work Create a flexible modular software	+-
National levels of qualifications (article 17 of the Education Act to the ROK)	National levels of qualifications	+
Low participation of employers	Active participation of employers in the planning and implementation of vocational education and training	+
Informal learning is not recognized	Recognition of informal learning	-
Lack of continuous training	Develop a system of continuous professional training	+
Ineffective quality assurance at the institutional level	Effective quality assurance system	+
Assessment of Knowledge	Assessment competencies	-
Poor compliance with the requirements of a society based on knowledge	Greater compliance with the requirements of a society based on knowledge	+
Lack of common understanding of levels of qualifications	Common understanding of levels within firms, sectors and regions	+
Emphasis on learning-based education	Development of in-house training / on-the-job training	-

##

U.S. – Kazakhstan
Public-Private Economic Partnership Initiative
PPEPI

Draft White Paper
to the Government of Kazakhstan

Economic Diversification through SME Development

July 16, 2009

Tracked Version – September 2009

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Economic Diversification/SME Business Development Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to promote the development of industry sectors outside of the oil and gas and mineral resource extraction industries. The Working Group emphasizes that tacit encouragement and support to the development of the Small and Medium-sized Enterprise sector (SME) is paramount to the creation of a competitive, diversified, resilient, innovative, entrepreneurial and growth-oriented economy in Kazakhstan.

International experience consistently validates that economic diversification and SME development are intrinsically intertwined. SME development leads per se to a more diversified economy. Accordingly, the Working Group has concentrated its recommendations on measures to encourage entrepreneurship, to improve the competitiveness of SME and to facilitate SME growth. The objective of the recommendations is to highlight areas where government action can encourage SME development while reserving for the private sector the choice of industry sectors in which it will pursue. The recommendations comprise of the following:

1. ~~Improve government support programs for SME development~~
   - ~~Enhance the role of the Entrepreneurship Development Department (EDD) to coordinate GOK programs and promulgate international best practices.~~
   - ~~Improve the lending policy and better regulate credit programs of the Entrepreneurship Development Fund/Damu (EDF/Damu).~~
   - ~~Develop the Kazakhstan work force through a National Workforce Development program.~~
2. ~~Remove administrative barriers to SME development~~
   - ~~Improve the practical aspects of the SME development support regime.~~
3. ~~Ensure a level playing field for SME~~
   - ~~Adopt improved and internationally compliant SME definitions.~~
   - ~~Remove discriminatory practices and procedures vis à vis SME and state supported business programs~~
4. ~~Improve communication between government and SME~~
   - ~~Establish an Annual SME Report and Conference to bring together public and private stakeholders~~
5. ~~Create more opportunities for SME involvement and linkages with state enterprises~~
   - ~~Develop criteria for greater SME involvement in the government's seven priority diversification clusters.~~
   - ~~Broaden the scope of Public Private Partnerships or PPPs as an engine for diversification.~~
   - ~~Increase SME competitiveness in public procurement – increased local content.]~~

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international and national studies and surveys, such as the 2009 World Economic Forum's Global Competitiveness Index, the 2009 World Bank's Cost of Doing Business Survey, the Global Entrepreneurship Monitoring report, and analysis by the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), USAID and a survey undertaken by the Kazakhstan Ministry of Industry and Trade (MIT) in 2005. In addition, advice has been sought from the Kazakhstan Small Business Development Project (KSBD) and the Business Environment Improvement Project (BEI), both jointly funded by the United States Agency for International Development (USAID) and the Government of Kazakhstan (GOK).

This White Paper includes a range of structural, policy and program proposals that can have a positive impact on society and also are attainable if the public, private and NGO sectors work together. If adopted, they can accelerate the development of a competitive, diversified, innovation-driven market economy that will bring broad-based stability, security, success and self-realization to the people of Kazakhstan. These proposals are not listed in order of priority.

The GOK is commended for its efforts to develop sustainable industries outside of the oil, gas and mineral resource sectors. The Working Group acknowledges that many of the recommendations of this White Paper have already been considered or in some form adopted and/or implemented by the GOK. However, the Working Group has identified a number of areas where further improvement could be achieved.

First, In broad terms the GOK is recommended that any effort and assistance programme aimed at supporting diversification and SME development should be more targeted to address specific identified problem areas.

Here the Working Group proposes developing a unified federal level framework of objectives and measurement criteria that prioritizes and manages assistance programs. Specifically, streamlining is needed of government support programs in order to provide a more consistent framework of practical assistance (financing, tax incentives, subsidies and minimized bureaucracy) for the seven "cluster" industries previously defined by the GOK.

Second, a clear emphasis should be placed on encouragement of SME development in Kazakhstan as both a driver of economic growth and as the route to economic diversification.

Third, the White Paper recommends the GOK to further engage the private sector in the form of Public Private Partnerships or PPPs to escalate the scope and pace of economic diversification. By using PPPs to venture out of traditional sectors of private support, such

as construction, the GOK can benefit from the greater efficiency and innovation that drives the competitiveness of the private sector in other core sectors of the economy.

In the area of structural reforms for SME development, the Working Group proposes transforming the current Entrepreneurship Development Department (EDD) in the MIT into a stronger and more visible Entrepreneurship Development Agency (EDA) that is either an independent body, or placed under the Ministry of Economy and Budget Planning (MEBP). The main objective of the proposed EDA is to provide better coordination among private, public and NGO sector stakeholders in SME development, including more coordination between national and local GOK bodies.

This White Paper also recommends enhancing the access to SME of credit and related programs and activities of the Entrepreneurship Development Fund/Damu (EDF/Damu) under Samryk-Kazyna, particularly in the current economic and credit crisis. Clear benchmarks should be established in order to track progress in the SME sector.

Other proposals include the establishment of an Annual SME Report and conference in order to direct better focus to SME development and to improve dialogue between the SME sector and the government. Policy and regulatory improvements are recommended in areas such as adoption of internationally compliant SME legal definitions, as well as further reomove administrative barries and red tape, in particluar in the areas of permitting, licensing and inspection regimes as well as streamlining of business liquidation procedures.

Increasing access of SMEs to state procurement programs and other involvement in large state projects is encouraged. Working in partnership with the private and NGO sectors to improve the technical and business skills of the Kazakhstani work force is also highly recommended to prepare the foundation for increased entrepreneurship in the country.

This White Paper complements the work of several other Working Groups established under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). It mentions but does not specifically address areas of importance to SMEs covered more broadly by other Working Groups, including taxation, corruption and trade.

II. Introduction and Statement of Purpose

Over the past 15 years, a great deal has been said about the need to diversify Kazakhstan's economy in areas outside of the oil, gas and mineral resource extraction industries. In reality, the GOK has actively developed a number of broad-based strategies to diversify the economy, as well as to raise the country's competitive global position.

As a policy cornerstone, in 2003 the GOK outlined its strategy for Industrial and Innovational Development for 2003-2015 with projected investment outlays of $1.2 billion per year. The goal of the strategy is the sustainable development of the country through diversification of industry sectors by emphasizing priority setting principles for innovation

policy, creating state development institutions such as the Kazyna Fund for Sustainable Development, Kazakhstan Investment Fund and the Kazakhstan Development Bank, creating conditions for private investment, increasing production competitiveness and enhancing the skills of the domestic labor force.

The strategy identified key challenges faced by Kazakhstan in light of the trends of economic globalization. Vis-à-vis its global counterparts, Kazakhstan's economy was defined as lopsided with an orientation to extraction industries, weak integration into the global economy, weak domestic inter-sectoral and inter-regional integration, poor demand for local goods on the domestic market, undeveloped infrastructure, technical and technological obsolescence of its industries, an inefficient link between science innovations and commercial applications and an inadequate transition of local talent and management skills to the demands of globalization.

In March 2006 at the World Economic Forum in Davos, President Nazarbayev set forth a vision and detailed strategy to make Kazakhstan one of the 50 Most Competitive Countries of the World within the next ten years. At that time, Kazakhstan was ranked at number 56 out of 134 countries which comprise the ranking.

In 2005, the GOK identified seven pilot industries and sub-industries called "Clusters" that were defined as growth points for development and diversification of the economy. These seven priority sectors were reaffirmed in May 2009 at the 12th Congress of the Nur Otan Party lead by President Nazarbayev. The sectors include:

1. Agro-industrial complex and agricultural processing
2. Construction industry and building materials production.
3. Oil refining and oil and gas infrastructure.
4. Metallurgy and finished metal ware production.
5. Chemical, pharmaceutical and defense industries.
6. Power engineering and clean power engineering.
7. Transport and telecommunication infrastructure.

More recently, in 2007, the GOK created the "30 Corporate Leaders" program which defines future investment projects in the non-extractive sector and outlines their strategies for development. The Program seeks to modernize the Kazakh economy and support Kazakh companies willing to enter international markets through offering competitive products. The GOK has also created a host of other policies and programs to attain growth in the non-extractive sectors.

Despite the existence of this dearth of policy programs and strategies, economic diversification has yet to fully materialize into clear and measureable results. This is partially due to a lack of clear oversight in the implementation of these programs which diminishes

practical sources of support for the intended end-users. The inability of the GOK to overcome the allure of the unprecedented pre-crisis boom of the oil and mineral extraction industries during 2003 – 2008 has also been a distraction. During the oil boom, focus was retained on developing the extraction industries while the non-extractive industries showed minimal growth. In short, many of the recommendations, policies and programs outlined in the government's framework for diversification simply have not been fully implemented.

To complicate matters, in July 2007 Kazakhstan was one of the first countries to be impacted by the global financial crisis and economic slowdown and it continues to deal with the aftermath. In hindsight, it now must play catch up on its plans for diversification. As of 2009, despite all of the GOK's efforts to focus on diversification, over 85% of all of Kazakhstan's exports remain in the oil and commodities spheres. Many areas of the economy continue to lack competitiveness, especially in the freight transportation and power sectors. To meet its diversification targets, the GOK now needs the will and commitment to follow through under much more challenging circumstances with reduced resources and less access to global credit facilities.

The need to diversify is clear. The slow pace of materialization of top-down policies into measureable results, however, is inadequate to meet the demands for economic growth. What is needed is a shift in focus to provide the impetus at the ground level to accelerate both the pace and scope of economic development from the bottom-up. This White Paper recommends that a renewed focus of the GOK should be directed at SME development. The emphasis should not be weighted towards defining the sectors in which the private sector should concentrate. Instead, it should rest on measures to encourage and support SME development and let the private sector take the lead on defining the most appropriate sectors.

In the 21st century, governments across the world recognize the importance of SMEs in promoting balanced economic growth, social stability and general welfare. Most perceive SME development as the engine of growth and diversification. According to a UNDP report, SMEs and micro-enterprises constitute over 95 per cent of all enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide. The OECD reports that SMEs make up 95% of the world's enterprises employing 60-70% of the world's workers.

SMEs, small businesses and entrepreneurs play pivotal roles in creating dynamic, market-oriented economic growth, employing the growing work force in developing countries, alleviating poverty and promoting democratization. The enduring success over the long-term of dynamic and resilient SME-driven economies such as Germany, Taiwan, Poland, China and the United States to create growth and adapt to changing conditions provides concrete examples of this.

As a result, many countries have placed special emphasis on developing SMEs as a primary driver for balanced and sustainable industrial development in their country to help deal with the challenges of a free market economy and globalization. For example, the United States has developed a very sophisticated and user-friendly *"Small Business Administration"* (SBA) that provides assistance to SMEs through all levels of development. Canada has *"Small Business: Canada"*, the EU has created the *"Small Business Act for Europe"*, and Asia created *"SME Solution Centers"*.

According to statistics from the Kazakhstan Agency for Statistics, as of June 1, 2009, the activities of SMEs have declined by 3.9% on a year-on-year basis. The latest June 1 figures indicate that there are currently 638,375 SMEs in Kazakhstan of which 61,786 are small legal entities (9.7% of the total), 2,385 medium-size legal entities (0.4% of the total), 404,208 individual entrepreneurs (63.3%) and 169,996 farmers (26.6%).

There are several principal reasons why Kazakhstan has a particular need to focus on fostering a stronger and more dynamic SME sector. First, broadening and deepening its relatively recent and sudden transition from a centralized command economy to an emerging market economy which started about two decades ago requires the "creative destruction" and embracing of innovation characteristic of entrepreneurs and small businesses.

Second, Kazakhstan faces the particular challenge of being a largely natural-resource based economy. This dependence makes the economy vulnerable to the deleterious effects of severe price fluctuations in the handful of key commodities the country produces. When its main commodity prices are low, Kazakhstan suffers from a lack of tax revenues, low employment, and reduced consumption and demand for supplies of local goods and services from the international operating companies in the country. When its commodity prices are high, Kazakhstan's economy suffers from the "natural resource curse" of a high currency valuation that makes its other sectors less competitive, and encourages imports at the expense of local products while constraining exports.

Third, the trend towards globalization has increased the importance of SMEs for Kazakhstan along with the rest of the world. Globalization and its accompanying intensification of competition, along with constant technological innovation, have reduced the advantages of size and scale and increased the importance of flexibility and rapid innovation.

Finally, recovering from the current severe economic crisis will depend largely on the ability of small, flexible, innovative SMEs. SMEs are better at managing through economic downturns, since they tend to be closer to both their customers and their workers, enabling them to be more flexible, responsive and resilient to adverse conditions.

SMEs in Kazakhstan face all the usual problems of SMEs in the world identified by the OECD: "lack of financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity and regulatory burdens."[1] Except in Kazakhstan, because of its Soviet legacy, its natural resource dominated economy and the current economic crises, the problems are especially acute and urgent.

Kazakhstan's goal of developing a competitive, diversified, innovation-driven, post-industrial and knowledge-based economy relevant to the globalized environment in the 21st century depends on it urgently investing the resources and partnering with the private and NGO sectors to develop its human capital.

International surveys and feedback from both foreign and domestic enterprise managers in Kazakhstan indicate that the lack of knowledge and skills of the Kazakh work force is an increasingly serious constraint on economic development in the country and a barrier to its global competitive standing.

Rapid and comprehensive modernization of economic and business related education and training in Kazakhstan must be a key priority for the country. Specifically, the Ministries of Education & Science and Labor & Social Protection need to place emphasis on improving education in the technical and business disciplines. Inevitably, an increasing portion of the work force is going to end up in SMEs.

To attain global competitiveness, the amount of knowledge required continues to grow and can only be addressed by maximizing the effectiveness of the formal education system, particularly at the vocational and higher education levels. This process of modernization has barely started in Kazakhstan's over 860 vocational institutions and over 170 higher education institutions.

This situation requires an active partnership between the public and private sectors to modernize both the relevant education and training infrastructure. This partnership needs to be collaborative, coordinated and complementary. For example, the current GOK restriction on work permits for foreign workers needs to be made more flexible and selective to allow for bringing in the necessary technology and technical skills to provide their transfer to the local population. The selective phasing out of foreign work permits needs to be carefully coordinated with the establishment of the corresponding competencies in the national work force.

The GOK should seek to facilitate and not over regulate diversification and SME development. Diversification should not mean greater government intervention. Too much government intervention in an industry can have dramatic negative consequences such as what occurred in Kazakhstan's forestry industry.

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[1] OECD, Centre for Entrepreneurship, SMEs and Local Development.
http://www.oecd.org/about/0,3347,en_2649_34197_1_1_1_1_1,00.html

One solution is to broaden the scope of Public Private Partnerships or PPPs into a wider range of sectors of the economy. The private sector is traditionally driven by efficiency and innovation. Due to the significant range of sectors of the economy that require investment and development, including power, utilities, medical facilities and urban transport, among others, PPPs can become a major driver in the sphere of diversification. By reducing state dominance in important sectors of the economy, PPPs can fill an important gap to address deficiencies in key public services which serve an important social development role.

The imperative of continuing Kazakhstan's progress requires the close partnership of the public, private and NGO sectors to identify key constraints and to design and implement optimal institutional structures, policies and programs. Supporting SME development can play a critical role in the path to economic development and diversification.

III. Key Proposals and Discussion Points

1. Improve GOK Support Programs for SME Development

A. Enhance the role of the Entrepreneurship Development Department (EDD) to coordinate GOK programs and promulgate international best practices.

Given the importance of SMEs to Kazakhstan, the GOK needs a state institutional structure to promote close coordination of policy and programs at both the national and local levels and to ensure broad and consistent application of international best practices.

Discussion Points:

- **Raise the profile and concentrate coordination of GOK support for SMEs** by elevating and institutionally strengthening the Entrepreneurship Development Department (EDD) currently under the (MIT)). On June 24, 2009, the GOK made a decision to move the EDD under the Ministry of Economy and Budget Planning (MEPB).
    - The EDD should consolidate national coordination of SME policies and improve coordination of local and national SME-support bodies to provide greater efficiency and facilitate promulgation of international best practices regarding SME development.

This enhanced and more visible position of the EDD should be tasked with the following activities:

- **Serve as the principal liaison between the GOK and private and NGO sector stakeholders in SME development**, including business and professional associations; business service organizations; large businesses interested in developing local supply chains and supporting national welfare; donors and development agencies and among SMEs.

- **Provide effective communication and coordination within all the branches of GOK involved in SME development.** GOK stakeholders in

SME development include Parliament and its relevant committees, local Entrepreneurship Departments, Public Service Centers (PSCs) and other SME support agencies, such as the Fund for Financial Support of Agriculture under KazAgro. In particular, EDD should disseminate programs and promote better implementation of policies, such as:

- **Support for training and consulting for small business and entrepreneurs**. The EDD could promote national and international training programs, such as the Business Essentials (BE) training program for small business managers developed under the Kazakhstan Small Business Development Project (KSBD) jointly funded by USAID and GOK and/or the Start Your Business (SYB) course on entrepreneurship globally developed by the International Labor Organization (ILO). This support would be based on outsourcing these courses and basic consulting through local business service training and consulting providers.
- **Business incubators**. Business incubators are potentially an effective means of assisting entrepreneurs and small businesses to establish themselves on a commercially viable basis by providing shared services and basic training and consulting. Business incubators programs benefit in particular from incorporating world wide experience and established best practices. In general, partnership with the private sector and in particular outsourcing of training and consulting to private business service providers. However, the GOK has not been very successful in this area and modifications to the approach to support incubators should be considered.
- **Simplification and rationalization of registration and licensing.** The EDD should continue expanding the effectiveness of the Public Service Centers (PSCs) to make it easier for entrepreneurs and small businesses to register, obtain permits and licenses and comply with state requirements.
- **Collect feedback from SMEs on problems that restrict growth and profitability.** This could include conducting surveys through associations and individual businesses regarding problems and constraints.
- **Unify, rationalize and analyze SME statistics.** The EDD should be in a position to determine the kind of information that needs to be collected and analyzed to improve the situation in the country for SMEs. As such, it should consult with other stakeholders, such as the Statistics Committee, to make sure that information is collected and made available in useful formats.
- **Engage SMEs in the legislative process.** Involve the private sector and SMEs in the development of the Law on Private Entrepreneurship and illicit private sector comments on modifications to the existing Tax Code to encourage export development.
- **The EDD should secure technical assistance** from international donor organizations in order to improve its functional effectiveness.
- **The GOK and EDD should place emphasis on improving practical issues** faced by SMEs, such as improving licensing procedures, establishing better norms for an environment that caters to SMEs, and greater optimization of inspections.

B. Improve the lending policy and better regulate credit programs of the Entrepreneurship Development Fund/Damu (EDF/Damu).

Access to credit is a worldwide problem for SMEs. The problem has become only more acute in the global economic crisis. Kazakhstan, despite its laudably effective reform and development of a market economy financial sector, faces additional challenges based on its still young banks and recent liquidity problems resulting from aggressive bank borrowing in international markets. The GOK has created EDF/Damu, which is under the holding company Samryk-Kazyna, to improve the access to credit of small businesses and entrepreneurs. Although the fund has not fully met the expectations of SMEs, it does have plans to accelerate and broaden its support programs, which the Working Group encourages.

Discussion Points:

- **EDF/Damu should improve its performance and policy on lending to SMEs by:**

- **Improve lending policy** and better regulate lending to ensure that qualified SMEs receive the funding they need. DAMU should be set up structurally so it clearly addresses market failures and does not undermine the market or private sector financing.
- **Subsidized lending programs through financial institutions**. EDF/Damu should continue to provide subsidized loans to small businesses through commercial banks, as well as subsidized microcredit funds through microfinance organizations (MCO). In addition, EDF/Damu should provide additional support programs related to access to credit, in coordination with EDA[2] where appropriate, including:
- **Loan guarantees to encourage commercial bank lending to small businesses.** This program should involve risk-sharing between the state guarantor and credit institution, rather than a 100% guarantee. Damu has recently approved such a program which is pending approval by Damu's Board of Directors.suAMU
- **Subsidize interest rates (SIR):** By working together with local authorities in the regions including targeted regional funding and conditional allocations to leasing companies.
- **SME Procurement program** to support access of SMEs to government tenders. While the Transparency and Economic Efficiency Working Group will address overall issues regarding government procurement in Kazakhstan, there are certainly grounds for providing special programs to increase participation of SMEs. These programs should involve supporting SMEs to become eligible to compete for tenders, including under the current GOK and Samryk-Kazyna 10% targets for small businesses, improving information flows to small businesses regarding government tenders and maintaining a data base of pre-qualified small businesses.
- **Training and consulting for small businesses and entrepreneurs** in collaboration with EDA and using the same outsourcing approach to business training and consulting organizations serving small and medium businesses. Damu now has a Business Advisor Program that provides training for budding entrepreneurs. It also plans to create a network of Entrepreneurship Non-Financial Centers across Kazakhstan by year-end 2009.

[2] From this point on, this White Paper will refer to the authorized coordinating GOK entity for SME development as the Enterprise Development Agency (EDA) based on the White Paper's first recommendation. If the EDA is not created, then the roles assigned to it should be taken by the Enterprise Development Department (EDD) in the Ministry of Industry and Trade.

C. Develop the Kazakhstan work force through a National Workforce Development program comprising national education and training programs based on Public-Private Partnerships**.**

The GOK stakeholder entities, working with the private and NGO sectors and international donors, need in particular to abandon the traditional approach of trying to perfect education in individual institutions through intensive investment and seek methodologies for implementing modern courses, curricula and standards across the entire country.

Discussion Points:

- **Create a strategy for National Workforce Development** led and coordinated by the MES, the GOK, private and non-governmental stakeholders and donors and development agencies in Kazakhstan that should:

  1. Implement immediately a national and standardized education program to provide a core body of knowledge (CBK) necessary for all Kazakhstani students in secondary school, vocational institutions and higher education institutions in the 21st century, including such disciplines as:

     - Entrepreneurship (using the International Labor Organizations vocational education course "Know About Business" already adopted by the Ministry of Education and Science Department of Vocational Education.
     - Financial literacy.
     - Information and Communication Technologies (ICT) based on the International Computer Driving License.
     - English language.

  2. Adopt and implement modernized education courses in areas of widespread importance to SMEs and the entire economy in vocational and higher education institutions, such as accounting, marketing, management and other business disciplines.

  3. Create Working Groups comprising public, private and NGO stakeholders to modernize key technical specializations at both the vocational and higher education levels, including those related to the extractive industries and agriculture.

  4. Upgrade the program for attestation of teachers to test competencies in pedagogy and the relevant technical knowledge and include incentives for teachers to improve their qualifications.

  5. Create a national network of regional data bases linking education and training institutions, professional and business associations and SMEs to monitor education and training outcomes, inventory current skill categories and project work force needs for the future.

  6. Develop educational and training content in electronic formats suitable for promulgation through the extensive network of interactive video whiteboards the GOK has created across the country.

  7. Encourage private sector investment in education modernization by increasing the tax benefits for both domestic and international companies, including raising the level

of allowable contributions and allowing for carry-over of any contributions over the prescribed limit in subsequent tax years.

2. Remove Administrative Barriers to SME Development

A. Improve the practical aspects of the SME development support regime.

There are a number of practical, day-to-day activities that should be improved to assist SME development in Kazakhstan. Some solutions include:

- **Improve Construction license processes.**

The construction industry is a key sector in any growing economy. SMEs play a large role both in final construction and as suppliers to large construction companies. Construction permitting in Kazakhstan is costly and time-consuming, and there are different rules at the local level compared with national legislation, resulting in additional costs in time and money for construction projects beyond those estimated by Government or international measures.

Discussion Points:

- **The MIT and the Construction Committee should amend the Law on Architecture #242** and other relevant regulations to:
  - Reduce the time, cost, and number of procedures for obtaining construction permissions according to national legislation.
  - Standardize local oblast construction rules by requiring they use standard templates approved by the national Construction Committee prior to coming into force.

- **Improve the business permit system.**

Kazakhstan's permit system (licenses, permits, certifications, accreditations, and technical regulation standards, etc.) is complex, redundant, inefficient, and confusing, with no clear criteria for what activity, industry, or goods and services fit under which category of permit document, excessive compliance burdens in terms of time and costs for submitting permit documents, and lack of coordination between national permit bodies and local inspection agencies.

Discussion Points:

- **Engage the EDD, in collaboration with the Inter-ministerial Committee for Administrative Reform and Codes** and the Committee on Technical Regulation within the MIT to:

  - Identify and eliminate unnecessary or redundant permit requirements, reports and other documents.
  - Introduce the concept of "silence is consent" when requiring permit documents.
  - Define clear criteria for each category of permit document.
  - Set in law what types of activities fit within each permit category.
  - Develop clear definitions of responsibility between national and local government bodies.
  - Enhance sharing and coordination of permit information and control functions via an e-licensing system.

- **Streamline voluntary business liquidation.**

The process for liquidating a business in Kazakhstan is extremely difficult, to the point of being impossible to complete if strictly (legally) followed, implementation of the legislated audit step by the assigned Tax Committee is very poor and regularly takes much longer than is mandated due to a lack of penalties or consequences should time frames be violated.

Discussion Points:

- **Draft improved legislation governing business liquidation** in coordination with the EDA, the Ministry of Finance and the Tax Committee, including:
    - Drafting a new process and implementation action plan.
    - Providing and enforcing sanctions or imposing silence-is-consent rules for government bodies that fail to perform work within required time frames.

- **Improve the inspection regime.**

Inspections in Kazakhstan are unnecessarily frequent and inefficient toward their goal of protecting the public good and safety. They tend to focus on imposing punitive measures rather than designing incentives to encourage compliance. Inspectors tend to lack the proper tools to enable them to assess risk of violations and allocate their resources rationally. The results are excessive costs to businesses, especially SMEs, in terms of time and resources to achieve compliance and an unnecessarily adversarial relationship between businesses and government inspection bodies.

Discussion Points:

- **The EDD should prepare amendments to the Law on Private Entrepreneurship** and modify associated regulations to:
    - Minimize and properly define inspections.
    - Introduce risk-management systems for use by inspection bodies to increase efficiency and cost effectiveness of inspections.
    - Reduce pressure from tax authorities on SMEs to become profitable within the first year of operation.

3. Ensure a level playing field for SME

A. Adopt improved and internationally compliant SME definitions.

Kazakhstan needs to refine its definition of SMEs both to facilitate more targeted analysis and assistance and also to facilitate measuring progress against other regions of the world.

Discussion Points:

- **The EDA should coordinate collaboration** with the Ministry of Economy and Budget Planning, the Ministry of Industry and Trade, the Tax Committee, as well as the Parliament to legally and consistently adopt the same categories and criteria used by the OECD and United States.

B. Develop clear criteria for inclusion of SME in the seven priority diversification clusters.

The GOK has defined key sectors for diversification but execution and implementation have hampered the success of SME to be equal participants in the cluster strategy.

Discussion Points:

- **Improve the prioritization and management of assistance programs** available to the cluster sectors by emphasizing greater SME participation.
    - While programs exist, SME are challenged to effectively use government support. The private sector can drive development if it can access government support but manage its expansion and development according to good private sector business practices.
    - Government support programs need to be streamlined to provide a better framework and access to practical assistance. Unified rules on financing, tax incentives, subsidies and minimized bureaucracy for the seven "cluster" industries needs to be better defined to remove discrimination for SME participation.
    - Clarify the benefits and support received by the 30 Corporate Leaders and either remove those incentives, or equally apply them to SMEs so that a level playing field exists.

4. Improve Communication Between the GOK and SME

A. Establish an Annual SME Report and Conference to bring together public and private stakeholders, monitor progress and identify next program and policy priorities.

Development of a strong and diversified SME sector requires coordinated policies and actions from a wide variety of public, private and NGO sector stakeholders. To ensure this continuous coordination and focus requires carefully designed reporting and an appropriate forum.

Discussion Points:

- **The GOK, led by the EDA and EDF/Damu in collaboration with other SME public, private and NGO-sector stakeholders should:**
    - **Compile an Annual SME Report** based on models in other countries such as Poland, Bulgaria and the United States. The Annual Report would include a comprehensive overview of the current environment for SMEs in Kazakhstan and

generate a list of recommendations and tasks for the public, private and NGO sectors to undertake during the following year.

- **Link the Annual Report to an annual conference** comprising all stakeholders in SME development. The annual conference would use the Annual Report to measure progress based on commitments made the previous year and determine priorities and action plans for subsequent years.

5. Create More Opportunities for SME Involvement and Linkages with State Enterprises

A. Broaden the scope of Public Private Partnerships or PPPs as an engine for diversification

The GOK and the Kazakhstan economy can benefit dramatically by unleashing the potential of economic diversification through an expanded sphere of PPPs.

Discussion Points:

- **Continue to expand the areas and sectors in which the GOK considers PPPs.**
  - It is critical that the PPPs be structured properly so that they are useful and effective.
  - The scope of PPPs should be broadened to include services provided by the private sector for services now provided by the government.
  - Continue to fill gaps and discrepancies in the Concessions Law by removing vague language and loopholes that impact transparency.
  - Conduct an assessment of international standards and practices and adopt those standards in Kazakhstan.
  - Properly allocate risks associated with PPPs in advance of the tender process to encourage more balanced participation of local and domestic companies.
  - Engage international experts to advise and improve the GOKs processes, procedures and documentation associated with PPP tenders.
  -

B. Increase SMEs competitiveness in public procurement – increased local content

In addition to tenders issued by GOK line ministries and other agencies, an even larger number of procurements are undertaken by the State-Owned Enterprises (SOEs) under the Samryk-Kazyna holding company. In addition, there is a large sector of international extractive industry companies operating in Kazakhstan, which can potentially benefit both themselves and the SME sector by further developing local supply chains for goods and services. Improving SME access to public and extractive industry sector tenders will require public private partnerships to increase the competitiveness and diversification of local SMEs, based on improved management systems and access to financing.

Discussion Points:

- **The EDD and Damu should coordinate the development of programs to increase SME access** to and competitiveness for State (including Samryk-Kazyna) procurements. Examples of such programs include[3]:
    - Set-aside/target programs, such as the 10% target for SMEs currently in place for both Samryk-Kazyna and the GOK.
    - Pre-qualification of SMEs using transparent and objective criteria and contracting mechanisms and maintained in a national data base.
    - Internet-based information system for SMEs to provide increased access to information for government procurements based on industry codes.
- Damu is currently working on establishing an electronic trading platform and a single register of SME to improve SME access to government tenders as potential suppliers.
- Assist activities of local SME's during state procurement complying with fair competition.
- Continue encouragement of and cooperation with international companies to develop local SME supply chains through technical assistance and increased access to information.
- Review the state procurement law to include evaluation criteria based solely on price and quality while removing non-essential items (such as whether or not the company employs a certain number of Bolashak scholars). Underlining competitiveness incentivizes grooming local skills.
- Foreign companies increasing local content may lower quality standards. Instead, it is recommended to take a longer view with a focus on grooming and training, as well as fostering local companies to associate with foreign firms.

Annex to White Paper on Economic Diversification and SME Development

Following is a brief summary of the major documentary sources of findings relevant to this White Paper.

World Bank Cost of Doing Business Survey

The World Bank's Doing Business Survey (DB) attempts to provide a globally available set of indicators for small and medium-size companies and measure the regulations applying to them through their life cycle. The Survey does this by applying a standardized scenario for

[3] Additional and broader recommendations regarding government procurement will be provided by the Transparency and Efficiency Work Group

each indicator to be measured, and ranking countries based on review of relevant laws and regulations, and from survey respondents. The DB survey focuses on 10 business regulatory processes and is conscious that other, important aspects of the business life-cycle are excluded or covered imperfectly. DB does, however, provide a useful starting point for its surveyed countries to identify critical areas in need of reform efforts.

During the 2008 survey, presented in the Doing Business 2009 Report, Kazakhstan was overall ranked 70th out of 181 countries surveyed. This represents an improvement of 10 places over the previous year, thanks primarily to improvements from 2007 to 2008 in the process for registering immovable property and extensions of credit information bureaus.

Key findings: The survey found that, of areas relevant to this White Paper, Kazakhstan receives low rankings for:

- The regulatory processes of Starting a Business (rank 78),
- Construction permitting and licensing (rank 175), and
- Bankruptcy and business liquidation (rank 100).
- Though ongoing reforms improved Kazakhstan's rank in Registering Property to 25, there remain considerable inefficiencies in that process.

World Economic Forum, Global Competitiveness Index

Another set of global comparative indicators are prepared annually by the World Economic Forum (WEF) called the Global Competitiveness Index (GCI). The GCI currently measures and ranks the competitiveness of about 134 countries. The GCI is based on numerous sub-indicators which give a sharper picture of a number of issues Kazakhstan needs to address to improve its standing.

Kazakhstan aspired to be in the top 50 countries in the GCI, but in fact Kazakhstan has been steadily declining in its rank from 56th in 2006-7 to 61 in 2007-8 to 66 in 2008-9. This decline reflects both a reduction in its absolute competitiveness during the period, but also and even more importantly, the success of other countries in progressing more rapidly.

Key findings: The survey found that the most cited constraints to SME development in the country are corruption, the low level of managerial skills and knowledge, tax issues, and inflation.

Global Entrepreneurship Monitoring (GEM) report

In 2007, Kazakhstan was one of 42 countries evaluated and analyzed in the area of entrepreneurship in 2007.

Key findings: While overall Kazakhstan was ranked in the middle in terms of entrepreneurship, it scored very low in terms of key indicators related to the crucial link between entrepreneurship and the development of an innovative and diversified economy. In particular Kazakh entrepreneurs scored relatively low in terms of:

- Education (relative both to the rest of the Kazakh population and to entrepreneurs in other countries in the survey).

- Innovation.
- Use of technology.

Ministry of Industry and Trade (MIT) 2005 survey report

MIT surveyed a large sample of companies in Kazakhstan in 2005 to determine their main concerns and constraints.

> **Key finding:** 60% of managers in Kazakhstan judged themselves deficient in management skills and knowledge**.**

July 16, 2009

U.S. – Kazakhstan Public-Private Economic Partnership Initiative - PPEPI

White Paper to the Government of Kazakhstan on Promoting Innovation in Science and Technology

Submitted by the PPEPI Working Group on Cooperation in Science and Technology

March 2010

I. Executive Summary

The Cooperation in Science and Technology Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK). The proposals focus on both policy and practical measures to systemically increase the levels of innovative development in Kazakhstan and imbed the importance and necessity of innovation in society. The benefits of the proposals are more efficient and effective innovation policy coordination and focus, as well as enhanced opportunities to engage society, particularly private enterprise in supporting innovation. [1]

Kazakhstan is entering its ninth year of pursuing its vision and policy platform of innovative development with mixed levels of success. Due to the fundamental importance of innovation for Kazakhstan's global competitiveness and economic sustainability, a wide range of policy and practical programs need to be addressed.

First of all, the White Paper recommends that the GOK consider refining its current structure for policy coordination in order to increase effectiveness and remove duplication from the process. It proposes the creation of a coordinating body that oversees policy implementation and the activities of government institutions responsible for innovation. Alternatively, the paper proposes considering restructuring government bodies to create a Ministry of Science, Technology and Innovation (MOSTI) solely responsible for Research and Development (R&D) and innovation in the country, and restructuring government innovative development institutions as legal entities rather than Joint Stock Companies.

Secondly, the paper recommends a realignment of GOK policy focus for driving innovation. This involves three components including improving the balance of the research focus for public institutions to more social welfare improvements with the long-term goal of shifting the impetus for industry-related innovation primarily into the hands of the private sector. It also recommends diversifying the focus of innovation to go beyond high technology developments and incorporate other more general growth engines for the nation. Lastly, it recommends a more flexible, but targeted policy approach instead of a one-size fits-all policy platform. The GOK also needs to earmark a higher percentage of GDP expenditures for R&D.

Thirdly, dramatic steps are required to engage the private sector in R&D and innovation development. This includes a review and revision of the existing incentive scheme, a focus on establishing Industry-Research-University alliances and the creation of a comprehensive and consistent program for networking and raising public awareness of the importance of innovation. The GOK should also learn from international experience, creating the conditions and pursuing a campaign to promote Kazakhstan as a preferred destination for R&D in an effort to increase R&D-intensive Foreign Direct Investment (FDI).

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[1] *See Appendix I on additional sources used in preparing this White Paper*

In addition, the paper recommends that steps be taken to internationalize the scientific community, and to enhance the role and standing of universities in the innovation system. In a broader context, the paper acknowledges that much needs to be done in order for the concept and the importance of innovation to take root within Kazakh society.

II. Introduction

Over the past decade, leading countries in the world have adopted the premise that the four pillars of a "knowledge-based economy" and the innovation that they drive are central to a country's economic competitiveness and sustainability. [2] The challenge for every country is defining the right recipe of policy and conditions that will drive innovation and tap the nation's innovative potential. Kazakhstan faces this same challenge.

The GOK recognizes that the long-term sustainable development of Kazakhstan does not rest solely on capitalizing on its extensive, but ultimately limited natural resources. This awareness is evident in the more than 10 years of policy platforms, regulatory frameworks and funding programs that are dedicated to the concept of "innovation." For decades, the global marketplace has been on a fast track to innovate. Countries such as the USA, China, Japan, Korea, Scandinavia and numerous others that have learned to harness the systemic requirements for driving innovation, have accelerated the pace exponentially. In today's world, Kazakhstan needs an aligned government and societal prioritization to innovate if it wants to play an active role in this vibrant process.

Despite its efforts and intentions, Kazakhstan has not been entirely successful in having an innovative mentality take root in society. Instead, a huge gap exists between the innovation vision and the current reality. While systemic changes take time, the reality is that time is limited as the rest of the world continues to drive the innovative train. With this premise as a backdrop, it is recommended that the GOK consider systemic policy changes based on concerns over Kazakhstan's future competitiveness in a global knowledge economy and in the lead up to the country's eventual entry into the World Trade Organization (WTO).

III. Issue Statement

The challenges facing Kazakhstan in its vision to become an innovative leader are not endemic to the country. There exists a dearth of similar global experiences with corresponding solutions and best practices that can be studied and applied. This paper seeks to outline the core challenges and propose a range of potential solutions:

Innovation Policy Coordination needs Refinement – Kazakhstan has a science and innovation development policymaking structure in place with its High Scientific Technology Committee (HSTC) and implementation responsibilities delegated to the Ministry of Education and Science

[2] See *Appendix II*, World Bank, 2006

(MES) and the Ministry of Industry and Trade (MIT). To date, however, the current policymaking structure has not enjoyed the success anticipated in terms of measureable developments in science and innovation in the country. The one exception may be the oil and gas industry, but successes there are primarily attributable to the transfer of technology developed abroad but applied locally.

Part of the problem may be the structure itself. Seamless coordination between the HSTC, the MES and MIT is not evident as reflected in the duplication of their programs for driving innovation. Existing development institutions in Kazakhstan, including the MES and MIT, all use similar forms of funding mechanisms such as grants, investments in charter capital, and loans. Public programs have become too dispersed. In such a structure, the presence of duplicative programs, waste, competition, bureaucracy and potential double funding exists. This unclear delineation of responsibilities has a negative impact on both the focus of innovation policy and the effective allocation of resources that spur the link between policy and implementation.

Flaws in the existing grant funding process are also evident. Primarily, there is insufficient alignment in the goals of the Science Committee of the MES, the JSC "National Innovation Fund" (JSC "NIF") and the JSC "Science Foundation." (JSC "SF") For example, the budget for the Science Committee is a formal government order based on recommendations from science councils which are made up of the same scientists that receive the funding. This limits the scope of grant funding to scientists and research areas that may not have direct applications to innovation. Moreover, due to their low salaries, a dependency has been created for scientists in research organizations that have to seek grant funding for their income. It leads to a system of seeking funding just for the sake of seeking funding. While grant funding from the JSC "NIF" and JSC "SF" are in smaller amounts, they have better capability to assess project proposals. However, their ultimate success in converting these projects into realistic applications in the private or social sector remains questionable.

Many of the Organization for Economic Cooperation and Development (OECD) and non-OECD countries, including China have addressed the policy coordination issue in different ways. Some have created a ministry specifically responsible for oversight of innovation policy in the form of a Ministry of Science and Technology (MOST) in China, or a Ministry of Science, Technology and Innovation (MOSTI) in Denmark, Malaysia, Finland and others. Korea took a step further when the Ministry of Science and Technology (MOST) established the Science Technology Innovation Headquarters. Sixty percent of this 100-strong coordinating body consists of experts from a wide range of ministries, the private sector, business administrations and civil society. It is a coordinating model that is being closely followed by OECD, European Union (EU) and Asian-Pacific regions. [3]

The legal entity structures in Kazakhstan of Innovative Development Institutions (GRIs) as Joint Stock Companies also raise a question of priority of profit versus innovation. Currently, the core

[3] *Dynamics of Government Innovation and Decentralization in Korea*, Anyang University, 2005

institutions established in Kazakhstan and mandated to encourage innovative development are registered as legal entities in the form of a Joint Stock Company (JSC). This includes JSC "National Innovation Fund", JSC "Science Foundation", JSC "Center of Engineering and Technology Transfer" and JSC "KazAgroInnovation." The JSC legal status runs counter to the challenges facing their respective goals and objectives in that the underlying premise of a JSC is that it should be managed and operated on a profitable basis.

Innovation Policy Focus needs Alignment – The GOK has outlined priorities for innovation development in Kazakhstan in its 2007-2012 plans, through its GRIs and in laws adopted to support innovation. There are three potential areas to address in Kazakhstan's innovation policy focus including: 1) a gap in delineation of the focus of government-driven areas of innovation versus traditionally private-sector interest areas, 2) an inherent push for innovation in high-tech industry sectors as opposed to innovation in general, regardless of the sector, and 3) a need to differentiate measures to provide more targeted support.

Despite the need and importance of Public-Private Partnerships for R&D and innovation, there are areas of focus best handled by GRIs, and others more traditionally driven by the private sector. [4] For example, many countries concentrate the efforts of public research institutions in areas that support the overall public good and welfare, such as environmental issues and education, leaving private sector-related development to the private sector. [5]

As any innovation is good for Kazakhstan's development, focus should not be only on high-tech innovation success stories. For example, innovation in the service industries would be extremely beneficial to Kazakh society. An interesting innovation called "311" recently took root in the USA and then spread globally from Barcelona to Tokyo. In the city of Baltimore, a new telephone service was created where any citizen can dial "311" on their telephone and file a complaint or ask a wide range of questions about services or activities taking place in the city. The call is answered by a service (not automated) and 85% of the questions are resolved immediately due to the high level of training of the staff. It is then followed up with a confirming e-mail and tracking number that the caller can use for follow up. [6] It is a small, but highly impactful innovation.

Fostering an enterprise's innovation capabilities and commercialization of technology is more challenging than simply adopting a policy framework or telling companies that they should innovate. Instead of a top-down process, it requires engagement by the private sector and interested parties in the process to be effective. As was learned in China, it requires a systemic change from an uncoordinated, piecemeal style of Science and Technology (S&T) policy-making to a coordinated whole-of-government policy approach. In short, a move away from a one-size-fits-all approach to more fine-tuned and differentiated measures tailored to providing targeted

[4] *Public-Private Partnerships for R&D and Innovation in OECD Countries*, OECD 2006

[5] OECD, 2007

[6] *Innovation State*, Deloitte Review, Issue 4, 2009

support. This includes a move from policies promoting R&D activities towards policies for creating an innovation-friendly framework. [7] An enterprise-centered technology innovation system is warranted.

Inadequate Private Sector Engagement in Innovation – The private sector has played a minimalist role in driving innovation in Kazakhstan, particularly in terms of funding and R&D activity. In 2009, Kazakhstan invested 18.5 billion Tenge ($ US 125 million) in science and R&D funding which represents a mere fraction of only 0.22% of Gross Domestic Product (GDP). [8] Most developed countries dedicate between 2% - 5% of GDP to R&D expenditures. (Examples: Israel – 4.5%; Finland – 3.46%; Japan – 3.15%; USA – 2.6%). [9]

Private sector participation in R&D in Kazakhstan accounts for approximately 20% of total R&D funding. [10] This low public-private funding amount and ratio is counter-intuitive to the trends of the world's innovating countries where the bulk of R&D funding comes from the private sector. For example, on a percentage basis, Korea's gross domestic expenditures on R&D in 2008 were the highest in the world at over $ US 41 billion, 73% of which was funded by the private sector. Other significant investors in R&D were Japan at ($ US 147 billion), 77% of which came from the private sector, the USA at ($ US 368 billion), with 66% coming from business, and China at ($ US 102 billion) with 70% from the private sector, in absolute terms. [11]

Low FDI dedicated to R&D and Innovation – While Kazakhstan has had tremendous success attracting Foreign Direct Investment (FDI) to the country, R&D-intensive FDI is less evident (332 million Tenge or $ US 2.2 million in 2008). [12] One approach by Kazakhstan, which is only a partial solution, has been to buy foreign companies and seek to move the company and its people to Kazakhstan. [13] But there are other approaches to consider. Innovation-related FDI can play a significant role in overall achievements as reflected by some of the market leaders. Globally, R&D-intensive FDI has grown significantly in the past decade accounting for almost 16% of companies' R&D expenditures in 2005. [14] It acts as a powerful mechanism of technology transfer which can enable host locations to develop specialized clusters and integrate more advantageously in global value chains.

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[7] *OECD Reviews of Innovation Policy – China*, OECD, 2007

[8] *World Development Indicators Database*, World Bank, 2009

[9] *World Development Indicators Database*, World Bank, 2009

[10] Statistics Agency of the RK, 2009

[11] *Main Science and Technology Indicators*, OECD, May 2009

[12] Statistics Agency of the RK, 2009

[13] *See Appendix III, Interview of Kazakh Ambassador to Israel*, 2008

[14] *Government Strategies to attract R&D-intensive FDI, OECD Global Forum on International Investment*, March 27-28, 2008

For example, the EU, Brazil, India, Mexico and many other countries have benefited by creating the right framework for R&D-intensive FDI. [15] Multinational corporations have also dedicated significant FDI to R&D in China in the form of joint ventures and the establishment of research centers in China. These investments supplement, but do not replace, similar levels of R&D in the home country. As a result, about one-quarter of the 750 research centers established in China by foreign firms are estimated to be joint units with universities or research institutes. Moreover, of the billions of dollars of China's high technology exports in 2007, 88% originated from foreign-owned enterprises operating in the country. [16]

Placing quotas and work permit restrictions on foreign specialists that bring international experience and new ideas to Kazakhstan based on policies to preserve jobs for less qualified local workers does not benefit the drive for innovation. Equally, stringent local content legislation that requires the use of an inferior domestically-produced good or service will only holdback, not advance the innovation status quo in the country. International technology standards in procurement despite local content concerns should be mandatory.

Weak Linkages between Industry, GRIs and Universities – In Kazakhstan, there is an extremely low level of collaboration between the private sector, Government Research Institutes (GRI) and Universities. This is partially due to the absence of an effective policy framework facilitating these important linkages. Low levels of activity can also be attributed to the lack of awareness among the business community regarding the existence, specialties and research capabilities of these institutions. Over the past two decades, there has been a dramatic downsizing of GRIs in Kazakhstan and a corresponding significant reduction of scientists at these institutions. Ignorance about bureaucratic processes for patent registration and steps for commercialization of new discoveries present additional roadblocks to collaboration.

Globally, collaboration traditionally takes the form of industry-specific inter-firm research consortia, government-industry technology transfer, and university-industry research centers. A new trend that has gained ground in the USA, China and the OECD countries is the formulation of government-university-industry strategic partnerships or alliances (GUI). The GUI alliances are dynamic entities that pool intellectual capital into a community of integration that facilitates revolutionary innovation. [17] China has been particularly successful in establishing Industry-University-Research Alliances after studying global practices. Based on market principles, but assisted by the government, three or four key industries are identified. The leading enterprises in these industries are then selected and matched with leading universities and key research institutes in these sectors. The participants control the organizational process and the ministries' role is to ensure that there is a supportive policy environment. [18]

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[15] *Globalization of R&D and Developing Countries, United Nations Conference on Trade and Development, Geneva*, January 24-26, 2005

[16] *OECD Reviews of Innovation Policy – China*, OECD, 2007

[17] *Government-University-Industry Partnerships*, Reference for Business, Second Edition, 2005

[18] *OECD*, 2007

Insufficient Internationalization of the Science Community – With the massive downsizing of GRIs and the outflow of scientists and researchers over the past two decades, a clear need exists to invigorate, retain and engage what remains of Kazakhstan's scientific community. While a domestic incentive scheme is useful, greater exposure to, and interaction with the global scientific community and leading innovators is essential to progress. According to the OECD, the efficiency of a national innovation system depends much on its "knowledge distribution power", that is, its capacity to stimulate and optimize the diffusion, sharing and creative use of ideas in any form, whether in a scientific publication, expressed orally at a meeting, embodied in equipment, software or a business practice, etc. [19]

The bilateral Science and Technology agreement with the U.S.A., currently in draft form could be a significant step forward for Kazakhstan's international cooperation in science. The agreement is already in an advanced stage of negotiation but still needs to be completed. Such cooperation will advance the state of science and technology in both countries, contribute to the development of their national economies, and strengthen their economic cooperation through specific advanced technology applications.

A Lack of Societal Alignment on Innovation - Despite public references to policies and visions, high levels of public awareness of the concept of science, technology and innovation, and the urgency and prioritization it requires, are not embedded in Kazakh society. As a young republic, the primary day-to-day focus of society is on traditional welfare concerns of employment, health and security. No comprehensive or permanent platform exists for the consistent engagement and collaboration with society and interested parties on innovation. This ranges from society as a whole, to the private enterprise community, including Small and Medium-size Enterprises (SMEs).

Need for an Enhanced Role of Universities – Kazakhstan's universities have not yet gained their preeminence in the global sphere of high level education. In 2009, UNESCO rated Kazakhstan first place not for the quality and level of its education, but only for the process and dynamics of its educational development up to Grade 5. [20]To date, not a single Kazakh university has received international accreditation among world rating agencies. In addition, not a single Kazakhstan institution of higher education participates in recognized world university rankings, such as the "Shanghai" ranking or The Times "Academic Ranking of World Universities."

Universities have a critical role to play in the sphere of R&D and innovation. In some leading countries such as Korea and Japan, public research has been dramatically downsized and rebalanced in favor of universities. China, for example, ranks second in the world behind the US and ahead of Japan in terms of the number of researchers. There, universities have a direct role and have a share of not less than 10% of the total contract value in the technology market and account for not less than 20% of all patents granted by the Chinese Office of Intellectual Property

[19] *OECD*, 2007

[20] Index on Educational Development, 2009 UNESCO

(SIPO). China also has university-backed venture capital funds that invest in R&D and innovation. The country has become well connected internationally and is a leader in scientific publications co-authored jointly with foreign partners, primarily from the US and Japan. [21]

Ineffectiveness of Technoparks on Innovation – As a general rule, technoparks are believed to promote economic growth and generate value by enhancing the ability of its tenants — high technology firms — to survive and grow in a very competitive environment. This has not been the case in Kazakhstan. Of 280 project proposals, which Kazakhstan technoparks received during 2004-2008, only four were found investment ready and financed externally. [22] With few exceptions, the technoparks' firms in Kazakhstan were found to be no more innovative than other firms as they are oriented largely towards the local market, and operate in traditional sectors. The key motivations for relocating to a technopark in Kazakhstan were lower rents and the possibility of accessing finance. [23] The effective operation of technoparks in developed market economies attests to the important role of public-private cooperation in early stage financing of innovative undertakings. In Japan, for example, as much as 60% of financing for technoparks and similar undertakings come from central and local government.[24]

IV. Current Role of the GOK

Over the past 10 years the GOK has adopted a wide range of broad-based visions, priorities and policies for innovation development in Kazakhstan such as the State Program for Science Development 2007-2012 and the 2008 World Bank loan to the Kazakhstan Technology Commercialization Project. It has also designated ministries and agencies with oversight responsibilities, primarily the Ministry of Education and Science (MES) and the Ministry of Industry and Trade (MIT) and developed corresponding regulatory provisions such as the recent "Law on State Support of Innovation." The GOK has created several large innovation "funds" and institutions with core mandates of supporting the pursuit of innovation and advancement in a range of technological spheres such as the 2003 National Innovation Fund, the 2006 Science Fund and the 2003 Center for Engineering and Technology Transfer. It has also promoted the concept of no less than seven "technoparks" in various locations in the country.

Taking heed from experiences in the US, China, Japan, Korea, Finland and most OECD countries, Kazakhstan has recently recognized the importance of the concept of driving innovation through a "knowledge-based economy." In this regard, in October 2009, President Nazarbaev announced the need for an "Innovative Revolution" in Kazakhstan and is using as a platform the program

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[21] *OECD Reviews of Innovation Policy: China*, OECD 2007

[22] *UN Report on the International Conference on Ways and Means of Attracting External Finance for new Innovative Enterprises*, Astana, Kazakhstan, May 21-22, 2009

[23] *Promoting Innovation Through Technoparks in Kazakhstan*, Slavo Radosevic and Marat Myrzakhmet , IDISC, 2006

[24] *UN Report on the International Conference on Ways and Means of Attracting External Finance for new Innovative Enterprises*, Astana, Kazakhstan, May 21-22, 2009

"Intelligent Nation 2020." [25] This program is apparently modeled after Singapore's "Intelligent Nation 2015" (iN2015), a 10-year platform by the government which is a multi-agency effort to transition Singapore into a global city, universally recognized as an "enviable synthesis of technology, infrastructure, enterprise and manpower." [26]

V. Policy Opportunity

Kazakhstan is now entering its 9th year of pursuing a vision and policy program for the nation's technological advancement and innovation development. This timeframe presents an adequate track record and an opportunity to analyze, measure, and assess its past performance and make needed policy adjustments for improvements. The GOK has also availed itself of an extensive portfolio of international experiences and best practices that it can use as a model and apply in Kazakhstan as a means to invigorate innovative development in both the public and private sector. This review and adjustment period is particularly timely in light of the fast pace of innovation occurring globally and the need for Kazakhstan to become more innovative in order to ensure global competiveness and economic sustainability.

VI. Policy Recommendations

I. Improve the Effectiveness of Public Support for Innovation

A. Improve Innovation Policy Coordination

- Build a stronger, more coordinated working relationship between MES and MIT in order to remove duplication from the system. One possibility is establishing a multi-ministerial coordinating body that oversees and directs innovation policy implementation. The body should include participation from the private sector, universities, and research institutes.
- Create clear delineations of roles and responsibilities of the MES and MIT in order to provide clarity and to remove overlap.
- Consider the restructuring of government and establish a ministry solely responsible for science, technology and innovation. A recommended form is a Ministry of Science, Technology and Innovation (MOSTI).
- Consider studying the Korean model and approach to innovation policy coordination. While all components may not apply to Kazakhstan, some useful examples are worth considering, such as Korea's establishment of a Science Technology Innovation Headquarter involving a diverse base of expertise and drawing on specialists from a range of ministries, GRIs, universities, business administrations, private enterprise and civil society.
- Ensure that science and innovation remain prominent on the political agenda and that science does not take a secondary role to improvements in education.

[25] *www.mfa.kz*

[26] *www.ida.gov.sg*

- Provide greater regional accountability for the design and implementation of regional innovation policy.
- Assist regions with policy development on clusters, R&D, regional innovation and education which are consolidated into a comprehensive policy for regional economic development.
- Encourage greater inter-regional innovation policy learning and collaboration by arranging systematic and consistent methods and forums for dialogue and exchange.
- Establish closer cooperation between all institutions of innovative development through the creation of a unified database that registers projects and excludes the possibility of double financing.

B. Refine the Focus of Innovation Policy

- Increase the amount of government expenditures on R&D in line with the 2%-5% of GDP levels dedicated by governments of most developed countries.
- Set targets and timelines for rebalancing the contributions between government and the private sector in the funding of R&D and innovation with a goal of dramatically increasing private sector support.
- Reconsider the sectors in which GRIs focus their research and innovation activities with a corresponding shift towards social and public welfare improvements, thereby placing the onus on the private sector for enterprise-related innovation.
- Design and implement a policy program focused on establishing Government-University-Industry alliances or Industry-Research-University alliances that couple the expertise of varying entities and integrates their activities toward a common goal. Perhaps start with a pilot program in a specific industry to be later rolled out to other industries following a period of learning and adjustment.
- Diversify Kazakhstan's competitive advantage through investments in new knowledge-intensive fields with high-growth potential to be defined by integrated working groups consisting of government, industry and civil society.
- Nurture closer relationships between GRIs and universities by matching specialties and areas of expertise. Use international experience as a guide for best practices.
- Broaden areas of specialization for applying innovation policy by striking a better balance between supporting existing industrial champions and their sectors towards new potential growth engines for Kazakhstan's development.
- Placing some emphasis on defining and prioritizing potentially competitive sectors for innovative development could show positive results.
- Formulate a set of welfare-oriented major challenges for research that will benefit society and encourage greater participation in innovation.
- Increase the use of small research grants to encourage greater participation by individuals or small entities and SMEs in the innovation process.

C. Revise the Legal Status of Development Institutions

Existing institutions in Kazakhstan specifically dedicated to innovation are registered as JSCs yet concentrate their efforts in fields dominated by highly risky projects. Pursuing innovation is not necessarily a profitable endeavor. In fact, the final application of the new innovation, whether scientific or otherwise, may be unprofitable as it may not have a commercial application. Moreover, the innovation may not be successful at all due to the high risk. Therefore, assessing an innovation simply on the basis of its potential profitability is an inaccurate benchmark.

In addition, the use of funding mechanisms such as the issuance of grants, which is certainly necessary and important for innovation, significantly reduces the share capital of the Institutions. As a result, these organizations are reluctant to provide funding for projects in the absence of guarantees of their success. Since innovation in fields with potentially high rates of profits is almost always accompanied by potentially high risks of failure, many projects simply won't receive funding. From a profit-making perspective, these institutions fare better by collecting interest on their charter capital that rests in banks than risk funding innovation.

If innovation is to have a fair chance at success, it is recommended that the GOK consider re-registering these institutions where profit-making is not the underlying objective.

II. Engage the Private Sector in Innovation

In order to encourage greater engagement of the private sector in R&D and innovation, the GOK should take a very close review of its entire platform for private sector participation and align it with models of countries that have demonstrated clear success. The platform should include:

A. Comprehensive Incentive Program to the Private Sector

- Tax Incentives, including reductions in value added tax, corporate income tax, customs duties and taxes on high-tech equipment.
- Deductions on expenditures (equipment, training, etc.).
- Employee and social security taxes.
- Incentives on capital, loan interest exemptions and grace periods.
- Credit guarantees.
- Special support systems for SMEs.
- Land allocation.

B. Establish a "Single Window" for Innovation Support

In order to better stimulate the private sector in the sphere of innovation, access to information and support should be simplified. The creation of a "one-stop-shop" or "Innovation Window" can expedite this process and provide some of the following services:

- Advice and guidance to scientists on a wide range of processes and procedures such as programs available for scientists.
- Information on applying for funding or grants through innovation-driven institutions.
- Procedures for obtaining patents.
- Support from idea to prototype development to commercialization.
- Partner identification assistance.
- Research and analytical support.
- Match-making between companies and research institutes.
- Market research in specific fields of innovation.
- Assistance in directing companies or scientists to the right source for providing contacts or organizing meetings.
- Provide assistance in reducing bureaucracy on a range of issues from opening a business to resolving a patent or licensing problem.

C. Comprehensive Public Awareness and Networking Platform

- Implement a comprehensive PR campaign that raises awareness of the importance and benefits of innovation to the country's competitiveness.
- Organize a series of scheduled networking events including seminars, presentations, publications and other forms of information sharing and dialogue.
- Provide incentives to encourage more doctorates to work in GRIs or the private sector.
- Organize and promote Industry-University-Research alliances and Government-Industry-Research alliances.
- Engage private equity funds in innovation promotion and project financing.

D. Improve the Grant Funding Mechanism

- The specific amount dedicated to grant funding should be defined and remain static.
- The bulk of grant funding should be dedicated to projects with a direct interest for the business or public sector.
- One possibility is a well-publicized competition to encourage private sector involvement in a project with a commitment by the private sector winner to contribute to the project funding.
- The scheme used by the Bortnik Fund in Russia could be considered as an example of this funding mechanism.
- Completed projects should also be reviewed and ranked according to a uniform system that provides a basis for considering any future funding.

III. Position Kazakhstan as a Preferred Destination for R&D-Intensive FDI

Use international experience and best practices as a reference to develop a comprehensive program to encourage R&D-intensive FDI in Kazakhstan.

- Analyze and develop criteria required to position Kazakhstan and improve the image of the country as a preferred location for R&D investments.
- Develop a policy framework that would provide targeted services to both potential and existing foreign investors in R&D including:
    - fiscal and financial incentives
    - human capital development
    - research infrastructure
    - a strong intellectual property protection regime
- Develop a promotional marketing and advertising campaign, not just on sectors, but rather about technology platforms and key disciplines that define core benefits of Kazakhstan as an R&D destination. Use as examples, Germany's "Land of Ideas," Italy's "Log onto Italy," Spain's "Technology for Life," or the UK's "Be a Part of the UK Cutting-edge Technological Revolution."
- Seek investments and participation in research centers and partnerships with GRIs and universities.
- Insure that the terms of the new Unified Customs Agreement between Russia-Kazakhstan-Belarus do not restrict high-tech and advanced equipment transfers into Kazakhstan.

IV. Maximize Benefits for the Internationalization of R&D and Innovation

- Encourage engagement in global knowledge networks.
- Coordinate exchanges of foreign experts (academicians, consultants, scientists, and researchers) to work in Kazakhstan, and vice-versa, in order to exchange experiences and knowledge.
- Create appropriate conditions and incentives to encourage foreign research centers to open branches in Kazakhstan.
- Invest in overseas R&D research facilities that eventually open branches in Kazakhstan.
- Improve coordination between the internationalization policies of MES and MIT to avoid duplication and increase effectiveness.
- Engage scientists, GRIs and universities in the development of internationalization policies and programs.
- Review international experiences and develop database(s) to be used by Kazakhstan scientists for engagement and exchange of scientific information, as well as access to modern scientific data. Information could include:
    - Categorized names of researchers and research groups.
    - Categorized projects, including references to stages of implementation (concept, prototype, patent, small-scale production, etc.).
    - Specialized categories of intellectual property.
    - Information about independent experts and their fields of expertise.
    - Venture capital firms and public and private organizations, including foreign entities that provide financial support on various fronts on a grant or repayment basis.
    - Organizations involved in the delivery of specialized equipment used in research and R&D.

- Create a portal in Kazakhstan similar to Voices for Innovation (VFI) www.voicesforinnovation.org which is a network of technical professionals, business leaders, and academics dedicated to supporting public policies that promote choice, innovation, and economic growth in the technology industry.

V. Enhance the Role of Kazakhstan's Universities in Innovation

- Encourage universities to specialize in science and in areas where graduates are most likely to find local employment opportunities.
- Link education grants to post-graduate commitments to engage in GRIs or private sector innovation programs and activities.
- Increase the collaboration of GRIs and the private sector with institutions of higher learning in the revision of curricula that is more aligned with the post-graduation needs of innovation leaders and the private sector.
- Conduct periodic assessments of the faculty and research departments at universities in order to have clear indicators of research strengths and quality, both for funding purposes and for prospective graduate students.
- Enhance the prestige and awards for vocational training schools and institutes along the lines of traditional Bachelor and Masters Degrees.
- Create a domestic rating system for institutions of higher education and categorize them, along with their specialties, in an easy-to-use format for use by industry and third parties with potential interest in linkages for innovation development.
- Take appropriate steps to ensure that universities make adjustments and meet criteria to be included in international rankings.

VII. Analysis of Recommendations

This White Paper provides a very broad overview of both systemic and practical challenges faced by Kazakhstan in its efforts to innovate. Significant emphasis is placed on international experience and by focusing on countries and their respective policies and programs that have rendered them leaders in the global race to innovate. By fully prioritizing the need for innovation on a whole government basis, Kazakhstan has an opportunity to make significant steps forward in the field of innovation. In doing so, economic development and sustainability will follow, along with a new step forward to enhance the nation's global competitiveness, and well as positioning Kazakhstan as a preferred country for R&D-intensive FDI.

VIII. Appendix

Appendix I

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international studies and surveys, such as the OECD Science and Technology Indicators Report, as well as analysis and commentary by the United Nations (UN), the Organization for Economic Co-Operation and Development (OECD), and the World Bank (WB).

Appendix II

The four pillars of a knowledge economy

- ***An economic incentive and institutional regime*** that provides good economic policies and institutions, which promote efficient allocation of resources and stimulate creativity and incentives for the efficient creation, dissemination and use of existing knowledge.
- ***An educated and skilled labor force*** that continuously upgrades and adapts skills to create and use knowledge efficiently.
- ***An effective innovation system*** of firms, research centers, universities, consultants and other organizations that keeps up with the knowledge revolution, taps into the global stock of growing knowledge, and assimilates and adapts new knowledge to local needs.
- ***A modern and adequate information infrastructure*** that facilitates the effective communication, dissemination and processing of information and knowledge.

Source: World Bank (2006), *Korea as a Knowledge Economy: Evolutionary Process and Lessons Learned*, World Bank, Washington, D.C.

Appendix III

"I'm looking for five or six Israeli companies [to buy]. If their price is $10 million and they suit our needs, we can buy them on the spot." Buy? Or invest? Own outright? "We aren't buying Israeli companies for the sake of future profit, but to benefit from their capabilities. That's why it's important to move the technology, and the people, to Kazakhstan. So far we've invested $20 million in seven Israeli companies. I want to invest $50 million to $60 million more in the coming year."

Interview of Vadim Zverkov, Kazakh Ambassador to Israel, "Haaretz" newspaper, Jan. 2, 2008

Appendix IV

Kazakhstan: Table of Science and Innovation *2004-2008*

2004	2005	2006	2007	2008	million tenge
14,579.8	21,527.4	24,799.9	26,835.5	34,761.6	Domestic expenditures on R&D (Total), including:
7,161.8	10,768.7	13,885.3	13,387.4	14,747.7	Funds from the republican budget
122.1	246.9	279.7	287.2	389.3	Funds from local budgets
55.4	99.7	128.8	20.0	40.0	Funds from development institutions
2,673.5	4,392.7	3,505.1	4,837.1	7,822.7	Organization's own funds
4,223.7	5,688.0	6,747.9	7,855.6	11,429.7	Resources from oders from customers for scientific and technological work
343.3	331.4	253.1	448.2	332.2	Direct foreign investment in R&D

Source: *Statistical Agency of Kazakhstan*, 2009

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U.S. – Kazakhstan
Public-Private Economic Partnership Initiative
PPEPI

White Paper
to the Government of Kazakhstan

Cooperation in Science and Technology

July 16, 2009

Tracked Version – September 2009

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Cooperation in Science and Technology Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to promote the development of the science and technology (S&T) and the Information and Communication Technology (ICT) sectors in Kazakhstan.

The Working Group proposes two primary areas for further consideration by the GOK to pursue. One prioritizes the development of S&T and ICT infrastructure that will put into place institutions and mechanisms to drive development in these key sectors. The second focuses attention on the development of human capacity in S&T and ICT ranging from training programs to the creation of science-based curriculums in key educational facilities.

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international and national studies and surveys including the World Economic Forum's Global Information Technology Report 2008-2009, the Economist Intelligence Unit's (EIU) annual 2008 e-Readiness Ranking and the 2007 Global Entrepreneurship Monitoring (GEM) report, as well as analysis, data and commentary by the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), Organization for Economic Co-Operation and Development (OECD), the World Bank (WB) and USAID.

This White Paper focuses on the most important institutional reforms, policies and programs that can have the biggest and broadest impacts and also are attainable with cooperation between the public and private sectors and support from donor organizations.

First of all, it proposes a number of steps to first assess the current status and capabilities among Kazakhstan's scientific community and research organizations. This review will assist with a prioritization of institutions and projects that have the highest potential for making the link between scientific discoveries and commercialization. Much can be achieved by raising awareness of the availability of scientific developments among the business community while simultaneously improving understanding of the importance of science to the overall development of Kazakhstan.

Secondly, the White Paper encourages the GOK to seek out opportunities for further collaboration and cooperation with the international scientific community. The exchange of information and ideas, collaboration on joint research and projects and understanding technological trends can be highly beneficial for the country's scientific advancement. Moreover, putting into place internationally recognized standards and ranking criteria will

assist Kazakhstan in benchmarking its potential and setting key targets for further development.

A third important area for consideration outlined in this White Paper is human capacity development in the S&T and ICT sectors. Kazakhstan experienced a significant drain on its talent pool in these key sectors and initiatives to regenerate this talent pool are critical for the country's competitiveness in the sphere of science. Proposals range from educational and training programs to educational exchanges and the development of science-based curriculum in Kazakhstan's leading educational institutions.

Other proposed areas for consideration and discussion are steps that can be made to address deficiencies in the slow pace of implementation of ICTs in the country. Kazakhstan has a low computer literacy rate and internet access remains sparse throughout the country. Greater use of electronic and technological solutions in the government and public sector are encouraged to enhance efficiency and escalate the pace of the country's transition to an information society.

The recommendations of the Cooperation in Science and Technology Working Group complement the work of several other Working Groups established under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). It mentions but does not specifically address areas of importance to these sectors covered more broadly by other Working Groups, including economic diversification, transparency and efficiency.

II. Introduction and Statement of Purpose

Since its independence in 1991, Kazakhstan has made impressive advances in the overall development of the country in a wide spectrum of spheres. The science and technology (S&T) sector, however, passed through an extended period of neglect and deterioration that will require a focused and concerted effort to revive it to a competitive state.

According to World Bank data, at its peak during the Soviet period, Kazakhstan was an important center of research and development with 41,000 research scientists. That number declined dramatically by 2004 when only 17,000 researchers continued to work in the sector. Moreover, between 1993 and 2002 virtually no new scientific equipment was acquired in Kazakhstan and very little has been since, with the remaining equipment either obsolete or worn out.

It is only recently that the GOK has begun to focus renewed attention on the S&T sector. These important steps are primarily in the development of a vision and strategic framework for the development of the country's science and technology sector.

The main policymaking body in the field of science and research in Kazakhstan is the High Scientific Technology Committee (HSTC) headed by Prime Minister of Kazakhstan and

includes all core ministries. The Committee's Secretary is the Ministry of Education and Science (MES). The MES is responsible for conducting oversight and audits of the country's science development, and the Ministry of Industry and Trade (MIT) is responsible for R&D development and evaluation of Kazakhstan's capacity in the sphere of S&T.

One of the first policy steps came in 2002 when the GOK defined five key areas for research as cornerstones for the overall development of the country. Development of Information and Communication technologies (ICTs) was identified as one of the five areas. In 2003, the GOK created the National Innovation Fund (NIF) with a subsequent strategy for 2005-2015. Its stated mission is to promote innovation and the transfer of technology in Kazakhstan. The strategy includes the creation of a venture capital and private sector investment and its current capitalization is approximately USD 200 million. The NIF was recently brought under the control of, and receives its funding through the Samruk-Kazyna Fund for Sustainable Development.

More recently, in June 2007, the GOK adopted a progressive State Program for Science Development for 2007-2012. The Program has two main phases: An institutional modernization phase which provides for refining a unified policy on science development, creation and modernization of science institutions and providing funding and support for science educational programs, among other activities. The second phase focuses on sustainable development in the form of applying international standards to Kazakhstan's scientific community, creation of several scientific centers, and commercializing scientific findings through domestic companies. Overall, the Program outlines 15 specific S&T initiatives to be pursued primarily through GOK funding.

While the vision and strategy are starting to fall into place for the development of science and technology in Kazakhstan, the GOK's real challenge now is two-fold. First, Kazakhstan needs significant infrastructure improvements in order to effectively assist the science development process. This includes mechanisms and implementing programs in the areas of financing, grants and financial management, tax incentives, improved data and information sharing, procurement assistance, international cooperation and other mechanisms to support the development in Kazakhstan of technology-intensive goods and services for domestic and foreign markets

Secondly, the GOK will need to direct a substantial amount of support to human capacity building initiatives in the science and technology sector. This includes first conducting a thorough assessment of the state of play of this important sector to fully understand existing capacity levels. A vigorous program of education, training, and information sharing and project and management skills enhancement to invigorate the robust development of science in Kazakhstan should follow.

According to the World Economic Forum's Global Information Technology Report 2008-2009, Kazakhstan ranked number 73 out of 134 countries included in the study in terms of its technological readiness.

The GOK has invested approximately $18.5 billion KZT (USD $123 million) in the field of S&T development. While the absolute number seems high, it is only $10 per capita in terms of share of GDP. Compared to developed countries with per capita investments in the range of 1 -3 percent of annual GDP, the investment in Kazakhstan's S&T sector is not on par. India proposes investing not less than 1 percent of GDP per year to S&T development. Whereas R&D expenditures in the EU remain steady and are 1.4 percent to 3 percent of annual GDP depending on the member country.

An important factor at this stage is the effectiveness of government spending. Absent the presence of established and efficiently functioning institutions, the proper channeling and management of funds remains problematic and unclear.

A significant shortfall in the Kazakhstan scientific community is a lack of awareness among the business community of the scientific and technological capabilities available in the country. Due to the dramatic outflow of talent over the past decade and the deteriorating nature of facilities, there is a lack of clarity regarding what capabilities remain. In order for Kazakhstan to increase the pace of its technological advancements, the GOK needs to do much more to promote and link science and business. A first step is to better inform the private sector what is available, and then pursue programs that link science and business.

First, there is a lack of methodologies for moving products from the laboratory to the marketplace. Mechanisms need to be developed and put into place. Second, very little is being done to highlight and promote the activities of active domestic research institutions. Most institutions do not have the skills or resources to promote themselves and not enough outside assistance programs exist to provide advice, guidance or support. As a result, the business community has a very low awareness of the results or projects being worked on in the country's research institutions. Absent this knowledge, businesses cannot contemplate the commercial applicability of these developments to their businesses.

Third, the Kazakhstan business mentality is partially a cause of low commercialization of science. Most local businesses have very little interest in pursuing local R&D and usually prefer to purchase well known and proven technologies from abroad. As a result, in the near term the interest of government-owned and private enterprises in the products and services offered by local S&T institutions will be limited.

Fourth, there are too few success stories or examples of domestic research institutions matching up with companies for the successful launch of an innovative product or service. If a campaign was in place to promote the important link of science and commerce and the broader benefit to society, more interest would be directed towards developing the sector.

Outside of potential private sector collaboration, there is also no clear mechanism for the NGO sector to form partnerships with the GOK to improve science development. Currently there is no clear and transparent mechanism for non-profit organizations to collaborate with donors for the funding of science and technology projects. These potential non-government partners could also play an important role in developing the sector if appropriate conditions and procedures are put in place.

In developed countries, the situation is different. The onus of technological advances rests with the private sector. Most technological innovations occur within divisions of the companies that produce goods and provide services. Research results and their commercial applications are demanded by the market. For example, in Finland, 70 percent of the capital expenditures for S&T are derived from the private sector. In Kazakhstan, the situation is different. Technological needs of companies do not play a major role in determining the direction of research.

According to an OECD Report, "Access to scientific and technological knowledge and the ability to exploit it are becoming increasingly strategic and decisive for the economic performance of countries and regions in the competitive globalized economy. The 50 leading S&T countries have enjoyed long-term economic growth much higher than the other 130 countries of the rest of the world."

An important step forward in the effort to harness Kazakhstan's scientific advancements for commercial application was the establishment in January 2008 of the Kazakhstan Science Commercialization Project. The Project, with an overall value of US$ 75 million, is co-financed by a World Bank loan in the amount of US$ 13.4 million and by the Government of Kazakhstan in the amount of US$ 61.6 million. The Project has three main components: 1) Strengthening Kazakhstan's science base through research grants and equipment, 2) Linking Kazakhstan's science to the markets by providing technology commercialization services, and 3) Project management services to finance project implementation, monitoring and evaluation of activities for the project.

A key area to be addressed, which is recognized by the GOK, is the insufficient level of global collaboration and cooperation in the area of S&T and a lack of internationally recognized science and technology standards in place in Kazakhstan. Science is moving at a very rapid pace and absent global interaction Kazakhstan can find itself falling further behind the global pack. Current standards are not on an international level and there is no effective or globally recognized scientific ranking system in place. More collaboration is needed on scientific trends and the sharing of information.

A bilateral Science and Technology agreement with the U.S.A., currently in draft form could be a significant step forward for Kazakhstan's international cooperation in science. The U.S. Government proposes the negotiation and conclusion of an agreement on science and

technology cooperation between the Government of the United States of America and the Government of the Republic of Kazakhstan. The agreement is already in an advanced stage of negotiation but still needs to be completed. Such cooperation will advance the state of science and technology in both countries, contribute to the development of their national economies, and strengthen their economic cooperation through specific advanced technology applications.

According to the draft Agreement, the two governments would agree to encourage cooperation through the implementation of mutual scientific projects; exchanges of scientific and technical information; coordination of joint training, including of high-ranking scientific staffs; exchanges of experience and knowledge among scientists and students; convening of joint scientific symposiums, conferences, seminars and work meetings; establishment of science-based public-private partnerships; promote technology transfer; and other forms of scientific and technological cooperation.

Each Party to the Agreement would designate an Executive Secretary to conduct administrative affairs and provide oversight and coordination. The Executive Secretary for the United States would be an official from the Department of State; and for Kazakhstan, an official from the Ministry of Science. Non-proprietary scientific and technological information resulting from cooperative activities may be made available to the world scientific community. The Agreement also deals with the treatment of intellectual property created or furnished in the course of cooperative activities under this Agreement.

Human capacity deficiencies in the S&T sector are a serious challenge for Kazakhstan. In addition to the significant loss of personnel actively engaged in the scientific institutions during the 1990's, very little has been done to educate and train a new wave of S&T or ICT specialists. As a result, there is currently a major shortage of highly trained S&T professionals and a lack of infrastructure to develop future talent. First, there is a shortage of educational institutions that specialize in science and few have a major science component in their curriculum. Second, not enough financial resources are directed to training and education in this sphere. Also, trained educators are not available domestically to train the next wave of talent even if funding exists.

In addition there is no clear link or mechanism for collaboration between educational institutions and the scientific community. The theoretical walls that existed between these two institutions prior to the country's independence remain barriers to cooperation. The S&T field is also not adequately promoted as a prestigious or cutting edge field of study nor is it emphasized as an important element for the development of the country. Finally, a simple but particularly important deficiency is the lack of foreign language skills of the scientific and ICT community and students pursuing these fields. This creates an immediate limitation on their ability to learn about trends or cooperate with leading scientific and ICT counterparts abroad.

Finally, the overall technological advances of the country have moved at a very slow pace. Currently, only 10% of Kazakhstan's citizens have access to or actively use the internet (primarily in Almaty and Astana). The rest of the country has minimal access and use of computers and the internet remains low in priority for most citizens. Computer literacy in the country is extremely low.

The Economist Intelligence Unit's (EIU) annual 2008 e-readiness ranking of the world's largest economies ranked Kazakhstan 66th out of 70 countries in the study in terms of its information and communication technology readiness. It scored 3.89 out of a scale of a possible 10. Kazakhstan scored particularly low in the areas of government policy and vision and in consumer and business adoption.

Similarly, in the 2007 Global Entrepreneurship Monitoring (GEM) report which evaluates 42 countries in the area of entrepreneurship, Kazakhstan was ranked in the middle in terms of entrepreneurship, but scored very low in terms of key indicators related to the crucial link between entrepreneurship and innovation. In particular Kazakh entrepreneurs scored relatively low in terms of education (relative both to the rest of the Kazakh population and to entrepreneurs in other countries in the survey), innovation and in the use of technology.

The slow pace of development of the ICT sector is a drag on the pace of the overall development of the country. Considerable opportunities to instill efficiencies into government and business processes are being missed due to the slow pace of converting to e-based solutions. A vision for e-government exists, but implementation remains in its infancy stages. For example, while web-sites exist, they are only minimally being used to their capacity in terms of the types of applications that could be employed such as e-signatures, e-registration, e-payment systems, e-libraries, etc. Similarly, advancements in Wi-Fi, 3G and other ICTs are being stalled by indirect barriers such as high costs for access to networks that are controlled by quasi-monopoly providers or a lack of developed service organizations to support the systems.

The Cooperation in Science and Technology Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide a range of policies and programs that it believes can accelerate the development of a competitive, diversified, innovation-driven market economy that will bring broad-based stability, security, success and self-realization to the people of Kazakhstan.

The GOK has a number of imperatives before it in terms of kick starting the development of its science and technology and ICT sectors. Its greatest challenge will be making the link between policy and practice.

III. Key Proposals and Discussion Points

1. Enhance global cooperation and establish international standards in Kazakhstan's S&T sector

Kazakhstan's scientific research and development capabilities have lagged considerably in the past decade and it could benefit tremendously by extensive cooperation with the international scientific community. Specifically, such cooperation could benchmark Kazakhstan's current levels of development against international standards while providing valuable access and cooperation with leaders in the scientific sphere.

In its efforts to benchmark current capabilities with international standards, to rank scientists and scientific/research institutions, the GOK could benefit from models used by such international organizations as the InterAcademy Council (IAC); the Directorate for Science, Technology and Industry of the OECD; UNESCO; the International Council for Science (ICSU), and the American and European Academies of Science. In addition, useful ranking models and criteria as a reference point and method include the National Research Council (NRC), the Institute of Scientific Information (currently under Thomson Reuters), Science Watch, Thomson Scientific, Essential Science Indicators, as well as use of the "h-index" for evaluation.

Discussion Points:

- **Adopt international standards for S&T process management and quality control** in order to maximize the resources in the scientific community and create efficiencies in the process. This will also enhance the usability of the end product according to globally recognized quality standards.
- **Adopt international standards for the evaluation of research results** in order to benchmark findings according to globally accepted standards.
- **Develop a rating system for scientists and research organizations** that meet global rating standards. Rating systems will simplify the process for determining suitable partners in either the scientific community or within the private sector for commercial applications. Simultaneously, it will encourage professionalism and higher standards among the scientific elite.
- **Establish clear S&T project management criteria** so that resources are efficiently used and clear goals, outcomes, deadlines and parameters are established and followed.
- **Improve the selection of international organizations and S&T advisers** to ensure that:
    - The professionals are experienced in their fields of interest
    - They are sensitive to the realities of the Kazakhstan S&T environment
    - They understand the strengths and limitations of local S&T capabilities
    - They understand the needs of Kazakhstani end users of S&T products and services
- **Improve collaboration through information sharing programs** that connect the US and Kazakhstan scientific communities. A significant step in this regard would be the signing of the current draft agreement under discussion between the governments of the USA and Kazakhstan on cooperation in science and technology.

- **Effectively use the Kazakhstan Science Commercialization project** managed by the Ministry of Science and Education and the World Bank to improve standards and collaboration in the S&T sector.**Identify national scientific priorities** and create categories, specializations and detailed selection methods for supporting these areas.

2. Improve the use of GOK funding and support of the S&T sector

The GOK has established key policy programs for the development of science which creates a framework for progress. Implementation of policy objectives and the effective use of earmarked resources will be the key to the sector's advancement. This includes expanding funding through grants, core and special funding of projects. Proper management, oversight and infrastructure development are essential during the implementation phase. In addition, improvements in Kazakhstan's science legislation, particularly in the area of intellectual property protections and reforming government technology tender procedures will provide better clarity to the overall S&T framework.

Discussion Points:

- **Effectively utilize GOK funding support** through proper oversight and dissemination mechanisms. Clear selection and funding criteria should be established for program selection and funding recipients. Projects should clearly support the broad objectives of science policy. Focus should also be concentrated on improving the management and quality of the R&D process.
- **Improve the competitive grant system for research project funding** by establishing clear criteria and procedures during the selection and implementation phases:
    - Decentralize funding sources for scientific research
    - Increase the transparency of the selection process for research and commercialization project funding and support.
    - Reassess tax and other incentives that will promote activities and advancements in the S&T sector.
    - Develop a framework for the attraction and stimulation of donor attention and support to R&D projects in the country, including public-private partner programs in the areas of joint research and commercialization of science.
    - Establish a mechanism for greater information and data sharing in the S&T sector while protecting proprietary information.
- **Improve the management of Kazakhstan's S&T sector** by separating the administrative and research functions.

3. Improve the categorization, ranking and promotion of research institutions

Due to the reduced attention on the development of science and technology in Kazakhstan during the 1990's, a clear picture does not exist regarding the current status and capacity of research institutions and scientists in the country. In order to be better positioned to

promote the country's science potential, efforts should first be made to assess the current situation and then develop mechanisms and programs to promote their evaluation and advancement. These findings will assist the GOK in defining policies and programs for improving the infrastructure within the sector.

Discussion Points:

- **Conduct a comprehensive assessment of existing research institutions** including their current status, capabilities, human and other resources, their major projects, areas of research and findings or developments that may have commercial applications.
- **Systematically conduct technology audits** in order to identify technologies that have the potential for commercial application and success and consolidate this data into a useable and efficient format.
- **Develop advisory and assistance programs** and services for research institutions that support these scientific entities and individual scientists in their efforts to improve their self-promotion, marketing personnel and technology transfer offices.
    - Raise awareness among the science and business communities about the important role science plays in the development of the country.
    - Establish an agency or department that has a specific role for matching research and educational institutions with potential technology end users at an early stage in the R&D cycle.
    - Continuously and consistently monitor and evaluate the scientific potential of Kazakhstan through established and recognized criteria.

4. Engage the non-profit sector in GOK S&T funding programs

The non-profit sector and NGOs can be a driving force as a means of accelerating advancements in Kazakhstan's S&T capabilities. By utilizing the talent and unleashing the capabilities of the non-profit sector, the science community can benefit from a fresh source of innovative ideas, manpower and other resources.

Discussion Points:

- **Promote partnerships between the science and non-profit sectors** by developing effective mechanisms that raise awareness and link the two communities.
- **Use the PPEPI initiative as a vehicle for bridging links** between the public and private sectors and the scientific community.
- **Develop forums that engage the S&T community** through programs that bring together members with common interests. Jointly, and through the exchange of ideas they can better promote the availability of important resources for both the government and the business community.

- **Use NGOs to establish international links** with foreign and international counterpart organizations. The NGO international network of contacts and access to expertise can benefit the Kazakhstan scientific community.
- **Use public-private partnership initiatives** to enable participating scientists and engineers to establish linkages that enhance their personal and professional capabilities and stature while providing important inter-institutional cooperation.
- **Engage NGOs in the project selection and implementation process** for R&D and related scientific projects. The NGOs can provide valuable assistance in project management, selection process oversight and in the implementation phase of selected projects.

5. Develop and improve human capacity building in the S&T sector

In order for Kazakhstan to be competitive in the areas of science and technology, it needs to plan for the future now. Advancements in science are taking place at an exponential pace and Kazakhstan's scientific innovations need to keep up with this pace. This requires developing both the individual and organizational capacity in the science community through comprehensive strategies, policies and programs.

Discussion Points:

- **Establish a comprehensive framework of capacity building initiatives** that enhance the skills of Kazakhstan's future talent in the S&T sector through forums, trainings, educational exchanges and joint projects with international partners.
- **Create a world class university in Astana** with a strong science component and develop it into a leading university in the country with an emphasis on science and technology.
- **Improve the integration of science into the educational curriculum** and focus special attention on providing the necessary resources to remain cutting edge in methods and equipment.
- **Foster collaboration between research and educational institutions** through a comprehensive set of programs and initiatives to avoid scientific isolation.
- **Increase university involvement in research projects** both for educational purposes and for exchanging innovative ideas and practices that can be transferred to government or commercial use, as well as develop universities with a research capacity.
- **Popularize science in the country** and promote and encourage greater involvement of students into the scientific, research, and ICT sectors. Emphasize its role in the advancement of the country and society.
- **Improvement English language skills in the S&T community** through a range of training and education programs. Enhanced language capabilities among the research community which will facilitate greater international cooperation with

foreign research institutions through direct contacts and publications in English-language journals.

- **Create a Science and Technology Education Center** which includes staffing by international experts with a primary objective of developing independent, objective and high quality technical expertise within the scientific community.

6. Prioritize the development of the Information and Communication Technology (ICT) sector

Kazakhstan is currently dramatically lagging behind in the development and use of modern ICT which slows progress in many aspects of the country's business and societal development. Government, business and society can be significantly more efficient, less bureaucratic and more effective once broader strategies on ICT use are implemented in the country. The GOK High Scientific Technology Commission (HTSC) has declared the the development of ICT as a priority. This paper provides a wide range of proposals and steps that are recommended across the board to increase the pace of development ranging from infrastructure and service improvements to training and development of specialists and broader applications of ICT use in government and the business environment.

Discussion Points:

- **Improve access to and use of modern ICTs** by making substantial improvements in the ICT infrastructure in Kazakhstan. Specifically, availability and access to a wider range of modern technologies is recommended including increased access to and use of internet across the country, WiMax and 3G capabilities.
- **Reduce the costs of access to modern ICTs** by providing for increased competition in the sector and removing barriers to access from state monopolies and regulatory restrictions.
- **Promote the increased usage of ICT enabled public services** such as e-Government, e-payment systems for government and municipal services, e-registration of vehicles and a broad selection of other available applications.
- **Improve ICT support services** in order to improve the quality and effectiveness of ICT applications.
- **Develop ICT education programs** that address the current deficiencies related to the lack of qualified ICT professionals. Improvements are required in the educational curriculum and standards to raise them to levels that take into account global trends and the latest advancements in technology. Improved English language and other foreign language skills should be encouraged and supported through programs that will allow for language skill enhancement.
- **Improve the computer literacy of population** in Kazakhstan and provide training and encourage use of the internet.
- **Support the development of the local ICT industry** through programs and initiatives specifically developed for local software vendors, developers and designers.

- Encourage active participation in the ICT industry by supporting ICT entrepreneurship, ICT related start-ups and ICT innovators. A host of specialized programs can be devised in this area.
- **Make adjustments in government policy and regulation** related to ICTs. This includes specific improvements in the area of information security and safety, the use and acceptance of E-signatures, and reduced restrictions on Call Centers.

July 16, 2009

U.S. – Kazakhstan Public-Private Economic Partnership Initiative - PPEPI

White Paper to the Government of Kazakhstan on Improving Customs Procedures

Submitted by the PPEPI Working Group on Regional Economic Integration/Trade and Customs

March 2010

I. Executive Summary

The Regional Economic Integration, Trade and Customs Working Group under the U.S. - Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to improve existing Customs oversight, procedures and practices in the country. The benefits of the proposals are more simplified and efficient Customs rules and procedures for importers and exporters, as well as improved coordination that ultimately support the flow of goods and services and the overall economic development of the country.

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with commentary from a range of importers, exporters and Customs brokers in Kazakhstan, as well as the findings of various international studies and surveys. [1] In addition, the Working Group members have taken into account the significant developments surrounding the Customs Union (CU) between Kazakhstan, Russia and Belarus that took effect on January 1, 2010. The CU, with its proposed unified customs tariff and non-tariff regulations and its unified Customs Code is anticipated to have a dramatic impact on trade between the three participating countries, as well as on their existing Custom's regimes. Since the Working Group members cannot predict the proposed benefits of the CU on Kazakhstan's domestic industries and competitiveness, this White Paper will not address issues specifically pertaining to the CU.

Instead, this White Paper focuses specifically on Kazakhstan's existing Customs procedures and practices and makes several core proposals for improving the clarity, efficiency and operations of the Customs regime. First of all, it makes recommendations on the implementation of the provisions of the January 7, 2010 law on amendments to the Customs Code which introduces integrated border management. While the concept is positively received, uniform coordination and implementation country-wide is critical to avoid the emergence of new administrative barriers or Customs clearance delays for importers and exporters. Greater consistency is proposed for procedural and documentary requirements at all primary Points of Entry (POE) into Kazakhstan under a better harmonized and more electronically-advanced infrastructure. A "One Window" system is recommended with a simplified set of procedures and documentation requirements all based on advanced information-sharing capabilities among varying customs agencies and users.

Secondly, the White Paper recommends improvements in existing practices on Conditional Pricing. Despite the December 8, 2009 law which reduced minimum prices and de facto conditional pricing, inconsistent interpretation and implementation across Customs points continues to present a host of problems and delays for users. A more reliable and transparent mechanism is proposed to reduce discretionary authority of Custom's officials.

[1] See Appendix 1

A more consistent method of classification through harmonized codes and greater flexibility when challenging pricing and Customs valuations are also needed to release shipments while valuation issues are under consideration and review.

Finally, the White Paper recommends improvements in how Customs classifies personal effects, as well as procedural revisions to address cargo held in storage under protest. Based on the experiences of actual users of the system in Kazakhstan, the overall goals of the proposals are to reduce delays, inefficiencies and costs in the process at the practical level. They also aim to establish more time sensitive and effective mechanisms for resolving questions or disputes at every stage in the process.

II. Introduction

According to the World Bank's Doing Business in Kazakhstan Report 2010, Kazakhstan ranks number 182 out of a total of 183 countries assessed in terms of the difficulties, documents, time and costs associated with trading across borders. The top five countries ranked for ease of trade were Singapore, Hong Kong, Estonia, Finland and the United Arab Emirates. The last place position, number 183 is Afghanistan. [2]

While Kazakhstan is considered to be one of the most difficult and most expensive countries in the world to conduct trade, it is not due to an absence of laws and regulations. To the contrary, it is primarily attributed to the extensive number of procedures and documents required to complete a transaction, excessive discretionary decision making by Customs officials and unnecessary delays (and costs) due to an inadequate flow of information among agencies in the Customs clearing process.

The difficulties in Kazakhstan's Customs clearance procedures are not solely attributed to the operations of the Customs Control Committee under the Ministry of Finance of the RK (CCC). The CCC by its structure is primarily the implementer of policies and procedures established by a range of other state bodies led by the Ministry of Industry and Trade (MIT) and including the Ministry of Finance, the National Bank and other agencies. Therefore, reducing existing formalities and streamline procedures in the customs processes in Kazakhstan requires a two-pronged approach to address issues in both the policy formation (MIT) and the policy implementation (CCC) phases of the system.

This White Paper addresses some key areas where improvements can have a significant impact on easing cross border trade in Kazakhstan. With the changes anticipated due to the implementation of the unified Customs Union (CU), Kazakhstan should emphasize promoting itself as a preferred destination as an entry point for non-CU member countries and ultimately as a place to invest, produce goods domestically and engage in business. Improving customs procedures and practices can play a significant role in supporting both this aspired image and day-to-day practice.

[2] Doing Business in Kazakhstan Report 2010, World Bank

Coordination at Points of Entry (POE) – In Kazakhstan, there are multiple primary POEs accessible either by land (ports and border entry points) or by air (airports). For clarity purposes, it is important to distinguish between the different modes of transport for shipments and their relations to Customs and POE issues in Kazakhstan. Air shipments are not addressed at borders and Customs comes into play only upon arrival at airports and SVHs. Rail transport is also not stopped at the border because the cargo is sealed in bonded Customs carriages, so the final POE is where the Customs control occurs. Sea cargo is declared at the Aktau Sea Port which currently does not have any significant problems. Therefore, truck cargo is the most problematic because it faces issues at the borders upon entry into the country and again at the final destination. For importers and exporters, the key objective is to reduce the time and cost in the process between the time the shipment arrives at the border or POE and is fully customs cleared at its final destination. Experiences by importers and exporters vary widely depending on the POE they use in Kazakhstan.

One problem is the multiple layers of border controlling by various state organs with inadequate internal communication channels. This poor synchronization among agencies leads to bottlenecks at the border points, as well as causes delays at the POEs. The Working Group is aware of the January 7, 2010 amendments to Customs legislation to introduce integrated border management by delegating authority to two agencies – Customs and the Border Police. In principle, this is a welcome development and it should facilitate the process. However, proper coordination and implementation is critical to avoid additional documentary requirements or duplicate procedures that further hamper importers and exporters. Since the law is relatively new, it has not been uniformly applied across the country at the time of drafting this White Paper.

In a best case scenario under current conditions, a truck entering a POE can clear customs in 1-3 days. Typically, clearance can be completed within 2-3 hours after the transaction is entered into the Custom's computer system. However, delays of up to several days can occur in the process prior to entry into the system. There are several reasons for this delay: 1) Lack of Personnel – some POEs may only have the capacity to clear 30-40 trucks per day due to available staffing. This can lead to long lines of vehicles, and delays, waiting to begin the clearance process. Inadequate hours of operation add to these delays; 2) Inexperience of Officials – documentary requirements vary widely from one POE to another. Importers are often challenged to provide documentation that is no longer required by current legislation due to the lack of awareness of legislative or regulatory changes by the Customs official. This can result in a loss of several days as the importer obtains the documents.

One of the most complicated POEs that require special attention is at the Khorgos China-Kazakh border point where importers experience massive delays and other bureaucratic challenges. There currently exist huge discrepancies between the data provided by Chinese Customs vis-à-vis Kazakhstani data regarding the number of trucks entering Kazakhstan via

China. Estimates with up to 80% variances in the data suggest that thousands of trucks entering the border from China are not being accurately reflected in the Kazakhstani data. There is a clear need for all trucks entering Kazakhstan from China to be registered at the SVHs on the Kazakh side of the border. Legitimate transporters are traditionally reloading at SVHs on the Kazakh side of the border and registering at the SVHs. Other carriers, including transit vehicles to other Central Asian destinations, bypass the SVHs and subsequently do not register. This can result in both poor data collection and significant losses of revenues for the GOK. The customs border points with Russia should not be problematic after July 2010 when all except one border point will be abolished as part of the CU. However, concerns have been raised about controls at the Chinese-Kazakh border, especially once the CU is fully functioning and cargo can pass freely between the CU member countries.

From POE to Destination - Improving only the efficiency of customs at the POE will not improve the overall performance of the border crossing and clearance process. It is at the point of destination where the bulk of the import control and compliance occurs. As noted above, borders can generally be crossed in 1-3 days, but delays and costs also increase once the truck arrives at its destination. This is primarily due to an information disconnect between the border and the final point of arrival, as well as issues related to specific POEs.

In practice, trucks are arriving from the border closed by electronic Customs seals containing all required cargo and clearance data and move to Customs Bonded Warehouses (SVH) for unloading and discharge. The concept of using electronic seals is welcomed by importers and Customs brokers, but to date, their use has not fully facilitated the clearance process. The problem is that in Almaty for example, 30% of the SVH's do not have the capability or equipment to open the electronic seal. So what was intended to facilitate the process is actually hampering it until the SVH's are better equipped.

Secondly, there is a lack of qualified Customs personnel at each SVH available 24 hours per day, seven days per week. Many Customs inspectors at SVH's are not fully available at all times. Sometimes one Customs inspector is responsible for multiple SVHs and has to coordinate his time among the SVHs which leads to delays. Thus, to optimize their time, these inspectors will wait until there are a sufficient number of trucks ready for clearance before they will come to the SVH to begin the process. Trucks arriving first have to wait several hours (or days) until the inspectors arrive which is an added cost and delay.

Moreover, an importer's costs start adding up the moment the truck arrives, but clearance only starts once the appropriate documentation is obtained. This generally takes 24 hours. In the best case scenario, the whole process takes 48 hours and costs $150-200. However, if the truck arrives on a Friday, its processing will only start the following Monday.

This process is further complicated when a truck is carrying a consolidated shipment consisting of multiple shipments from multiple suppliers. In this case, to start the customs

clearance process only original documents are accepted (CMR, Tir Carnet, Short Declaration). Depending on where the shipment originated, the importers will rarely have the 5-7 originals of the documents needed for full clearance. Standard practice is that a single original is issued at the time of shipment. Therefore, in order to resolve such situations, the importer needs to arrange for notarized copies of the documents or find some other solution. Time and costs also increase if the declaration requires conditional pricing (discussed below). Currently, the total process takes an average of 3-5 days and costs $500 before the declaration is filed. After the declaration filing, the cost is only $150.

As a result, the most significant problem that importers face is the final destination cost. Solving this would solve 90% of the cost issues.

Variances in Regional Interpretation – Currently, there are wide variations in how Customs officials interpret customs regulations in different regions. For example, when a shipment arrives in Almaty by road, it is directed to a customs terminal (SVH) for offloading. In turn, the SVH registers the shipment with customs upon arrival and a short customs declaration is issued. In Western and Eastern Kazakhstan, however, the consignee has to either engage a customs broker or send their representative to the SVH to register the shipment with customs and obtain a short declaration on the day of arrival. Any delay in the registration of cargo with customs or the issuance of a short declaration can result in a contraband case being opened against the importer. Contraband cases are usually resolved through a lengthy legal process, during which time the cargo remains in the custody of the customs terminal incurring extensive storage charges.

According to Clause 2, Article 90 of the CC of the RK, upon the filing of a short declaration by the carrier or a person with the authority over the goods, the goods should be deposited in a temporary storage warehouse not later than the next working day after presentation of goods and vehicles to the customs authority.[3]

Due to varying experiences at POEs and SVH, the importer usually exercises his choice on which SVH to use if the shipment is by truck or train. However, the situation is quite different for air shipments. Currently, Customs bonded warehouses in Kazakhstan's airports are operated by a sole operator (a monopoly). As a result, there is no competition or pressure for competitive pricing for storage fees for shipments awaiting clearance. Unfortunately, this has led to storage fees at these facilities at rates two times higher than any other airport SVH in the world. The importer has no choice in the matter and it is another factor why Kazakhstan continuously ranks among one of the most difficult and expensive countries in the world to conduct cross-border trade.

Multiplicity of Documentation – As a general rule in Kazakhstan, of the more than 12 documents traditionally required for customs clearance, only 3 are issued by Customs. The

[3] *Customs Code of the RK*

other required forms include certificates of conformity to local standards, quarantine documentation, radiation and veterinarian certificates and documents from the National Bank, the Ministry of Health and other agencies and ministries. The complete list of required documents is described in Appendix III to this White Paper. In short, the wide range of required documentation is unnecessarily burdensome to importers. The Working Group anticipates that at least some of these forms and documents may be removed from the list of required documents with the adoption of the new Customs Code currently under revision.

Conditional Pricing - Customs authorities often apply conditional pricing whenever there are doubts about the declared value of goods being imported into Kazakhstan. Procedures requiring the original copy of the export declaration as proof of value existed during a short period of August – September 2007. This requirement was abolished and according to Article 314 of the existing Customs Code, the provision of an export declaration is not obligatory. However, this is not always the case in practice. Although this ability to use Conditional prices was theoretically removed by law on December 8, 2009, in practicality inconsistent and unrealistic conditional pricing is still being applied. Moreover, cities differ in their pricing laws (or in their interpretation and use of the laws) to the point where the use of conditional pricing by Customs can have a significantly detrimental effect on the importer.

The rate of conditional prices is often very high, inconsistent and sometimes unrealistic. Higher conditional pricing applied by Customs increases the total amount of customs duties charged to the importer. If an importer decides to challenge the conditional pricing applied by Customs, it has to go through a long procedure and bear heavy storage charges. Moreover, if a customs officer rejects the reported value and applies conditional pricing (causing delays that incur storage charges) the importer may need to address the same issue with every shipment. Efforts to resolve the issue are also complicated by procedures requiring a lengthy list of documents from the shipper as proof of value. This extensive list of required documentation is described in Appendix IV to this White Paper.

A core problem is a lack of flexibility in the process. If there is a hold on the shipment and the importer wishes to challenge a conditional pricing issue, it must deposit an amount equivalent to the customs value correction that could be in excess of 100% of the Customs value of the goods, and only then pursue legal action. Then if the importer prevails, it can take up to one year to receive its deposit back. As a result, in many instances the importer will simply pay the extra duty to avoid the legal action, the delays in the process and the inability to use its funds that are on hold. This is particularly damaging for small and medium size exporters since the cost of hiring legal defense is prohibitive, so they end up paying unfair Customs duties.

In most cases, the Harmonized Code "HS Code" identification for conditional pricing evaluation is handled improperly. By way of example, if an outer casing of a unit is made of black metal, the customs inspector may apply the HS code of black metal for the entire unit.

This may have a much higher applicable import duty then the original HS Code specified by the producer. Therefore, depending on the CIF value of goods, the wrong identification of an HS Code can increase the amount of import duty and VAT quite significantly.

Furthermore, conditional pricing lists, which are updated on a quarterly basis, are sometimes inconsistent with the actual market pricing. For example, the conditional price of one kg of nails in 2008 was set at $1,000 per kg and for technical books at $4,000.[4] In short, there is a lack of consistency in fixing the conditional pricing formula. To facilitate trade, Kazakhstan Customs should implement a more simplified conditional pricing mechanism and allow the conditional release of cargo without requiring a deposit, allowing the consignee to dispose of the cargo at his convenience.

Classification of Personal Effects – In the classification of Personal Effects and Household Goods, there is an inadequate distinction in Kazakhstan's customs legislation between "commercial cargo" and "personal effects". This has lead to current legislation being interpreted differently at various locations in Kazakhstan according to the knowledge and/or discretion of customs inspectors. The result is that at some locations personal effects can be cleared duty free while at other locations the import of used household goods and personal effects is treated as commercial cargo and subject to import duties.

Part of the problem relates to the different rules applied to returning Kazakhstan citizens and incoming Expatriates, and their respective abilities to verify the true intention of their imported goods. Kazakhstan citizens may obtain a certificate of residency change but it is not always accepted by Customs. Expatriates, on the other hand, have other challenges due to their inability to obtain long-term residency. The formula for determining relocation or temporary import needs further review and refinement. The current formula is set forth in Government Decree No. 217 dated March 9, 2005 and a summary can be found in Appendix II to this White Paper.

The Working Group also recognizes the GOK's concern over potential abuses to the system. In some locations, there is a simplified customs procedure for personal effects and a flat rate of 0.60 Euro per kg charge as import duty. However, it is commonly understood that some commercial organizations are abusing the system and seeking to apply the flat rate on commercial goods by claiming they are personal effects. Policy here needs revision because on the one hand, customs is targeting legitimate importers of used household goods and personal effects, while on the other; the government is losing revenue because of the foul play by certain commercial importers.

[4] *Conditional Pricing List of the Customs Agency of the RK*

III. Issue Statement

Kazakhstan has the potential to play an increasingly important role as a regional hub for cross-border trade in Central Asia and with Russia and China. This potential is particularly noteworthy in light of the forthcoming implementation of the Customs Union with Russia and Belarus. Despite this considerable potential, Kazakhstan has become burdened with the reputation of the being one of the most complicated and expensive countries in the world in which to conduct cross-border trade. In order to improve its image and competitive position, Kazakhstan's cross-border trade processes and procedures, customs clearance and transit processes need to be streamlined. By improving the day-to-day practical aspects of importing and exporting in Kazakhstan, the country can become a true gateway to trade within the CIS.

IV. Current Federal Role

The most far reaching change to affect Kazakhstan in the near term is the formation of the Customs Union (CU) with Russia and Belarus which took effect on January 1, 2010. Subsequently, the Customs Code of the CU (CCCU) is under development and will take effect on July 1, 2010. Previous work by the Ministry of Economy and Budget Planning (MEBP) on a revised Kazakhstan Customs Code has been suspended with all efforts now focusing on developing the CCCU. MEBP has the primary role in Kazakhstan for development of the Customs Code. The Customs Control Committee under the Ministry of Finance has the primary responsibility for implementing the Customs policies and procedures in the country.

It is envisioned that the new CCCU, which is partially based on provisions of the Kyoto Convention on Customs, will address such issues as eliminating double duties at the POE and point of destination; removing inconsistencies in conditional pricing; allowing for pre-arrival shipment notification which is important for expediting Customs procedures; and harmonizing procedures, tariffs and other cross-border trade issues. Specific provisions of the draft CCCU are currently not publicly available, with only a minor portion listed on www.tsouz.ru. As such, their potential impact on Kazakhstan and on addressing the concerns raised in this White Paper is presently unknown.

On January 7, 2010, the President of Kazakhstan signed Law No. 238-IV "On Changes and Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Customs Issues". The Law introduces integrated border management between the Customs Agency and the Border Police and provides for the transfer of transport, veterinary, sanitary–quarantine and phytosanitary control functions at the state border checkpoints for motor vehicles to Customs bodies. In addition, the Law introduces provisions aimed at reducing administrative barriers for business, in particular, eliminating the need to present the former requirement of two hard copies of customs documents for customs clearance.

V. Policy Opportunity

Kazakhstan has the opportunity to position itself as the preferred entry point for imports into the newly formed Customs Union countries, particularly from China, as well as the primary regional hub for Central Asia. However, Kazakhstan must first improve its image, and practices, as one of the most difficult and expensive countries for conducting cross-border trade. The GOK needs to address inefficiencies in the existing system both from a policy perspective and from the point of view of implementation. On the policy side, improved coordination and oversight is needed over the multitude of ministries and agencies involved in the customs clearance and import/export regimes. In terms of implementation, procedures need to be streamlined to remove inefficiencies and to reduce costs and delays. By improving the existing system, Kazakhstan can better facilitate trade to the overall benefit of the country's economy.

VI. Policy Recommendations

This White Paper proposes improvements in both policy and implementation mechanisms and procedures in Kazakhstan in order to add ease and reduce costs in the current Customs clearance process. These recommendations are important irrespective of the forthcoming changes resulting from the CU integration and the amendment of the domestic Customs Code. The goal is to better facilitate cross-border trade now by improving the conditions in which importers and exporters operate in Kazakhstan.

I. Improve Customs Coordination at Points of Entry (POE).

In order to remove discrepancies and inconsistencies from customs procedures in Kazakhstan, better top-down and cross-departmental coordination is required. One solution, although possibly not currently feasible in Kazakhstan, could be the creation of a unified system under the control of a single coordinating body that consolidates the customs-related activities of different state organizations under one roof. Another approach, which was recently adopted by the GOK, is the plan for integrated border management relegated to Customs and the Border Police.

The Working Group perceives the new integrated border management system as a positive policy step. However, consistent and uniform implementation across the country is essential to the success of the system. To further support Customs coordination, the Working Group also proposes other steps to streamline the current regime, including:

- Maximum automation of the Customs process to greatly reduce the human factor.
- All POEs should be harmonized electronically.
- All statistics should be maintained by a unified body or department within Customs that can subsequently provide other Ministries and interested parties with their required information.
- Operate as a One-Window system. Importers and exporters should be able to complete all aspects of the customs process in one place. Authorization documents

should be processed in the same place, thus eliminating the need to present documents multiple times. The Working Group is aware that Customs is now in the process of implementing an Electronic Single Window and understands that it was originally planned to include pre-customs procedures (permits issued by other agencies). However, to date it is not clear what model is planned to be implemented. Though it appears that there is a will by the GOK to do it, there is no clear plan on what steps will be undertaken and what budget will finance it. Customs clearly needs support with this and requires a GOK resolution defining the responsible organization, the time frame, the concept and other details.

- A nationwide Customs Hotline can be improved so that importers and exporters can consult on procedures.
- Simplification of Documents. By making Customs responsible for obtaining all information and providing all other Ministries and organizations (such as the National Bank) with statistics, Customs can simplify the number of documents that must be completed, as well as reduce the number of entities from which documents are required.
- While consistency is needed at all POEs, the GOK should ensure that the main POEs are aligned in their practices including Overland POEs: Khog'oz, Aktubinsk, Aktau, Dostyk, Kyrgystan/Kazakh border, Uzbek/Kazakh border, Turkmenistan/Kazakhstan border (Bog'dash); and Air POEs: Almaty, Astana, Aktau, Atyrau, Aktubinsk, Shymkent.
- Improve statistical information at the Chinese border POEs. Much improved coordination is required between the Kazakh Customs authorities and their Chinese counterparts to reconcile the data and prevent additional revenue losses to the GOK.
- Kazakh Customs should require mandatory registration at SVHs by all trucks entering Kazakhstan from China.

II. Improve Border Infrastructure.

- The exit/entrance registration of transport vehicles should be carried out at border check points, while individual persons should have border control at the passenger terminals.
- Customs terminals should be near the border and close to the premises for commodities customs clearance.
- The representation of all controlling authorities such as certifying bodies, second-tier banks, technical facilities for customs control, and other services, should be available in all terminals.
- The Customs Committee should be fully responsible for all delays. (Currently, the border, immigration, and national security also play a role.)

III. Greater Transparency on Conditional Pricing.

Currently, no clear mechanism is in place on conditional pricing, leaving the decision to the discretion of the customs inspector. While minimum conditional pricing may have been

reduced with the passage of the December 8, 2009 law, importers are not seeing the effect because each city is applying its own procedure. If a decision is challenged, they may request multiple documents, several of which are not always possible to obtain.

- A clear and transparent mechanism should be standardized, such as based on the HS code (Harmonized Code), universally recognized for determining the classification of cargo.
- The process to challenge decisions is lengthy, expensive, encourages corruption and should be improved. For example, greater flexibility is needed in the process of proving the declared value and to remove the requirement of making a deposit in excess of 100% of the corrected Customs value. The importer should be allowed to choose from one of several options to guarantee payment such the issuance of a bond, a letter of guarantee or some other form of payment commitment in order to release the shipment.
- Cargo should be able to be declared under protest to avoid paying storage fees.
- Importers shall continue to reserve the right to prove their case and receive a reimbursement.
- Remove the emphasis on "Post Custom Control". Current practice allows for post customs control to open a case against importers up to 5 years after the cargo is cleared. This is a very controversial and unsettling authority where millions of dollars of cargo can be at stake for up to five years. Internationally, once cargo is accepted, it can't be challenged unless evidence points to on-going criminality. Therefore, the issue of post-customs enforcement should be addressed. If doubt exists, Customs or post-customs should be required to resolve the discrepancies or open a court case immediately. Every time there is a Post Custom Control issue, it is handled similar to an audit which can potentially promote corruption in order to resolve the issue and avoid resolution in a court. If the Customs procedures are transparent and handled properly at the time of clearance, there should not be a need for Post Customs Control.

IV. Better Utilization of Pre-Arrival Declarations.

Considerable time and expense can be spared with greater use and acceptance of pre-arrival declarations. Most importers are capable of organizing information about the arrival of a shipment two weeks prior to it reaching a Kazakhstan POE. If this information could be provided to customs in advance through an on-line system, clearance time could be reduced considerably once the shipment arrives.

- Kazakhstan should develop a clear and concise formula for the use and acceptance of pre-arrival declarations, notification and clearance preparation.
- The GOK should address the pre-arrival declaration issue clearly with the CU members in order to establish a convenient and streamlined mechanism for its use.
- Web-based declarations should be made available to every legitimate exporter in Kazakhstan. While they currently exist in some format, there is lack of knowledge of its existence among potential users. Customs should be obliged to provide them in advance.

- An e-clearance system would minimize the contact between importers and customs inspectors.
- Filing of pre-arrival declarations can be done online and red flagged so the importers can address problems before the shipment arrives.
- Duties should be deducted the day of actual clearance to eliminate questions regarding the exchange rate.

V. Personal Effects Imports.

Clearer terminology and requirements need to be developed in Kazakhstan in order to better define what constitutes personal effects.

- Create a common standard that the import of used goods should be allowed on a tax-free basis in circumstances of valid changes of residence.
- Provide better clarification of the specific documents required to verify changes in residency of Kazakhstani citizens and have Customs honor that proof.
- Create a simpler formula for validating change of residency claims of expatriates, such as requirements of employment contracts, tax registration and visas. Allow the provision of a Work Permit as adequate proof for allowing tax free imports of used goods.
- Allow importers the opportunity to bring into Kazakhstan one set of HouseHold Goods items under the T6 simplified form of declaration.
- Develop better mechanisms to prevent parallel imports and abuses by commercial enterprises.

VI. Promote Kazakhstan as "User-Friendly".

Due to its important regional geographic location, Kazakhstan has considerable opportunities to increase its image, and its revenues if it can become more user-friendly as a cross-border trade facilitator. This will be particularly important once the CU and its provisions become fully operational.

- Simplify transit customs procedures to facilitate transit handling and distribution of cargo within Kazakhstan and to neighboring countries. Currently, too much red tape exists preventing Kazakhstan from capitalizing on its regional potential. One recommendation is to honor the rights of licensed bonded carriers and allow them to deliver transit cargoes without hassles or additional permissions.
- Enhance the competence of customs inspectors in order to reduce inconsistencies and to improve the customer service mentality. This can be achieved through training programs, as well as better updates on important changes in legislation. Special training should be provided on critical issues such as conditional pricing.
- Require SVHs to be open 24 hours a day, seven days a week and staff the SVH with qualified personnel. This will significantly reduce costs and delays in the process.
- Focus on revenue generation programs and not just protectionism.
- Create competition and competitive prices at airport SVHs for air shipments by allowing more than one (monopoly) SVH operator at airports in Almaty, Astana,

Aktau and Aturau. Avoid "sole operator" situations which add unnecessary costs to the process.

- Short shipped Air Cargo. Currently, Customs requires importers to hold (and store at the rate of $0.20 per kilo per day) shipments that are "short shipped" (where only a portion of a shipment arrives prior to the remaining portion's arrival). This causes unnecessary delay and expense. Instead, Customs should allow for the release and further distribution in Kazakhstan of the partial shipment under a Customs bonded carrier's liability, with full payment of the duties and the subsequent filing of an additional declaration once the final portion of the cargo arrives.
- It should be mandatory that capabilities and equipment for opening electronic Customs seals shall be available at every SVH. While this is important now due to the lack of this capacity in the country, it will be particularly important with implementation of the unified Customs Code and the CU when Russia and Belarus use electronic seals at their POE for further unlocking at destinations in Kazakhstan.
- Develop a framework for encouraging local production and development through the exemption of customs duties on certain high technology equipment used in local production. It should be limited to producers of goods and services and not to importers.
- Develop a "Frequent Importer/Exporter Program. Some companies are regular and repeat users of customs procedures in Kazakhstan. Customs should allow for a fast track clearance process for frequent importers/exporters in Kazakhstan. These frequent and known importers/exporters should be allowed to set up a fast track account with customs by submitting all required documentation on a six-month or annual basis rather than multiple times for the same or similar types of shipments.
- Extend the hours of customs POEs for specified periods or for particular circumstances. For example, perishable goods are jeopardized if they must sit in storage over weekends when customs points are closed. Special exceptions should also be made to allow customs officials to either work alternate shifts or overtime in order to expedite processing and reduce backlogs and delays. Trucks arriving on a Friday should not be required to wait until a Monday for clearance.
- Provide importers and exporters with easy access to legal and technical information and consultations in order to increase transparency and to minimize delays due to minor discrepancies or issues requiring interpretation.
- Maximize Kazakhstan's potential vis-à-vis China and Southeast Asia. Kazakhstan needs to develop strict but simple procedures to handle the extensive amount of goods originating in China and Southeast Asia with transit through Kazakhstan to final destinations in Russia, Central Asia and Europe. The benefit of using Kazakhstan for transit is potentially the speed in which it processes shipments. This means improvements in procedures and manpower.
- Kazakhstani enterprises are reliant on materials and supplies from third countries. A special program can be established with reduced tariffs, grants and expedited clearance services as a measure to support domestic industries.

- Develop alternatives to Russia for access to the Black Sea, such as special incentive programs for utilizing the routes via the Aktau sea port.
- Shymkent, Ataurau and Almaty can be promoted as preferred destinations for transit air cargo if the costs can be dramatically reduced. Currently the costs are much higher than transiting through Dubai, Singapore, London, Hong Kong and other airports.

VII. Prepare the Market for Customs Union Implementation.

It is commonly understood among importers, exporters, customs brokers and the private sector in Kazakhstan that the new Customs Union and its Customs regimes will have an impact on existing procedures, practices and rates in Kazakhstan. However, the extent of this impact is currently unknown which is leading to unnecessary speculation, and in some cases, overreaction with several companies already increasing prices in anticipation of the changes. In order to better prepare the country and the companies most affected by the CU, the GOK needs to do much more now to better inform and prepare society prior to implementation.

- Make current drafts of the unified Customs Code of the Customs Union readily available to the Kazakhstani public so that it can be reviewed, considered and understood.
- Provide information to the Kazakhstani public on commonly asked questions about the potential impact of the CU and its related Customs regime.
- Keep the Kazakhstani public regularly informed and updated on the status of negotiations regarding the CU and unified Customs Code.
- Allow for the private sector to be engaged in the process and to support the GOK with examples and professional experiences utilizing the existing Customs regime in Kazakhstan and their concerns about changes to the regime (both pro and con).
- Identify a central source of information that the general public and businesses can contact to receive information and answers to their questions about the new CU and unified Customs Code and related documents.
- Kazakhstan needs to make sure that its sovereignty is protected in the context of the CU. This is especially important when other CU members, such as Russia, seek to have Russian-only Customs control of the Kazakh-Russian borders.

VII. Analysis of Recommendations

The purpose of the proposals set forth in this White Paper is intended to address problems in current practices in the import and export of goods to and from Kazakhstan. These proposals impact the day-to-day activities of importers, exporters and Customs brokers and if implemented, can have a significant impact on the reduction of delays and costs in the process. These changes can also have a dramatic impact in a broader sense by greatly improving Kazakhstan's reputation as a facilitator of cross-border trade.

The proposals do not specifically address the new CU or the forthcoming unified Customs Code because insufficient information is available to make an informed opinion or

commentary on the impact on this new regime on current practices or the country in general. The Working Group believes that the recommended changes should be implemented regardless of pending discussions on the CU since some positive changes can be resolved immediately and will have an instant effect on end-users.

The Working Group is also aware and supports the GOK's efforts in working with the World Bank's Customs Development Project in Kazakhstan which envisages modernization of legislation and infrastructure, as well as capacity building initiatives. Kazakhstan has an incredible opportunity to be a preferred point of entry for the new Customs Union and in the region. The Working Group's goal is to support the GOK in these efforts and to elevate its policies and practices to recognized international best practices.

VIII. Appendix

Appendix I

In preparing this White Paper, the Working Group considered findings of the 2009 World Economic Forum Global Competitiveness Index, and the 2010 World Bank's Cost of Doing Business Survey, as well as analysis and commentary by the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), Organization for Economic Co-Operation and Development (OECD) and USAID.

Appendix II

Decision of the Government of the Republic of Kazakhstan dated March 9, 2005 № 217 "On problems of the movement of goods by individuals through the customs border of the Republic of Kazakhstan"

Decree No. 217 establishes the criteria for purpose of goods conveyed by natural persons through the customs border of Kazakhstan. Goods are considered as intended for production or other business, if they exceed the prescribed quantity and cost indicators.

The decision defines the conditions and rules of movement of goods by physical persons through the customs border of the Republic of Kazakhstan in preferential order, providing for exemption from payment of customs duties.

Also, the specified cost and weight standards of transit goods to natural persons across the customs border of Kazakhstan are set according to the simplified procedure under which customs duties and taxes paid are in the form of total customs duties (0.6 euro per kg, and for trade goods in category 7-8 at the rate of 13% of the total value).

Individuals have the right to choose the generally established procedure declaration (SCD) with a payment of customs duties according to established customs tariffs.

Appendix III

LIST of documents required for customs clearance of cargo

(to be implemented along with recommendations of customs regimes)

To be provided by the Shipper:

- Shipping documents (AWB, railway SMGS, CMR, Cargo way bill)
- TIR Carnet
- Invoice
- Packing list, stipulating weight and quantity per unit
- Certificate of Origin (can be stipulated in the invoice)
- Passport of vehicle
- Pictures of goods for exhibitions
- Customs Bonded warehouse agreement (for bonded regime)
- Copy of export cargo declaration

To be provided by the Consignee:

- VED card (Card of Participant in External Economic Activity)
- Brokerage agreement
- Power of Attorney
- Purchasing agreement
- Obligation of temporary import/export (for temporary import/export)
- Act of selection of mineral samples (for export of samples)

To be provided by the SVH

- Damage and loss report (provided by SVH)
- Short declaration (SVH)

To be provided by different State Bodies:

- Certificate of conformity
- Payment order (customs dues payment in Kazakhstan) (bank)
- Permission for handling of goods subject to export control for import/export/transit (Ministry of Industry & Trade of the RK);
- Permission from the Ministry of Health of the RK
- Permission from Quarantine Veterinary Department

- Permission from the Committee of National Security of the RK
- Permission from the Agency of Radio Frequency Control of the RK
- Import/export license of the Ministry of Atomic Energy
- Import/export permission from the Committee of Customs Control of the RK
- Invitation/contract with international exhibition or show organizer
- License of the Ministry of Health of the RK for medical activity
- Permission from Ministry of Ecology
- Payment order/ SWIFT (payment for goods)
- Permission of Ministry of Mineral Resources for export of samples

To be provided by Customs

- Import customs declaration
- Resolution of Central Laboratory

Appendix IV

List of Documents Required for Proof of Value

In case the Customs value of a shipment is considered to be undervalued, it is subject to conditional pricing and further correction. To avoid a Customs Value Correction, it is necessary to provide documents, confirming the actual customs value of goods, in accordance with article #316 of Customs Code:

A) To confirm the declared information on customs value, the Declarant shall submit the originals of following documents:

1) Customs value declaration, except in cases stipulated by Paragraph 4 of Article 317 of this Code;
2) Agreement (contract) and additional existing agreements thereto, the data contained in which may affect the determination of the customs value of the goods;
3) Invoice or pro-forma invoice (with respect to transactions other than purchase-and-sale transactions);
4) Payment documents proving the value of the goods if, under the terms of payment, at the moment of submission of the customs declaration, payment is fully or partially made;
5) Transport and insurance documents if, under the terms of delivery, expenses for transportation and insurance are borne by the buyer;
6) Transportation invoice or officially certified receipt for transport expenses in cases when transport expenses were not included in the invoice, but were borne by the buyer;

7) Copy of the customs declaration of the country of departure, if the Declarant can provide it.

B) When the documents specified in Paragraph 1 of this Article are not sufficient to confirm the declared customs value, the Declarant may submit the following additional documents (originals) when necessary:

1) The founding documents of the person transporting the goods;
2) Contracts with third parties related to the transaction;
3) Invoices for payments made to third parties in favor of the seller;
4) Invoices for commissions or brokerage services, related to transactions with the goods being valued;
5) Excerpts from the buyers book-keeping documents, proving the value of the goods;
6) Licensing or royalty contracts;
7) Storage receipts;
8) Delivery orders;
9) Catalogues, specifications, price lists of manufacturing companies;
10) Calculations by the manufacturing company for goods being valued;
11) Other documents that may be used to confirm information stated in the customs value declaration.

After the release of the goods, originals of the documents enumerated in Sub-paragraphs 2 through 6 of Paragraph 1, as well as in Sub-paragraphs 1 through 8 of Paragraph 2 of this Article, shall be returned to the Declarant.

Along with originals of these documents, certified copies by the Declarant must be submitted for Customs clearance purposes.

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U.S. – Kazakhstan
Public-Private Economic Partnership Initiative
PPEPI

White Paper
to the Government of Kazakhstan

Regional Trade Liberalization/Trade and Customs

July 16, 2009

Tracked Version – September 2009

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Regional Trade Liberalization/Trade and Customs Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to improve the current cross-border trade regime in ways that would allow for greater competitiveness and integration of the country into the global arena. The Working Group recommends that the GOK take concrete steps to remove an array of administrative and tariff barriers which have, according to the World Bank ratings on Doing Business – Trading Across Borders, categorized the country as one of the most bureaucratic and expensive countries in the world in which to conduct cross-border trade.

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international and national studies and surveys, such as the 2009 World Economic Forum Global Competitiveness Index, the 2009 World Bank's Doing Business Survey and its Logistics Performance Index, and major studies, policy papers and program advice from the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), Organization for Economic Co-Operation and Development (OECD), the World Bank (WB) and USAID.

The GOK should be commended for the significant efforts it has made and continues to make in order to address some of the administrative barriers and delays that exist in the current system. This paper seeks to further define areas where additional focus can result in further practical improvements.

This White Paper focuses on the institutional reforms, policies and programs that can address some of the needed improvements in existing trade policy and practices. The proposals can have a measurable positive impact and also be attainable if the public and private sectors work together. The goal is to recommend useful changes that will accelerate the development of a competitive and diversified economy that ultimately benefits the people of Kazakhstan.

From a broad policy perspective, the Working Group proposes that the GOK conduct a comprehensive assessment of the significant number of bi-lateral and multi-lateral trade agreements in which it is a participant and institute measures to remove the multiple discrepancies that exist from these overlapping agreements. The focus should be on establishing much better clarity in the interrelationships between the agreements, their protocols and subsequent implementing regulations to remove inconsistencies and define the controlling provisions.

Secondly, the White Paper proposes that the GOK either establish a new Task Force or expand the scope and level of activity of the existing Expert Group (EG) under the Ministry of Economy and Budget Planning currently working on the Trading across Borders indicator. The focus of the Task Force/EG should concentrate on analyzing key stages, processes and requirements in cross-border trade with the goal of streamlining the process, increasing efficiencies and reducing the costs at the practical level.

A review of regulatory requirements and audits of processes and procedures can significantly improve trade activity by providing better clarity. Other forms of assistance for importers and exporters should be considered, such as call centers to address issues, delays and complaints that arise during the trading process. Kazakhstan could also benefit by applying more consciously some international best practices to improve the regime and increase the country rating for ease of cross-border trade.

The Working Group recommends that the GOK implement mechanisms, possibly in the form of a special agency or department, empowered with coordinating supply chain assistance throughout the country in order to reduce backlogs and delays that occur throughout the process. Encouraging the private sector to make more affordable high quality logistics services, especially bonded warehouses, available -- particularly in the northern region of Kazakhstan, would provide tremendous assistance to shippers and distributors and would remove inefficiencies that result from Customs' clearing of shipments primarily in Almaty.

Finally, the White Paper proposes that the GOK reassess current tariff and duty schedules for imported goods, taking into account changes in the market environment. Many changes have occurred in recent years in terms of local industry capacity and local demand and appropriate adjustments to the tariffs should take into account these trends.

The proposals of the Regional Trade Liberalization/Trade and Customs Working Group complement the work of several other Working Groups established under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). This White Paper mentions but does not specifically address other areas of importance to cross border trade covered more broadly by other Working Groups, including taxation, corruption and the overall competitiveness of the country.

II. Introduction and Statement of Purpose

Since its independence in 1991, Kazakhstan has been actively pursuing a number of paths to integrate its economy into the global economic and trade arena. Part of this effort has been directed towards increasing ties with its traditional regional trading partners, but it has also sought to escalate its entry into global trade and investment regimes.

For example, since 1991, Kazakhstan has entered into not less than 24 separate bilateral and regional agreements primarily with CIS, Central Asian and Asian countries in the areas of free trade, investment and customs regimes. Some of the more notable pacts include Kazakhstan's entrance into the Eurasian Economic Community (EAEC), the Common Economic Space (CES), the Economic Cooperation Organization (ECO), the ECO Trade Agreement (ECOTA), the Shanghai Cooperation Organization (SCO) plus a long list of Bilateral Investment Treaties (BITs).

While it sounds promising, there are clear pitfalls to this approach. The multitude of agreements has created a somewhat confusing set of overlapping and sometimes conflicting terms and conditions. Also, many of these agreements are diluted by annual protocols that establish exceptions to the provisions of the agreement.

On a broader scale, Kazakhstan has been negotiating accession to the WTO for the past 13 years. The Working Group believes that WTO accession would be strongly positive for Kazakhstan's economic growth and trade and investment potential. However, Kazakhstan has recently announced its intention to seek entrance to the WTO in the form of a customs union with Russia and Belarus. This move apparently ends Kazakhstan's membership bid as an individual state. In addition, as there is neither a precedent nor a mechanism by which a customs union could accede to the WTO, it appears that at the very least a substantial delay of Kazakhstan's WTO accession is likely. We view this as unfortunate, but it should not hinder Kazakhstan's pursuit of regional cooperation in trade policy.

According to the GOK Customs Committee, the proposed Customs Union with Russia and Belarus will provide for greater integration between the countries, more favorable terms for investment and joint projects and enhance the economic potential of the member states. A core element of the Customs Union is the drafting of Common Customs Tariffs (CCT) which would apply single customs rates and tariffs within the Customs Union. The CCT is scheduled for consideration in November 2009 with potential enactment in 2010. However, one of the intentions of the CCT is to protect local producers from low-cost imports from non-Custom Union countries. The three Customs Union members already operate under a duty-free basis pursuant to the Agreement on Creation of a Free Economic Zone adopted in 1994.

Although Kazakhstan has adopted a wide range of bilateral and regional trade agreements, in practice they have proven to be not as useful as intended. There are a number of reasons for this. First of all, in many instances the terms and conditions of the agreements are either overlapping or conflicting. This leads to confusion in their application by Customs, which in turn causes delays and additional expense along the supply chain.

Secondly, not all member countries have fully ratified or enacted the agreements. This in essence renders them inapplicable as trade tools. Third, the provisions of the agreements

are not adequately enforced. Due to differing terminology and vague provisions, a provision can be interpreted differently by different enforcement bodies or officials.

Many of the agreements also have ineffective dispute resolution mechanisms. An importer or exporter wishing to challenge a decision of an enforcement body could easily find themselves involved in months of delays and bureaucracy in an effort to protect their interests. This leads to delays and frustration, and discourages future trade or expansion plans.

These agreements also often have local content provisions that are protectionist in nature. Thus, while in theory the agreements were intended to be vehicles for enhancing increased cross-border trade, in reality, they are often restrictive. Exacerbating this issue are differing "rules of origin" in the agreements, which can be critical in terms of tariff and duty levels.

Another problem commonly raised by trade specialists is that Kazakhstan has a very complex tariff rate schedule with various bands and high limits. The combination of this with the existence of duplicative tariff schedules in the various trade agreements results in unnecessary confusion in their application.

Moreover, the terms of these agreements are sometimes circumvented by high excise tax rates, discriminatory freight charges or other non-tariff barriers on certain products. The end result is a cumbersome regulatory system that discourages, rather than encourages, regional trade.

A further complication to smooth trade relations is the issuance of government decrees, often without warning or a grace period, sometimes with retroactive effect, and with minimal apparent consideration on the potential impact they have on the market and market participants. A perfect example of this, only one of many such situations, occurred just recently.

On June 8, 2009, the GOK issued Decree No. 850, which temporarily increased by 28 percent the tariff on a variety of confectionery products. The temporary increase had immediate effect and is to remain in force until September 20, 2009. The basis for the decree is to protect domestic producers of confectionery products from imports. In order for existing importers to prevent damage to their established businesses, importers must invoke clauses from the 2000 Customs Union treaty and terminology from the EAEC Agreement, which prohibits the imposition of such barriers without providing 30 days notice. While in theory this may seem like an effective solution, in practice it requires a considerable amount of discussion with enforcement bodies.

To develop and integrate its economy, Kazakhstan needs to diversify its trading partners and implement trade practices that facilitate the flow of goods and services across its borders. Currently, the bulk of Kazakhstan's foreign trade has two distinct characteristics. First, its

primary exports are oil and commodities (minerals), which are subject to major fluctuations in global commodity prices. Secondly, its major trading partners are Russia and its regional neighbors (with the exception of energy exports to the EU). The United States is only Kazakhstan's fifth largest trade partner, behind Russia, the EU, China and Turkey.

Despite its aspirations to become a regional trade center, conducting cross border trade in Kazakhstan is extremely challenging. According to the World Bank's Doing Business in Kazakhstan Report 2009, Kazakhstan ranks number 180 out of a total of 181 countries assessed in terms of the difficulties and costs associated with trading across borders. In short, it is considered to be one of the most difficult and most expensive when compared not only to OECD countries, but also vis-à-vis its regional neighbors.

The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed below, in data taken from the latest World Bank report. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

Indicator	Kazakhstan	Region	OECD
Documents for export (number)	11	7.1	4.5
Time for export (days)	89	29.7	10.7
Cost to export (US$ per container)	3,005	1,649.1	1,069.1
Documents for import (number)	13	8.3	5.1
Time for import (days)	76	31.7	11.4
Cost to import (US$ per container)	3,055	1,822.2	1,132.7

In short, existing trade practices create significant administrative and practical barriers to increased trade relations. Part of the problem is related to poor access to and exchange of information along the supply chain. As a landlocked country, shipments by land must transverse a very extensive geographic territory. Any delays in decisions from any

government enforcement agencies throughout the process add considerable time and cost to the shipment. Some delays are simply related to routine approvals or certificates.

A shortage of bonded warehouses, particularly in northern Kazakhstan adds to the challenges of product distribution. It leads to inefficient routing systems whereby shipments entering northern Kazakhstan travel all the way to Almaty for clearance and are then reshipped back to Northern Kazakhstan to reach the ultimate consumers.

Generally poor logistics coordination across the country is also noted as a barrier to trade. In such a large country, efficient logistics is critical to the trade process. Transit delays and physical inspections of vehicles despite compliance with documentation requirements hamper the overall process.

Not all is bad, however. According to the Logistics Performance Index, 80% of Kazakh freight forwarders consider that regulation on logistics has improved since 2005. [i] Many companies are identifying and using different transit routes to maintain steady shipments into the country. It requires considerable planning and logistics coordination and the need to transit through a range of third countries. Also, efforts are being made to address some of these discrepancies by donor organizations such as the USAID-funded Regional Trade Liberalization and Customs (RTLC) Project in Central Asia.

There is an existing Expert Group (EG) under the Ministry of Economy and Budget Planning working on the Trading Across Border indicator. The EG consists of representatives of Ministries of Economy and Budget Planning, Justice, Transport and Communications, Industry and Trade, Agriculture, Environment, and Health, plus the Committee of Customs Control, Committee of State Securities, the National Bank, several business associations, and others. RTLC has worked closely with them.

The EG is charged with analyzing export-import processes and related documents, and recommending simplifications, which it has done in the context of discussions with the World Bank over the Doing Business – Trading Across Borders indicator. Since late-2008 the EG has limited its work to discussions with the WB rather than continue its analytical work.

The Government of Kazakhstan should also be commended on the attention it is placing on streamlining and improving the process. In the past year, the GOK has also adopted and/or drafted a number of decrees to amend its broad Plan to Remove Administrative Barriers and Expedite Customs Procedures (such as GOK Decrees No.s 455 and 578). Goals include reducing the timing for issuing a license to no more than 15 days, and no more than 5 days for SMEs. It also established a Center of Operating Management (COM) under the Customs Committee that is intended to streamline customs clearance of goods.

A new COM software system was piloted in January 2009 for improving coordination between customs posts and to eventually lead to the acceptance of e-declarations and the integration of data systems among state bodies (both within and outside of Kazakhstan). The new Customs Code seeks to abolish certain licenses once a company is included in a general register for respective customs transactions, with the ability to register regionally, as opposed to having to deal directly with federal agencies in Astana.

III. Key Proposals and Discussion Points

1. Remove administrative barriers to cross border trade

As noted in the World Bank's "Doing Business" report, Kazakhstan ranks as one of the worst performers in terms of cross border trading. The process is expensive and slow. Concentrating efforts on resolving these pitfalls should have a significant positive impact on streamlining the process and removing the most troublesome administrative barriers.

Discussion Points:

Establish a multi-functional Task Force with the primary purpose of removing administrative barriers from the cross-border trade regime. The Task Force could supplement the work of the existing Expert Group working under the MEBP on the Trade across Borders indicators. An alternative to the creation of a Task Force is to increase and broaden the scope of the existing EG. Steps to removing administrative and trade barriers should include:

- **Engage a diverse group of stakeholders** including relevant government bodies, the private sector, importers, exporters, distributors and independent monitoring groups in the process to increase understanding of practical issues to address.
- **Make the assessment comprehensive** by reviewing the practical aspects of the process from inception to conclusion, taking into account the number of steps, approvals, timelines and costs associated with a shipment.
- **Conduct an assessment of documentation** and other process requirements to determine areas where uniform documentation can be utilized and the approval process can be expedited. Assess whether steps along the chain can be removed or simplified.
- **Adopt international best practices** by conducting a review of processes, procedures and documentation utilized by countries that are large players in cross border trade or rank high on the World Bank's ranking.
- **Assess the regulatory regime** and determine where specific adjustments can be made to existing regulations or implementing orders. Review government decrees relating to cross border trade and recommend solutions to either amend or cancel decrees or measures to incorporate their relevant content into regulations or implementing orders.

- **Conduct audits of cross-border check points**, bonded warehouses and Customs clearance facilities in order to identify areas where process or inspection delays occur. Propose solutions to streamline the process at inspection and clearance points.
- **Establish mechanisms to assist companies during the shipping process** particularly to reduce delays. It could consist of the creation of call center or special department for raising issues and concerns during the process and to resolve backlogs.
- **Reduce costs from the process** wherever possible following an evaluation of reasons and sources of high or unnecessary costs.
- **Measure improvements by more efficiently tabulating data** and statistics on processing and set targets for improvement in the areas of timeliness, costs, number of documents, and number of inspections and level of consistency.

2. Remove discrepancies from overlapping bilateral and regional trade agreements

The high number of conflicting trade agreements, protocols, regulations and decrees has created a relative quagmire of documentation and procedures that do not serve their intended purpose. The private sector requires much more clarity in how the laws interrelate with each other, which take priority, and how they are applied.

Discussion Points:

- **Conduct a comprehensive assessment** of existing multi-lateral and bi-lateral trade agreements and their related protocols in order to identify specific areas of confusion or overlap on priority trade.
- **Engage the private sector in the process** in order to understand practical implications of provisions in trade agreements.
- **Make recommendations on specific changes** that can be made to remove barriers or conflicts in provisions.
- **Encourage ratification by signatory countries** that have yet to adopt of ratify the agreements.
- **Amend implementing regulations** to insure that they adequately address discrepancies in the agreement and their practical application.

3. Improve logistics coordination on a country-wide basis

Due to the landlocked nature of Kazakhstan, the vast geographic distances and the lack of fully developed transportation infrastructure, logistics coordination plays a critical role in tracking and facilitating cross-border shipments. The GOK can play an important role in expediting cross-border trade by taking steps to better manage and coordinate the supply chain under existing conditions.

Discussion Points:

- **Empower a central supply chain coordinating agency** to address the full range of issues associated with supply chain management and coordination. This "One Stop Shop" can create a system based on the concept of a single electronic window. The COM software piloted this year should be further tested, improved and expanded to encompass a broader sphere of the customs clearing process.
  - The agency can be electronically supported with the latest technology that would provide for on-the-spot assistance in tracking and facilitating shipments within the process.
  - The agency can also determine reasons for delays and provide solutions for rectifying documentation requirements, approvals and related support.
- **Encourage the private sector to establish more bonded warehouses** throughout the country and particularly in northern Kazakhstan.
  - Place smaller sub-depots in remote areas in an effort to remove inefficiencies from current transport and clearing routes used by importers, exporters and distributors.
  - The GOK's long-term plans of establishing modern Class "A" cargo terminals along key entry and distribution locations in the country can significantly contribute to improving the process.
  - Improve the infrastructure at border customs warehouses to enhance efficiency.
- **Improve access to information at government clearing authorities** in order to more easily determine the status of a shipment in the process and to receive advance notice and an opportunity for commentary on proposed changes to trade regulations. The implementation and use of integrated e-based systems will dramatically remove delays from the process.
- **Remove unnecessary Customs clearance delays** by highlighting common issues that impact shipments as they pass through Customs posts.
- Introduce the concept of an Economic Operator which will allow for improved coordination between companies and Customs authorities.

4. Reevaluate tariffs and duties on imported goods

Currently as a means to protect domestic producers, excessive tariffs and duties are placed on imported products and services that render them uncompetitive in Kazakhstan due to consumer pricing pressures.

Discussion Points:

- **Conduct a thorough review of tariffs and duties on imported goods** and services. The GOK can review the status of the domestic industry under current conditions and make revisions in its tariff rates. Some tariffs and rates exist on the

books for many years and do not accurately reflect the current environment in the market.

- **Engage the private sector in the review of rates and practicalities of pricing**. Develop a thorough understanding of trends in various priority sectors where imports play a critical role in the supply of core products to Kazakhstani consumers.
- Review the impact of implicit duties such as excise taxes and other taxes and duties applied by counterparties to trade agreements. Seek modification of these rates in order to achieve alignment, as well as to encourage and facilitate exports from Kazakhstan.

July 16, 2009

[i] Unpublished data collected by the USAID RTLC project. Logistics Performance Index (LPI) is a global survey by the World Bank and jointly conducted with USAID in Central Asia. For more information: www.worldbank.org/lpi

U.S. – Kazakhstan Public-Private Economic Partnership Initiative - PPEPI

White Paper to the Government of Kazakhstan

Transparency through Improved Regulation of Corporate Lending Practices

Submitted by the PPEPI Working Group on Transparency and Economic Efficiency

March 2010

PPEPI

AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

USAID FROM THE AMERICAN PEOPLE

I. Executive Summary

The Transparency and Economic Efficiency Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK). The proposals focus on how to promote greater transparency in Kazakhstan's economy through improved regulatory oversight of existing corporate lending practices. The benefits of the proposals include a more accurate assessment of a bank's asset base, more standardized procedures in the industry and better lending opportunities for credible corporate borrowers.

This paper focuses on a multi-phased approach to improving the regulatory environment of the banking sector in Kazakhstan, as well as improving processes and methodologies utilized by lending institutions. First, the White Paper proposes that the regulatory authorities improve and simplify the existing system and methodology for asset classification utilized by Second Tier banks. The intent is for this classification process to provide a more accurate assessment of loan portfolios, and equally important, the financial and operational viability of the lender and borrower. The goal is the formulation of a more standardized set of criteria and more accurate data reporting of a lender's assets. This will allow for greater attention and resources to be directed to credible and deserving corporate borrowers.

Secondly, the White Paper recommends the regulatory authorities take further steps to improve broader regulation of the banking industry, such as modifications to minimum capital requirements and restrictions on foreign lending, as well as specific regulations that lead to more transparent lending practices. This includes establishing more specific criteria for evaluating borrowing capacity and encouraging the use of audited financial statements as an essential component of the lending review process.

Thirdly, the paper recommends a paced reform effort that supports a shift in banking regulation in Kazakhstan toward a more developed and sophisticated model. This includes the regulators taking a more proactive approach to monitoring the risk assessment and management systems of banks. While in the early phase the rules system is based on prescriptive compliance, the longer-term goal is a judgement-based system. Finally, the White Paper encourages the GOK to promote the development of both debt and equity markets as a means to establish a more stable financial system. These steps are important due to a current lack of alternative sources of financing for many companies other than bank funding. It is envisioned that combined, these proposals will not only improve a banking system that is currently severely challenged, but also have a positive impact on the Kazakhstan economy as a whole.

II. Introduction

Historically, private sector economic development in Kazakhstan outside of the mining and natural resources sectors has been almost exclusively dependent on the banking system. The vast majority of companies, limited liability partnerships and individual entrepreneurs have lacked the level of transparency and operating management standards necessary to qualify for credit from western financial institutions or even domestic debt capital markets, which are severely underdeveloped. This lack of available funding through alternative sources has led to explosive growth of locally-based second tier banking institutions.

During 2005-2007, local banks in Kazakhstan were able to access an unprecedented amount of low cost funding through debt issuance and securitisation. Securities issued by financial institutions from Kazakhstan were readily purchased by major western financial institutions. It is estimated that $US 25 billion was raised between the period of 2005-2007. This massive unmanaged short term growth of banking assets was a major contributing factor of the crippling situation that the banking system in Kazakhstan currently faces. Given the availability of cheap funding, local banks lent funds indiscriminately without considering stringent lending processes and risk management systems. Instead, they focused almost entirely on a collateralised lending approach on the assumption of rising asset values.

This lending philosophy helped fuel the real estate bubble in Kazakhstan over the past 5-7 years. It created an incestuous cycle where asset prices kept rising as a result of indiscriminate lending creating further opportunities for banks to lend more against overvalued collateral, particularly real estate. By way of example, the price of a pre-construction apartment in Almaty by one of the top three developers in 2004 was US$ 600 per square meter (m^2) but had risen to US$ 4500/m^2 by late 2006. [1] This example illustrates how the risk profile of the banks portfolio changed dramatically as a result of the rapidly expanding asset bubble. If a bank financed the construction of a project at a cost of US$ 500/m^2 in 2004 (or a mortgage at US$ 600/m^2), it faced a far smaller downside risk than if it was financing a project at US$ 3000/m^2 (or a mortgage at US$ 4500/m^2). In some cases, banks funded the project, then funded the mortgages and shared the profits with the real estate developers (by becoming shareholders in the companies) in contravention of Financial Supervision Agency (AFN) regulations.

This lending philosophy was also evident in the high level of start up or project finance lending that occurred during the period. Poorly capitalised companies, with limited or minimal capital, were able to borrow vast sums of money on the basis of a future project or speculative investments. The assumption was that whatever assets the company acquired with the debt would be worth much more within a few years, if not months, creating a synthetic equity

[1] *Statistics Agency of the RK*

cushion. This ignored the basic idea of equity capital as a way to reduce the impact of financial leverage in a downturn by reducing the debt service burden on the cash flows of the borrower.

As a result of this type of lending, too many Kazakhstan banking institutions paid inadequate attention to basic lending processes adopted by the majority of Western financial institutions. This is particularly evident in terms of weak assessments of borrowing capacity. Most current borrowers in the banking system are unable to provide substantiated management financials based on GAAP, IFRS audited statements, cash flow analysis or budgets to support projected repayment schedules.

To some degree, efforts to address problems of lax credit underwriting standards in Kazakhstan's banks have been frustrated by the stronger banks. The weak state of their asset base was essentially hidden from the regulators as they complied through the mechanical application of prudential norms and reporting requirements. The "rules-based" compliance approach allowed lenders to circumvent disclosing the true picture of their worsening loan portfolios, which arose as a result of the lending practices described above. The end result has been particularly damaging to the banking sector, with two of the top five lenders (BTA and Alliance Bank) being taken over by the Government through Samruk-Kazyna with a subsequent major reduction of external debt due foreign creditors and shareholders.

These circumventions, and the unwillingness of shareholders to face the reality of their Non-Performing Loan (NPL) portfolio, are major contributing factors to the difficult situation the Kazakhstan banking sector is in today. NPLs have continued to increase, rising to 36.15% of all loans as of December 1, 2009 for all licensed Kazakhstan banks. [2] The situation remains in a critical stage with rising NPLs, declining provision/NPL coverage ratios, and with many banks still incapable or unwilling to recognize the true condition of their loan portfolios in fear of losing more capital and dropping below the prudential minimum capital requirements. The proposals in this White Paper suggest a need for a return to basics in order to shore up the current banking sector. It also seeks to provide suggestions to the regulators for addressing the current lack of transparency in corporate lending by banks in Kazakhstan.

III. Issue Statement

The poor lending practices of Second Tier banks in Kazakhstan leading up to the period of the global economic crisis resulted in a near collapse of the Kazakhstan banking industry. Absent the significant intervention by the GOK, the industry was destined to systematically fail. The industry remains significantly challenged. Absent significant reform in both broad regulatory oversight, as well as in defining specific procedural and process requirements to be utilized by

[2] AFN Data Jan. 1, 2010

individual banks, the banking system will remain in jeopardy and fail to provide the lending capacity required for the development of the Kazakhstan economy.

IV. Current Financial Sector Oversight

With the adoption of the Law on State Regulation and Supervision of Financial Markets and Financial Organizations which entered into force on January 1, 2004, the Financial Supervision Agency (AFN) assumed the role previously held by the National Bank of Kazakhstan for oversight of financial markets and organizations, including banks. The AFN's primary roles are to ensure financial stability and confidence in the financial system, protect the interests of users, to set regulatory standards and conditions and to provide monitoring services to minimize risks in the sector.

Entering only its sixth year of existence, the AFN has been challenged for the past three years with the significant impact of the global financial crisis and the rippling effect on its domestic banking system. Due to major irregularities by some of the country's key banks, the AFN and the GOK have responded rapidly to manage the repercussions, stabilize the sector, and simultaneously seek to adopt new regulations to prevent a recurrence.

The GOK has taken a very proactive role, providing both funding and becoming the dominant major shareholder in several of Kazakhstan's key lending institutions. Currently, government-controlled funding represents almost 60% of domestic corporate deposits and thus the state, to a significant extent, can determine banking policy. [3] As of January 1, 2010, a total of 38 institutions have licenses to conduct banking operations in Kazakhstan. [4]

On July 1, 2009, new minimum capital requirements for Kazakh banks entered into force. Banks based in Almaty - where the vast majority are located - are required to have equity capital of at least KZT5 billion ($33.2m), while those headquartered outside the financial capital need KZT3 billion. However, in the context of the Kazakh banking system as a whole, it did not have a major impact since the top-10 banks in Kazakhstan have 92% of total assets. Those ranked under 25th have a market share of just 0.1%. [5]

The AFN has also been challenged by other market forces and GOK policies, particularly in the area of manpower, as it moved to strengthen its position. It faced a moratorium on the hiring of civil servants at a time when up to 80% of its staff took jobs at private banks in pursuit of

[3] AFN, December 2009

[4] AFN

[5] AFN, December 2009

higher salaries and benefits. Attracting and retaining qualified civil servants remains an issue at AFN when competing vis-à-vis private sector opportunities.

The AFN is currently embarking on a new set of "post crisis" reforms in an effort to better identify and manage systemic risks. It has to do so in an environment where the data from Second Tier banks continues to worsen. In calendar year 2009, provisions for loans granted by two tier banks increased 3.6 times and the share of doubtful and loss loans in category 5 of the loan portfolios increased by 28.1 percentage points (and by 7.6% without counting BTA and Alliance Bank figures). [6]

On February 1, 2010, Kazakhstan's head of State articulated the concept of regulating the financial sector of Kazakhstan in the post-crisis period with his approval of Decree No. 923. That Decree No. 923 identified key areas of financial sector regulation, including the implementation of the principle counter-cyclical regulation and supervision. In addition, the AFN has announced a number of changes to regulations in 2010 that should address banking risk factors and reduce the possibility of a reoccurrence of a crisis in the banking sector (See Appendix I for details of the AFN's post-crisis reforms).

More broadly, the objectives of the AFN are in some cases in conflict with the policy goals of the GOK. On the one hand, in an environment following two years of economic decline and stagnation, and the difficulties in the banking sector, the AFN is emphasizing more stringent lending practices and risk management. This policy approach ultimately results in more restricted or reduced lending to the private sector. The GOK, on the other hand, is interested in kick starting the economy and wants economic growth. Access to financing is an important component to the GOK's success. The key is finding the right balance to these two approaches.

V. Policy Opportunity

- A significant problem facing Kazakhstan's domestic banks is the lack of commitment and the absence of a clear and transparent mechanism for evaluating and classifying its assets. While the levels of effective provisioning are improving, the root of the problem of assessing potentially bad loans is not being adequately addressed. Many of the existing borrowing companies that comprise the bank's loan portfolio are either financially extinct, operationally non-existent, or consist of related-party transactions, or potentially all of the above. A more expanded and simplified method for asset classification is required.
- The existence of inadequate lending processes supports the need for the introduction of a more detailed and rigid regulatory framework that addresses the removal or revision

[6] AFN, Dec. 2009

of potentially subjective criteria. In particular, more explicit detail is needed in the current requirements for assessing the financial performance of a borrower. Other, more specific criteria need to be defined in other regulatory areas in order to establish standardized processes, procedures and reporting requirements.

- New regulation can only be effective if the relative strength, resources, and independence of the regulator are increased. Ultimate authority of the AFN and its regulatory framework need to be fully engrained in the banking system.

- Modified banking regulations in Kazakhstan are needed to implant a more developed and sophisticated model, which concentrates on risk assessment and management and less on a system of prescriptive compliance.

VI. Policy Recommendations

The recommended strategy for addressing and correcting existing deficiencies in Kazakhstan's domestic banking system consists of a three-phased approach, including: 1) a comprehensive short-term assessment of a bank's current assets and loan portfolio utilizing a simplified provisioning methodology, 2) medium-term adjustments to regulation regarding capitalization and lending criteria and processes, and 3) longer-term regulatory and mentality changes that shift the lending institutions focus away from prescriptive compliance and towards a more effective risk assessment and management model. Further measures should also be taken to develop alternative sources of corporate financing; to establish limits on foreign debt; and finally, to expedite the implementation and enforcement of new banking regulations once conceived.

Phase I – Simplified Method for Asset Classification

In order to have a more transparent and accurate view of a bank's fundamentals, its capacity and valuation, its existing loan portfolios should be better classified utilizing a more rigorous but simplified provisioning method. The method should look at the financial and operational strength of the borrower, as well as the likelihood of repayment of outstanding obligations.

It is recommended that Bank regulatory authorities modify existing asset classification methodology by drawing on experience from other countries – both Western and non-Western that overcame similar issues facing Kazakhstan's banking industry today. The experience in Turkey may be a relevant model to analyze and possibly follow in this context. It is important that there is open and constructive dialogue between the AFN and the banking industry when formulating modifications to the classification model. This is essential to insuring that there is consensus on how to determine the viability of a business, both for the banks and the AFN. In principle, it is envisaged that the revised asset evaluation model would consist of four broad categories or classifications:

- Performing or standard loans
- Operationally viable companies with short-term financing shortfalls
- Operationally viable companies with longer-term financing challenges
- Companies that are financially and/or operationally defunct

As determining what can be considered to be a "viable" company is subjective in nature, a suggestion is to base the definition on various ratios which could be calculated using the tax financial statements as a base. The ratios to be calculated can be divided into four segments; profitability, liquidity, efficiency and leveraging.

Under profitability, return on assets or return on equity ratios would support a company's profitability, with the regulator establishing minimum levels to meet certain classifications. The ability of a Company to repay a loan is directly related to its profitability. With regard to liquidity, the calculation of ratios such as the current ratio or the acid test ratio, would support how liquid a Company is and thus, if its viability relates only to short term funding shortfalls. In terms of efficiency, ratios covering asset turnover, stock turnover or receivables conversion, will support whether the Company is in fact an operational business. Where the efficiency ratios are extremely poor, it suggests that the Company in question is operationally defunct and may fall into the fourth category described above. Finally, in terms of leveraging, ratios such as debt ratio or debt to equity ratio could be calculated. The calculation of such ratios would evidence situations where a Company has longer term financing challenges due to a poor debt structure.

Under the four types of ratios, the regulator could establish minimum results for a borrower and then link these results into the classification categories described above, thus removing any subjectivity with regard to the financial performance of a borrower and whether the Company is viable or not.

The revised rules for the allocation of loans into these categories should be prescriptive and vigorously applied in order to reduce the potential for banks to manipulate the results. This would include but not be limited to; taking an unfavorable view of long grace periods or where collateral has been transferred from an existing loan to a new loan, which effectively could be due to the manipulation of a non-performing loan. It is also recommended that the allocation process and results be reviewed or audited by an independent third party in the short term or until the regulator has sufficient capacity and knowledge to undertake this role.

Once the loans have been categorized or sub-divided, the focus shifts to treatment. It is recommended that the loans that fall into the fourth category i.e., those which are both financially and operationally defunct be sold to distressed asset funds. If the company has no

operations and is not generating any cash flow, then it is highly unlikely that the bank will ever receive repayment and the collateral pledged is probably worthless. Such steps would enable Banks to concentrate on the restructuring of loans where operations are viable and the chances of repayment are greater. The biggest obstacle to this approach is the losses which the current shareholders of Banks incur as a result of the reduction of the tier I capital at most Banks. As a result, many Banks may require a new investor(s) and/or recapitalization by the government.

The loans which fall into the second and third categories or those which are operationally viable but lack cash flows either on a short-term or long-term basis need to be carefully reviewed. The regulator should insist on the calculation of various ratios and business plans for each of these loans in an attempt to ascertain the borrowers' potential funding requirements and the likelihood of repayment. These business plans or ratios could be reviewed as part of the categorization process, or alternatively on a sample basis by the AFN. As many borrowers may be unable to present detailed financial information, in such cases tax financial statements could be used as a base point on which to view the company's financial strength and on which to calculate ratios. This should assist in highlighting good companies which are simply having crisis-induced financial difficulties.

In these cases, Banks should be encouraged to meet with the borrower and attempt to restructure the loan, whether through adjustments or debt to equity swaps or other alternative approaches. In order for this to happen, current regulation needs to be reformed to facilitate the restructuring process. Regulation which penalizes banks for restructuring loans should be removed and the tax code should be amended to encourage Banks to enter into the process. The existing tax code prescribes a taxable gain in instances of loan write offs by the Banks.

This categorization process and review should result in the retention of good quality loans to which the Banks can continue to lend and support operationally good businesses. With the existing shortage of funding in the market place, this process helps to concentrate and focus banks on viable borrowers who can repay.

Phase II – Regulatory Adjustments for Lending Institutions

Following the Phase I partial cleaning of the banking system, a core task is the development and modification of banking regulations that address short and medium-term issues. Similar to Phase I requirements, the regulations should be very prescriptive, thereby reducing the ability of Banks to manipulate their reporting to oversight bodies. These regulations should cover the banking system as a whole, but also provide detailed and specific regulation on the borrowing and lending processes of the Banks in an effort to develop a transparent and open system. It is optimal that this is accomplished in parallel with classification process.

Broad regulation should include modifications to current minimum capital requirements that take into account the real strengths and weaknesses of the banking sector as assessed by a more transparent Phase I analysis. The practices of lending to foreign-based entities and related parties, in particular, should be viewed in a relatively stringent and prescriptive manner as the economic substance of such transactions is difficult to conceive. Clear parameters should be set on the borrowing of Banks, particularly in foreign currencies. While most of these provisions exist, modifications and a more consistent and streamlined approach will be beneficial.

Other considerations for a revised regulatory framework include minimum profitability, liquidity and leverage ratios a borrower must meet before it can be considered eligible for bank credit. The amount of credit should be linked to the equity capital and the sales and revenues of the borrower and a specific verification mechanism should be introduced for these criteria since many borrowers do not have audited financials.

In instances of loans exceeding certain limits, audited financial statements should be required with an overall tendency towards the requirement of audited financial statements for all borrowers. Currently, the Joint Stock Company law requires that all companies are audited. However, this law does not appear to be fully enforced. Similar standards should be defined and developed for small and medium-sized enterprises (SMEs) and individuals. To be effective, a comprehensive and regularly updated and maintained credit bureau, which is free from corruption, is critical and pivotal, particularly for consumer lending.

The key lending focus should be on defining the relative relationship between the amount of credit a customer can obtain and their debt service capacity based on international standards of due diligence. This would result in cash flow capacity as the primary focus in lending criteria with collateral becoming a secondary focus. Moreover, all credit or borrowing limits should be defined at an aggregate level i.e. not the borrower's debt from one bank but the combined debt of the borrower from all lending institutions. In short, it would create a common reference standard in the industry whereby underperforming or undercapitalized companies will be denied credit or will have their credit frozen if they regress below accepted standards. The regulation should also limit the percentage of the total portfolio which can be lent to start ups or holding companies, which would thus limit the level of lending to companies with limited or no cash flows or operations.

Phase III – Shift to Risk-Based Lending Practices

The long-term goal is a shift in mentality within the banking sector that views stricter but uniform regulation as positive for the industry and where risk assessment and management is central to banking operations. In a Phase III environment, regulation would not be seen as restricting banks. Instead, it will be viewed by lenders as protective in nature and maintaining a level playing field in terms of competition. By this Phase, the regulator should have not only grown in terms of knowledge and resources, but also in terms of practical experience and higher levels of respectability among the banking community.

It is projected that over a five-year period, the banking industry and the regulatory framework in Kazakhstan will shift to a more developed and sophisticated model, which concentrates on a risk-based approach rather than a system of prescriptive compliance. Under such a system, banks will have highly developed risk assessment and management systems and will determine their own risks through risk based modelling. The regulator would then be better positioned to challenge the judgements and assumptions which underpin these risks. Ultimately, the AFN shall have the final say in determining the viability of a loan and/or borrower. It should also have the strength and capability to make informed judgements on the strength of a bank's risk assessment and management system and the accuracy of its reporting.

Strengthen the Authority and Capacity of AFN

In order to implement the necessary changes in Kazakhstan's banking industry, the AFN needs to strengthen its position and have access to available resources essential to effectively regulate. This includes both financial and human resources. First, the AFN must be in a position to offer competitive salaries and benefits that will attract highly qualified professionals. In competition for talent being pursued by the private sector, the AFN must be able to match market compensation levels. Due to the importance of the AFN's role, the classification of experienced personnel as "civil servants" should be amended and upgraded. Career development programs should also be considered. Regulators could also consider the possibility of attracting to the AFN a high-level, experienced banking regulator from another country in a role of advisor/shadow CEO for a minimum two years to build capacity.

The AFN also needs to do more to exert its independence. This means creating precedents and building its image as an organization capable of withstanding the lobbying efforts of strong banks and industry-related associations. Regulations are carried out to avoid corruption and create a transparent system, but regulators need to be able to issue judgments on complex issues. The AFN should have the final say and discretion to effectively regulate.

VII. Analysis of Recommendations

Banks have been almost the exclusive provider of debt capital to the non-natural resource based sectors and have been a major facilitator of Kazakhstan's rapid economic growth. Unfortunately, poor lending practices and risk management by these same banks has been a major contributing factor to the economic downturn in the country and the difficulties in the banking industry. This fact alone provides the impetus for a quicker, more efficient transformation of the banking system and its regulation.

The Phase I classification of loan portfolios proposed by this White Paper, and the subsequent proper treatment of those loans and borrowers, is fundamental to providing a benchmark for standardized industry measurement. This data will provide a much more reflective picture of the state-of-play in the industry. It also means, however, that in the short term, many interested parties will be impacted by this classification process, including both lenders and borrowers. Transparency is essential to the banking industry as a means to reduce overall risks.

Secondly, regulatory reform by the AFN, and related legislative amendments, will be critical to the strengthening of Kazakhstan's banking industry. For this reason, it is recommended that the AFN seek collaboration and cooperation from the banking industry, international experts and the business community when contemplating standards, regulations and processes.

The transition from the current fragile banking system which is exposed to international market shocks will take a number of years and can only be undertaken in a step by step process. An appropriate, but consistent on-going regulation of the banking industry provides one of the most effective ways of introducing corporate and SME level reforms that can bring positive qualitative changes throughout the entire economy. These changes would not only strengthen the banking system itself but also facilitate an increased momentum in the diversification of the economy, spur economic growth and local development. There is a clear need to return to creating solid fundamentals in the sector in order to be better prepared to resist and adjust to the inevitable economic downturns and volatility which are inherent in global markets.

It is also important to recognize that a natural outcome of the positive changes that will occur as part of implementing phases I-III, a fourth phase will arise – greater corporate sector transparency. While accessing credit resources is expensive and is challenging, it is available to enterprises that have viable business plans backed up with credible reporting and corporate governance. As more transparent lending standards become the norm and are more consistently enforced, greater transparency will equally surface in the corporate sector out of necessity to operate in a more developed and sophisticated lending environment.

Other Considerations

While great importance is placed on the development of banking regulations and processes as a whole, there are other areas which warrant consideration for improving financial stability. Most notable, is the lack of alternative sources of financing for many companies. The promotion of both debt and equity markets is key to developing a more stable financial system. However, in the current environment, companies are unable to issue public debt due to the relatively high interest rates demanded by the markets. This market expectation is partially attributable to the pension funds which require higher rates of return to compensate for the low levels of return generated by government bonds. A helpful measure would be to allow pension funds to invest in a variety of assets and not just follow the government debt market.

Another issue pertains to currency movements. The National Bank was unable to effectively control the money flow through interest rate movements in previous years during the period when banks and companies had considerable access to cheap lending from the international market. Currently, most of the money flow comes from GOK sources, while the financial sector has limited access to the international market. In short, the GOK has rules to control the money flow and the National Bank has rules to manage exchange rates.

How the GOK manages the relationship between the Kazakhstan Tenge and foreign currencies is essential to the economy. The use of government reserves and commodity driven revenues to subsidize the problems of the domestic economy only heightens long-term risks. It merely relieves the pressure to implement necessary far-reaching reforms and changes in the banking and corporate sectors without which sustained economic growth and diversification are impossible. Absolute and relative foreign debt limits need to be established with criteria which measure the domestic liquidity needs of the economy and banking system, but perhaps more importantly, the absorption capacity of the economy. Data reflects that up to US$ 25bn in loans out of the approximate US$ 70bn of total loans were extended by Kazakhstan-based banks to companies based in Russia or other parts of the CIS. [7] The amount of corporate foreign debt reached US$ 72.7bn as of the second quarter of 2009. [8] Such high levels of foreign lending do not benefit the Kazakhstan economy and quite often result in high levels of losses, especially when the corporate borrowers were either related parties or unable to secure funding in their own market.

Another area for improvement is the mechanism by which regulations are formulated, and subsequently implemented by the regulator. Delays or grace periods open windows that

[7] AFN

[8] AFN Dec. 2009

ultimately lead to circumvention of the intended reforms. Currently, a new regulation may take between 3-6 months from conception to introduction. Once introduced, banks are usually provided up to 6 months to comply, effectively making most regulations ineffective. An excellent example of this is when the AFN informed banks in 2006 of its concern about the rising level of foreign debt and its plan to limit access to foreign debt in the near future. The result was a dramatic increase in the level of foreign debt in the first half of 2007 as banks rushed to take advantage of the window which was expected to close.

Overall, while the Kazakhstan banking sector may at times appear to be in a very tenuous situation, it can be fixed and strengthened. Through this White Paper, the PPEPI Working Group seeks to provide constructive recommendations, as well as continued support to the GOK and the regulators to improve the environment for the sector and the overall economy of Kazakhstan.

VIII. Appendix

Appendix I

Commentary by the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Markets and Financial Institutions (AFN)

The Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Markets and Financial Institutions, having considered the report to the Government of the Republic of Kazakhstan, "Achieving transparency through improved management of corporate lending practices", drafted by the PPEPI working group on transparency and economic efficiency, states the following.

Economic growth, the favorable investment climate in the country, a favorable foreign economic situation, the attribution of Kazakhstan's investment ratings, financial sector development - all of these factors helped to strengthen the confidence of international investors. As a consequence, the active inflow of foreign capital, the massive volumes of which the Kazakh economy has not been able to absorb without the formation of "bubbles" because of existing structural weaknesses in the economy for long term development, are at the root of the current macroeconomic instability (mono-resource dependence, lack of productive sectors, as well as the opaque and shadowy form of doing business in Kazakhstan). We believe that it would be unfair to link today's problems only to shortcomings in banking regulation, whereas higher levels of issues remain unresolved. We should not forget that one of the key conditions for effective banking regulation in accordance with the terms of the Basel Committee on Banking Supervision are, the presence of reliable and stable macroeconomic policies and high market discipline.

The first alarm bells began to formally take shape in the banking sector during the growth period of loan portfolios. This quickly highlighted the systemic risks of the economy, when the activity of economic entities emphasized the financing of its activities mainly through bank resources. It was during the beginning of the emergence of negative signals to the Agency about the growth of banks' exposure to

external threats that various measures of bank regulation began to take shape on a range of banking risks. In particular, the following actions were taken:

1) Measures of quantitative and qualitative improvement of the capital base;

The Agency moved to improve the capital base of banks by excluding from 1 July 2011 the value of Tier I capital of indefinite (hybrid) financial instruments, as well as place restrictions on the share of preferred stock included in the capital of the first level of 15% of Tier I capital.

It also improved the assessment of capital adequacy of banks by introducing a new coefficient (k1-2) to the standards which apply the counter-cyclical approach. In January 2010, an improved calculation of capital adequacy ratios (k1-1) was announced by including it in the calculation of the coefficient from 1 July 2011 along with potential contingent liabilities.

In order to stimulate competition in the market of banking services, as well as the sustainability of the banking sector, increased requirements were applied for the minimum authorized and for the banks' own capital. At the same time, more liberal requirements for minimum equity capital for regional banks were applied. In addition, a new approach is used based on the formation of a minimum amount of reserve capital of banks in the second level.

Restructuring and optimizing of calculating equity capital of banks.

2) Limiting external borrowing and liquidity;

The Agency, in connection with the need to limit funding by non-residents of Kazakhstan, as well as incentives to increase the banks' own capital in order to improve the financial stability of the banking sector, strengthened the capitalization ratio of banks to liabilities to nonresidents RK k8 and k9, by incorporating the unsecured obligations of bank guarantees and sureties, and loans from parent banks - non-residents of Kazakhstan, with the exception of subordinated debt.

In addition, it tightened the current ratio k4. Thus, the size of individual deposits would include unsecured guarantees and bank guarantees issued in attracting foreign loans from affiliated organizations. The bank, affiliated with the bank entities, as well as within the bank's securitization transactions, gives the lender the right to demand early repayment of obligations.

3) Reducing foreign exchange risks and risks associated with lending in offshore areas;

There is a gradual tightening of the requirements to establish the minimum amount of provisions for credit extended in foreign currency to borrowers who do not have the appropriate foreign exchange earnings, wages, and (or) foreign exchange risks are not covered by the instruments of hedging by the borrower:

- Not less than 5 per cent provisioning - from January 1, 2010;

- At least 10 percent of provisions - from July 1, 2010;
- Not less than 20 percent of provisions - from 1 January 2011.

Also, increased demand for loans to persons registered in offshore zones in particular in the form of provisions on the level of 100% and weighted by the degree of risk of 200%.

4) Provision of control issued by the bank guarantees and sureties;

In order to properly monitor the performance of second-tier bank-issued guarantees and sureties, as well as to prevent the issuance of outstanding guarantees and warranties, the Agency introduced requirements for the written consent of the debtor to provide bank guarantees issued by the details of a bank guarantee or bank guarantee in the credit bureau.

Thus, in the banking sector during the first negative signs in the period of the global crisis, a number of systematic measures were taken. However, other relationships were unresolved in the economy of Kazakhstan, which were outside the competence of the Agency. In particular, large government programs, including the development of housing loans, support for individual industries within which favorable conditions for loans were provided, and preferential taxation of income of the corporate sector have distorted the economic model of business because of the desire to maximize profits in the short term, based solely on borrowed capital. Also a significant negative role in the proliferation of systemic risks in the economy of Kazakhstan includes a lack of appropriate standards in accounting and auditing of real sector enterprises.

The lack of control by the state for a number of socially significant sectors of the economy, expressed for example in the absence of proper control over the activities of construction organizations, the allocation of land, and almost no reliable statistics on the sales sector of residential and commercial real estate has also made a negative contribution. For example, among them is the lack of a regulatory framework for housing. The industry has emerged with companies without production bases and without the presence of initial funds. The process of licensing and issuing of building permits has been greatly simplified, allowing virtually uncontrolled construction companies to raise funds from individuals and entities, and banks, due to the lack of effective risk management systems which are not monitored and analyzed. The risks do not set appropriate limits and procedures for monitoring which, in combination ultimately helped inflate the "bubble" in the property market including a thriving construction industry. As a result, high yield is a key and sometimes the only benchmark for the banking business when formulating their business strategies.

With regard to proposals to improve the practice of banking regulation and credit, reference should first be made to the articulation of the concept of the financial sector of Kazakhstan to the post-crisis period, approved by Decree No. 923 of the Head of State on February 1, 2010. Number 923 identified key areas of financial sector regulation, including the implementation of the principle counter-cyclical regulation and supervision. In particular, the concept envisages a complex of measures on optimization of bank regulation through the introduction of dynamic provisioning, and enhanced approaches to risk management of liquidity and refinancing oversight of monetary liquidity. The introduction of mechanisms

to limit the growth of high-risk operations, and their concentration is dependent on the establishment of concentration limits and the introduction of direct prohibitions on the operations with high risk, to ensure transparency in the decision-making process for the implementation of cross-border investment and lending.

A number of measures are envisaged to strengthen risk management and corporate governance in financial institutions. Thus, we believe that some of the findings of the Working Group PPEPI on transparency and economic efficiency are appropriate and require consideration in improving the practice of banking regulation.

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U.S. – Kazakhstan
Public-Private Economic Partnership Initiative
PPEPI

Draft White Paper
to the Government of Kazakhstan

Transparency and Economic Efficiency

Revised Version
September 2009

I. Executive Summary

The Transparency and Economic Efficiency Working Group under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) has prepared this White Paper to provide proposals for further consideration and study by the Government of Kazakhstan (GOK) on how to promote transparency, competitiveness, accountability and efficiency in government procurement. The benefits of the proposals are broader participation by qualified bidders, and improved efficiency and cost savings for the government, the taxpayers and the people of Kazakhstan.

In preparing this White Paper, the Working Group has complemented the expertise, experience and observations of its members with the findings of various international studies and surveys, such as the 2009 World Economic Forum Global Competitiveness Index, the 2009 World Bank's Cost of Doing Business Survey, and the Economist Intelligence Unit's 2008 e-readiness ranking, as well as analysis and commentary by the European Bank for Reconstruction and Development (EBRD), International Finance Corporation (IFC), Asian Development Bank (ADB), Organization for Economic Co-Operation and Development (OECD), the World Bank (WB) and USAID.

This White Paper focuses on the most important institutional reforms, policies and programs that can improve transparency, competitiveness, accountability and efficiency in government procurement. It recommends the GOK to encourage broader participation in the procurement process to a wider and more qualified group of bidders by fostering greater confidence and credibility in the procurement system. It seeks to simplify the process and to remove corruption. Combined, the proposed change can provide for a much more competitive process resulting in a more effective and efficient use of public revenues and resources.

First, the Working Group proposes to the GOK to focus on improving the link between policy and practice. This can be accomplished by conducting a comprehensive assessment of current procurement structures and processes and adopt examples of international best practices. Also, an independent and centralized Government Procurement Office should be created to manage all core activities associated with public procurement from policy development to bidder claim resolution. Greater data and statistics collection, maintenance and publication should be addressed. Along these lines, an independent government accountability office or ombudsman can be created with a mandate of improving government spending for the benefit of taxpayers.

Secondly, the White Paper recommends the GOK to further intensify its efforts to develop and improve the system of e-procurement by utilizing leading information technology. The vision of this direction should be on the creation of a unified e-procurement system encompassing procurement activities of all state and state-run entities engaged in public

purchasing through tenders. Moreover, the vision of e-procurement needs to be expanded beyond just contracting and tenders and should include bidding, pre-qualification and performance databases. Progress in this area will create greater transparency and assist in rooting out corruption from the tender process.

Thirdly, much needs to be done to unify the standards, processes, documentation and procedures for procurement. The existence of numerous procurement bodies with wide variations in procurement criteria both hinders and discourages broader participation by qualified bidders, particularly SMEs. Additional mechanisms are needed for information dissemination, clarification and bidder support in order to demystify the procurement process. The system needs to be dramatically simplified to remove the onerous requirements of irrelevant documents and approvals.

Fourth, the GOK should promote greater involvement of civil society in the oversight and reform of the procurement system. Collaborative coalitions can be created to engage government, the private sector and non-government organizations in finding solutions to improve the current system and to independently monitor government procurement. The independent nature of this support will increase accountability, improve the sharing of information with society and taxpayers and result in essential cost savings particularly in the current global economic environment.

Finally, the GOK should institute training and development programs for procurement specialists and practitioners in order to increase organizational and individual capacity. Through proper training and management, procurement organizations will be better equipped to shift their competencies from an internal controls focus to a broader role of oversight and support.

Taken in unison, these measures can provide real and measurable benefits to the government, the private sector and society from the greater efficiency derived from increased competitiveness in the procurement process and greater overall transparency and oversight.

The recommendations of the Transparency and Economic Efficiency Working Group complement the work of several other Working Groups established under the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). It mentions but does not specifically address areas of importance regarding procurement covered more broadly by other Working Groups, including corruption, technological capacity and general country competitiveness.

II. Introduction and Statement of Purpose

Over the past 10 years, the GOK has made tremendous progress in the area of institutional reform of the state procurement process and Kazakhstan is now recognized as having the most advanced public procurement system in Central Asia. These advances are apparent

both in terms of legislative reform, as well as in the creation of policy and oversight institutions. From an institutional perspective, in 2004, the State Procurement Agency (SPA), which was an independent public procurement oversight body, was abolished and its functions transferred to the newly created Committee on Financial Controls and State Procurement (CFCSP) in the Ministry of Finance (MOF).

The procurement process in Kazakhstan is regulated by the law "On State Procurement" which was recently adopted on July 21, 2007, and supersedes the previous law of 2002. Significant amendments in the 2007 law took into account recommendations from a World Bank assessment of the Kazakhstan legislative framework on state purchases. Further amendments to the 2007 law were added in 2008 and 2009 in an effort to both clarify and fill gaps in the base framework. Notably, the GOK has also made progress in focusing on the drafting and amending of critical implementing regulations and ancillary legislation that support the law "On State Procurement", such as Decree No. 1301 of December 27, 2007 "On Confirming the Rules for State Purchases."

For example, in parallel with the adoption of the 2007 law, amendments were made to the Administrative Code and the law "On Private Enterprises" as they relate to public procurement. Changes were also made to the Budget Code and a host of other peripheral implementing regulations and orders.

In May 2008, Kazakhstan ratified the UN Convention against Corruption and as recently as June 2009, Prime Minister Massimov set a one-year timeframe for full compliance with the Extractive Industries Transparency Initiative.

The International Monetary Fund (IMF) noted that the country has rapidly and substantially improved in a number of key fiscal areas but encouraged greater transparency in Kazakhstan's fiscal processes. The IMF's concluding statement from its 2007 mission to Kazakhstan noted a number of promising initiatives that could lead to increased transparency and better economic management. Chief among them ranks Kazakhstan's commitment to comply with the principles of the Extractive Industries Transparency Initiative.

The GOK has also been consistently adjusting the public procurement system in an effort to align it with the improvements and changes in the overall market economy system. On the practical side, Kazakhstan's e-Government web portal at http://e.gov.kz has a section on Public Procurement and Tenders, as well as a State Register of Public Procurement. The Ministry of Finance also has a Procurement site, as do a number of other ministries and agencies. The CFCSP publishes on its website the list of agencies and state enterprises that are subject to state procurement regulations (the "Rules of Inclusion and Exclusion") and a blacklist of unfair and unreliable suppliers of goods and services.

However, despite what are clearly great strides in the area of institutional and legislative reforms, the Kazakhstan government procurement situation continues to be perceived as

problematic in practice. A primary concern is a lack of transparency in certain aspects of the procurement process for government and state-run entities. A common complaint among foreign companies is the difficulty in acquiring adequate information in a timely manner to participate in government run tenders. Either the information is too dispersed, or the procedures and documentary requirements are not entirely clear.

The GOK has sought to address this through Article 18 of the law "On Procurement" which outlines notification requirements from procurement agencies. For example, it requires that not more than three days prior to approving tender documentation, and not less than 30 calendar days prior to soliciting potential suppliers, the government agency must make the announcement information available to registered participants, it must place it on the procurement agency's web-site, as well as on the consolidated government web portal for state purchases. It also has to identify to whom the information is provided.

Bidders raise concern about the troubling requirement for every company to estimate the percentage of their products or services that are of Kazakh origin. The difficulties lie in the methods for calculation in the absence of specific guidelines for doing this. On this point, the GOK makes reference to the recent Government Decree No. 367 dated March 20, 2009 which establishes a unified method for calculating local origin goods or services for the purpose of qualifying for state purchases. The intentions of the Decree are good but could be more simplified for easier use and application. For example, the formula for services in the Decree is КСр/у = 100%*[ЕСТi*Кi+ЕСДj-СТj-ССДj)*Rj]/S plus other components for calculation.

In short, there are a number of areas where formulas and documentary requirements could be simplified at the practical level. Participating companies are also often told that the origin document needs to be certified. Examples exist of companies that received documents certified by the Chamber of Commerce, only to have them rejected by the government client as non-compliant.

Moreover, the amount of documentation required to participate in tenders is extensive and quite burdensome. Companies that may do their utmost to comply can find that they are still disqualified because they were missing a certain document, a certifying stamp or a signature. As it stands, so much documentation, including notarized documents are required, that it is extremely time intensive to prepare a bid. It also opens the door to corrupt processes because the alleged use of an incorrect document or inaccurately notarized document can lead to rejecting a bid. The simpler the process the fewer opportunities there are to do this.

Obtaining explanations, clarifications or assistance from procurement agencies remains a challenge due to the remnants of Soviet mentality among staff working in procurement bodies. These informational and assistance deficiencies inadvertently place limitations on the number and quality of companies or organizations interested in participating in the tender. The GOK refers to Article 20 of the law "On Procurement" which provides for the right of

bidders to solicit information and clarification from the purchasing agency up to 10 days prior to the deadline for applying for the tender. That clause and Article 19.2 requires the procuring agency to respond within three working days of the inquiry and to post the clarification on the agency's website and to share it with all companies registered in the journal. What needs to be defined is why participants continue to feel overly challenged despite the existence of arguably clear procedures on the books.

Another core concern regarding transparency relates to the decision making process and how the final tender recipient is selected. A review of past tender results indicates that there is a strong preference to select local companies in procurement initiatives, particularly in the oil and gas sectors. Last minute tender cancellations or purchases outside of the tender process are common in Kazakhstan. Numerous companies have reported what appear to be loopholes in the legislation or the process, such as when a procurement tender is canceled and the government or state-company purchaser instead decides to contract with a sole-source vendor.

Improvement is also required in the process by which Kazakhstan government entities identify and select projects that subsequently become the source for a government purchasing program. Some projects are clearly skewed towards certain suppliers that can match the tender requirements which raise issues of transparency.

Process integrity issues have also been cited with respect to how the make-up of the approval committees is determined. This determination leads to an equally important question of whether an arms-length relationship exists between the final tender recipients and the officials on the tender approval committee.

A recent proposed change in regulations is of particular concern to SMEs and the business community in Kazakhstan. A draft Appendix to Protocol No. 7 of the Board of Directors of Sustainable Growth Fund AO Samruk-Kazyna dated January 14, 2009 sets forth new rules for participation in Samruk-Kazyna tenders. According to the draft, Samruk-Kazyna would no longer fall under the purview of the Law on State Orders. Instead, it sets forth a new set of rules and regulations that foreign companies and SMEs must learn and apply if they want to do business with Samruk-Kazyna. It raises a larger question of not being under the law. Specifically, the organization may change its regulations at any time for internal or other reasons. There is no clarity regarding who oversees these changes or these regulations, in anyone other than Samruk-Kazyna.

Moreover, this set of regulations apparently gives priority to local companies (as well as to SMEs and others) through a percentage price or point advantage during Samruk-Kazyna procurement. In terms of having an efficient government, these separate rules and regulations would make it twice as hard for Kazakhstan to develop a government-wide integrated procurement system. In fact, due to the importance of Samruk-Kazyna as the sole manager of key Kazakhstan state assets, it puts Kazakhstan well on its way of creating a

very non-integrated inefficient system even though it should be creating a much easier integrated system using web-based tools.

Kazakhstan procurement continues to lack maturity in the area of accountability. No centralized, universal system of accountability is in place to provide adequate oversight about how government funds are actually spent in the course of government procurement. The public (and unsuccessful tender participants) do not have sufficient access to information regarding how projects were eventually implemented, and equally important, the quality of the final project or services.

A very effective mechanism to be considered by the GOK for improving transparency and accountability is the establishment of an "Accountability Office" or Ombudsman. The primary function of the office is to audit and investigate how national and regional government funds are spent. Currently, an Accounts Committee exists to control the execution of the national budget capacity and to provide oversight of public procurement. However, the Committee lacks the technical capacity for this role and should be strengthened.

A very good example is the U.S. Government Accountability Office (GAO) which is an independent, nonpartisan agency that works for the U.S. Congress. The GAO not only audits government agency spending activity, but it also recommends the adoption and amendment of laws and regulations that improve the efficiency of government for the benefit of taxpayers. The role of the Ombudsman has been very effective in the EU, Scandinavia, Czech Republic, Philippines, Georgia, Armenia, Poland and a host of other countries. Kazakhstan should consider such an organization as a tool to increase its spending efficiency and accountability.

Existing mechanisms are insufficient to address bidders who have complaints about a particular tender process or whistleblowers that have allegations of potential malfeasance on behalf of the procurement agency. In short, it raises questions of efficiency and overall accountability of how the intended government (and taxpayer) funds are eventually spent.

Global studies are consistent in their findings that non-transparency in Public Procurement has significant negative economic and social consequences on a country. For example, a comprehensive study by Harvard University's Global Trade Negotiations research advisory group concluded that government procurement of goods and services typically accounts for 10-15 percent of GDP for developed countries, and up to 20 percent of GDP for developing countries. For the EU, government procurement accounted for 16% of GDP in 2006, or approximately 1.7 trillion Euro. In Canada and Mexico, it accounted for 15% of GDP in each country. The Asian Development Bank (ADB) estimates that in many countries, over 20 percent of these expenditures are lost to corruption.

The GOK estimates that purchases by the Kazakhstan government account for about 10 percent of GDP, including purchases by Samruk-Kazyna. This figure is difficult to confirm due to a lack of consistent data and statistics on tender activities in the country. Even if low, it is easy to recognize the potential benefits to taxpayers, consumers and the government if measures are taken to increase transparency and attract more and better qualified bidders to the process. The GOK has real opportunities to improve transparency in the procurement process by following some of the global trends and practices that have proven to be highly successful.

For example, most developed countries specify four key principles in their procurement policy including transparency, anti-corruption, competitiveness and accountability. A lack of transparency in public procurement is recognized as a major impediment to sustained economic growth through investment and trade. The key challenge is to control government spending and make agencies operate efficiently and effectively.

Transparency is also considered to be the most effective deterrent to corruption and to ensuring the accountability of public officials. It is also widely accepted that procurement transparency promotes competition, and that competition is good for economic efficiency and growth. On a national level, there is a positive correlation between transparency and Foreign Direct Investment.

One area where many countries are addressing transparency is through web-based procurement and e-government. Several countries have their entire procurement information and process on the internet with open public access, such as the EU, Mexico, Chile, Columbia and Austria. In many of them, more than 80% of all procurement activities are handled directly via the internet and completely subject to public scrutiny. Kazakhstan's Central Bank and Ministry of Finance have created very good examples of e-procurement programs. The challenge for Kazakhstan is to extend this progress across government procurement entities and to consolidate and streamline the process. The GOK suggests that this may be easier said than done and may in fact lead to less transparency and more bureaucracy in the process. However, it does seem keen to further consider this concept if it can be assessed rationally and is workable in the current environment.

According to the Economist Intelligence Unit's (EIU) annual 2008 e-readiness ranking of the world's largest economies, Kazakhstan ranked 66th out of 70 countries in the study in terms of its information and communication technology readiness.

It is important for Kazakhstan that e-procurement is more broadly defined so that the focus of development of this mechanism is not limited to just an auction system. It should include a centralized registration system, centralized electronic bid notification system, and centralized past performance database. E-procurement is not a complete answer to transparency because e-procurement can also be corrupted. It does help but oversight is still required. A lot needs to be done on the Kazakhstan vision for e-procurement and e-government. Even simple exercises, such as improving certain procurement sections on the

e-government sites that are not always up to date or fully operable, or they are only in Russian and Kazakh languages.

Particularly during the current financial crisis, economic efficiency is an imperative for Kazakhstan. If the GOK can take concrete steps to instill integrity in the procurement process, it will reap measureable benefits by attracting more and better qualified bidders. This broader competition translates into better services, more efficiency and lower prices to the government, taxpayers and consumers. Removing corruption from the procurement process should be a key priority of the GOK.

A good example in this regard is Serbia where comprehensive government initiatives to pursue 100 percent transparency in the procurement process have had tremendous success. In 2002, the Serbian Government adopted its first comprehensive Public Procurement Law (PPL) followed by the adoption of a wide range of secondary legislation and regulations. A centralized Public Procurement Office (PPO) was established to assist both procurement offices and participants in the tender process. It created model contracts, notices and tender documents to adopt clarity and consistency in the process which provided for wider participation and competition.

Serbia further built on this foundation with the creation of the Commission for the Protection of Tenderer's Rights. Its function is to not only ensure the rights of both the tender participants and the tendering agency, but more importantly, to protect the interests of the public by improving the legality of the procurement process.

In the Asia-Pacific region, anti-bribery measures constitute an integral component of procurement reforms. In Bangladesh and the Philippines, centralized procurement oversight authorities are the key drivers to prevent corruption in the procurement process. Indonesia has taken a broad set of steps to improve procurement and remove corruption from the process. It established a national public procurement office which is an independent institution in the form of a non-departmental government institution under the coordination of the State Minister for national Development Planning. Indonesia is also implementing an aggressive e-procurement platform and is focusing on capacity building initiatives to train procurement specialists and practitioners. The country also volunteered to be a pilot country in Asia to have its procurement system assessed, compared and aligned with international procurement standards under the direction of the OECD.

Active participation by civil society has also proven to be effective in adding to the oversight and assessment of public procurement. Government disclosure of information to civil society organizations, the media and the general public on high value or complex procurements is highly effective as an oversight mechanism. Non-government programs facilitate reform in procurement and develop anti-bribery mechanisms that add transparency and efficiency to the process.

It can be said that Kazakhstan has had some notable success in working with civil society. The country has had very positive experiences with the Extractive Industries Transparency Initiative and it receives high recognition from global donor organizations and global benchmarking studies for this engagement. A model worth citing is the particularly positive working relationship that has been established between the NGO/civil society community and the government in other areas. For example, a coalition of more than 60 indigenous NGOs from all over the country called the "Oil Revenues under Public Oversight" was successfully developed and operates effectively. It participates in EITI board meetings, seminars and workshops, and it is very much respected and listened to by the Ministry of Energy and Mineral Resources.

In the United States, an Independent Private Sector Inspector General reviews processes, contracting and implementation assessments to ensure the sanctity of the procurement process. In the Philippines, the civil society initiative *Procurement Watch* was created to monitor government procurement programs. A successful role of civil society is working in coalitions comprised of government, business and non-government organizations where the approach is collaborative and not confrontational. Integrity Pacts have also been effective in Germany, Latin America and a number of other countries where the entire government procurement process on a specific project is monitored by an independent external expert. In Indonesia, the Partnership for Transparency Fund (PTF) monitors public procurement and advocates and collaborates on systemic reform initiatives.

Kazakhstan faces a broad set of challenges to improve transparency and efficiency in its government procurement. The Transparency and Economic Efficiency Working Group seeks to improve dialogue with the GOK and interested parties in an effort to define and implement solutions for the broader benefit of Kazakhstan society.

III. Key Proposals and Discussion Points

1. Conduct a gap analysis of Kazakhstan's Contracting and Procurement Procedures and adopt international standards

Due to the importance of transparency in the contracting and procurement processes, particularly in terms of the effective use of state funds, encouraging broader participation in the process and accountability for project implementation, certain gaps in Kazakhstan's existing regulations and procedures require modification.

Discussion Points:

- **Make a thorough review of recurring issue areas** that have been raised consistently by the public and private sector as troublesome.
    - Use key findings from analysis and research conducted by donor agencies as a supplementary source for issue identification.
    - Consolidate recommendations for procedural and process improvements.

- **Prepare a government procurement assessment report** that reviews the process in a broad sense and quantifies potential losses of resources due to poor oversight, pinpoints inefficiencies in the contracting processes and implementation stages, and highlights aberrations that jeopardize the sanctity of the system.

- **Review and consider global best practices** that could be applied and adopted to the Kazakhstan procurement process that can result in greater efficiency and transparency and streamline the process by making it more accessible to a broader family of participants, including SMEs.

- **Make specific recommendations for legislative and procedural changes** that reference in detail earmarked sections of laws, regulations, orders, decrees and other relevant documentation including recommended terminology, phraseology, grace periods, timing, oversight agencies and related adjustments that will improve the existing system.

- **Seek the support of international or regional donors** such as USAID or the Eurasia Foundation that can provide a range of assistance in the form of expertise, methodology, guidance, manpower and potential funding support.

2. Establish a centralized Government Procurement Office

In order to demystify the contracting and procurement process and to reduce some of the rhetoric regarding the pitfalls of participating in state and state-regulated tenders, systematic changes are necessary to minimize some of the confusing and potentially conflicting procedures and processes. Improving general understanding of the processes, as well as the results of procurement initiatives can be useful steps. Real progress can be made by centralizing all procurement-related issues under one roof.

Discussion Points:

- **Establish a central Government Procurement Office (GPO)**
    - It should function as a one-stop-shop for all questions, information, guidance and support for learning about and participating in tenders for government and state entity projects.
    - It should be professionally staffed and have easily accessible information available to the public and potential participants.
    - It can act as a central liaison for collaborating with the private sector and civil society on recommendations for ongoing improvements to the system.
- **Improve procedures and criteria for consistent oversight** of the procurement process that enhances transparency.
    - A side-by-side review should be conducted of the existing oversight guidelines of different ministries, state agencies and state-run entities.

    - Based on that review, recommendations should be made to apply consistency to the oversight regime taking into account best practices from past experiences.
    - International standards should be taken into account in this assessment process.
- **Develop uniform procurement standards**, time lines, forms and processes to make it easier for a broader and more diverse group of tender participants to actively participate in the process.
    - This step can be instrumental in improving compliance with pre-qualification criteria and document submission.
- **Issue statistics of tender results on a regular and consistent basis** in order to instill transparency in the process and act as a check and balance on tender recipients.
    - The results should be open to the public and they should be categorized according to a range of factors including by company, sector, entity type and other means.
    - The results can also be compiled into semi-annual or annual reports that will provide for ease in assessing government spending, efficiency, project and sector focus and by types and forms of entities participating in procurement programs.
    - Provide training programs, technical assistance and information systems that will allow for improved data collection, analysis and information sharing inter-agency and with the public.
- **Set benchmarks for publication and cancellation of tender announcements**, results, contract awards, cancellations and adherence to timely notification procedures and monitor compliance in order to improve transparency in the process credibility n the system.
- **Manage a set of core responsibilities including policy and regulation development**, standard bidding documentation, collection and dissemination of information, individual and organizational capacity development, procurement oversight and audits and bidder complaint processing.
- **Report directly to the Prime Minister** or President or Cabinet of Ministers.

3. Establish an independent body to serve as procurement ombudsman

Kazakhstan needs to pursue effective solutions that ultimately lead to providing greater oversight and ensuring improved transparency and accountability in the procurement process. The Ombudsman concept has been particularly effective, for example, in the U.S. via the U.S. Government Accountability Office that has a broad mandate over government spending. The role of Ombudsman has also proven to be effective in the EU, Philippines, Georgia, the Czech Republic, Scandinavia, Pakistan, Armenia and numerous other countries.

Discussion Points:

- **Promote the establishment of an oversight agency** that reviews and improves government spending activities.
    - The agency should be objective, non-political and independent of government.
    - It should conduct audits to ensure spending is efficient.

- It should report on how government agencies are performing in their spending activities.
- It should issues recommendations for changes in legislation, procedures and programs to improve efficiency in government spending.

4. Unify the Electronic Procurement System for state institutions

The GOK currently has an e-government web-site and posts procurement information on several other electronic sites. However, the format of the information and the methodology in which it is presented makes it nearly impossible for potential tender participants to review the information in an efficient manner. Some sites would take an enormous amount of time to sift through all of the information in order to cipher the materials into a useful format. Other sites are very rudimentary in nature and are merely websites and not effective tools for identifying relevant information. The burden of information can be significantly reduced through better consolidation and presentation of the materials.

Discussion Points:

- **List all state procurement and tender opportunities on one consolidated website** in a comprehendible and comprehensive manner.
  - Utilize a clear categorization framework that provides for greater ease in identifying tenders of potential interest.
- **Create a pre-certification process for qualifying companies** that could have universal application to a wide range of tender opportunities across ministries, agencies and state entities.
- **Improve the system for electronic registration and submission of bids** that foster greater efficiency in the tender process.
  - The system should be interactive so that submitted bids are confirmed or electronic notification is received regarding discrepancies in the documentation.
- **Unify state tender procedures, processes and forms** and have them available on the centralized site.
  - Seek to reduce variations in procedures and forms for greater ease of comprehension and usage.
- **Establish a comprehensive set of site components available to potential participants** that should include:

  - A single point of registration and validation of company data accessed by ALL government agencies.
  - One website (Opportunities) and an integrated bid notification system that allows companies to select by industry codes what bid notifications they receive.
  - Model contract templates.
  - A labor rate database

- E-Marketplace systems to enable on-line purchasing to simplify selection and facilitate leverage of Government buying. (Note: not all purchases will be able to be done this way, but many can be.) This includes the GPS schedules.
- Past Performance database (not just a "black list", but also ratings for contract performance and commentary on performance).
- A searchable SME database; and
- An integrated electronic payment system.

5. Clarify procedures for tenders for projects offered by government and state-owned entities

Currently, there are a multitude of variations between the procedures and processes for tenders initiated by state agencies and state-managed entities. The potential for mistakes in the application process can result in unnecessary disqualification of a tender participant on simple technical grounds. In order to optimize the process and improve the transparency and ease of participation, steps should be taken to clarify the distinctions and peculiarities of the range of tender opportunities.

Discussion Points:

- **Identify the step-by-step tender process** to follow to qualify for and participate in state tenders with explanatory examples and anticipated process timing. Reference contact information for clarification.
- **Define the differences between tender procedures** for the government and tenders for state-owned enterprises including documentation and process variations.
- **Prepare user-friendly explanations** in the form of "frequently asked questions", as well as a toll-free line or on-line service when further explanation is required. Avoid merely referencing the text of the law or procedure that may not be adequately explicit in response to inquiries.
- **Establish a Call Center** to address general questions about the tender process, the status of tenders, documentation and deadlines. The Call Center should be capable of addressing questions across the spectrum of ongoing procurement opportunities among state agencies and entities.

- **Create a standardized rating system** for a performance and past performance database. Rate ministries and agencies on their performance and highlight the top 3-5 best performers. To do so, clear criteria and monitoring procedures should be uniformly defined and applied to ensure a credible rating scheme.

- **Dramatically simplify the procurement process** by issuing clear guidelines that identify and limit what can and cannot be used in tender documentation. Remove unnecessary or irrelevant documents requirements such as notarized school diplomas and educational certificates, and other notarized or apostiled documents.

- **Track cases of bidder disqualification** based on technicalities in order identify common problems and to determine whether cases are isolated. Such cases include

disqualification for a lack of documentation, notary stamps, signatures, apostiles, and a range of other reasons raised by disqualified bidders. This information can be consolidated into a report for further review and consideration by the GOK.

6. Increase the role of civil society in the monitoring of contracting, selection and implementation stages of the state tender process

Civil society has played an increasingly important role in countries around the world in the area of building transparency into government procurement regimes. Kazakhstan has been relatively slow in engaging civil society in the process despite the recognized benefits based on global experience. To remove some of the distrust in procurement and to transform it into a more transparent and credible process, the GOK should seek to develop civil society's role in Kazakhstan in the procurement sphere.

Discussion Points:

- **Use independent experts** in all stages of the procurement process on complex or high-value projects that require greater scrutiny.
- **Build coalitions with civil society** in the form of collaborative groups comprised of government, business and civil society. Together the coalitions can address problem areas, identify reform initiatives and provide better oversight of procurement.
- **Provide protections and support for civil society groups** and become more inclusive in allowing the groups to participate in the policy, legislative and implementation processes.
- **Support the creation of NGO monitoring groups** that are established as independent organizations supported by a variety of funding sources to prevent bias or collusion.
- **Identify societal benefits and impacts of procurement** that can be distributed and communicated by civil society groups. Collaboration with the government will increase credibility and transparency of government procurement.
- **Broadly publicize the results of tenders** to a broad audience including civil society groups, the media and the general public in order to improve transparency levels and public support.

7. Establish an independent complaint mechanism for bidders and protections for whistle blowers

Almost every modern procurement law and system has an independent set of rules, mechanisms and protections for bidders and whistleblowers that provide them with the right to challenge decisions of the procurement approval entity or to raise alleged violations of the procurement law. The GOK should do more to ensure that these mechanisms and protections exist in order to improve transparency and build confidence and integrity in the procurement process.

Discussion Points:

- **Establish clear rules and mechanisms for processing bidder complaints** that provide for transparent review of alleged procurement violations that are open and transparent. It is critical to the credibility of the bidding process that legitimate claims of abuse or malfeasance can be timely and effectively considered.
- **Encourage whistle blowing by providing greater protections** in the form of anonymity, protection of proprietary information and reputational and professional integrity through processes that are neutral and objective and vigorously pursue the legitimacy of claims.
- **Engage the Ministry of Finance in a supervisory role** to pursue bidder complaints or allegations of malfeasance on the part of procurement agencies.

8. Institute training and skill enhancement programs for staff responsible for administering government procurement

An important component of government procurement is the human factor and the level of skill and training of the procurement agency staff. Often times the procurement staff in Kazakhstan procurement entities specializes in internal controls, as opposed to the intended role of oversight and support. As a result, they miss the mark in terms of ensuring that public funds are spent economically and efficiently according to the procurement law.

Discussion Points:

- **Assess the skills of procurement agency staff** to ensure that they have the understanding, skills and accountability to pursue an oversight and support role and not just an internal controls function.
- **Assess the organizational capacity of procurement departments** to assess the ability to effectively function and efficiently carry out their functions and identify training and development needs for improvement.
- **Develop a national training strategy** for procurement personnel that establish core training and assessment programs for improving the skills and capacity of specialists in the procurement field.
- **Introduce a formal accreditation system** to ensure that only trained and authorized public officials conduct public procurement.

Comments:

- The Sustainable Growth Fund AO Samruk-Kazyna as the sole manager of key State assets and entities that fall under its purview carries out a significant portion of all the government-related procurement in the country. As such, the private sector perceives Samruk-Kazyna to be a government entity; both in how it conducts tenders

and the scope of projects, goods and services that it seeks to procure or manage. While according to its legal structure it is not a State entity specifically subject to the provisions of the Government Procurement Law, the private sector considers Samruk-Kazyna to be part of the GOK and as a matter of transparency, it recommends that it follow the same procedures and regulations of other government agencies in carrying out its procurement activities.

- Following the submission of this White Paper to the GOK on July 16, 2009, the content and recommendations were reviewed and considered by the GOK and various ministries and agencies. As a result of that review, the GOK has compiled a comprehensive response including a detailed set of comments and references to specific legislation and regulations. The GOK comments in their entity are attached to this White Paper as Appendix 1 for future reference and consideration.

September 2009

PPEPI Coordinating Committee Meeting

Wednesday, April 1st, 2009
2:00 – 4:00 pm

Radisson Hotel

AGENDA

1. Welcome and Opening Remarks – Ambassador Hoagland and Deputy Prime Minister Orynbayev
2. PPEPI and Six Pillars – AmCham President Kenneth Mack
3. PPEPI Program Structure – AmCham Executive Director Doris Bradbury
4. Explanation of In-Kind Contributions – AmCham President Kenneth Mack
5. Nominations for PPEPI Working Groups and Selection Committee for Exchanges

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PPEPI

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

THE U.S. – KAZAKHSTAN PUBLIC-PRIVATE ECONOMIC PARTNERSHIP INITIATIVE (PPEPI)

PPEPI THEMATIC ROUNDTABLES
THURSDAY, 16 JULY

RADISSON SAS HOTEL, ASTANA

I. MORNING ROUNDTABLE, 9:30 – 12:30AM
ANTI-CORRUPTION MEASURES AND RULE OF LAW

Moderator: Kenneth Mack, President, American Chamber of Commerce in Kazakhstan

9:30 ***Opening Remarks: Kenneth Mack, AmCham President and Chairman, PPEPI Anti-Corruption/Rule of Law Working Group***

9:45 ***Judge Aueznur Kazhenov, Supreme Court of Kazakhstan, President, Union of Judges***
Topic: Judicial Ethics in the Courts of Kazakhstan

10:15 ***Kenneth Mack, AmCham President***
Topic: Business Disputes in the Courts of Kazakhstan

11:00 ***Coffee-Break***

11:30 ***The Honorable Margaret Skok, Canadian Ambassador to Kazakhstan***
Topic: The Canadian Perspective on the Judicial Process

12:00 ***Michail Borisiewicz, Consultant, World Check***
Topic: Money Laundering: A Schematic Overview

12:30 ***Closing Remarks: Kenneth Mack***

12:40 – 2:00pm **Lunch for Roundtable Participants and Guests**
Location: Capri Restaurant, Radisson Hotel

II. AFTERNOON ROUNDTABLE 2PM – 5PM
TRANSPARENCY AND ECONOMIC EFFICIENCY

Moderator: Stephen Wermert, Kazakhstan Country Director, Asian Development Bank

2:00 ***Opening Remarks: Stephen Wermert, Kazakhstan Country Director, ADB and Chairman, PPEPI Transparency/Economic Efficiency Working Group***

2:05 ***Overview of White Paper Draft: Robert May, Partner, R.May Group***

2:15 ***Jeff Erlich, President, Eurasia Foundation of Central Asia***
Topic: Transparency in Kazakhstan's Social Sector

2:45 ***Stephen Wermert, Kazakhstan Country Director, ADB and Chairman, PPEPI Transparency/Economic Efficiency Working Group***
Topic: Transparency in the State Tender Process

3:15 ***Coffee- Break***

3:45 ***Tomas Bravenec, Senior Banker, European Bank for Reconstruction and Development (EBRD) and AmCham Board Member***
Topic: Transparency in Kazakhstan's Private Sector and Bankability of Projects

4:15 ***James Turnbull, CEO, Troika Dialog Kazakhstan***
Topic: Shareholder Transparency in Public Companies

4:35 ***Meruert Makhmutova, Director, Public Policy Research Center***
Topic: Transparency of the National Oil Fund

4:55 ***Closing Remarks: Stephen Wermert***

ALL PARTICIPANTS AND GUESTS ARE INVITED TO AN EVENING COCKTAIL AND BUFFET DINNER HOSTED BY AMCHAM IN KAZAKHSTAN.

LOCATION: NURI RESTAURANT (3/2 REPUBLIC PROSPECT)
TIME: 6 – 8 PM

PPEPI COORDINATING COMMITTEE MEETING

DATE: ***FRIDAY, 17 JULY 2009***
TIME: ***4 – 5:30 PM***
LOCATION: ***RADISSON SAS HOTEL, ASTANA***

AGENDA

1. **WELCOME BY CO-CHAIRS -**
   Deputy Prime Minister of Kazakhstan Yerbol Orynbayev
   U.S. Ambassador Richard Hoagland

2. **SUMMARY OF PPEPI PROGRESS: APRIL-JULY 2009 –**
   AmCham President Kenneth Mack

3. **PRESENTATION OF PPEPI ISSUE OF *INVESTORS' VOICE* –**
   AmCham Executive Director Doris Bradbury

3. **DISCUSSION OF PPEPI ROUNDTABLES, JULY 16 –**
   Kenneth Mack and Executive Director Doris Bradbury

3. **PRESENTATION OF PPEPI WHITE PAPERS/**
   REPORTS BY PPEPI WORKING GROUP CHAIRS –

   - **Anti-Corruption/Rule of Law – Kenneth Mack, AmCham President, Managing Partner, Chadbourne & Parke, Kazakhstan**
   - **Transparency/Economic Efficiency – Stephen Wermert, Kazakhstan Country Director,Asian Development Bank**
   - **Regional Economic Integration/Customs and Trade – John Irons, Director, USAID Office of Economic Growth**
   - **Economic Diversification/SME Development – Ulf Hindstrom, Senior Banker, EBRD**
   - **Cooperation in Science and Technology – Kanat Shakenov, Kazakhstan Country Director, Civilian Research and Development Foundation**

4. **TIMETABLE FOR WHITE PAPER RESPONSES – Doris Bradbury**

5. **PPEPI PARTNERSHIP ISSUES – Kenneth Mack**

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

U.S. – KAZAKHSTAN PUBLIC-PRIVATE ECONOMIC PARTNERSHIP INITIATIVE (PPEPI)

PPEPI THEMATIC ROUNDTABLES

Tuesday, 17 November 2009

Intercontinental Hotel, Almaty
Ablai Khan Room

9:30 **Welcome: Doris Bradbury, Executive Director, American Chamber of Commerce in Kazakhstan**

I. **MORNING ROUNDTABLE**, 9:30 am – 12:30 pm
Economic Diversification/SME Panel with Interactive Discussion
Moderator: Tomáš Bravenec, Senior Banker, European Bank for Reconstruction & Development (EBRD)

9:40 **Opening Remarks: Tomáš Bravenec, Senior Banker, EBRD**
Topic: *Kazakhstan's Potential for Economic Diversification*

10:00 **Meruert Makhmutova, Executive Director, Public Policy Research Center (PPRC)**
Topic: *Natural Resources are Not Enough*

10:15 **Raimbek Batalov, Chairman, Raimbek Group**
Topic: *Challenges to SME Development*

10:30 **Konstantin Nazarov, Director for Kazakhstan, Central Asia and Caucasus, General Electric**
Topic: *Health and Infrastructure: Priorities for Diversification*

10:45 **Coffee-Break**

11:15 **Interactive Discussion—Audience/Participants**

12:20 **Closing Remarks: Tomáš Bravenec, EBRD**

12:30 **Lunch for Roundtable Participants and Guests**
Location: Asian Café, Intercontinental Hotel

I. **AFTERNOON ROUNDTABLE**, 2:00 pm – 5:00 pm
Regional Economic Integration/Trade and Customs
Moderator: Nurlan Kapparov, Chairman, Lancaster Group

2:00 **Opening Remarks: Nurlan Kapparov**, Chairman, Lancaster Group
Topic: *East-West Economic Integration across Kazakhstan*

2:20 **Zhanar Aitjanova, Deputy Minister and Special Representative at WTO Negotiations, Ministry of Industry and Trade**
Topic: *The Kazakhstan-Russia-Belarus Customs Union*

2:40 **Meruert Makhmutova, Executive Director, Public Policy Research Center (PPRC)**
Topic: *Challenges to Regional Integration*

3:00 **Siddique Khan, President & CEO, Globalink**
Topic: *Impediments to Central Asian Cross-Border Trade Movements*

3:15 **Wang Hong, Principal CAREC Coordinator, Asian Development Bank**
Topic: *CAREC: North-South Economic Integration across Central Asia*

3:30 **Coffee- Break**

4:00 **Interactive Discussion—Audience/Participants**

4:55 **Closing Remarks: Nurlan Kapparov, Lancaster Group**

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

U.S. – KAZAKHSTAN PUBLIC-PRIVATE ECONOMIC PARTNERSHIP INITIATIVE (PPEPI) ROUNDTABLE

Economic Diversification Priorities

Tuesday, 24 November 2009
2:30 pm- 5:00 pm

Biddle Room
Harvard Club
35 W. 44th Street
New York

2:30 **Welcome:**
Ambassador Richard Hoagland, U.S. Ambassador to Kazakhstan
Kairat Umarov, Deputy Foreign Minister of Kazakhstan
Ambassador Erlan Idrissov, Ambassador of Kazakhstan to the U.S.

Moderator: Kenneth Mack, President, American Chamber of Commerce; Managing Partner, Chadbourne and Parke

2:45 **Dennis de Tray, de Tray Consulting; Former Director, Central Asia Region, World Bank**
Topic: *Foreign Investment in Kazakhstan's Development Strategy*

3:00 **Daniel Witt, President, International Tax and Investment Center (ITIC)**
Topic: *Taxation as a Stimulus for Investment and Diversification*

3:15 **Ralph de Haas, Senior Economist, European Bank for Reconstruction and Development (EBRD), London**
Topic: *Economic Diversification in Kazakhstan: the Challenge of the Missing Middle*

3:30 **[Company speaker TBD]**
Topic: *US-Kazakhstan Cooperation in Infrastructure Development*

3:45 **Coffee-Break**

4:00 **Interactive Discussion—Audience/Participants**

4:55 **Closing Remarks: Kenneth Mack, AmCham**

PPEPI Thematic Roundtables
Panelist Bios

Zhanar Aitjanova

Zhanar Aitjanova joined the Ministry of Industry and Trade as a Deputy Minister in 2003. In addition to this position, she currently serves as the Chief Negotiator for Kazakhstan's WTO Accession and has been instrumental in negotiations regarding the Kazazakhstan-Russia-Belarus Customs Union.

Before becoming a Deputy Minister, Ms. Aitjanova spent 10 years working for the United Nations Development Programme (UNDP) in Central Asia and Mongolia. Key projects included privatization and industrial restructuring; empowerment of rural women through income generating activities; and the Government and Economic Transition (GET) program to assist the Government of Mongolia in governance and economic reforms.

Ms. Aitjanova joined the New York office of UNDP in 1999 where she analyzed socio-economic development strategies in Central Asian countries and was responsible for formulating and implementing country programming for Central Asia. Ms. Aitjanova obtained an MPA from Harvard University in 2003.

Raimbek Batalov

Raimbek Batalov is the Founder and Chairman of Raimbek Group, a diversified food products company founded in 1992 that is one of Kazakhstan's leading success stories.

In 2002 Raimbek Batalov was elected Chairman of the Board of the Forum of Entrepreneurs of Kazakhstan, a position he continues to hold today. As both a businessman and the Forum Chairman, he seeks to create a favorable economic climate in which small and medium businesses in Kazakhstan can operate profitably, serve consumer needs, create jobs, and diversify the economy.

Batalov has been a member of the Council of Entrepreneurs under the President of Kazakhstan since 2006. In 2005 he was appointed Chairman of the Kazakhstani National Delegation to the Business Council of the Shanghai Cooperation Organization (SCO) a multilateral intergovernmental organization promoting security, economic and cultural cooperation between China, Russia, Kazakhstan, Tajikistan, Kyrgyzstan and Uzbekistan.

Tomáš Bravenec

Tomáš Bravenec is Senior Banker and Corporate Sector Head at the European Bank for Reconstruction and Development's (EBRD) office in Almaty. He is responsible for conducting business with clients across various industries, including natural resources, agribusiness, property and telecommunications, and general industries.

During his professional career, Mr. Bravenec has worked in diverse corporate and commercial banking positions with leading international banks in Austria, the Czech Republic, and Kazakhstan. Before joining EBRD in late 2007, Mr. Bravenec served as the Global Transaction Services Head and Commercial Banking Head at Citibank Kazakhstan.

Mr. Bravenec, a native of the Czech Republic, holds a Masters Degree (*summa cum laude*) in Economics from the Hochschule für Ökonomie, Berlin, Germany.

Hong Wang

Hong Wang serves as the Principal CAREC Coordinator for the Asian Development Bank (ADB). He is responsible for the development and implementation of the CAREC work plan which supports private sector development in Central Asia.

Mr. Wang received an MPA from Harvard's Kennedy School of Government in 1998. Since then, he has been involved in power sector and infrastructure projects throughout Southeast and Central Asia. Mr. Wang has worked for the Asian Development Bank since 1999 and is currently based in Almaty.

Nurlan Kapparov
Nurlan Kapparov is the Chairman of the Board of Directors at Lancaster Group, a Kazakh holding company operating in a wide range of economic sectors, including oil and gas, mining, banking, telecommunications, and hotels.

Mr. Kapparov held public office as Kazakhstan's Deputy Minister of Energy and Mineral Resources (1999-2001), Chairman (2000-2001) of the North Caspian Operating Committee (Kashagan) and Head of the negotiating team for delimitation of the Caspian Sea between Russia and Kazakhstan. He has also been President and CEO of KazakhOil (1998-1999) and KazTransOil (1997-1998). In 1990, Mr. Kapparov founded Accept Corporation, which has since developed into a holding embracing 40 companies in telecommunications, agriculture, production of alcoholic beverages, wholesale, retail trade and other services.

Mr. Kapparov holds an M.P.A. from the Kennedy School of Government at Harvard University and is a Member of the Kennedy School's Belfer Center for Science and International Affairs. He is co-founder of the Harvard Club of Central Asia (HCCA) and was its first President. Mr. Kapparov is also co-founder and longtime contributor to the Republican Physics and Mathematics School (RPMS) Alumni Fund.

Siddique Khan
Siddique Khan serves as President and CEO of Globalink Logistics Group. He began his career in the transportation and logistics industry in 1998 and has spent the last 20 years working in South East Asia, the Middle East, and Europe. Actively involved with all facets of multimodal transportation and logistics, Mr. Khan established Globalink Logistics Group in Kazakhstan in 1994. Under his direction and guidance, the company has expanded to include 30 locations in 22 countries and is today considered to be a market leader.

Mr. Khan has a Bachelor's Degree in Commerce from the University of Punjab and holds a variety of professional certifications for the shipping, transportation, and logistics industry.

Meruert Makhmutova
Meruert Makhmutova is the Director of the Public Policy Research Center (PPRC) in Almaty. She holds a PhD in Economics (received in 2000) specializing in intergovernmental fiscal relations from the Kazakh State Academy of Management.

Dr. Makhmutova has conducted macroeconomic analysis for projects relating to Kazakhstan and Central Asia for the Asian Development Bank, United Nations Development Program, World Bank, Organization for Economic Cooperation and Development, and the European Commission Delegation to Kazakhstan. She has published more than 100 articles on various aspects of economic policy, budget reforms, local government reforms, and oil revenues. Dr. Makhmutova is a member of the Government of Kazakhstan's Council of Economic Advisers and co-founder of the Kazakhstan Association of Economists.

Konstantin Nazarov
As Director for Kazakhstan, Central Asia and the Caucasus for General Electric, Konstantin Nazarov is responsible for GE development and growth across Central Asia and the Caucasus. Mr.Nazarov earned a B.A. (Hons.) from Rundy Industrial Institute in 1996 and an MBA from KIMEP in 1999.

Mr. Nazarov began his career in 1999 as Business Development Manager for Shell in Almaty. In 2001, he worked in Beirut as Shell's Regional Sales Manager for Lebanon, Syria and Jordan. He returned to Almaty at the end of 2002 after being appointed Shell Regional Sales Manager.

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

PPEPI THEMATIC ROUNDTABLES: COLLABORATION IN SCIENCE AND TECHNOLOGY
Tuesday, 16 February 2010

Radisson SAS Hotel, Astana

9:00 **Welcome and Introductory Remarks: Doris Bradbury, Executive Director, American Chamber of Commerce in Kazakhstan**

9:15 **Keynote Speaker:**
Deputy Minister Aidar Zhakupov, Ministry of Education and Science
Topic: *Science as a Priority on the Government Agenda*

I. MORNING ROUNDTABLE, 9:00 am - 12:30 pm
Theme: Scientific Collaboration

Moderator: Kanat Shakenov, Director, U.S. Civilian Research and Development Foundation (CRDF)

9:30 **Kanat Shakenov, CRDF — Panel Moderator**
Topic: *Science Policy in Kazakhstan and the United States*

9:40 **Bruce Hudspeth, Regional Environmental Officer, U.S. Embassy**
Topic: *The U.S.-Kazakhstan Bilateral Science and Technology Agreement*

9:45 **Dr. Almaz Sharman, CEO, Kazakhstan National Medical Holding**
Topic: *The National Medical Holding: A Model for Kazakhstan's Health Service Delivery*

10:15 **Aslan Sarinzhipov, President, New Astana University**
Topic: *The New Astana University, Planning for Academic Excellence*

10:30 **Coffee-Break**

11:00 **Arnur Nurtayev, Director, Marketing Development, SK-Farmaciya**
Topic: *Investment in the Pharmaceutical Industry: An Investment in Diversification and the Nation's Health*

11:30 **Richard Bregonje, Director, Tax Services, PricewaterhouseCoopers**
Topic: *The Impact of Tax Incentives on Scientific-Technological Innovation to Stimulate Diversification*

12:00 **Interactive Discussion — Panelists and Audience**

12:30 **Closing Remarks: Kanat Shakenov, CRDF**

12:40 **Lunch for Roundtable Panelists and Participants**
Location: Radisson Capri Restaurant

II. AFTERNOON ROUNDTABLE, 2:00 pm – 5:00 pm

Theme: Technological Collaboration

Moderator: Guenter Dahm
Country Manager, Microsoft

2:00 **Guenter Dahm, Microsoft — Panel Moderator**
Topic: *Driving Innovation and Education for the Local Software Economy in Kazakhstan*

2:30 **Askar Nauryzbaev, Government Relations Director, GSM/K'Cell Kazakhstan**
Topic: *K'Cell, An Example of International Collaboration and Innovation*

2:45 **Andrew Beklemishev, Country Manager, IDC Kazakhstan**
Topic: *Kazakhstan's Information Technology Market: Recent Trends and Future Development*

3:15 **Coffee-Break**

3:30 **Rinat Mukhamedshin, Director, Adelaida Legal Group, Astana**
Yury Bolotov, Managing Partner, McGuire Woods LLP, Almaty
Topic: *Intellectual Property Rights: Protection for Scientific and Technological Innovation*

4:00 **Mailybek Kusenov, General Director, Alatau IT City**
Topic: *The Role of a Special Economic Zone to Stimulate Investment in Technology*

4:20 **Interactive Discussion — Panelists and Audience**

4:50 **Closing Remarks: Guenter Dahm, Microsoft**

All Roundtable Participants Are Invited to the
American Chamber of Commerce
PPEPI Sundowner sponsored by
PricewaterhouseCoopers and Work Permits Kazakhstan
This Evening at the Astana-Nuri Restaurant, 6:00-8:30pm

U.S. - KAZAKHSTAN PUBLIC PRIVATE ECONOMIC PARTNERSHIP INITIATIVE

February 16, 2010

Radisson SAS Hotel
Astana, Kazakhstan

ROUNDTABLE SPEAKER PROFILES

Andrew Beklemishev
Andrew Beklemishev is Country Manager for Kazakhstan with IDC, the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. In this role, Mr. Beklemishev oversees and participates in all IDC research pertaining to the developing markets of Central Asia. He has over eight years of experience in IT and telecommunications.

Prior to joining IDC in 2007, Mr. Beklemishev's experience included work with Central Asian governments, USAID, UNDP, UNESCAP, the World Bank, and the European Commission, as well as with various nongovernmental organizations and private companies. He also worked on the design of Kazakhstan's eGovernment Concept and Implementation Program.

Mr. Beklemishev holds a Masters degree in Management from the International Academy of Business (Kazakhstan) and an International Executive MBA from the HEC School of Management (France).

Richard Bregonje
As the Director of Tax Services at PricewaterhouseCoopers, Richard Bregonje is responsible for setting up the company's International Tax Desk in Almaty. He has over fifteen years of experience with PwC in domestic and international tax planning as well as advising multinational companies in many sectors of business. He also oversees the implementation of the Total Tax Contribution product in Kazakhstan.

Mr. Bregonje joined the Almaty office from PwC Rotterdam in 2006 and is well-connected to the global network. His major clients to date include such companies as Cameco, Canamens, Kazakhmys, Roxi Petroleum, and Visor Capital. Richard is a frequent speaker at conferences all over the world, including KIOGE (Almaty) and the IADC International Tax Conference (Houston).

Mr. Bregonje has a Masters degree in Tax Law from Tilburg University in the Netherlands in addition to Masters degrees in Civil Law and Business Law from Rotterdam Erasmus University.

Guenter Dahm
Guenter Dahm was appointed to the position of Microsoft Country Manager for Kazakhstan in November 2008. He brings a wealth of experience in sales and marketing, services and general management from his previous roles. He began his career in 1991 as a consultant and software project manager in Germany. From 1993 on he held various positions in sales and marketing at German and US software companies including Parametric Technology, Seagate Software, and Systemfabrik.

Prior to joining Microsoft in 2004, he served as the Country Manager of Micromuse for Germany and Switzerland. From 2004 until 2008, he led the overall sell-to industry strategy for the Communications Sector Group in Microsoft. During that period he held several different management positions.

Mr. Dahm holds an Engineering degree from Mercator University in Duisburg, Germany, and completed an MBA from OUBS in Milton Keynes, UK.

Bruce Hudspeth
Bruce Hudspeth is the Regional Environmental, Science, Technology and Health Officer for Central Asia for the U.S. Embassy in Astana. He is responsible for monitoring and providing policy advice on a wide range of science and technology issues. He also plays a leading role in negotiating the bilateral science and technology agreement with the government of Kazakhstan.

Mr. Hudspeth entered the US Foreign Service in 1992. Since then, he has held a variety of positions across the world. In 1993, he helped open the new U.S. Embassy in Almaty. He has also served as the Political-Economic Officer in Uruguay and the Economic Officer in Ukraine. !n 2000, he undertook intensive Chinese language training in Washington D.C. and Taiwan after which he was appointed as the Economic Officer for the U.S. Consulate in Shenyang in northeastern China, and later as the Political Officer in the U.S. Embassy in Beijing.

Mailybek Kusenov
Malybek Kusenov is General Director of Alatau IT City Management, a special economic zone that offers tax and customs incentives to stimulate high-tech IT investment in Kazakhstan. In this role, he is responsible for providing business development support, establishing and maintaining customer business relations, and supervising all property management activities.

Mr. Kusenov has worked in Information Technologies for over 30 years. Prior to joining Alatau IT City Management, he served as General Director of Almaty TST Telecom, Deputy of Corporate Manufacturing Building, and the Head of the Technical Communications Hub in the East Kazakhstan region, and as a staff member of the Ministry of Transportation and Communications of the Soviet Union.

Mr. Kusenov graduated from Alma-Ata Institute of Energy and Communications.

Rinat Mukhamedshin
Rinat Mukhamedshin has been the Director of the Adelaida Legal Group since 2003. In addition to this position, he is a member of the Scientific Advisory Board of the Supreme Court and an Expert Advisor for Human Rights under the President of the Republic of Kazakhstan. He has over 35 years of legal experience. Before joining the Adelaida Legal Group, Mr. Mukhamedshin served as a lawyer for Michael Wilson and Partners and Baker and McKenzie. He has also previously worked with the Committee for State Property Management in the Karaganda Region and headed the Research Division of the Legal Department of Kazkommertzbank in Almaty.

Mr. Mukhamedshin studied civil procedural law at Moscow State University.

Arnur Nurtayev
Arnur Nurtayev graduated from Kazakh State Medical University in 2003, continuing his studies under a Bolashak scholarship at Bradford University in England, graduating in 2007 with a specialization in medicine and pharmacology. Between degrees he was employed as a business unit manager at Viva Pharm. When he returned from Bradford he joined the Samruk-Kazyna Centralized Distribution project which he now heads.

Yerbol Orynbayev
Yerbol Orynbayev is Deputy Prime Minister of Kazakhstan, a position he has held since 2007. Mr. Orynbayev has held a series of senior public service appointments, among them serving as Director of the Office of Budgetary Programs, Head of the Social and Economic Reforms Office (Presidential Administration), Director of the Legal Office (Civil Service Agency), Deputy Minister of Economy and Budgetary Planning, and Chief of the Prime Minister's Chancery.

Mr. Orynbayev has facilitated the growing relationship between AmCham and the Prime Minister's Office through his strong support for the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI). He has been similarly proactive in facilitating AmCham input into the Tax Advisory Council, thus enabling the Chamber to provide its recommendations for the legislative process at the highest level.

Mr. Orynbayev is a graduate of Moscow State University, Faculty of Law and Duke University where he received an M.A. in International Development. He began his career in the banking sector before his appointment as Deputy Akim of South Kazakhstan Region in 1996.

Aslan Sarinzhipov
Aslan Sarinzhipov is the CEO of the New University of Astana. His has served as an Executive Committee Member of the Intergovernmental Council of Central Asia in Kazakhstan's Ministry of Foreign Affairs, Diplomatic Attaché for economic issues at the Embassy of Kazakhstan in Washington D.C., and Project Coordinator in the Department of Infrastructure. He has also worked with the World Bank developing the financial and private sectors in Kazakhstan. Before being appointed as President of the New University of Astana in September 2009, Mr. Sarinzhipov served as Deputy Chairman of the National Analytical Center of Kazakhstan.

Mr. Sarinzhipov graduated from Kazakh State Economic University with a degree in International Economic Relations. He holds an MS in Economic Sciences and graduated from the Vienna Diplomatic Academy in Austria. He also undertook a Muskie Fellowship-sponsored course in Business Administration at Oklahoma University and attended the Executive Education program at the JFK School of Government at Harvard University.

Kanat Shakenov
Kanat Shakenov is Director of the Almaty office of the Civilian Research and Development Foundation (CRDF), a U.S. non-profit organization based near Washington D.C. He came to CRDF in 2007 from the Kazakhstan's National Center for Biotechnology where he served as Deputy Director-General in charge of international cooperation, marketing and commercialization.

Mr. Shakenov possesses extensive scientific experience gained at both Kazakh and international organizations, including the United Nations Development Program (UNDP), where he was Project Manager for the Counteracting the AIDs Epidemic in Kazakhstan program. He has also worked with the United Nation's Children's Fund (UNICEF) and participated in the Ministry of Education and Science's Program for Science Development, 2007-2012.

Mr. Shakenov is a graduate of the Kazakh State Medical University and holds a Masters degree in Public Health from the University of Pittsburgh. He was also awarded a certificate in Management of Non-Profit Organizations.

Dr. Almaz Sharman
Almaz Sharman serves as CEO for the Kazakhstan National Medical Holding, a state-of-the-art medical complex in Astana. He has over 20 years of experience in the fields of biomedical research, clinical research, and public health. After graduation from Almaty State Medical University in 1982, Dr. Sharman practiced internal medicine and was involved in a number of projects in the areas of immunology and vaccine research.

During his professional career, Dr. Sharman has worked as a Health Coordinator for the International Demographic and Health Surveys (DHS) project, as Infectious Disease Advisor and later Country Office Coordinator for USAID, and Associate Professor at Johns Hopkins University.

From 2006 to 2008, Dr. Sharman worked with Capital Partners to establish a multidisciplinary hospital in Almaty. In May 2008, Dr. Sharman was appointed by the Government of Kazakhstan as CEO of the National Medical Holding, a pioneering project initiated in Astana to introduce international standards of quality and safety of care and to ensure financial sustainability and growth.

Aidar Zhakupov
Aidar Zhakupov was appointed Deputy Minister of Education and Science in July 2009. His has served as General Director of Parasat National Technological Holding and has held senior positions at The Center for Earth Sciences and Metallurgy, Kazakhmys, the National Innovation Fund, and Kazatomprom. He holds an engineering degree from Bauman Technical Institute and an M.Sc. degree from the Ordzhonkidze Aviation Institute, both in Moscow, and pursued further studies under an NSF-NATO Post-Doctoral Fellowship in Mechanical Engineering at Stanford University in California.

USAID | KAZAKHSTAN
FROM THE AMERICAN PEOPLE

CASE STUDY

Policy Reform Promotes Diversification

Public and Private Sector Partners to Foster Economic Growth

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After nearly a decade of high economic growth driven by oil and gas revenues, the collapse of world oil and commodity prices caused Kazakhstan's economy to nearly stagnate in 2009. Banking, real estate, and small businesses were especially hard hit as credit dried up and firms found themselves without the capital to maintain day-to-day operations. The contraction of the non-extractive industries has put additional pressure on oil and gas prices to uphold government revenues, leaving Kazakhstan at risk for future economic instability. As the crisis in Kazakhstan abates, diversification is needed to prevent overdependence on commodities and to develop a strong and stable economy.

USAID is helping Kazakhstan diversify its economy through the U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI), a policy reform program that improves the business environment for local and foreign investors alike. By connecting senior-level government officials with leaders in the business community, PPEPI produces detailed recommendations on topics critical to economic development such as Trade and Customs, Rule of Law, and Transparency. Through dynamic Working Groups that encompass diverse viewpoints, the program gets at the heart of the problems that most inhibit business in Kazakhstan. PPEPI further draws public attention to these issues by hosting a series of discussions featuring well-known experts in order to foster an on-going dialogue among stakeholders.

Although policy reform is typically a continuous, long-term process, PPEPI has already seen results within its first year. Proposals submitted by the program were well-received by the Prime Minister's office, which is preparing to act on the recommendations. Already, the government has set up a new Ministry dedicated to industrial innovation, an initiative supported by PPEPI. The Customs Committee is also proceeding with recommendations on simplifying the customs process, and an international NGO has established a program to better engage civil society in fighting corruption. In the coming months, PPEPI will assist the government with developing legislation and implementing additional proposals that will make it easier for small and medium-sized businesses to operate within Kazakhstan.

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FROM THE AMERICAN PEOPLE

SUCCESS STORY

Exchange Programs Foster Business Development

International Partnerships Enable First Organic Resource Center

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Yevgeniy sees the resource center as a way to help small businesses improve their operations

Yevgeniy Klimov is an entrepreneur with a passion for environmentally sustainable business initiatives. After working in ecotourism and as an environmental impact specialist, Yevgeniy started the first Resource Center on organic agriculture in Kazakhstan in 2002. He says, “As of today there are no producers of organic food, no resource centers, and no certifying organizations available in Kazakhstan. That is why regional, national, and international cooperation in organic production is needed.” Through the Executive Exchange Program, sponsored by USAID, Yevgeniy traveled to the Netherlands to research the country’s organic sector and meet with producers, wholesalers, and retailers to learn about organic agriculture from start to finish.

The Executive Exchange Program is part of a wider public-private partnership that aims to improve the business environment in Kazakhstan. Economic diversification has become a top priority with the Government of Kazakhstan, especially in the wake of an economic crisis that has put pressure on small businesses and heightened the country’s dependence on natural resources. This broader policy reform initiative is rounded out by the Executive Exchange Program which promotes the professional development of promising executives in fields outside of oil and gas.

The program sends 10 Kazakhstan executives abroad a year to pursue customized programs with partner organizations. In 2009, executives completed programs in fields such as organic agriculture, animal husbandry, customs, and transportation logistics as well as general business development. Participants traveled to Thailand, the U.S., and the Netherlands to research new technologies, study best practices in partner organizations, and sign Memorandums of Understanding for future joint research and business propositions.

Like Yevgeniy, the entrepreneurs sponsored through the Executive Exchange Program are independent thinkers who are passionate about their businesses. The program has enabled them to move their ventures forward, tackling even greater challenges in the coming years.

Yevgeniy sees the resource center as an opportunity to help small and medium-sized businesses improve their operations. He believes that by providing resources and technical trainings, he can help local businesses sell goods not only in Kazakhstan but also internationally. He says, “Although there are challenges, we are determined to improve the quality of agricultural products and help farmers reach markets that were previously out of reach to them.”

KAZAKHSTAN DOMINATES THE AGENDA AT THE ANNUAL TIFA MEETINGS IN WASHINGTON, D.C.

The annual Central Asian Trade and Investment Framework Agreement meetings, a U.S. Department of Commerce initiative to promote trade between the United States and Central Asia, were held in Washington on October 6-7. Delegations headed by ministers and deputy ministers from each of the former Soviet states and Afghanistan (this year for the first time) attended a week of public events in Washington, speaking at embassy receptions, luncheons, and a day-long U.S. Chamber of Commerce conference on "Silk Road Trade and Investment: New Pathways for U.S.-Central Asia Economic Ties".

Industry and Trade Deputy Minister Zhanar Aitjanova, Kazakhstan's Special Representative for WTO Accession, was a focus of attention in light of the new Kazakhstan/Russia/Belarus Customs Union that will come into existence in 2010. Her presence in Washington for TIFA provided an opportunity to conduct an intense series of U.S. government meetings relating to Customs and WTO. Queried repeatedly about the impact of the Union, she offered her comments on the Union's context and significance, and its potential impact on WTO accession for Kazakhstan.

Surveying the trade agreements since the breakdown of the Soviet Union, Aitjanova pointed out that the series of bilateral and multilateral trade agreements signed over the past fifteen years since the CIS agreement in 1994 was accompanied by discussions about a customs union. Although progress was slow, the new trilateral Customs Union represented a return to this goal. Kazakhstan has pursued harmonization of its internal laws parallel to its WTO accession negotiations and will continue aligning its legislation with WTO norms.

Aligning Kazakhstan's legislation with WTO accession requirements has provided the foundation for a level playing field on which to base regional trade negotiations. Under the new Customs Union, Kazakhstan will streamline its trade policies in order to coordinate the troika's differing economic priorities. Simultaneously, it will seek to create a non-discriminatory environment under which it can take full advantage of the opportunities that the union will bring. Because 95% of tariffs are already unified as a result of past efforts at establishing a union, Aitjanova expects a common external tariff to be fully operational by July 1, 2009, removing the need for customs control along the Russia-Kazakhstan border.

By providing access to a larger common market, the Customs Union will change the investment climate in Kazakhstan. Businesses will gain access to extensive transportation and infrastructure that will enable them to transform their strategies with regards to member countries. Benefits such as lower transportation costs will attract assembly industries and aid in the development of non-energy sectors such as agriculture, petrochemicals, pharmaceuticals, services, and telecommunications.

The pharmaceutical industry in particular shows promise as a high growth sector and mode of diversification. Kazakhstan is seeking to develop this industry in the south of the country where nearly a quarter of the population lives. Aitjanova estimates that 50 people can be employed for every $1 million invested. The government is also researching the prospect of car manufacturing in eastern Kazakhstan and anticipates

beginning petrochemical production in 2014. With access to the Customs Union's attractive market, each of these industries will play an important role in expanding and strengthening the Kazakhstani economy.

The first step toward the long-term goal of establishing a single economic union, the Customs Union between the three countries will enable Kazakhstan to diversify its economy and develop its priority sectors. Aitjanova asserts that Kazakhstan will continue to develop its competitive niches while simplifying tariffs and maintaining non-discriminatory trade relations. The government will encourage growth in these industries by retaining existing investment preferences, such as duty free aircraft on specific investment projects, and upholding a transitional approach on protecting pharmaceuticals.

Responding to audience concerns, Aitjanova stressed that the government will continue to expand its trade relations with countries outside of the Customs Union. Each member will maintain responsibility for ensuring that countries trading in other member states are not discriminated against. She also assured audience members that she does not envision discrimination in favor of companies locating in Russia or Kazakhstan, but that Kazakhstan does need to protect its economy in accordance with its regulatory framework. Protectionism is not merely an issue in Kazakhstan, but is seen in other OECD states as well, and deregulated economies also face problems. Nevertheless, Aitjanova asserted that Kazakhstan will continue to improve trade relations, protect intellectual property rights, and minimize non-member trade barriers.

In regards to WTO accession, Aitjanova noted that each member country will apply to the WTO on an individual basis because the legal framework of the Customs Union does not yet meet WTO accession requirements. Accordingly, Kazakhstan will continue to align its legislation with WTO prerequisites. She emphasized that Russia is not obliged to enter the WTO first, and that Kazakhstan will address its own issues independently of Russia.

The financial crisis demonstrated the importance of a diverse, competitive economy with exports in sectors other than the extractive industries. During the downturn, the country experienced a 70% decline in non-energy exports, and withdrew approximately 14% of its GDP from the sovereign wealth fund. This experience has strengthened the government's commitment to improving the investment climate in order to encourage foreign investment, small business growth, and overall diversification.

Streamlining border procedures to minimize opportunities for corruption and delay is just one of the efforts that Kazakhstan is making in this regard. The Customs Committee is currently developing a "one-stop shop" that reduces the amount of documentation and limits interactions with multiple government agencies. Improvements such as this will facilitate cross-border trade creating an attractive business environment for companies who want to establish a presence in this lucrative region.

Government response and the sovereign wealth fund played a critical role in minimizing the impact of the economic crisis, but Kazakhstan must also protect itself against future crises. In this respect, economic diversification is a key component of Kazakhstan's long term strategy. The government, however, is also aware of the need to take more immediate steps, and thus all three members of the Customs Union will contribute to an anti-crisis fund to provide insurance against future economic downturns. This fund,

along with the government’s commitment to promoting investment, will help Kazakhstan maintain a long standing attractive and stable business environment.

U.S.-Kazakhstan Public-Private Economic Partnership Initiative Launches Operations with First Coordinating Committee Meeting in Astana

The U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) opened with its first Coordinating Committee meeting on April 1 at the Radisson Hotel in Astana. The event marked an important milestone in the Partnership that was launched in June 2008 and included the most senior representatives of each of the Partners:

- U.S. Ambassador Richard Hoagland
- Kazakhstan Deputy Prime Minister Yerbol Orynbayev
- USAID Central Asia Mission Director William Frej
- AmCham President Kenneth Mack
- Atameken Chairman Azat Peruashev
- General Electric Country Manager Konstantin Nazarov representing the U.S.-Kazakhstan Business Association (USKZBA)
- Forum of Entrepreneurs Chairman Raimbek Batalov

Deputy Prime Minister Orynbayev opened by emphasizing the importance of PPEPI to both the Government of Kazakhstan and the business community and looked forward to providing suggestions on future direction of the partnership. Ambassador Hoagland added his welcome to all the Partners and looked forward to the exchange of ideas, experience and knowledge that will further advance economic growth in Kazakhstan.

AmCham President Ken Mack thanked the Ambassador for giving AmCham the opportunity to lead the Initiative and USAID Mission Director William Frej for his organization's generous support of the program. He reaffirmed the initiative's focus on policy reform and that working groups would seek to further policy goals valued by all the Partners. While he acknowledged the process of change as difficult, he highlighted the success earlier reforms have had on making Kazakhstan the economic leader in Central Asia.

He stressed AmCham would take serious its role in guiding organization of the working groups and administration of the program. AmCham Executive Director Doris Bradbury spoke briefly about the program's structure, working groups and three roundtables that will be open to the broader business community. Working groups would be the functional way to achieving PPEPI's primary work – the creation of policy papers around ideas and themes for change.

Partner's proceeded to nominate candidates to serve on each of the groups: Anti Corruption & Rule of Law, Transparency & Economic Efficiency, Regional Trade Liberalization/Trade & Customs, Economic Diversification/SME Development and Cooperation in Science and Technology.

They also nominated candidates to serve on the Executive Exchanges selection committee. There will be 10 participants in the Executive Exchanges Program chosen from among a larger group of nominations solicited from the 4 business partners in PPEPI: AmCham, USKZBA, Atameken, and the Forum of Entrepreneurs. The nominations period will open in May and the selection process will be conducted in early June by an impartial Selection Committee headed by the AmCham Executive Director.

After the meeting, the Partners gathered for a press conference attended by nearly 50 journalists. The day concluded with a reception at Ambassador Hoagland's residence attended by many of the Partners and their guests. During both events, all Partners expressed their commitment to moving ahead with the substantive work of the Initiative

PPEPI NOVEMBER ROUNDTABLE IN ALMATY EXPLORES CHALLENGES TO ECONOMIC DIVERSIFICATION AND REGIONAL ECONOMIC INTEGRATION

The ***U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI)***, an AmCham-led program bringing together the public and private sectors for the purpose of policy reform, held the second of three Roundtables at the Intercontinental Hotel in Almaty on November 17, 2009. The November Roundtable was devoted to **Economic Diversification/SME Development and Regional Economic Integration/ Trade and Customs**. The first Roundtable, which focused **on Anti-Corruption/Rule of Law and Transparency/Economic Efficiency,** took place in Astana in July (see article in October 2009 ***IV***). The remaining Roundtable devoted to **Science and Technology** will be held in Astana in February 2010.

PPEPI Roundtables are public events designed to raise awareness and promote discussion of the issues central to PPEPI's main objective: improving the business environment in Kazakhstan for foreign and local investors alike. Given the Government of Kazakhstan's current emphasis on economic diversification, a supportive investment and trade climate acquires increased importance. The Roundtables attract a diverse audience and are widely reported on in the media.

The event consisted of two half-day sessions: a morning session dedicated to **Economic Diversification/SME Development** and an afternoon session devoted to **Regional Economic Integration/Trade and Customs**. The morning session was moderated by Tomáš Bravenec, EBRD Senior Banker, and the afternoon session was moderated by Nurlan Kapparov, Chairman of the Lancaster Holding Group. Speakers included experts in the fields of business, economics, and public policy who were chosen to illuminate various aspects of these challenging issues. Both topics are part of the five pillars of PPEPI and are the focus of its two Working Groups.

The event was well attended with more than 120 registered participants from AmCham member companies, the U.S. government, embassies (Canada, Turkey, the Netherlands), NGOs, PPEPI partners, and the media. Television stations such as ***Khabar, Astana,*** and ***Kazakhstan*** interviewed panelists for evening news coverage, while ***Kazinform*** and newspapers such as ***Novoe Pokolenie, Respublika, Panorama, Megapolis,*** and ***Business i Vlast*** covered the event for their print editions.

Morning Session: Economic Diversification/SME Development

In his opening remarks, the panel's moderator, **Tomas Bravenec** spoke about ***Kazakhstan's Potential for Diversification***, drawing attention to the overall issue and examining what constitutes diversification. He suggested that although small and medium-sized enterprises (SMEs) worldwide play an essential role in the development of a diverse, competitive economy, Kazakhstan should focus on the broader issue of diversification and ask itself what role the government and the private sector play in the process.

SMEs in Kazakhstan were hard hit by the financial crisis. Policy makers, Bravenec stated, should evaluate the circumstances that caused the crisis and examine how it will affect SMEs and diversification. Prior to the crisis, many SMEs were financed almost entirely through bank loans. The crisis has shown that 100% debt financing is not a practical solution to meeting the financial needs of local enterprises. These companies require different banking opportunities to fit their needs. For many, equity investment may be a possibility. Experience has shown that foreign investment most often comes from a country's neighbors, and thus, Kazakhstan should look to its geographic neighbours —Russia, Azerbaijan, China and India—for potential FDI.

Meruert Makhmutova, Executive Director of the Public Policy Research Center, continued this theme, asking ***Are Natural Resources Enough?*** and providing a statistical overview of Kazakhstan's economy. The most economically dynamic of the Central Asian countries, Kazakhstan's GDP experienced 10% (year-on-year) growth between 2003 and 2007, with the gas, oil, and construction sectors achieving the most rapid growth. Oil and gas currently make up 30% of Kazakhstan's fiscal revenues and 63% of exports. Meanwhile, agriculture as a percent of GDP has dropped from 31% in 1991 to 5-7% today. The construction sector has also slowed dramatically over the past year. These statistics indicate an overall shift in Kazakhstan's economic priorities.

Increased dependence on oil and gas for revenues is cause for concern as it has increased the economy's sensitivity to oil price shocks and left it facing serious challenges to economic growth. The National Fund played a strong role in averting the economic crisis, but because the majority of its revenues come from the oil and gas industries, the fund is also vulnerable to shocks in the price of oil. The National Fund and low public debt serve as strengths in the Kazakhstani economy, but these strengths are currently offset by the country's dependency on oil prices, capital inflows and foreign borrowing, and a low level of economic diversification.

Raimbek Batalov, Chairman of Raimbek Group, a diversified holding company known for its food products, supermarkets, and promotion of agriculture, provided an overview of ***Challenges to SME Development***. He pointed out that these obstacles are not exclusive to SMEs and cannot be separated out as unique to them. Corruption occurs too frequently, but can be fought by initiatives such as reducing the administrative barriers that keep businesses operating within the gray economy. Although the government is acting on this, the system of deregulation needs to be strengthened.

Among the challenges to diversification, Batalov raised the issues of financing, low levels of business development, especially in regards to corporate governance, and difficulties in competing under government procurement procedures, mainly lack of transparency. He pointed out that while small businesses fund themselves primarily through family savings, a large portion of the financing of medium and large businesses comes through government loans. This situation has come about in recent years because more and more money was made available as liquidity flowed through the banks. As loans are the most practical form of financing available, businesses were hit hard by the financial crisis, which dried up bank lending, and the devaluation of the country's currency in February 2009.

The final speaker in the morning session, **Konstantin Nazarov**, **Kazakhstan Country Director for GE International** and an AmCham Board member, addressed audience members on the topic ***Health and Infrastructure: Priorities for Diversification***. In agreement with Batalov's remarks, Nazarov noted that large foreign investors in Kazakhstan share many of the same concerns as SMEs. Kazakhstan is one of the most promising regions, and developing its infrastructure is critical to modernization. Like much of the CIS, Kazakhstan's locomotive fleet is over 25 years old, limiting the development of the economy and industry. General Electric is currently engaged in modernizing 400 locomotives, and by 2013 intends to localize 100% of its trains. The company hopes to supply not just Kazakhstan, but the entire CIS.

In regards to health care, Nazarov noted that cardiovascular diseases and accidents are the leading causes of death in Kazakhstan. The country currently spends $8 per capita on medical equipment, which although growing, is a very small figure. Public-Private partnerships may be looked to as a way of raising investment to address problems in health. The government can support these initiatives to localize production by partnering with businesses to identify local partners, attract foreign direct investment, and support the certification and licensing of products.

Between the morning and afternoon sessions, lunch was provided in the InterContinental Asian Café for all Roundtable participants, both audience and speakers, providing an opportunity to relax and exchange ideas from the morning session.

Afternoon Session: Regional Economic Integration/Trade and Customs

Nurlan Kapparov, Chairman of Lancaster Group, a holding company with major assets in the gas and oil and hospitality industries, as well as in renewable resources, and opened the afternoon session of the Roundtable by discussing ***East-West Economic Integration across Kazakhstan*** during which he viewed Kazakhstan both as a corridor for trade and as an industrial hub. He noted that the country occupies a key geographical position in connecting the Central Asian Countries, China, Russia, the Baltics, Iran and Afghanistan. Its massive territory is also vital for the development of industries such as agriculture, a growing concern as food security increases in importance.

In order to develop Kazakhstan's potential, it will need to attract more foreign investment in strategic locations. Kapparov cited improvements in the World Bank's *Doing Business* rankings as a dependable way in which to increase the country's attractiveness to foreign investors. Additional strategies include lowering taxation, creating special economic zones, and improving workforce training.

In her remarks on the ***Challenges to Regional Trade***, **Meruert Makhmutova, PPRC Executive Director,** who returned to the Afternoon Session to examine regional integration issues, divided the Central Asian countries into oil exporters and non-oil exporters, comparing growth drivers in each of these categories. For oil exporters, economic growth is primarily propelled by high oil and gas prices, as well as investment in infrastructure. The economies of non-oil exporters, however, are largely driven by prices for cotton, gold, and other commodities, as well as foreign aid and remittances.

Beginning with these fundamental differences, Makhmutova outlined the variations between the Central Asian countries that create barriers to regional integration. Kazakhstan needs the Central Asian market in order to diversify its economy, but first must address obstacles such as differing GDPs per capita and degrees of openness to FDI, competing economies, and divergent coordinating policies that inhibit coordination on issues relating to regional integration.

Siddique Khan, President & CEO of Globalink Logistics, a leading transportation and logistics management company in Kazakhstan and The CIS, devoted his remarks to ***Impediments to Central Asian Cross-Border Trade Movements***, citing the need for trans-border procedures to be consolidated in order to achieve regional integration. The process of passing through the border is multi-layered, which is understandable as various state agencies require different documentation. However, meeting the requirements of each state agency can create bottlenecks at the border which slows down movement of goods and leads to additional costs to the overall transportation which an importer/trader then passes onto the consumer. However, according to Khan, a one-window system could greatly facilitate border procedures, accelerate trade and thus enhance regional integration.

The afternoon concluded with a look at ***CAREC: North-South Economic Integration across Central Asia*** by **Asian Development Bank Principal CAREC Coordinator Hong Wang**. The CAREC (Central Asia Regional Economic Cooperation) program operates in eight countries in partnership with six multilateral institutions. Their activities include strategies for transportation, trade facilitation, energy, and capacity development. Surrounded by large, strong economies such as Russia, China, Europe and the Middle East, Central Asia has the opportunity to serve as a hub for trade passing between these countries.

By helping Central Asia to develop efficient, modern systems of trade, CAREC aims to establish competitive corridors in the region leading to improved movement of people and goods across borders. In regards to energy and trade policy, CAREC is working to improve energy security, create economic growth through energy trade, pursue WTO accession, and reduce and simplify restrictions on trade.

The Roundtable brought together speakers with diverse perspectives in a stimulating discussion of key challenges in Kazakhstan's business environment. Audience members were active and inquisitive, engaging and challenging speakers during the question and answer sessions. This is the purpose of the PPEPI Roundtables – heightening awareness of issues requiring solutions at a time when economic diversification has been made a top priority by the Government of Kazakhstan. Together with the White Papers prepared by PPEPI Working Groups on the same topics for presentation to the Prime Minister's Office, the Roundtables are the public face of this innovative program led by AmCham on behalf of not only its own membership, and not only the foreign community, but of Kazakhstan's business community as a whole.

PPEPI EXECUTIVE EXCHANGES PROGRAM: RETURNING PARTICPANTS RELATE THEIR SUCCESSES

By Jennifer Schneider, PPEPI Program Manager, AmCham in Kazakhstan

The PPEPI Executive Exchange Program, a component under the larger PPEPI policy-development program, was designed to send ten Kazakhstani executives per year from businesses and organizations in Kazakhstan to partnership placements abroad for up to one month. Executives engaged in sectors vital to Kazakhstan's economic growth were eligible to apply for individual collaborative visits that would promote business development and expose participants to best practices in their host businesses/organizations abroad. Ideally these individually-designed projects would also integrate one or more of the PPEPI five "pillars":

- Anti-Corruption/Rule of Law
- Transparency/Economic Efficiency
- Regional Economic Integration/Trade and Customs
- Cooperation in Science and Technology
- Economic Diversification/SME Development

On a purely pragmatic level, the Executive Exchange Program also afforded the opportunity to develop relationships with foreign partners that would carry forward into the future.

Executives drawn from across Kazakhstan in all fields of business were awarded travel grants this past year to cover the costs of international travel. Each developed a customized program based on his/her area of experience with an invitation and support from a host organization. To date, Executive Exchange winners have completed visits targeted towards animal husbandry, agriculture, business development, trade and customs, and logistics. They have visited not only the United States, but Thailand and the Netherlands in pursuit of their objectives. Through the program, participants have forged business relationships, signed Memorandums of Understanding, studied best practices, and researched the latest technologies. Below we provide a glimpse into the programs of three of our winners.

Daulet Chunkunov – Raising Animal Husbandry to the Next Level

Daulet Chunkunov, the first winner of the Executive Exchange Program, traveled to the United States in mid September with an extensive itinerary that took him through four states studying animal husbandry practices. Mr. Chunkunov, currently the Vice President and Agriculture Advisor for the Alem Management Company in Almaty, has worked with Winrock International and has extensive experience developing the livestock industry in Kazakhstan.

Mr. Chunkunov's participation in the Executive Exchange program coincides with a time when the government of Kazakhstan is increasing its support of agriculture and animal husbandry. Although Kazakhstan's vast lands provide significant potential for cattle grazing, the industry remains underdeveloped. As part of Mr. Chunkunov's agenda, he studied U.S. technologies and best practices that may be adopted by Kazakhstan to improve the productivity of the industry.

Mr. Chunkunov was hosted by World Sires, LTD, a leading cattle genetics marketing organization based in Visalia, California. He designed his program to study the vertical integration of the cattle industry, state-of-the-art technology, and beef marketing—both nationally and internationally. In addition to pursuing partnerships with U.S. companies in the cattle industry, Mr. Chunkunov discussed soil and forage lab development that has the potential to raise the quality of feed supplies in Kazakhstan.

During his time in the U.S., Mr. Chunkunov traveled to North Dakota, Arizona, California, and Texas visiting meat and dairy farms, research centers, and genetics companies. As a result of the relationships he cultivated while there, he plans to purchase equipment for processing and distributing dairy and beef cattle feed.

In California, he participated in negotiations with the State Trade Office to open a local office in Kazakhstan. In Texas, he secured invitations for Kazakhstani farmers to attend the annual meeting of the Association of Meat Breeds. Additionally, he is preparing to write a Memorandum of Cooperation with Arizona State University regarding food safety and will be signing a memorandum with the Department of Agriculture for the State of Texas agreeing to carry out joint projects on dairy fattening and agricultural expansion, especially in the fields of rice and cotton.

Kanat Minzhassov – Improving the Quality of Cattle Feed

High-producing cattle breeding comprises a significant portion of Kazakhstan's agricultural industry, yet the feed currently used lacks the protein, carbohydrates and minerals necessary to meet standard requirements. The low nutritional quality of the feed inhibits both yields and the development of the Kazakhstan agriculture sector. Since 2007, however, Kanat Minzhassov has been involved in research trials studying the adaptability and productivity of American alfalfa, a high protein crop and important component of cattle feed, in Kazakhstan. These trials were ultimately successful demonstrating that the crop offers significant potential for raising yields in the local cattle industry. Mr. Minzhassov's Executive Exchange trip will prepare him for the next stages in the process—beginning marketing and sales in Kazakhstan.

Kanat Minzhassov, a Partner at the North Kazakhstan Branch of Taurus Service and the Director of the North Kazakhstan Cattle Breeding Institute under the Ministry of Agriculture, was awarded the Executive Exchange travel grant in early September. He has since completed his travels which took him to Wisconsin for the World Dairy Expo and then to his host organization in Pennsylvania. Mr. Minzhassov was hosted by T.A. Seeds, a family business started 77 years ago during the Great Depression to sell seed products to eastern farmers. T.A. Seeds continues to cull seeds on-site, and received, as a result of their focus on quality, 244 first place winners in 2008 in university and independent trials for their corn, silage, alfalfa, and soybeans.

During his 10 day trip, Mr. Minzhassov attended an International Scientific-Practical Conference at the University of Pennsylvania and visited farmers engaged in breeding black and white cattle. He commented on the high level of adaptability in animal husbandry, the degree of computerization in operations, and the solid experimental reputation of the University. He will continue working with them on adapting high-quality fodder for Kazakhstan's local environment.

In addition to alfalfa, Mr. Minzhassov examined the results of experiments regarding early ripening hybrids of maize cultivated in Kazakhstan. Through a joint program, he and T.A. Seeds will continue research on maize to make conditions for cob and green fodder suitable for high-quality silage.

Sabirzhan Jangozin – Cross-Border Transport and Logistics, a Priority for Regional Integration

Mr. Jangozin has worked with freight-forwarding and customs procedures for nearly 15 years. As the Deputy Director of the Development and Logistics Department for Aktsept Terminal in Almaty, Mr. Jangozin is responsible for organizing multi-modal transportation, arranging customs procedures in the field, and managing the risks associated with logistics and customs. He was awarded the Executive Exchange travel grant to attend a Regional Training-of-Trainers Workshop on Multimodal Transport and Logistics. The workshop, which was sponsored by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Tranport Division, took place in Thailand in November.

With international commerce increasing during the age of globalization, Central Asia occupies a strategic location between Asia and desirable markets such as Europe, Iran, and Russia. Infrastructure in many Central Asian countries, however, is inadequate and customs regulations are complicated. Effective, knowledgeable freight-forwarders are needed to manage the challenges presented by transporting goods internationally. The UNESCAP workshop met this challenge by enhancing the practical knowledge of national coordinators with respect to the principals and practices of multimodal transport, logistics and supply chain management. Additionally, the workshop familiarizes practitioners with the legal regimes in the region as they relate to trade.

The workshop also addressed the development of national plans with regards to regional integration, trade and customs. Over the next 10 years, the Central Asian countries are planning to develop six transportation corridors with the help of the Central Asia Regional Economic Cooperation (CAREC) program. As a result of his position and experience in the field of freight-forwarding, Mr. Jangozin was able to share practical knowledge specific to Central Asia with participants during discussions of the planned transit corridors.

Preparing participants to train others in the relevant material occupied a key place during the workshop. In this regard, sessions aimed to improve participants' abilities to run effective training programs and addressed issues such as training fundamentals, teaching and learning resources, and evaluating the performance of a learner and the effect of a lesson. Now, Mr. Jangozin will use these newly developed skills to train specialists in Kazakhstan on international freight-forwarding and logistics.

Seven other Kazakhstani executives used their grants to undertake collaborative visits abroad that will serve them well in their chosen fields, each area being a priority for Kazakhstan's drive towards economic diversification. Agriculture is clearly a field in which the country has excelled in the past and in which, with encouragement and targeted resources, it will excel again. Improving cross-border transportation, freight-forwarding, and logistics are also absolute necessities for regional economic integration, not only within Central Asia between Kazakhstan and its neighbors, but also integration between East and West through Kazakhstan – most notably between China and its trading partners in Kazakhstan and westwards.

The Executive Exchanges Program has been a relatively modest part of the PPEPI Pilot Year that is now coming to an end. It has been, however, a rewarding initiative for those executives who were successful in receiving grants (adjudicated by an independent Selection Committee) and carrying out their visits. The support and enthusiasm of their hosts abroad was an essential element in the program's success.

U.S.-Kazakhstan Public-Private Economic Partnership Initiative Launches Operations with First Coordinating Committee Meeting in Astana

The U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI) opened with its first Coordinating Committee meeting on April 1 at the Radisson Hotel in Astana. The event marked an important milestone in the Partnership that was launched in June 2008 and included the most senior representatives of each of the Partners:

- U.S. Ambassador Richard Hoagland
- Kazakhstan Deputy Prime Minister Yerbol Orynbayev
- USAID Central Asia Mission Director William Frej
- AmCham President Kenneth Mack
- Atameken Chairman Azat Peruashev
- General Electric Country Manager Konstantin Nazarov representing the U.S.-Kazakhstan Business Association (USKZBA)
- Forum of Entrepreneurs Chairman Raimbek Batalov

Deputy Prime Minister Orynbayev opened by emphasizing the importance of PPEPI to both the Government of Kazakhstan and the business community and looked forward to providing suggestions on future direction of the partnership. Ambassador Hoagland added his welcome to all the Partners and looked forward to the exchange of ideas, experience and knowledge that will further advance economic growth in Kazakhstan.

AmCham President Ken Mack thanked the Ambassador for giving AmCham the opportunity to lead the Initiative and USAID Mission Director William Frej for his organization's generous support of the program. He reaffirmed the initiative's focus on policy reform and that working groups would seek to further policy goals valued by all the Partners. While he acknowledged the process of change as difficult, he highlighted the success earlier reforms have had on making Kazakhstan the economic leader in Central Asia.

He stressed AmCham would take serious its role in guiding organization of the working groups and administration of the program. AmCham Executive Director Doris Bradbury spoke briefly about the program's structure, working groups and three roundtables that will be open to the broader business community. Working groups would be the functional way to achieving PPEPI's primary work – the creation of policy papers around ideas and themes for change.

Partner's proceeded to nominate candidates to serve on each of the groups: Anti Corruption & Rule of Law, Transparency & Economic Efficiency, Regional Trade Liberalization/Trade & Customs, Economic Diversification/SME Development and Cooperation in Science and Technology.

They also nominated candidates to serve on the Executive Exchanges selection committee. There will be 10 participants in the Executive Exchanges Program chosen from among a larger group of nominations solicited from the 4 business partners in PPEPI: AmCham, USKZBA, Atameken, and the Forum of Entrepreneurs. The nominations period will open in May and the selection process will be conducted in early June by an impartial Selection Committee headed by the AmCham Executive Director.

After the meeting, the Partners gathered for a press conference attended by nearly 50 journalists. The day concluded with a reception at Ambassador Hoagland's residence attended by many of the Partners and their guests. During both events, all Partners expressed their commitment to moving ahead with the substantive work of the Initiative

PPEPI-AmCham Roundtable in Astana:
Cooperation in Science and Technology

By Jennifer Schneider, PPEPI Program Manager
American Chamber of Commerce in Kazakhstan

The ***U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI)***, an AmCham-led policy reform program connecting senior-level policy makers with leaders in the private sector, held a **Roundtable on Cooperation in Science and Technology** at the Radisson Hotel in Astana on February 16, 2010. Given Kazakhstan's strong scientific traditions and formidable research community under the Academy of Sciences, the fate of science over the past twenty years is of great concern. The country's scientific base is a great resource, currently under-utilized, for economic development and diversification. Of no less importance is its potential to increase the population's standard of living and well-being in many social sectors.

The day-long conference, which was devoted to exploring the current status of science and technology in Kazakhstan, was the last of four annual PPEPI Roundtables organized during the program's Pilot Year. Past Roundtables held in Almaty, Astana, and New York dealt with the four of the five PPEPI priority areas: *Anti-Corruption/Rule of Law, Transparency/Economic Efficiency, Economic Diversification/SME Development, and Regional Economic Integration/Trade and Customs*. The February Roundtable was devoted to the fifth priority area, *Science and Technology*, thus concluding the year's review of all PPEPI priorities in a public forum.

The event consisted of two half-day sessions: a morning session dedicated to **Scientific Cooperation** and an afternoon session devoted to **Technological Cooperation**. *Kanat Shakenov, Director of the Civilian Research and Development Foundation (CRDF)* and *Chair of the PPEPI Science and Technology Working Group*, moderated the morning panel. The afternoon panel was moderated by *Guenter Dahm, Microsoft Country Manager for Kazakhstan*, a leading member of the Working Group. Speakers included experts in the fields of public health, education, taxation, intellectual property law, and information and communication technologies, thus providing a comprehensive overview of the applications and challenges of these issues.

The event was well attended by AmCham member companies, the U.S. and Kazakhstan governments, foreign embassies, NGOs, PPEPI partners, and the media. Television stations such as ***Khabar and Astana*** interviewed panelists for evening news coverage, while the newspapers ***Business i Vlast, Aikyn, Oko,*** *and* ***Management Kachestva,*** covered the event for their print editions. Particular attention was given to interviewing Dr. Almaz Sharman and Aslan Sarinzhipov among the morning panelists, both of whom are leading new medical and academic institutions designed to point the way to the future for Kazakhstan.

Morning Session: Scientific Collaboration

In opening the conference, the Roundtable's keynote speaker, **Deputy Minister Aidar Zhakupov**, from the **Ministry of Education and Science**, spoke about ***Science as a Priority on the Government Agenda***, noting that science plays a critical role in vital issues ranging from food security to economic competitiveness to environmental protection. The Government of Kazakhstan has recently increased its funding, providing $5 billion in grants in order to promote the expansion of the sector. It is now setting the stage for a new phase of development in

Kazakhstan, which will include enhancing universities, developing new forms of funding, separating administration from research, and setting tasks and priorities for the sector's development. In upgrading its capabilities, the government aims to expand the scope of its support for science and technology.

Taking Deputy Minister Zhakupov's comments as his point of departure, **Kanat Shakenov** outlined additional ways the government can promote scientific development in his presentation ***Science Policy in Kazakhstan***. He called for the Kazakhstani scientific community to participate actively in international scientific collaboration. By improving its attractiveness to the international community, Kazakhstan can become part of a network of highly educated specialists that bring together first-rate world experience in research and development. In conjunction with the government's current efforts, the speaker advocated increasing the involvement of business and the private sector, expanding state budget expenditures, enhancing coordination between actors within Kazakhstan, and developing a one-stop shop to provide researchers with resources and links to funding.

One such effort to enhance cooperation in the fields of science and technology is the recently released Bipartisan Statement to promote Science Diplomacy's role in U.S. foreign policy. Signed by over two dozen prominent scientific and political leaders and supported by the CRDF and the American Association for the Advancement of Science, the statement advocates strengthening diplomatic and cooperative ties between the U.S. and Kazakhstan in order to address global challenges and promote dialogue between nations.

Bruce Hudspeth, Regional Environmental Officer for the **U.S. Embassy in Astana**, spoke on a similar topic—the ***U.S.-Kazakhstan Bilateral Science and Technology Agreement***. This agreement, which will set a general framework for carrying out research and collaboration between Kazakhstan and the United States, is currently in the final approval stages and is expected to be signed in the coming months. The U.S. has 50 such agreements with countries worldwide, including one recently signed with Azerbaijan and another being developed with Uzbekistan.

Shifting the focus to current scientific initiatives in Kazakhstan, **Dr. Almaz Sharman, CEO of the Kazakhstan National Medical Holding**, delivered a detailed presentation about ***The National Medical Holding: A Model for Kazakhstan's Health Service Delivery***. A consortium of five hospitals that will comply with international standards and cooperate with renowned universities, the National Medical Holding aims to raise the level of health care in Kazakhstan. The Holding will work closely with research centers and universities in order to connect actors critical to the development of the healthcare industry. As part this initiative to transform healthcare, Kazakhstan expects to gain a modern scientific research complex, reduce morbidity and mortality rates, develop a modern system of transplant medicine, and create a venture capital fund to commercialize the biomedical industry in Kazakhstan.

Dr. Sharman pointed out that socioeconomics, demographics, regional and global factors are leading to qualitative changes in medicine and health. Prevention and early intervention are becoming increasingly important strategies in dealing with health trends worldwide. Vaccinations have made lifesaving changes to the field of healthcare and bio-markers will contribute to even greater transformations in the future. With such dramatic changes ahead, medical research will play a critical role in the diagnosis and treatment of disease. The National Medical Holding represents one of many steps to modernize Kazakhstan's healthcare system and address the current and future medical needs of its population.

Aslan Sarinzhipov, President of New Astana University, remarked on the university's intended role in contributing to health and scientific research in his comments on ***The New Astana University, Planning for Academic Excellence***. The university, initiated by President Nazarbayev, aims to become an internationally ranked institution, a leader in education and research. The undertaking reflects the government's increased prioritization of education and its desire to modernize the country's educational system. Leading academic institutions worldwide will work closely with New Astana University, drawing on international best practices to develop curriculum, administration, research centers, and a student body that will make it internationally competitive.

In developing the theme of healthcare in Kazakhstan, **Arnur Nurtayev, Director of Marketing Development for Samruk-Kazyna Pharmacy** presented on ***Investment in the Pharmaceutical Industry: An Investment in Diversification and the Nation's Health***. Between 2003 and 2008, the pharmaceutical market in Kazakhstan grew at an average annual rate of 24.2%. During 2009, the financial crisis and tenge devaluation caused steep price increases for imported medicines and slowed growth in the pharmaceutical sector. The market is expected to recover in 2010, but will be characterized by reduced volume despite a gradually increasing market value.

Because nearly 90% of the pharmaceutical market results from imports manufactured abroad, Kazakhstan is preparing to meet a greater portion of demand through domestic production. To do so, the government will initiate new measures and streamline the pharmaceutical distribution system. Key strategies include harmonizing legislation and procedures with WTO requirements and the new Customs Union. Other initiatives will incorporate improving infrastructure, stimulating investment, promoting technology transfer, and addressing staffing shortages.

The final speaker of the morning, **Richard Bregonje, Director of Tax Services at PricewaterhouseCoopers** discussed ***The Impact of Tax Incentives on Scientific-Technological Innovation to Stimulate Diversification***. World-wide, governments typically use both direct and indirect incentives to stimulate research and development, including grants and tax incentives. Popular policies include tax credits, tax holidays, deductions for R&D expenses, and depreciation allowances, all of which aim to lower the risks and increase the benefits associated with investing in new products and technologies.

The speaker noted that tax incentives for research and development are becoming increasingly popular globally. In 1996, only 12 members of the Organization for Economic Cooperation and Development (OECD) used tax incentives. By 2008, this number had increased to 21 of the 30 members, and incentives gained popularity with the BRIC countries as well. In Kazakhstan, Alatau IT City offers special tax incentives and a free customs regime to companies located within the park. Other examples of government efforts to stimulate scientific and technological development include fully deductible R&D expenditures for all companies and tax exemptions for social sphere companies, including those engaged in scientific research.

Afternoon Session: Technological Collaboration

Guenter Dahm, Country Manager for Microsoft, kicked off the afternoon session with a presentation entitled ***Driving Innovation and Education for the Local Software Economy in Kazakhstan*** during which he advocated for the role of collaboration in raising productivity. In the current market economy, free trade laws have increased competition for Kazakhstani producers. Although competition benefits the consumer in the form of lower prices, local producers, especially those unprepared to compete with stronger, more aggressive international firms, often face hardships in maintaining their competitive edge. These challenges have

contributed to the drop in local content in the technology sector from 20% to 5 % in recent years, a trend the government plans to reverse.

Information and communication technology plays a critical role in the long-term growth of a country's economy by making positive impacts on productivity and employment. Thus, creating a business environment conducive to driving innovation can have far-reaching effects on the economy. Studies such as the ***World Bank's 2010 Doing Business Report*** provide guidance on critical areas for improving the ease of doing business. Mr. Dahm cited fostering local innovations, transforming education, and developing a skilled work force as areas in which government efforts can have an immediate and meaningful impact. Addressing key problems such as these can enable competitiveness in small businesses and start-ups, and foster innovation and growth throughout the economy.

Andrew Beklemishev, Kazakhstan Country Manager with IDC, a leading IT and telecom market intelligence consultancy, provided an overview of the Kazakhstan ICT sector in his presentation ***Kazakhstan's Information Technology Market: Recent Trends and Future Development***. In 2009, the ICT sector revenues stood at $2.7 billion, $0.6 billion of which came from IT and the rest from revenue generated by telecoms. Looking into the IT segment in more detail, the speaker noted that IT hardware, the vast majority of which was manufactured abroad, comprised 79% of the IT market, while IT services and software amounted to a little over 20%.

In comparing Kazakhstan to the Czech Republic and Romania, he highlighted that software and services occupy a larger market share in these economies than in Kazakhstan. These segments add substantial value to the overall industry and are considered to be a sign of market development. As such, in developed economies IT services alone make up over 50% of the IT market. The recent economic troubles have caused Kazakhstan's IT market to shrink by over 40% in the last two years combined. The IT market is not predicted to reach its 2007 level of over 1 billion US dollars until 2012.

Rinat Mukhamedshin, Director of the Adelaida Legal Group and Consultant on IP issues to the Supreme Court of Kazakhstan, spoke on ***Intellectual Property Rights: Protection for Scientific and Technological Innovation***, during which he addressed the legal challenges faced by companies wishing to patent innovations. The speaker began by defining an innovation as a use of scientific knowledge to make new or improved products, noting that this is the first step in identifying the innovations that require intellectual protection. The process of innovating occurs in four major phases leading a firm from the initial idea through determining its feasibility, developing the necessary technology, and finally preparing for production and market. The value of the innovation differs in each phase, increasing as it gains commercial value. Typically, the later stages are more likely to require patent protection, although inventions should be evaluated individually at each phase along the way.

Mr. Mukhamedshin's comments received support from **Yuri Bolotov**, **Managing Partner at McGuire Woods** in Kazakhstan, who stressed the significant status that intellectual property holds in a firm's value. Globally, intellectual property makes up a growing share of company assets. In the U.S., for example, it comprised 75% of the assets on company balance sheets in 2009. Kazakhstan, however, currently lacks means to define intangible assets and no firm has yet put them on its balance sheet. Developing a mechanism for defining and quantifying intellectual property is becoming increasingly important as public funds are invested into scientific research developing patents that provide a potentially lucrative source of revenue.

During his presentation ***Kcell: An Example of International Cooperation and Innovation***, **Askar Nauryzbaev, Director of Astana branch, for GSM Kazakhstan/Kcell** delved into specific challenges that ICT firms face. K'Cell, a joint venture between Kazakhtelecom and Winter Holding, a Turkish telecommunications company, is closely affiliated with TeliaSonera, the largest Scandinavian telecommunications holding. The speaker pointed out that despite the economic situation, the cellular market in Kazakhstan grew 7.8% in 2009 (according to an IKC Consulting report) and the country remains attractive to new technology. Because increasing cellular communication penetration can result in additional GDP growth, telecommunications holds an important role in Kazakhstan's infrastructure development and economic growth.

The Roundtable concluded with a presentation on ***The Role of a Special Economic Zone to Stimulate Investment in Technology*** by **Mailybek Kusenov**, **General Director of Alatau IT City**. The goal of Alatau IT City, founded in 2003 by presidential decree, is to offer tax and customs incentives to information and telecommunication firms in order to attract developers and manufacturers of high technology to Kazakhstan. The IT Park offers a preferential regime until 2028 for 28 projects located within the park and is working to attract new investments. In addition to operating and managing the assets of the Park, Alatau IT City hosted an international IT conference in January 2010 to promote international dialogue in the field of ICT. The conference featured speakers from more than 20 IT companies and 24 universities.

Mr. Kusenov argued for the importance of IT in Kazakhstan's education curriculum in order to further develop the high tech industry. With this in mind, the new International IT University, founded in 2009, will be located within the Techno Park. Through their studies, students will develop business management and communication skills in addition to the traditional technical skills offered by typical IT programs in Kazakhstan. They will gain invaluable experience through internships with companies, including multinationals, which possess a sold reputation in the IT industry.

The PPEPI-sponsored **Cooperation in Science and Technology Roundtable** brought together experts from a variety of fields to contribute to an on-going dialogue on science and technology's role in the growth of the economy. Panelists raised diverse and important issues that drew attention to the complexities of stimulating investment in research and development. They were aided by a knowledgeable audience who actively questioned speakers in order to elucidate the intricacies of intellectual property law and more clearly understand the nature of the ICT market. With science and technology playing an increasingly important role worldwide, Kazakhstan's ability to create an environment conducive to innovation will have wide-reaching impact on its overall economic growth. The Roundtable proved an important tool in raising awareness of this resource and its potential to drive both social and economic development.

PPEPI WORKING GROUP UPDATES

In February and March, the PPEPI Working Groups wrapped up the final drafts of their Winter 2010 White Papers. These papers represent six months of intensive collaboration by government and private sector representatives. AmCham presented the White Papers to the Prime Minister's office in early March, where they were accepted by Deputy Prime Minister Yerbol Orynbayev. Mr. Orynbayev has been a enthusiastic supporter of the initiative and will be leading a government review of the papers in the coming month.

Below are brief summaries of the Winter 2010 White Papers presented by the Working Groups. When revisions are complete, they will be made available in English, Russian, and Kazakh on the AmCham website.

Regional Economic Integration/Trade & Customs
Chair: Michael Jopson, Nestle
Winter 2010 White Paper Theme: Improving Customs Procedures

The **Regional Economic Integration/Trade & Customs Working Group** sets out recommendations for improving existing customs oversight, procedures, and practices in Kazakhstan. The group chose not to address the Customs Union between Russia, Kazakhstan, and Belarus in this paper as much of the relevant information regarding the Union has not yet been made public. Instead, the group focused recommendations on reducing delays and cutting costs and inefficiencies for importers. As assessed by the *Doing Business* survey, Kazakhstan currently ranks 182 out of 183 countries in terms of the difficulties associated with trading across borders. This is primarily attributed to the high number of procedures and documents required to clear customs.

The White Paper centers around three primary recommendations that aim to improve coordination among the various actors and create simplified and efficient customs rules and procedures. The group backed a current government proposal to create a one-window system that will reduce procedures and documentation and give the Customs Committee greater control over the customs process. Additionally, the group proposed a more transparent mechanism for conditional pricing and recommended improvements on the classification of personal effects and managing cargo held in storage under protest.

Transparency/Economic Efficiency
Chair: Nurlan Kapparov, Lancaster Group
Winter 2010 White Paper Theme: Improving Transparency through Better Regulation of Corporate Lending

In their White Paper, the **Transparency/Economic Efficiency Working Group** advocates for promoting greater transparency in Kazakhstan's economy through improved regulatory oversight of existing corporate lending practices. Lack of funding from western institutions and underdeveloped local capital markets led to the growth of a second-tier banking system that accomplished massive short-term growth through indiscriminate lending. These poor lending practices contributed to the near collapse of the banking industry during the global economic crisis.

The White Paper takes a multi-phase approach to improving the regulatory environment that includes (1) a comprehensive, short-term assessment of a bank's current assets and loan portfolio, (2) medium-term adjustments to regulation regarding capitalization and lending criteria and processes, and (3) longer-term regulatory and mentality changes that shift the focus of lending institutions from prescriptive compliance toward an effective risk assessment and management model. These recommendations focus on gaining a more transparent and accurate view of a bank's capacity and valuation in order to improve lending practices and strengthen the banking sector.

Anti-Corruption/Rule of Law
Chair: Walter Daniel, White & Case
Winter 2010 White Paper Theme: Strengthening Kazakhstan's Rule of Law Efforts

The **Anti-Corruption/Rule of Law Working Group** focused their Winter White Paper on Rule of Law as a way of reducing corruption. In this regard, the paper looks at (1) simplifying laws and regulations to eliminate opportunities for corruption and (2) empowering civil society in the anti-corruption campaign. The group analyzed common problems in tax legislation that increase the burden of compliance for businesses and create opportunities for power abuse by bureaucrats. Additionally, the group put forward proposals on the criminalization of offenses, enforcement of court judgments, and Anti-Money Laundering/Counter-Terrorism Financing (AML/CFT) law.

The paper's second focus is directed at increasing citizens' awareness of legal rights and use of the court system in order to develop trust in legal mechanisms. These recommendations focus primarily on legal support centers and student legal clinics that provide access to the legal system for citizens who could otherwise not afford it. Further recommendations include improving civil education, access to information, and transparency in the courtroom.

Economic Diversification/SME Development
Chair: Tomas Bravenec, European Bank for Reconstruction and Development
Winter 2010 White Paper Theme: Competitiveness: Key Drivers and Impediments

The **Economic Diversification/SME Development Working Group** puts forward proposals on improving the competitiveness of Kazakhstan enterprises, particularly Small and Medium-sized Businesses (SMEs). Globally, SME development has been identified as one of the most important aspects of successful diversification. Although Kazakhstan has seen impressive growth in the oil and gas industry, development outside of these sectors has been marginal. The Government of Kazakhstan (GoK) has outlined a core development strategy with impressive targets for diversification over the next 10 years. The challenge, however, lies in transitioning these policies and programs into effective support for domestic enterprises.

The Economic Diversification White Paper advocates that the GoK address key challenges that companies face in becoming competitive, specifically costs of doing business and qualitative factors such as professional and vocational education. A key recommendation proposes creating a single Agency for Enterprise Development that will support the development of SMEs and assist entrepreneurs in starting and operating their businesses. Additional recommendations center on simplifying the tax regime, restating the definition of an SME to reflect the reality in Kazakhstan, and addressing the shortage of qualified personnel in Kazakhstan through the establishment of a National Qualifications Framework.

Cooperation in Science and Technology
Chair: Kanat Shakenov, Civilian Research and Development Fund (CRDF)
Winter 2010 White Paper Theme: Promoting Innovation in Science and Technology

In their Winter White Paper, the **Cooperation in Science and Technology Working Group** recommends that the Government of Kazakhstan align their policy and practical programs in order to drive research and development. In order to participate in the fast-paced process of innovation, Kazakhstan must contend with countries such as the USA, China, Japan, and Scandinavia whose expertise drives scientific and technological development globally. Kazakhstan's challenge in participating in this process will be to close the existing gap between its vision for innovation and current practice.

This White Paper focuses around three recommendations that aim to align a wide-range of policy and programs related to innovation. The paper advocates that the GoK redefine the current structure of policy coordination and remove duplication between the various agencies by creating a coordinating body that oversees implementation of all innovation activities conducted by government agencies. Additionally, the paper promotes realigning policy to meet a long-term goal of shifting industry-related innovation into the private sector. To better engage the private sector in research and development, the paper calls for the GoK to create linkages between industry, researchers, and universities.

PPEPI Summer Update

Summer was a busy period for PPEPI: July 16-17 in Astana was fully devoted to a day-long PPEPI Roundtable, a Coordinating Committee meeting, a Sundowner, and a Press Conference (all reported in Chamber Events in this issue). At the Coordinating Committee meeting the first set of five White Papers were presented to Deputy Prime Minister Orynbayev accompanied by a schedule for response from GoK. This schedule was adhered to by the government and a full series of meetings between the ministries assigned responsibility for responding to the Papers at the ministerial and deputy minister level and the Working Group Chairs took place in August.

These meetings, which took place in a positive atmosphere, served to effectively open dialogue between the PPEPI Working Groups and GoK at its most senior levels. The ministers and deputy ministers expressed their wish to participate in the PPEPI process in the future and provided written commentary to the Papers. The first White Papers, which were regarded by AmCham as interim or draft Papers, are now undergoing revision to incorporate the GoK responses.

The Working Groups were renewed with supplementary members following the government meetings. These new members include deputy ministers and new Kazakhstani private sector members representing some of the country's leading businesses. Nurlan Kapparov, Chairman of Lancaster Group, has taken on the chairmanship of the Transparency/Economic Efficiency Working Group. The WGs resumed meeting in September and will soon begin preparing the second set of White Papers for presentation to GoK in early 2010.

AmCham was requested to organize a second PPEPI Roundtable in New York during the Kazakhstan Economic Forum in late November, and is engaged in planning with the U.S.-Kazakhstan Business Association, our Washington-based PPEPI partner. Another PPEPI Roundtable may be held in Almaty in November and one-two more may be held in Kazakhstan and in the United States during the winter.

Below are brief summaries of the July White Papers presented by the Working Groups. When revision is complete they will be available in their entirety in English and Russian on the AmCham website.

Transparency and Economic Efficiency [TEE]

The White Paper of PPEPI's TEE Working Group sets out recommendations to promote transparency, competitiveness, accountability, and efficiency in government procurement. In the last 10 years, Kazakhstan has made considerable reforms to its procurement system with the result that it is widely considered to have the most advanced system in Central Asia. Nevertheless, procurement remains problematic in practice. Lack of transparency in the process continues to be a major concern, and although the GoK has tried to address challenges in subsequent articles to the law "On Procurement", participants still face impediments in the process, indicating a disconnect between regulation and practice.

In consideration of these challenges, the White Paper recommends the GoK focus its efforts on encouraging broader participation in the procurement process and taking action to simplify the process and reduce corruption. The group proposes that a gap analysis be conducted to evaluate their current and ideal positions and adopt international best practices to achieve these goals. The paper goes on to discuss the need for a centralized Government Procurement Office and an independent body to serve as ombudsman. Additionally, it is recommended that the GoK clarify procedures for tenders, establish a complaint mechanism, and institute skills trainings for procurement specialists and practitioners.

Anti-Corruption/Rule of Law [AC/RL]
The AC/RL White Paper puts forward proposals for improving the effectiveness of the GOK's anti-corruption efforts. Although President Nazarbayev and the GoK have been vocal on the fight against corruption, Kazakhstan consistently ranks low on international surveys. A gap exists between the country's policy on corruption and its implementation. The primary challenge now is for the GoK to expand its extensive existing legislative and policy base and apply them effectively at the day-to-day level.

To do so, the Working Group proposes aligning existing legislation with international best practices, better engaging civil society, and forming an independent body to assess corruption as it exists in Kazakhstan. The goal is to address Kazakhstan's key challenges relating to corruption: lack of an agreed upon definition, disparities between Kazakh law and international standards, lack of an independent judiciary, and media silence on the issue. Additionally, the White Paper cites the need to establish an effective monitoring system that allows for independent auditing of government operations.

Cooperation in Science and Technology [CST]
The CST White Paper prioritizes the development of infrastructure and human capacity in S&T and ICT. While Kazakhstan tackled other critical development initiatives after independence, the S&T sector experienced neglect and decline. Although the GoK is beginning to refocus efforts on the sector, only $18.5 billion has been invested in S&T development. In terms of share of GDP, this amounts to $10 per capita, a sum considerably less than the 1-3% of GDP spent on S&T by developed countries.

The specific challenges facing S&T include the lack of methodologies to move products from lab to market, minimal promotion of Kazak research institutes, and business' preference in importing technologies from abroad. The proposal calls for these challenges to be addressed through six principle recommendations: (i) Enhancement of global cooperation and the establishment of international standards; (ii) Improvement of the use of GoK funding and support; (iii) Improvement of the categorization, ranking, and promotion of domestic research institutes; (iv) Engagement of the non-profit sector in funding programs; (v) Development and improvement of human capacity; and (vi) Prioritization of development of ICT sector.

Regional Economic Integration/Trade and Customs [REI/TC]
The REI/TC White Paper advocates the GoK take tangible steps to remove administrative and tariff barriers which have made Kazakhstan one of the most expensive countries with which to trade. Since 1991, Kazakhstan has entered into 21 bilateral agreements, many of which have overlapping or conflicting terms and conditions, and thus impede cross-border trade. The trade agreements are further problematic because, among other reasons, not all partners have ratified them, dispute resolution mechanisms are ineffective, and they are protectionist in nature.

The White Paper cites the need for the diversification of trade partners and the implementation of trade practices which facilitate the flow of goods. It recommends the GoK establish a task force of a diverse group of shareholders to address these issues. The task force would be charged with assessing existing documentation and the regulatory regime as well as providing recommendations to adopt international best practices. Other proposals include removing discrepancies from overlapping trade agreements, reevaluating tariffs and duties on imported goods, and improving logistics coordination throughout Kazakhstan.

Economic Diversification/SME Business Development [ED/SME]
In its White Paper, the ED/SME Working Group proposes that the GoK intensify its efforts to develop non-natural resource extraction sectors in order to create a competitive, diversified, resilient economy. SME development is intertwined with economic diversification and is critical to Kazakhstan as the country transitions to an emerging market economy. Yet in spite of this, as of June 2009, SME activities had declined 3.9% on a year-on-year basis.

The White Paper's proposals build on current government efforts to promote SME development in Kazakhstan. The goals of the proposals are to increase government support of SMEs, remove administrative red tape inhibiting SME development, improve communication between the government and SMEs, and create opportunities for SMEs to provide services to state enterprises. Included among the specific recommendations are developing clear and unified objectives and measurement criteria for the seven priority diversification clusters, engaging the private sector in the form of Public Private Partnerships, enhancing current credit programs, and developing Kazakhstan's workforce.

PPEPI WORKING GROUP UPDATES

With drafts of the Winter 2010 White Papers due in early February, the PPEPI Working Groups have been working intensively to solidify their ideas and formulate substantive papers. Members concentrated on expanding existing recommendations, framing arguments, and reviewing the first White Paper drafts. The updates below provide a brief look at the last two sets of Working Group meetings.

- **Regional Economic Integration/Trade & Customs**
  Chair: Michael Jopson, Kazakhstan Country Director, Nestle

Winter 2010 White Paper Theme: A Consideration of the Customs Union Between Kazakhstan-Russia-Belarus

During their December meeting, the Regional Economic Integration/Trade and Customs Working Group outlined the framework for their Winter White Paper. They noted that the content of the paper will be heavily impacted by the details of the new Customs Union, especially how procedures, implementation, and compliance will be managed. To clarify these issues, the group drafted a letter to the Customs Committee outlining their questions regarding the new Union. Additionally, the group has arranged to receive a presentation from the Customs Committee to draw out key points and determine in which areas the Working Group can influence the customs code.

The Group was greatly assisted in their discussions by their two Government of Kazakhstan members – Industry and Trade Deputy Minister Zhanar Aitjanova, who combines responsibility for WTO Negotiations and Integration of the new Customs Union, and Serzhan Duisebayev, Deputy Chairman of the Customs Committee.

In January, the group focused on understanding the relationship between the National Customs Code of Kazakhstan and the Customs Code of the Customs Union. Based on their conclusions, the group developed recommendations on topics including conditional pricing, a single oversight body, and a one-window system to simplify customs procedures. They also discussed specific impacts the Union will have on importers/ exporters and potential investment mechanism preferences that may be given to producers of goods and services under the new Union to protect Kazakhstani industry.

- **Transparency/Economic Efficiency**
  Chair: Nurlan Kapparov, Chairman, Lancaster Group

Winter 2010 White Paper Theme: Improving Transparency Through Better Regulation of Corporate Lending

Prior to the December meeting, the Transparency/Economic Efficiency Working Group drafted a technical document that analyzed the current state of the Kazakhstan loan market, the banks' role in the financial crisis, and the role of the Financial Supervisory Agency (FSA). These topics were discussed in detail during the December meeting and finalized to be included in the first draft of the White Paper.

The Group was greatly assisted by senior representatives of local and foreign banks, and by Dr. Meruert Makhmutova, Executive Director of the Public Policy Research Center.

During the January meeting, the Working Group met with FSA representatives to discuss their draft. In preparation for the final paper, the group debated the likely impact of their suggestions and the best way to frame them in order to draw the government's attention to the most critical issues. The group has recommended a three-phased approach to addressing the problems in the domestic banking system. These phases focus on leading Kazakhstan from prescriptive compliance to a risk-based modeling method in the long term. The group also discussed the role of risk management reporting in the banking sector, corporate transparency, and the need to develop alternative sources of corporate financing.

- **Anti-Corruption/Rule of Law**
  Chair: Walter Daniel, Partner, White & Case

Winter 2010 White Paper Theme: Strengthening Kazakhstan's Anti-Corruption Efforts

Walter Daniel replaced Ken Mack as chair of the Anti-Corruption/Rule of Law Working Group during the December 2009 meeting. The group selected a Rule of Law focus for their Winter White Paper that will look at (1) simplifying laws and regulations to eliminate opportunities for corruption and (2) empowering civil society by providing citizens with legal advice and redress. Recommendations will center on simplifying legislation to reduce contact between offenders and enforcers and promoting a bottom up approach that encourages the respect of citizens' rights. The paper will deal with topics such as current tax legislation, international arbitration, freedom of information, and awareness of legal rights.

The group developed these concepts further during their January meetings as they reviewed the first draft of their White Paper. They discussed existing legal advocacy programs in Kazakhstan and debated the effects that student legal clinics and legal support centers could have on improving Rule of Law and expanding access to legal services for vulnerable populations. Additional discussion topics included enforcement of court decisions, a government ombudsman, and the role of mass media in fighting corruption.

The Group was greatly assisted in their discussions by Justice Deputy Minister Beketayev, the Group's Government of Kazakhstan member, and by Jeff Erlich, President of the Eurasia Foundation of Central Asia, who will be launching a new Anti-Corruption Council co-funded by USAID and the Government of Finland, in the near future.

- **Economic Diversification/SME Development**
  Chair: Tomas Bravenec, Senior Banker, EBRD

Winter 2010 White Paper Theme: Competitiveness: Key Drivers and Impediments

The Economic Diversification/SME Development Working Group opened their December meeting with a debate over the focus of their recommendations, given the urgent situation that SMEs currently face as a result of the financial crisis. They elected to split their White Paper, which will address key drivers and impediments of competitiveness in Kazakhstan, into three divisions (1) Costs, (2) Quality of Long-Term Factors, (3) Market Needs. These divisions will examine issues such as taxes, workforce development, infrastructure, and international competitiveness.

In January, the Working Group asked the USAID Business Environment Improvement program to briefly present on their initiatives to stimulate Kazakhstan's business environment. Members then discussed the role the government plays in diversifying the economy and the best way to support entrepreneurs. The debate included topics such as Kazakhstan's competitive advantages and the possible effects of WTO accession, technical education, attracting new technologies, state checks and licensing procedures.

This Working Group is the largest and most diverse in terms of membership, and must deal with one of the broadest, yet critical themes facing Kazakhstan today.

- **Cooperation in Science and Technology**
  Chair: Kanat Shakenov, Kazakhstan Director, Civilian Research and Development Fund (CRDF)

Winter 2010 White Paper Theme: Local Content in Science and Technology

During the December meeting, the Cooperation in Science and Technology Working Group looked at the issues driving innovation. Debate centered on the factors that make a good IT industry and ways in which the government can create a supportive environment for research and development. Although this is a complex process that includes creating incentives and linking the various actors involved, one key component is the challenge of staying ahead of the curve by maintaining a forward-looking perspective.

The Group's January meeting focused on fleshing out the remaining recommendations for the White Paper. Among other topics, the group discussed the structure of the Science Fund including the existing overlap with other agencies, and the possibility of aligning different public and private sector actors through creation of a database. As a follow up to the previous meeting, Microsoft presented their Local Software Economy Initiative aimed at enhancing innovation in Kazakhstan's ICT industry.

Science and Technology will be the theme of the fourth and last PPEPI public Roundtable under the program's Pilot Year. This Roundtable will be held in Astana on 16 February with speakers touching on tax incentives for innovation, intellectual property rights, public health and the pharmaceutical industry, the role of special economic zones and high-tech parks.

"Итоговый выпуск новостей", 16.07.2009г., 21:00, Хабар

В Астане прошло очередное заседание Координационного комитета Инициативы по созданию государственно-частного экономического партнерства между США и Казахстаном. Участниками международного совещания стали представители руководства двух стран, форума предпринимателей Казахстана, Американской Торговой палаты в Казахстане, Союза предпринимателей «Атамекен» и ЮСАИД. /Соб.инф./

Сотрудничество Казахстана и США. В Астане прошло очередное заседание Координационного комитета Инициативы по созданию государственно-частного экономического партнерства между США и Казахстаном. Участниками международного совещания стали представители руководства двух стран, форума предпринимателей Казахстана, Американской торговой палаты в Казахстане, Союза предпринимателей «Атамекен» и ЮСАИД. Работа форума проходила в формате круглых столов и пяти дискуссионных групп, которые вырабатывали рекомендации по укреплению торговых связей между Казахстаном и США. Основные темы - обеспечение прозрачности при государственных закупках, совершенствование законодательства в этой сфере и упрощение административных процедур при ведении международной торговли. На протяжении многих лет США остается крупнейшим инвестором в экономику Казахстана и, по мнению зарубежных экспертов, эту тенденцию необходимо поддерживать, но теперь уже не только в добывающих отраслях. Планируется, что рекомендации, выработанные по итогам совещания, будут направлены на рассмотрение правительства Казахстана.

Джефф Эрлих, президент фонда «Евразия» в Центральной Азии: «Прозрачность очень важна для привлечения прямых иностранных инвестиций. Власти стараются, я не сомневаюсь, у меня полное доверие, что очень много разных программ, есть искренние попытки привлечь эти инвестиции, но система здесь это еще переходная система, есть это советское наследство, есть негатив в экономике, с которым надо бороться».

Роберт Мэй, председатель комитета по иностранным инвестициям Американской Торговой палаты: «По вопросу законодательства в Казахстане - это очень высокий уровень, каждая рабочая группа с этим согласна, все говорят, что это самый высокий в Средней Азии уровень В вашей стране есть большой потенциал, и я думаю, это прекрасно, как правительство готово работать вместе с иностранной компанией и международными организациями».

"Итоговый выпуск новостей", 17.07.2009г., 21:00, Хабар

В Астане подвели итоги заседания координационного комитета Инициативы по созданию государственного – частного экономического партнерства между Казахстаном и США. Участники астанинского форума, среди которых представители руководства и бизнес-сообщества, работали в составе пяти дискуссионных групп. Специалисты выработали рекомендации по вопросам исполнения антикоррупционного законодательства, обеспечения прозрачности, развития малого и среднего предпринимательства, повышения казахстанского содержания и диверсификации экономики. /Соб.инф./

Сотрудничество Казахстана и США. В Астане подвели итоги заседания координационного комитета Инициативы по созданию государственного – частного экономического партнерства между Казахстаном и США. Напомним, данная инициатива начата в 2007 году, она направлена на укрепление экономических связей между двумя странами и улучшение инвестиционного климата в Казахстане. Участники астанинского форума, среди которых представители руководства и бизнес-сообщества, работали в составе пяти дискуссионных групп. Специалисты выработали рекомендации по вопросам исполнения антикоррупционного законодательства, обеспечения прозрачности, развития малого и среднего предпринимательства, повышения казахстанского содержания и диверсификации экономики. Эти предложения после доработки будут направлены в

правительственные органы Казахстана. Председатель Союза предпринимателей «Атамекен» Азат Перуашев высоко оценил актуальность этой встречи в свете недавно озвученных главой государства задач по индустриализации экономики. По словам Азата Перуашева, более 70% отечественного бизнеса оперирует в торговом секторе, и опыт американских партнеров поможет перенаправить предпринимателей в производственную сферу.

Азат Перуашев, председатель Союза предпринимателей «Атамекен «: «Мы считаем, что большая работа проделана. Если раньше мы рассматривали ГЧП как концессионные проекты, то сегодня мы говорим об этом как об идеологии, философии отношений между бизнесом и государственными интересами и обществом. Надо понимать, что этот процесс не решаемый одним актом, одним разом, поэтому сегодня эти документы нуждаются в достаточно критичной доработке».

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Верховный суд разрабатывает новый кодекс судейской этики

Астана. 16 июля. ИНТЕРФАКС-КАЗАХСТАН - Верховный суд (ВС) намерен обновить кодекс судейской этики, который будет соответствовать международным стандартам, сообщил судья ВС, председатель союза судей республики Ауезнур Каженов.

"Необходимо совершенствование кодекса этики судей, поскольку отдельные его нормы были сформулированы в свое время широко и расплывчато и не содержали конкретных требований к судьям", - сказал А.Каженов, выступая в четверг в Астане на "круглом столе" по мерам предотвращения коррупции.

В этой связи он привел в пример кодекс поведения судей США, в котором "каждая норма" "указывает на конкретные действия судьи".

А.Каженов сообщил, что в настоящее время ВС разрабатывает новый кодекс, "принятие которого связано с внесением изменений и дополнений в конституционный закон "О судебной системе и статусе судей" и в другие нормативно-правовые акты".

Кроме того, добавил он, "в последние годы происходят большие правовые изменения и изменения в обществе, которые мы должны учитывать при принятии нашего кодекса судейской этики".

По словам судьи ВС, новый кодекс "будет соответствовать международным стандартам и окажет большую пользу дальнейшей деятельности судейского сообщества".

А.Каженов привел данные по количеству обращений граждан в комиссию по соблюдению судебной этики при Верховном суде. "В 2008 году поступило 270 обращений граждан с жалобами на неэтичное поведение судей, из них 229 обращений признаны необоснованными", - отметил он.

Между тем по остальным жалобам по рекомендации комиссии и дисциплинарной квалификационной коллегии судей при ВС были освобождены от занимаемых должностей пять судей, подчеркнул А.Каженов, добавив, что еще на двух судей наложены дисциплинарные взыскания и выговоры.

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ЭКСПРЕСС К

Американский порог

№ 395 (16781) от 17.07.2009

Илья ГУК, Астана

Нейтральный общественный орган, который отслеживал бы ситуацию с коррупцией и мониторил расходование бюджетных средств, предлагает создать в республике Американская торговая палата в Казахстане.

Вчера в Астане состоялся "круглый стол", организованный Инициативой по созданию государственно-частного партнерства между США и Казахстаном (PPEPI). Главной темой заседания стала борьба с коррупцией в республике.

- Мы хотим привлечь инвестиции не только в нефтяной сектор, который уже популярен, но и в те сферы, где они еще не очень высоки, - сообщил собравшимся президент Американской торговой палаты в Казахстане Кеннет Мак (на фото). - Допустим, это инвестиции в сельское хозяйство, обрабатывающую промышленность и целый ряд других секторов. Но если инвесторы не поймут, что в Казахстане можно безопасно делать бизнес, что он привлекателен, то это будет вряд ли возможно.

По его словам, иностранные компании, ведущие бизнес в нашей стране, часто сталкиваются с проблемами.

- В каждой стране есть такой момент, когда экономические нарушения переходят в разряд уголовных, - привел Кеннет Мак пример. - Обычно этот порог достаточно высок, но в Казахстане и России, во многих странах региона, он очень низок. Допустим, если какая-то компания недоплатила налогов на 17 тысяч долларов, то такое нарушение сразу же инициирует уголовное расследование.

Кроме того, по его словам, в Казахстане сильна коррупция, и это подтверждается рядом независимых международных исследований. Эту проблему, по мнению президента Американской торговой палаты, тоже необходимо срочно решать.

Со своей стороны Кеннет Мак предложил создать в республике нейтральный орган, в котором было бы представлено "все общество страны". Эта организация, по его мнению, могла бы осуществлять независимый мониторинг коррупционной ситуации в стране и расходования средств, работать с анонимными заявлениями граждан и регулярно публиковать свои обзоры и опросы. Проект по созданию нового органа Кеннет Мак пообещал направить казахстанскому правительству.инициирует уголовное расследование. Кроме того, по его словам, в Казахстане сильна коррупция, и это подтверждается рядом независимых международных исследований. Эту проблему, по мнению президента Американской торговой палаты, тоже необходимо срочно решать.
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Газета Курсив (Kursiv)

Опубликовано 23 июля 2009 в рубрике Власть и бизнес, Анонсы на главной

Инвесторы готовы уйти

Как только закончится нефть

Коррупция и частые судебные разбирательства отпугивают иностранных инвесторов, заявляет президент американской торговой палаты (АТП) в Казахстане Кеннет Мак. По его словам, инвесторы хотели бы работать где угодно, но только не в Казахстане.

«Мы видим, что иногда для европейских и американских компаний, работающих в Казахстане, находятся какие-то проблемы, которые фактически были выдуманы, потому что эти компании соблюдают законодательство», – говорит Кеннет Мак.

Уголовное преследование руководства компаний в Казахстане, по данным торговой палаты, начинается уже в случае неуплаты налогов на сумму свыше $17 тыс. «Спросите компании, где бы они хотели работать, если бы нефть была повсюду? Они скажут: «Где угодно, но только не в Казахстане!», – говорит он.

По словам главы АТП, нет никакой уверенности в том, что подобные действия не будут предприняты в отношении американских компаний, пожелавших инвестировать в экономику Казахстана. «Например, во время подачи заявок на участие в тендерах, инвестор должен быть уверен, что выиграет именно тот, кто действительно предложил лучшие условия», – поясняет он «Къ».

На сегодня в республике насчитывается более 2300 крупных предприятий, из них 115 иностранных и 130 – совместных. Нетрудно догадаться, что большая часть крупных иностранных компаний задействована в нефтяной сфере. «Если говорить о компаниях из Китая, Европы или США – они уйдут, как только кончится нефть. Поэтому надо сейчас уже создавать то, что заставит их остаться на этом рынке», – считает Кеннет Мак.

В связи с этим американская торговая палата рекомендует казахстанским властям обеспечить прозрачность ведения и сотрудничества с бизнесом. «У каждой страны есть свои законы, и они важны. Проблема в том, что иногда эти законы используются манипулятивным образом», – подчеркивает он.

Подобные разговоры возникают из-за недостаточной информированности международной общественности о деятельности правительства, заявляет «Къ», в свою очередь, министр экономики и бюджетного планирования **Бахыт Султанов**. «Предвзятого отношения со стороны властей к иностранным инвесторам нет. Мы наоборот делаем упор на то, чтобы стать привлекательными для них, поскольку это одно из главных условий вхождения в число 50 наиболее конкурентоспособных стран мира», – комментирует он. Относительно «надуманных» судебных разбирательств нужно рассматривать каждый конкретный случай.

Казахстанские бизнесмены подтверждают распространившуюся коррупцию среди госведомств. «Американцы в немалой степени правы, и об этом уже сейчас говорится в правительстве. Это все неспроста. Действительно, на практике достаточно сложно вести бизнес по несырьевым направлениям», – делится с «Къ» председатель форума предпринимателей в Казахстане **Раимбек Баталов**. «Предвзятого отношения к инвесторам нет, проблема в ином. К сожалению, есть иностранные инвесторы, которые немного по-африкански подходят к нашей стране и соблюдению ее законов», – резюмирует он.

Джамиля КАРИМОВА

Газета РЕСПУБЛИКА

Нет интереса – нет интеграции

Автор: **Ксения БОНДАЛ**
Фото: **Андрей ХАЛИН**
18.11.2009

«Круглый стол» по американо-казахстанской инициативе государственно-частного партнерства (PEPPI) свелся к обсуждению экономической интеграции в Центральной Азии, а точнее, к поискам ответов на вопрос, почему она не происходит - интереса нет.

Мероприятие больше напоминало затянувшийся брифинг: четыре спикера за длинным столом, внимая речам которых, журналисты и представители компаний ютились на стульях. Сами же ораторы плохо укладывались в рамки заданной тематики — о том, как «китайско-ориентированный Казахстан может посотрудничать с дядей Сэмом».

Сингапур в пример

Известный в Казахстане своим «нефтяным» прошлым экс-министр энергетики и природных ресурсов, а ныне председатель совета директоров холдинга «Ланкастер Групп» Нурлан Каппаров начал спич с мажорной ноты. Мол, значение Казахстана в экономической интеграции между Западом и Востоком невозможно недооценить.

- Казахстан наделен огромными природными ресурсами, которые важны для индустриализации, — отметил г-н Каппаров и добавил, что еще одним важным фактором в пользу нашей страны является большая территория, которая «жизненно важна для развития сельского хозяйства и укрепления продовольственной безопасности в регионе».

Другим аргументом в пользу теории позиционирования Казахстана индустриальным узловым центром в отдельно взятом азиатском регионе спикер считает существующую систему налогообложения, которую он назвал к тому же «привлекательной». Многие страны, по его мнению, «должны завидовать Казахстану за то, что у него такое низкое налогообложение».

Далее спикер признал, что есть и проблемы, в частности, в административных барьерах, которые, по его словам, мешают привлекать иностранных инвесторов. Поэтому, считает он, необходимо снять бюрократические препоны, о чем, к слову, отечественные предприниматели безрезультатно говорят уже не первый год.

- Вы прекрасно знаете: если хочешь делать бизнес в Казахстане, приходится иметь дело с большим количеством министерств и ведомств. Приходится пройти круги как минимум десяти госорганов, что сложно для иностранных инвесторов, — акцентировал внимание Нурлан Каппаров и выдвинул предложение: — Необходимо создать в стране единый подход (создания условий для развития бизнеса — *авт.*), как, например, Бюро экономического развития в Сингапуре. Чтобы (предпринимателям — *авт.*), как там, можно было подать документы в одно окно, а получить после все подписанные документы также из одного окна в сжатые сроки.

Ближе искать неинтересно?

Но прежде чем любоваться отражением сингапурских витрин, неплохо разобраться в экономических отношениях Казахстана со своими соседями. Почему они не становятся нашими стратегическими партнерами в интеграционных процессах?

Точки над «i» в этом вопросе попыталась расставить директор Центра исследования общественно-государственной политики Меруерт Махмутова.

За годы независимости, напомнила она, Казахстан подписал немало региональных соглашений, в том числе договор о свободной торговле, центрально-азиатском экономическом сотрудничестве, и вошел в не меньшее количество интеграционных объединений: Таможенный союз 1995 года, ШОС, Организацию экономического сотрудничества, ЕврАзЭС.

- То есть условия для развития интеграции есть, но она у нас сложно продвигается. Главное препятствие для продвижения региональной интеграции на сегодняшний день в том, что экономики стран ЦА очень похожи по своей структуре и являются конкурирующими друг с другом, а не взаимодополняющими, — объяснила нежелание некоторых соседей Казахстана по СНГ участвовать в процессе региональной интеграции эксперт.

Есть и отличия, продолжила она, которые заключаются в том, что экономики стран Центрально-Азиатского региона находятся на различных этапах реформирования:

- Доля частного сектора у них не одинакова, равно как и уровень открытости рынков для инвесторов. Есть противоречия в торговой политике, где присутствует национальный эгоизм сторон и самих стран, которая к тому же связана с согласованием национальных позицией стран при вступлении в ВТО, — пояснила г-жа Махмутова.

Наиболее же весомым аргументом из уст директора Центра исследования общественно-государственной политики стало утверждение, что центральноазиатские государства не выступают для Казахстана значимыми торговыми партнерами, поскольку экспортно-импортные операции с ними не превышают 5% товарооборота.

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KAZINFORM

17.11.2009 / 21:01

Эксперты обсудили вопросы развития устойчивой диверсифицированной экономики

АЛМАТЫ. 17 ноября. КАЗИНФОРМ /Данияр Сихимбаев/ - Сегодня в Алматы прошел «круглый стол» по вопросам экономической диверсификации и региональной экономической интеграции. Мероприятие прошло в рамках американо-казахстанской инициативы государственно-частного партнерства.

«Круглый стол» объединил ведущих представителей деловых и политических кругов. Они обсудили самые актуальные вопросы, касающиеся экономического развития РК, в частности, роль инноваций в сферах здравоохранения, а также роль промышленности и науки в развитии устойчивой диверсифицированной экономики.

Старший банкир Европейского банка реконструкции и развития (ЕБРР) Томаш Бравенец отметил, что казахстанские банки в докризисный период привлекали много

заимствований из-за рубежа. А отечественные предприятия много занимали у казахстанских банков. Поэтому бизнес рос на 50-60% в год, но сейчас такие темпы являются неустойчивыми. «Это привело к большому количеству проблемных займов в ссудном портфеле банков. Один из способов преодоления такой ситуации - привлечение дополнительных собственных средств. Предприниматели не должны на 100% полагаться на банковское финансирование своего бизнеса», - отметил Т. Бравенец.

Комментируя вопрос об источниках фондирования акционерного капитала, специалист ЕБРР заявил, что средства могут быть предоставлены государством, они могут появиться за счет прямых внутренних или иностранных инвестиций и за счет привлечения средств на бирже. «Это вопрос простоты регулирования рынка капитала, соответствующей законодательной базы, это один из вопросов, который необходимо совершенствовать в будущем, чтобы МСБ имел доступ к финансированию внутри Казахстана», - сказал Т. Бравенец.

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Газета АЛАШ АЙНАСЫ

18 Қараша 2009

Экономиканы ырықтандырмайынша, мұнайға деген тәуелділіктен құтыла алмаймыз

Шағын және орта кәсіпкерлікті дамыту үшін Үкіметтен қыруар қаржы бөлініп, түрлі жобалар арнайы бағдарламалар аясында қолға алынып жатқанымен, одан пайда болмай тұр. Басқасын айтпағанда, кеше ғана жаңа техника және технологиямен жарақтанып, барлық сән-салтанатымен жұмыс істеп жатқан еліміздегі жемісті деген бизнес түрінің өзі бүгіндері банкроттыққа ілініп отырған жайы бар. Ал бұл дегеніңіз – мұнай мен мұнайдан түсетін табысқа бүкіл дерлік экономикасы байланған Қазақстан үшін қауіпті нәрсе. Сондықтан аталған мәселе шешімі дереу талқылауды қажет етері сөзсіз. Осы негізде кеше Алматыда бас қосқан шағын және орта бизнес өкілдері мен өкілетті орган қызметкерлері өз ойлары мен ұсыныстарын ортаға салды.

«Жалпы ішкі өнімнің 22 пайызын мұнайдан түскен табыс құрайды. Ал мұнай мен газ экспорты – 63 пайыз, жалпы шикізат өнімдерінің тасымалы 73 пайызды құрайды. Бұл ел экономикасының осы салаға тәуелді екенін байқатады. Яғни ол – ел экономикасы үшін

қауіпті нәрсе. Сондықтан экономикамызды ырықтандыру қажет. Әсіресе, шағын және орта бизнесті», – деді Қоғамдық-мемлекеттік саясатты зерттеу орталығының атқарушы директоры Меруерт Махмұтова аталған басқосуда. Алайда бұл саланы дамытуға қанша күш салынып жатқанымен, бәрі нәтижесіз екенін меңзеген ол мынадай мәселеге баса назар аудару қажеттігін айтты:

– Әлемдік қаржы дағдарысының екпіні шағын және орта бизнесті де ойсыратып кетті. Иә, қазір қаржы дағдарысына қарсы шаралар бойынша Үкіметтен аталған салаға қаржы бөлініп, түрлі іс-қимылдар жасалып жатыр. Бірақ оның бүтін дерлігі тиімсіздік танытуда. Сондықтан осы негізде мемлекет арнайы саясат құрып, инвестиция бөлуі керек. Өйткені банктер жағдайы онсыз да нашар шағын және орта бизнеске қаржы бөлуге мүдделі емес. Қазір Үкімет банк секторында қайта қаржыландыру процесін жүргізіп жатқаны белгілі. Міне, осындай процестен шағын және орта бизнес өкілдері де үмітті.

«Бізде жұмыс істеп жатқан бизнестің басым бөлігі неге көлеңкелі?» деген сұрақпен сөзін бастаған «Райымбек Боттлерс» компаниясының төрағасы Райымбек Баталов болса өз сауалына өзі жауап беруге тырысты.

– Біріншіден, әкімшілік кедергілер сыбайлас жемқорлықты күшейтіп отыр. Өкінішке қарай, біз бұл мәселемен бизнесте ғана емес, күнделікті тіршілікте де жиі кездесеміз. Иә, Үкімет әкімшілік кедергілерді 50 пайызға дейін жоюға мүдделі, сол негізде жұмыс істеп те жатыр. Бірақ одан нәтиже жоқ. Өйткені бізде тиімді жұмыс істейтін мемлекеттік басқару жүйесі жоқ. Сондықтан мәселені осы қырынан қарап шешу керек деп есептеймін. Екіншіден, Салық кодексі бизнестің көлеңкелі болуына белгілі бір деңгейде ықпал етуде. Бұл арада салықтың көлемі туралы сөз болып жатқан жоқ. Аталған құқықтық құжатта шағынның – орташа, орташаның ірі кәсіпкерлікке айналуына жағдай жасалмаған. Керісінше, онда бизнестің дамуына деген шектеулер жеткілікті.

Сондықтан Салық кодексін болашақта қайта қарастыру керек. Үшіншіден, еліміздегі шағын және орта кәсіпкерліктің басқаруында соны корпоративтік басқару формалары қолданылмайды. Ол өз кезегінде тікелей инвестиция тартуға қолайсыздық туғызады. Соның салдарынан шағын және орта бизнес қаржының 90 пайызын банктен алуға мәжбүр. Бүгіндері банк аталған саланы қаржыландыруға құлықты емес. Олар біздің жағдайымызды басқалардан жақсы біледі. Қымбат құрал-жабдықтарды шетелдік валютамен алған кәсіпкерлер бүгіндері теңге девальвациясы салдарынан қарызын екі еселеп алып отыр. Сондықтан бүгіндері жемісті деген кәсіпорындар қарызға белшесінен батып, қиын-қыстау кезеңді бастан кешіруде.

Осы мәселелерді есепке алуда мемлекет аталған салаға көмек қолын созу керек деп есептеймін. Онда да бізде қарыздарды қайта қаржыландыруды қарастырса деген тілек бар. Ал шағын және орта бизнестің қарыздарын қайта қаржыландыруға банктер онша құлық таныта қоймасы белгілі. Сондықтан біз бұл арада бизнесмен де, Үкімет те, банк те ұтылмайтын вексель жүйесін енгізуді ұсынбақпыз. Осы ретте, Салық кодексінен жеке және заңды тұлғаларға жүктелген корпоративтік салықты алып тастауды да сұраймыз. Соған сәйкесінше Қаржылық қадағалау агенттігі де өзінің нормалары мен талаптарын өзгертуі қажет. Міне, осындай жағдай жасалғанда ғана мемлекет шағын және орта бизнесті қиын-қыстау кезеңнен алып шыға алады.

Сондай-ақ Кедендік одақты құру саяси жағынан тиімді екенін білеміз. Алайда оның шағын және орта бизнеске тигізетін кері әсерін Үкімет ескерсе дейміз, – дейді ол аталған сала мәселесі шешіміне қатысты ұсынысында.

Қазақстандағы шағын және орта кәсіпкерліктің мәселесімен жіті танысқан EBDR-дің аға банкирі Томаш БРАВЕНЕЦ мынадай ақыл-кеңесін алға тартты:

– Қандай да бір бизнесті қолға алғанда, оны қаржыландырудың көзі әрқилы болуы керек. 100 пайыз банктің қызметіне жүгінген дұрыс емес. Бұл арада банкир ретінде ондай бизнестің табыстылығы күмәнді екенін атап айтар едім. Былайша айтқанда, ол кәсіпорын табысының басым бөлігі жылдық 16-24 пайыз өсімдегі қарызын жабуға кетеді. Сол секілді мемлекеттің көмегіне де жүгіну, оған толықтай сену – қате пайым. Мұндай жағдайларда қандай да бір даму туралы сөздің артықтау екені айқын. Сондықтан тұрақты дамуды көздейтін кәсіпкерлер түрлі қаржы көзін қарастырып, капитал нарығына үнемі қатысып отыруы керек. Мәселен, мемлекеттік бағдарламаларға қатысуда жеңілдік ақшалар, тікелей инвестиция тарту немесе биржаға қосымша активтерді орналастырып, одан пайда табу деген секілді. Осының ішінде тікелей инвестицияны тартуда Қазақстан мынадай екі мәселенің басын ашып алғаны дұрыс болар еді: бизнес құрылымындағы мемлекеттің рөлі мен үлесі қаншалықты болуы керек, соған сәйкес шетелдік инвестицияның Қазақстан бизнесіндегі үлесі қанша болуы шарт деген секілді.

Аталған басқосуда мәселе талқысы бойынша басты ұсыныстар осы негізде өрілді. Бұдан тыс жұмыссыздық, көлеңкелі экономика, салық және кеден тақырыбы ортақ талқы өзегіне айналды.

Кәмшат Сатиева

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

Media Invitation

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) Secretariat invites the press to

PPEPI Roundtables and a Coordinating Committee Meeting in Astana

- A half-day **roundtable** on **Anti-Corruption Measures and Rule of Law** (Moderated by AmCham President Kenneth Mack) on **July 16,** starting **9:30am**, at the Radisson Hotel's Saryarka-2 Room**.**
- A half-day **roundtable** on **Transparency and Economic Efficiency** (Moderated by Kazakhstan Country Director of the Asian Development Bank Stephen Wermert) on **July 16,** starting **2pm,** at the Radisson Hotel's Saryarka-2 Room**.**

Roundtable participants include Kazakhstani policymakers and business community. Speakers, whose interests coincide with the Roundtable topics include, **Judge Aueznur Kazhenov of the Supreme Court of Kazakhstan, AmCham President Kenneth Mack and Director of the Public Policy Research Center Meruert Makhmutova**. These are the first of three annual PPEPI Roundtables designed to review select priority issues and PPEPI Working Group proposals to resolve or mitigate these issues such as business disputes and judicial ethics in the courts of Kazakhstan, transparency in the state tender process and in the private sector, and shareholder transparency in public companies.

- **The media is also invited to a press conference that will follow the second PPEPI Coordinating Committee meeting** on **July 17, at 5:00pm in the Radisson Hotel's Astana Room (formerly Boardroom 2).** Press Conference participants will include:

    - U.S. Ambassador Richard Hoagland
    - Kazakhstan Deputy Prime Minister Yerbol Orynbayev
    - USAID Central Asia Regional Director Janet Ballentyne
    - American Chamber of Commerce President Kenneth Mack
    - Atameken Chairman Azat Peruashev
    - Forum of Entrepreneurs Chairman Raimbek Batalov
    - U.S.-Kazakhstan Business Association Executive Director William Veale (Represented by Konstantin Nazarov, Country Director – GE Kazakhstan)

About PPEPI, events:

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan. PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries. PPEPI work is funded by the American people through the U.S. Agency for International Development (USAID),

The Coordinating Committee meeting will review progress made by the PPEPI Working Groups, the purpose of which is to discuss and formalize White Papers for the government of Kazakhstan with reform proposals in their area of expertise. Working Groups under the Initiative have been meeting regularly since the launch of operations in April 2009.

For more information, please contact Yulia Kim, tel: +7 (727) 258-79-38 (39) (40), email: Yulia.Kim@amcham.kz

PRESS RELEASE

U.S.-Kazakhstan Public-Private Economic Partnership Initiative to hold Roundtables and Coordinating Committee Meeting in Astana

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) Secretariat invites the press to take part in two days of events centered on the Initiative.

On **July 16**, **two half-day Roundtables** will be held at the Radisson Hotel's Saryarka-2 Room: the first on **Anti-Corruption Measures and Rule of Law** (Moderated by AmCham President Kenneth Mack) and the second on **Transparency and Economic Efficiency** (Moderated by Kazakhstan Country Director of the Asian Development Bank Stephen Wermert)

The Roundtable on **Anti-Corruption Measures and Rule of Law will begin at 9:30am** and **Transparency and Economic Efficiency at 2:30pm**. Both Roundtables will be open to policymakers and the broader business community. This is the first of three annual PPEPI Roundtables to review select priority issues under the five pillars that are a focus of interest for the Working Groups and that are the subject of Working Group proposals to resolve or mitigate these issues. The Roundtables will serve as a forum for the Working Groups to present their findings and to receive input from the audience.

On **July 17, the second PPEPI Coordinating Committee meeting will take place at 4:00pm in the Radisson Hotel's Boardroom 1**. It will be followed by a **press conference at 5:00pm in Boardroom 2**

Coordinating Committee members expected to attend the meeting will be:

- U.S. Ambassador Richard Hoagland
- Kazakhstan Deputy Prime Minister Yerbol Orynbayev
- USAID Central Asia Regional Director Janet Ballentyne
- American Chamber of Commerce President Kenneth Mack
- Atameken Chairman Azat Peruashev
- Forum of Entrepreneurs Chairman Raimbek Batalov
- U.S.-Kazakhstan Business Association Executive Director William Veale
  (Represented by Konstantin Nazarov, Country Director – GE Kazakhstan)

PPEPI was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan. With support of the American people through the U.S. Agency for International Development (USAID), PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries.

Both the Roundtables and the Coordinating Committee meeting will serve to highlight the progress made by the PPEPI Working Groups. Working Groups under the Initiative have been meeting regularly since the launch of operations in April 2009. Leading members will be presenting their group's findings to the Coordinating Committee.

For more information on the events, please contact Sanjay Srikantiah at the PPEPI Secretariat at the American Chamber of Commerce in Kazakhstan, tel: +7 (727) 258-79-38 (39) (40), email: Sanjay.Srikantiah@amcham.kz.

U.S.-Kazakhstan Public-Private Economic Partnership Initiative

Media Invitation

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) Secretariat invites the press to a

Roundtable on Economic Diversification and Regional Economic Integration

When: November 17; 9:30 am -5:00 pm
Where: Intercontinental Hotel in Almaty, Ablai Khan Room

- **Morning Session: Economic Diversification/SME Development,** 9:30 am-12:30 pm
- **Afternoon Session: Regional Economic Integration/Trade and Customs**, 2:00 pm-5:00 pm

Key participants:
- Nurlan Kapparov, Chairman, Lancaster Group
- Raimbek Batalov, CEO of Raimbek Group
- Serzhan Duisebayev, Deputy Chairman, Customs Committee
- Tomáš Bravenec, Senior Banker, EBRD
- Siddique Khan, President and CEO, Globalink

About PPEPI Roundtables

The PPEPI Roundtables will bring together leaders in the fields of business and policy to discuss burning issues surrounding economic development in Kazakhstan. Panelists will cover topics such as the roles that health and infrastructure and scientific innovation play in developing a robust, diversified economy. During the Regional Economic Integration panel, Nurlan Kapparov will discuss east-west economic integration in Kazakhstan. Other panelists will present on impediments to cross border trade, CAREC and north-south economic integration, and the current status of Kazakhstan's custom reforms. At this crucial stage in the development of Kazakhstan's economy, the themes of economic diversification and regional integration are of vital importance.

This is the second PPEPI Roundtable held since the program's launch last April. The first, which dealt with the themes Anti-Corruption/Rule of Law and Transparency/Economic Efficiency, was held in Astana in July and was attended by more than 100 participants, including Deputy Prime Minister Yerbol Orynbayev.

The PPEPI Program

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan. PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries. PPEPI work is funded by the American people through the U.S. Agency for International Development (USAID) and managed by the American Chamber of Commerce in Kazakhstan.

For more information, please contact Yulia Kim, the American Chamber of Commerce, tel: +7 (727) 258-79-38 (39) (40), email: yulia.kim@amcham.kz.

PRESS RELEASE

Delegates Meet to Discuss Challenges to Economic Diversification and Regional Economic Integration in Kazakhstan

On November 17, leaders in the fields of business and policy gathered in Almaty to discuss critical issues surrounding economic development in Kazakhstan. The event consisted of two half-day roundtables: the first dedicated to Economic Diversification/SME Development and the second to Regional Economic Integration/Trade and Customs. The sessions were moderated by Senior Banker for the European Bank for Reconstruction and Development, Tomáš Bravenec, and the Chairman of the Lancaster Holding Group, Nurlan Kapparov.

The event was part of the US-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI), a policy reform program that aims to improve Kazakhstan's business environment and enhance economic diversification. It was the second of three annual PPEPI Roundtables to review select priority issues that impact Kazakhstan's economic development.

The economic diversification panel addressed major issues such as Kazakhstan's overall potential for diversification, challenges surrounding natural resource dependency, and the role that scientific innovation, health, and infrastructure play in the diversification process. During the Regional Economic Integration session, panelists spoke on current integration efforts, the impediments that businesses face in conducting cross-border trade, and strategies for North-South and East-West integration.

PPEPI was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan. With support of the American people through the U.S. Agency for International Development (USAID), PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries.

The Roundtables serve to draw public attention to the issues highlighted by the PPEPI program: Anti-Corruption/Rule of Law, Transparency/Economic Efficiency/, Economic Diversification/SME Development, Regional Economic Integration/Rule of Law, and Cooperation in Science and Technology. At this crucial stage in the development of Kazakhstan's economy, the themes that this program addresses are of vital importance.

For more information on the events, please contact Jennifer Schneider at the PPEPI Secretariat at the American Chamber of Commerce in Kazakhstan, tel: +7 (727) 258-79-38 (39) (40), email: Jennifer.Schneider@amcham.kz.

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U.S.-Kazakhstan Public-Private Economic Partnership Initiative

Media Invitation

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) Secretariat invites the press to a

Roundtable on Cooperation in Science and Technology

When: February 16; 9:15 am -5:00 pm
Where: Radisson SAS Hotel, Astana

- **Morning Session: Scientific Collaboration,** 9:15 am-12:30 pm
- **Afternoon Session: Technological Collaboration**, 2:00 pm-5:00 pm

Key participants:
- Yerbol Orynbayev, Deputy Prime Minister, Government of Kazakhstan
- Dr. Almaz Sharman, CEO, National Medical Holding
- Nurlan Sargaskayev, CEO, K'Cell
- Guenter Dahm, General Director, Microsoft Kazakhstan

About PPEPI Roundtables
The PPEPI Roundtables will bring together leaders in the fields of business and policy to discuss burning issues surrounding science and technology in Kazakhstan. Panelists will address the role that science and technology play in stimulating economic diversification. During the Scientific Collaboration panel, Dr. Almaz Sharman will present on the National Medical Holding and discuss its potential as a model for future service delivery. Other panelists will cover topics such as the impact of tax incentives on Scientific-Technological Innovation, investment in the pharmaceutical industry, and intellectual property rights. The rapid development of science and technology globally is having a wide-reaching impact on markets, competitiveness, and development of a diverse economy. Understanding these forces is critical to creating a dynamic development strategy that enables public and private leaders to develop, redefine, and promote their competitive advantages.

This is the fourth PPEPI Roundtable held since the program's launch last April. Past Roundtables were held in Astana, Almaty, and New York and dealt with the themes Anti-Corruption/Rule of Law, Transparency/Economic Efficiency, Economic Diversification/SME Development, and Regional Economic Integration/Trade and Customs. Roundtables typically attract over 100 participants, including senior members of both the Government of Kazakhstan and the United States Government.

The PPEPI Program

The **U.S.-Kazakhstan Public-Private Economic Partnership Initiative** (PPEPI) was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan. PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries. PPEPI work is funded by the American people through the U.S. Agency for International Development (USAID) and managed by the American Chamber of Commerce in Kazakhstan.

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PRESS RELEASE

Kazakh and Foreign Business and Government Representatives Discuss the Role of Science and Technology in Stimulating Industry

On February 16, Kazakhstan's Deputy Prime Minister Yerbol Orynbayev launched a full-day roundtable in Astana, where business leaders and senior government officials discussed the scientific and technological collaboration for advancing Kazakhstan's economic growth. The discussion was organized in Astana by the American Chamber of Commerce as part of the US-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI), a policy reform program that aims to improve Kazakhstan's business environment and enhance economic diversification.

With support of the American people through the U.S. Agency for International Development (USAID), PPEPI aims to strengthen economic ties between the United States and the Republic of Kazakhstan through long-term, open dialogue that will foster enhanced economic growth and diversification across a range of industries. PPEPI was conceived at senior levels within the U.S. Department of State and the Office of the Prime Minister of Kazakhstan.

The February 16 event was the fourth PPEPI Roundtable organized this year to review select issues that impact Kazakhstan's economic development. The scientific collaboration panel discussed the US-Kazakhstan bilateral science and technology agreement, the impact of tax incentives on stimulation scientific-technical innovation, the National Medical Holding, and investment in the pharmaceutical industry. During the Technological Collaboration session, panelists spoke on intellectual property rights, international technological collaboration, the role of special economic zones, and forecasting the role of technology in 2010.

The panelists included Dr. Almaz Sharman, Director of the National Medical Holding, Maylybek Kusenov, General Director of Alatau It City, Adil Nurgozhin, Director of Samruk-Kazyna Pharmaceutical Investment, and Guenter Dahm, General Director of Microsoft Kazakhstan.

The roundtables serve to draw public attention to the issues highlighted by the PPEPI program: Anti-Corruption/Rule of Law, Transparency/Economic Efficiency/, Economic Diversification/SME Development, Regional Economic Integration/Rule of Law, and Cooperation in Science and Technology. At this crucial stage in the development of Kazakhstan's economy, the themes that this program addresses are of vital importance.

For more information on the events, please contact Jennifer Schneider at the PPEPI Secretariat at the American Chamber of Commerce in Kazakhstan, tel: +7 (727) 258-79-38 (39) (40), email: Jennifer.Schneider@amcham.kz.

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Kazakhstan

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For information about Working Groups, Chamber's website, and Investors' Voice,
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To register for a Chamber event,
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EDITOR'S NOTE

Dear Members,

Our summer issue of *Investors' Voice* is devoted entirely to the *U.S.-Kazakhstan Public-Private Economic Partnership Initiative (PPEPI)*, a six-partner initiative led by AmCham in Kazakhstan that contributes the voice of the business community to efforts to improve the country's business environment. In this initiative the government of Kazakhstan stands alongside the U.S. government, providing a joint grant for PPEPI through USAID.

This issue contains eight feature articles on a variety of issues under the PPEPI five priority areas. For a full overview of program structure, please see our lead article, *"The U.S.-Kazakhstan Public-Private Economic Partnership Initiative: An Overview"* Following this are thought-provoking articles on the Canadian perspective on PPEPI, reflections on Rule of Law, an examination of the many facets of Transparency, an article on infrastructure PPPs, an overview of U.S.-Kazakhstan scientific collaboration, and articles outlining the business history and thoughts of two of Kazakhstan's most prominent businessmen: Nurlan Kapparov and Raimbek Batalov, who have contributed greatly to the country's economic diversification.

While acknowledging how far Kazakhstan has progressed over the past two decades, these articles are frank in their assessments of the challenges still facing the country. The past year has been unquestionably difficult as the global economy faltered in the wake of a dramatic financial crisis, but Kazakhstan is well-positioned to recapture its growth. However, a prerequisite to a return to double-digit growth is the country's continued willingness to vigorously pursue reform of its post-Soviet legal and economic system. If Kazakhstan is to continue attracting foreign investment, it must present a stable business environment to investors.

The Kazakhstan success story to date has been based on its abundant oil and gas resources. Economic diversification is still a work in progress, though it has been declared a top government priority. The recent global crisis and precipitous descent of oil and gas prices has proven that a country's economy cannot rely entirely on one sector. Kazakhstan must present an investor-friendly environment to a broad array of investors if it wishes to create a balanced, sustainable economy.

The thoughts presented by our writers are an introduction to the many issues facing Kazakhstan that will be discussed under PPEPI. We hope you will enjoy this issue and find its introduction to PPEPI and its priorities stimulating. AmCham takes pride in its leadership of this program, its ability to work alongside two governments in a bilateral initiative, and its heightened ability to advocate for Chamber members and the business community in Kazakhstan.

Doris Bradbury, AmCham Executive Director

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Jeff Erlich, President, Eurasia Foundation of Central Asia
As President of the Almaty-based Eurasia Foundation of Central Asia (EFCA), Mr. Erlich oversees a five-country, multi-million-dollar development foundation supported by government, corporate and private donors. Between 2001 and 2006, Mr. Erlich led all five Central Asian offices for Eurasia Foundation. Prior to joining Eurasia Foundation in 2001, Mr. Erlich spent seven years as a widely published print journalist, specializing in international security affairs. From 1998 to 2000, he was the first and only Peace Corps volunteer in Baikonur, Kazakhstan. Mr. Erlich holds a Bachelor's degree from The American University and a Master's degree from the Fletcher School of Law and Diplomacy at Tufts University.

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Ulf Hindstrom has served as a Senior Banker with the EBRD for 13 years, specialising in infrastructure financing. He is closely involved in advising the Government of Kazakhstan on developing enabling conditions for Public Private Partnerships. His earlier EBRD postings have been in Belgrade and London. He has a background in commercial banking in Helsinki, Luxembourg and Riga, and holds a Master of Laws LL.B from the University of Helsinki.

Kenneth Mack, President, AmCham in Kazakhstan
Kenneth Mack is Managing Partner of the Kazakhstan office of the Chadbourne & Parke law firm and has served as President of AmCham in Kazakhstan since March 2006. He has extensive experience in transactions involving Kazakhstan, other countries in Central Asia, and Russia, in oil and gas, minerals, capital markets, bank finance, project finance, electric energy and telecommunications. Mr. Mack also has been counsel to multinational companies in a variety of investment disputes with private entities in Kazakhstan, and has been based in Kazakhstan for most of the past 12 years. He has been ranked by Legal 500 and Chambers Global (2006 and 2007) for corporate/commercial law and energy and natural resources.

Kanat Shakenov, Country Manager, CRDF Kazakhstan
A graduate of Kazakh State Medical University's Dentistry program, Kanat Shakenov earned a Master's degree from the University of Pittsburgh's Graduate School of Public Health. He was employed at the Kazakhstan Center for Systems Research, then as a UNICEF Project Assistant, and as a UNDP Project Manager. He has also served as Deputy Director-General of the Kazakhstan National Center for Biotechnology.

Sanjay Srikantiah, US-KZ Public-Private Economic Partnership, AmCham in Kazakhstan
Sanjay Srikantiah is working with AmCham for one year under a fellowship from the Emerging Markets Development Advisor's Program financed by USAID. He received his M.A. in International Affairs in December 2007 from the Johns Hopkins School of Advanced International Studies (SAIS) in Washington, DC. As a graduate student, he worked for BISNIS, the US Government's primary market information center for US companies exploring export and investment opportunities in Russia & Eurasia.

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WELCOME ADDITIONS TO THE CHAMBER

CURTIS, MALLET-PREVOST, COLT & MOSLE LLP

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Curtis, Mallet-Prevost, Colt & Mosle LLP is a leading international law firm. Headquartered in New York, Curtis offers the expertise of lawyers in 14 offices throughout the United States, Mexico, Europe, the Middle East and Central Asia. Curtis represents a wide range of clients, including multinational corporations and financial institutions, governments and state-owned companies, money managers, sovereign wealth funds, family owned businesses, individuals and entrepreneurs.

Curtis' worldwide practice includes corporate law, banking and finance, capital markets, private equity, mergers and acquisitions, project finance and infrastructure development, investment management, restructuring and insolvency, litigation, international arbitration, taxation and real estate. The firm's international orientation has been a hallmark of its practice for nearly two centuries. Curtis attorneys have a deep understanding of cultural and business sensitivities associated with conducting business across borders.

Curtis' offices in Almaty and Astana focus on general corporate and commercial work, infrastructure and public projects, international funds and international arbitration. The Firm's lawyers advise both government entities and private sector companies on some of the largest projects in Kazakhstan and the CIS.

JARYKH LTD.

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Jarykh, a private Kazakhstan company, was established in 1991. The company is a leader in Kazakhstan's telecommunications service sector. Jarykh projects completed to date include: (1) installation of 250 satellite TV receiving stations throughout Kazakhstan; (2) construction and operation of standard F3 satellite telecommunication station with Telstra (Australia) in 1994; (3) construction and operation of satellite stations network via a Very Small Aperture Terminal (VSAT) system in Kazakhstan with Belcom (US) in 1991; (4) provision via Inmarsat terminals (US) of international satellite telecommunication services functioning as an international settlement and directing organization in 1993-2000; and (5) establishment of a national trunk mobile radio telecommunication network with Protocall Ventures (UK) in 1996.

Jarykh is a founder of the following joint ventures: Alma TV, providing multi-program, cable TV services; Alma-Page, personal paging services in Almaty; Spektrum, developing a united trunk network in Kazakhstan; Kazpage, uniting paging companies in more than 20 cities in Kazakhstan; Inkatel, creating satellite telecommunications network in Kazakhstan; Instaphone, creating and operating local radio telecommunication networks for fixed users; ASIBO, developing a security signaling system in Kazakhstan.

In 2006 Jarykh opened a training center in Almaty with distance learning capacities. This system delivers satellite-based courses and training programs throughout Central Asia.

Jarykh also has a network of 150 e-cinemas, mainly in rural areas of Kazakhstan, including a main station in Almaty broadcasting Dolby Surround via satellite. Jarykh plans to expand this network to 300 theaters by the end of 2010, and to 2000 theaters by the end of 2020.

In March 2007, in cooperation with Internews (US) Jaryk launched a TV satellite channel "NOW TV" broadcasting via Yamal satellite throughout Central Asia and Kazakhstan. Jarykh currently transmits 3 TV channels and a radio channel (Ku and C-band) to the CIS. In February 2009 Jarykh acquired a license to operate Iridium, Thuraya and Global Star systems in Kazakhstan. In March 2009, Jarykh signed an agreement with MVS (US), Stratos (US) and Visada (Norway) to provide Iridium and Thuraya services in Kazakhstan.

EVENT DISCOVERY LLC

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Event Discovery, a company serving both private and corporate client needs through organization of a broad range of events, was founded in 2002. Over the past seven years the company has successfully produced more than 100 major events, and has developed and changed significantly. Event Discovery company has produced concerts, festivals, club parties, promotions, corporate retreats, and product launches across the full breadth of Kazakhstan. The company's creative staff work collaboratively with clients from the initial concept to identifying the best location, creating the most memorable decorations and entertainment, and organizing photo and video filming. Event Discovery is a full service organization producing high quality, professional results.

Corporate events, whether retreats or holidays, are geared to produce results in terms of team-building, management skills, executive vision, and corporate image for clients. The company's goals are an integral part of event design. Corporate clients to date include: ABN AMRO Bank, Royal Bank of Scotland, Alliance Bank, ATF Bank, the European Commission, Embassy of the Netherlands, EUROBAK, Kartel, Nokia, KAZKOMMERTSINVEST, Philip Morris Kazakhstan, Tengizchevroil, Sberbank, TuranAlemBank, Alcatel Kazakhstan, BEELINE, Capital Partners, Caspian Institute of Technology, London-Almaty Insurance Company, Mary Kay, Oriflame, Siemens, PetroKazakhstan, Sulpak, Altel, Wrigley, Astana Motors (BMW), and Red Bull.

WORK PERMITS KAZAKHSTAN

WORK PERMITS KAZAKHSTAN

CORPORATE C

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Work Permits Kazakhstan LLP was founded in 2002 for the purpose of processing and obtaining work permits for expatriate staff. The company's staff consists of work permit specialists with a solid track record in Kazakhstan emigration and labor issues. The WPK head office is located in Atyrau with branch offices in Aktau, Almaty, and Astana. Since 2002 the company has obtained 4000 work permits across Kazakhstan.

Advantages of Working with WPK

- With branch offices across Kazakhstan, WPK is able to operate in every region of the country, giving due consideration to each region's economic profile.
- WPK is experienced in obtaining multi-permits for 2 or more regions at once.
- WPK has a track record in working with companies in every sector (oil and gas, mining, banking, financial, and service sectors).
- WPK full-time professional staff ensures a specific staff member is assigned to each company file.
- WPK identifies a solution for any issue or obstacle, and is skilled at dealing with bureaucratic 'red tape'.
- WPK provides regular reports to clients on the status of a given file.
- WPK has an extensive client list of prominent companies with which it has long-term work relations.

WPK Clients

Work Permits Kazakhstan clients include Shell Kazakhstan, Baker Hughes, Schlumberger, MI SWACO, McDermott, Aibel, Lloyd's Register Kazakhstan, General Electric Kazakhstan, Electrolux, Deloitte, PricewaterhouseCoopers, Tyco, BJ Services, and Maersk Oil Kazakhstan.

American Red Cross

AMERICAN RED CROSS

NON-PROFIT

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American Red Cross International Services

With more than a century of experience, the American Red Cross works with the International Red Cross and Red Crescent Movement to meet the needs of the world's most vulnerable communities. Through our priority program areas, our initiatives promote cost-effective, community-based programs while building the capacity of our partners. Our current activities span the globe, from Latin America to Asia and the Pacific, from Africa to Europe and Central Asia.

The World's Largest Humanitarian Network

The American Red Cross extends its humanitarian mission around the globe through its work as part of the International Red Cross and Red Crescent Movement – the International Committee of the Red Cross (ICRC), the International Federation of Red Cross and Red Crescent Societies (IFRC) and more than 186 national Red Cross and Red Crescent societies.

Disaster Management

Our integrated approach to disaster management links preparedness, response and recovery activities. Responding to the increased frequency of disasters and global climate change, we also work with communities to build resilience to future disasters. When disasters hit, we provide relief supplies, financial assistance and technical support to ensure rapid response and recovery.

Disease Prevention

Our global health initiatives focus on preventing and combating infectious diseases, including measles, malaria and HIV/AIDS, on a large scale. We strive to create sustainable and equitable programs, serving hard to reach populations.

American Red Cross in Europe and Central Asia

American Red Cross has been supporting the Central Asian Red Crescent Societies for the last ten years in addressing the challenges of Tuberculosis, Maternal Child Health and Disaster Management and Preparedness. More recently, ARC began assessments to begin implementation of an HIV/AIDS program and further expand the program model into Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan). To facilitate program expansion in Central Asia, ARC has recently assigned a Regional Representative to Almaty.

Augustine Gill, the regional representative is keen to work with international and local corporations, donors and partners to support the community-based work of Red Crescent partners in Central Asia.

ERNST & YOUNG
Quality In Everything We Do

The 6th Ernst & Young Roundtable Discussion in Atyrau

On 7 April 2009 Ernst & Young hosted its annual discussion in Atyrau. This year's discussion on "Deciphering the 2009 Tax Code" gathered around 60 professionals mainly from upstream oil and gas and service companies. The discussion focused on recent changes to tax and other related legislation.

Dinara Tanasheva, Senior Manager, Tax & Legal Services, Ernst & Young, presents at the Roundtable

In particular, the discussion covered selected features of the new tax code and its accompanying implementation law that introduced a raft of changes to the taxation of all businesses in Kazakhstan as of 1 January 2009. In addition to this new tax legislation, various other legislative acts were amended covering tax related areas such as criminal and administrative sanctions for tax offences, legal entity registration procedures and investment preferences.

The panelists highlighted new corporate income tax (CIT) and Value added tax (VAT) initiatives such as the introduction of tax policies and registers, the decrease in the CIT rate from 30% to 20%, with further decreases to 17.5% in 2010 and 15% thereafter, the amended interest deductibility rules, changes to the requirements for payment of monthly advance CIT estimates, an increase in the loss carried forward period from 3 to 10 years and expanded VAT refund possibilities.

The discussion also covered important changes to cross border taxation such as the expanded definition of what constitutes a permanent establishment, the taxation of capital gains and the application of withholding tax as well as changes to employment taxation such as the imposition of personal income tax on secondees and other expatriate individuals and the introduction of a flat 11% social tax rate.

Finally, the panelists discussed how not to be caught out by the new administration, registration and audit requirements, with particular emphasis on the sanctions that can be imposed including the involvement of the financial police and criminal sanctions.

Ernst & Young
World Entrepreneur Of The Year®

Ernst & Young World Entrepreneur Of The Year

Cao Dewang, Chairman of Fuyao Glass Industry Group, has been named the Ernst & Young World Entrepreneur Of The Year 2009 at an awards ceremony held in Monte Carlo on 31 May 2009. Cao was picked from among the 43 entrepreneurs vying for the title, each of whom had already been named the Ernst & Young Entrepreneur Of The Year in their home countries. "To receive this award from among a group of such talented entrepreneurs is a great honor," said Cao, "not only for me, but also for the 10,000 employees of Fuyao, and for China, too."

Kazakhstan was represented in Monte Carlo by Nurlan Smagulov, President of Astana Group and the winner of the national contest in Kazakhstan. Astana Group holding comprises three main business segments – automotive dealership, grain production and trading, and real estate development.

The history of the Group goes back to the early 90s, when Nurlan Smagulov started a dealership of international automotive brands. Today Astana Motors is a national automotive dealership leader with vast geographic coverage throughout Kazakhstan. In the mid-90s Nurlan Smagulov launched a new business segment — grain trading — and since then has developed the vertically integrated Zernovaya Industriya comprising grain production, processing and trading both on domestic and international markets. Today the company is one of the leaders in flour and pasta, representing 8% and 33% of Kazakhstan's market, respectively, and one of the largest grain exporters in the country. Real estate development is the most recent business dimension of the Group's operations. The first Mega shopping mall — the largest in Central Asia — launched operations in 2006 in Almaty; since then, shopping malls under this brand have been expanding to other cities in the country, offering a new standard of shopping culture in Kazakhstan.

"The positive energy of World Entrepreneur Of The Year awards in Monaco inspired me," said Nurlan Smagulov. "I had an opportunity to network with national winners from other

Ernst & Young World Entrepreneur of the Year welcomes national winners from nearly 50 counties, Monaco, May 2009

Nurlan Smagulov, President, Astana Group, Ernst & Young Entrepreneur of the Year in Kazakhstan (in the center)

countries and can respectfully call them colleagues. Most of the national winners represent non-extractive sectors such as retail, construction, medicine, education. I met many entrepreneurs who build their start-up business in a tough competitive environment in developed markets and reached high results with their talent and hard work. I saw many encouraging examples of out-of-the-box thinking. I believe Astana Group is developing in the right direction and this will help us to look at market opportunities from a new dimension and realize new challenging projects."

This is the second year the contest has been held in Kazakhstan under Ernst & Young's international Entrepreneur Of The Year Award program. The contest is aimed at recognizing the outstanding achievements of entrepreneurs in the development of global and national economies. Last year, Kazakhstan was represented by Kairat Mazhibayev, Chairman of the Board of Directors, RG Brands. This year Kairat Mazhibayev was involved in the competition as a member of the independent international judging panel, the first CIS jury representative.

About the Entrepreneur Of The Year Program

The Ernst & Young Entrepreneur Of The Year program is the world's most prestigious business award for entrepreneurs. The unique award makes a difference through the way it encourages entrepreneurial activity among those with potential, and recognizes the contribution of people who inspire others with their vision, leadership and achievement.

As the first and only truly global award of its kind, the Ernst & Young Entrepreneur Of The Year program celebrates those who are building and leading successful, growing and dynamic businesses, recognizing them through regional, national and global awards programs in more than 135 cities in 50 countries.

TNT Productions, Inc.

Oil & Gas, Kazakhstan'2009 International Exhibition, Korme Exhibition Center, May 28-30, 2009

A 3-day international exhibition, ***Oil & Gas, Kazakhstan 2009***, was held for the first time in Astana between May 28-30, 2009, providing information, hands-on experience, and promotional opportunities for participants from many sectors of the country's economy. The event also demonstrated to the Kazakhstan government and oil and gas companies' senior management the value of social, economic, and environmental programs for regions of Kazakhstan where the petroleum industry is concentrated.

More than 60 companies from Kazakhstan, Russia, Turkey, USA, Italy, Germany, Ukraine, Belarus, China, the Gulf States, and Kazakhstani joint ventures with partners from the USA, Great Britain, Germany and other countries took part in the exhibition. The following companies also participated: KazMunaiGas, Smith International, SES-Borkit, Tengizchevroil, Turkuaz Machinery, Meccanonet Engineering (Italy), Kalhour Trading (UAE), Protego (Germany), KMT International (USA) and many others.

The exhibition included an impressive schedule of seminars and workshops on new technologies and engineering developments that support environmental protection programs:

- Soil rehabilitation from petroleum contamination and processing of petroleum cuttings
- Corporate social responsibility and non-financial statements of petroleum companies
- Creation of an international environmental center in Kazakhstan
- Digital modeling and delineation of offshore structures
- Laser centering and vibro diagnostics in the petroleum industry
- Environmental projects for the petroleum industry
- Corporate leadership and business practices
- Utilization of RSW and oil-contaminated wastes

LOGISTICS GROUP
GLOBALINK
Smart Logistics

Globalink Recognized - Once Again

Over the years Globalink has established strategic relations with all CIS railway authorities in order to provide unparalleled services. As a result, our expertise in the CIS region is second to none.

As official service providers to all CIS railways, Globalink is able to provide guaranteed and competitive rates in a short time span, within hours in most cases. Our dedicated Rail Division with its experienced staff is always finding flexible conditions and attractive alternatives to benefit our customers. Coupled with safe, secure transportation, world class service and the peace of mind we bring to our customers, Globalink has come to be widely recognized as the leading Multimodal Transport Operator, Project Logistics and Removals & Relocation management company in the region.

So it was a pleasant surprise when we were informed by the Kazakhstan Freight Forwarders Association (KFFA) that they had selected Globalink as the "Most Successful Rail Operator of 2008" in Kazakhstan and the CIS. This award, based on extensive evaluation of corporate services, is directly tied to service and quality, among many other criteria. Not an easy title to win but the fact that we received this says it all.

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It is with great pride that we announce that Globalink Logistics Group has been recognized as "The Best Supporting Customer of 2008" by Air France Cargo-KLM. Globalink Logistics Group (recognized as one of the best quality providers in the CIS) and Air France-KLM Cargo have worked closely together for a long time. Both companies have set high quality standards and are first-class service providers and innovators in the market.

Award Presentation (left to right) Julia Kraft (Air Freight Manager, Globalink), Hans Korbijn (Director Central & Eastern Europe, Air France-KLM Cargo)

This award is given to customers who have achieved outstanding revenue results and have proven loyalty. In turn, Air France-KLM Cargo guarantees a consistent approach to updating processes designed to meet and exceed customer needs and expectations. Globalink looks forward with confidence to repeating this achievement every year.

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KPMG

Janat Berdalina, KPMG President, Kazakhstan and Central Asia, Speaks at Fifth International Risk Management Conference

Janat Berdalina, KPMG President for Kazakhstan and Central Asia, was a featured speaker at the Fifth International Risk Management Conference in Almaty in April organized by the Eurasia Insurance Company.

The KPMG Regional President spoke on the theme of *"Never Again? Risk Management as an Integral Part of Financial Market Stability"*. Ms. Berdalina's comments were based on the results of research by KPMG and the Economist Intelligence Unit on the role of risk management in the banking sector during the credit crisis. Polls and interviews were conducted among chief executives at the world's largest banks. The focus was on identifying factors underlying the crisis and the consequences of risk management errors based on economic indicators in Kazakhstan and recommendations for improving corporate risk management systems.

Simon Foster, KPMG Russia Partner in Transaction Services and Restructuring, and Daniyar Adigamov, KPMG Kazakhstan and Central Asia Deputy Director of Transaction Services Department, also represented KPMG at the conference. Other speakers included executives at local and international banks, insurance companies, research institutes, the U.S. Embassy , and Standard & Poor's.

Other issues addressed at the conference included risk management in the financing of second-tier banks and small and medium business enterprises, the relationship between corporate risk management and insurance, techniques used to implement risk management systems in business processes, and business decision-making models in a high-risk environment.

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THE U.S.-KAZAKHSTAN PUBLIC-PRIVATE ECONOMIC PARTNERSHIP INITIATIVE: AN OVERVIEW

By Doris Bradbury,
AmCham Executive Director

The ***Public-Private Economic Partnership Program (PPEPI)*** is a qualitatively new undertaking for the American Chamber of Commerce in Kazakhstan, one that elevates the Chamber's advocacy ability on behalf of its members to a new level. The program provides a direct voice for AmCham members and the members of its PPEPI partners – *Atameken* and the *Forum of Entrepreneurs* in Kazakhstan, the *U.S.-Kazakhstan Business Association* in Washington – to the most senior levels of the government of Kazakhstan through the Prime Minister's Office. The very structure of this Pilot Program and the diversity of its partners is highly innovative, although it also acts in parallel to and in support of a number of other initiatives for Kazakhstan and Central Asia spearheaded by national governments and multilateral institutions.

PPEPI Coordinating Committee chaired by Deputy Prime Minister Yerbol Orynbaev and U.S. Ambassador Hoagland, April 1, 2009

PPEPI emerged from a meeting to discuss foreign investment issues between *Frank Mermoud*, then *U.S. State Department Special Representative on Commercial and Business Affairs*, and *Kazakhstan Prime Minister Karim Massimov* in Astana in mid-2007. As a result of this discussion, a concept was developed by which the business community – both foreign and local – would be able to articulate and tackle the obstacles they encounter in conducting business in Kazakhstan. Given the government's interest in encouraging further foreign investment, particularly from U.S. companies, the views of the business community were seen as an invaluable contribution to the country's economic development.

From the outset, six 'pillars', or priority areas, were identified as PPEPI target areas:

- Anti-Corruption/Rule of Law
- Transparency/Economic Efficiency
- Economic Diversification/SME Development
- Regional Economic Integration/Trade and Customs
- Cooperation in Science and Technology
- World Trade Organization (WTO) Accession

Today, the first five topics remain as PPEPI pillars, while WTO accession – although no less important – has been put aside for multilateral negotiation with the WTO members. Particularly in light of the recent decision by Kazakhstan to continue WTO negotiations as part of an overall membership package together with Russia and Belarus, this is no longer an issue that it is feasible for the business community to approach. The first five pillars form the base for PPEPI as it exists today.

After a successful day-long conference to launch PPEPI in Astana on 22 June 2008, a conference attended by a U.S senior delegation from the U.S. State and Commerce Departments and by Prime Minister Massimov, all of whom spoke about PPEPI's importance alongside international specialists in each of the program's priority areas, it was proposed that AmCham lead implementation of the program. The Chamber had, in fact, spearheaded the program together with the U.S. Embassy and the State Department during the year between the Mermoud-Massimov meeting and the June 2008 PPEPI launch.

AmCham worked together with the *U.S. Agency for International Development (USAID)* in the autumn of 2008 to elaborate a program structure that would enable all six partners (the two governments, AmCham, Atameken, the Forum, USKBA) to participate fully and effectively in articulating their views on improvements to the business environment, changes that would stimulate further inflows of foreign investment and trade and would enable local investors and businesses to flourish.

This was particularly timely given the global financial crisis that unfolded in the autumn and winter, striking at Kazakhstan's economy together with international markets. The need for economic diversification and a stable, well-regulated base for the country's economy away from exclusive dependence on oil and gas acquired new force; the financial sector, once the pride of Kazakhstan and its great hope to eventually serve as the center of Central Asia's financial community, was revealed to share the weaknesses impairing the world's deeply-interconnected financial system.

U.S. Ambassador Richard Hoagland at PPEPI Press Conference

On March 1, 2009 AmCham launched operations of its PPEPI Secretariat, a dedicated unit located within the Chamber offices, one-third funded by the U.S. and Kazakhstan goverments through USAID and two-thirds supported by cash and in-kind contributions from the four business association partners. The lion's share of the in-kind contributions (time, effort, services, expertise) derives from the Chamber with its sizeable membership across a highly-diversified sectoral and national base. This program is a one-year Pilot Program that will be assessed for possible extension and expansion in early 2010.

PPEPI is guided by a six-member Coordinating Committee that oversees and directs program priorities, policies, and activities. The six members are the most senior representatives of the PPEPI partners: *Deputy Prime Minister Yerbol Orynbayev, U.S. Ambassador Richard Hoagland, AmCham President Kenneth Mack, Atamaken President Azat Peruashev, Forum of Entrepreneurs Chairman Raimbek Batalov, and USKBA Executive Director William Veale*. This Committee meets three times annually to set policy for the year ahead, to review operations at mid-year, and to assess the program at year-end. The Deputy Prime Minister has been extremely supportive and has offered any and all resources in support of program success.

The core of PPEPI is formed of its five Working Groups corresponding to each of the five pillars. Each of these Groups has six members designated by the six partners and is headed by a Chair elected by the Group. These are not discussion groups, though discussion forms a large part of their monthly meetings in Almaty and Astana, but groups whose purpose is to produce two annual White Papers each – policy papers containing recommendations for the government of Kazakhstan together with a contextual presentation of the impediments to investment and trade.

Given the variety of viewpoints embodied by each partner organization and the fact that each Working Group includes representatives of two governments, the White Papers draw on a rich diversity of experience and embody a broad range of goals. The government of Kazakhstan participates in PPEPI both in framing the White Papers and as a recipient of the recommendations – an innovative approach.

There are five PPEPI public Roundtables whose themes derive from the Working Groups grouped into three days across the year. The first two Roundtables were held in Astana on July 16, 2009 – *Corruption/Rule of Law* in the morning, *Transparency/Economic Efficiency* in the afternoon - immediately preceding the mid-year Coordinating Committee meeting on July 17. The Roundtables are open to government representatives, members of the four business association Partners, to any member of the public with an interest in these topics, and to the media.

The July 17 Coordinating Committee meeting centered on discussion of the first round of PPEPI White Papers and heard reports from all PPEPI Working Group Chairs on the progress of their Groups. Planning was conducted for the next two Roundtables in Almaty and Washington.

A Press Conference followed the Committee meeting to allow for maximum coverage of PPEPI. A targeted communications strategy forms an important part of the program: in addition to press conferences to highlight the White Papers and the Coordinating Committee meetings, AmCham is providing its extensive communications network – *Investors' Voic*e with a worldwide circulation of 3,000, the AmCham website with a dedicated PPEPI section in Russia and English, the biweekly electronic Newsletter, PPEPI brochures in Russian and English, and the full range of AmCham media contacts for print, electronic, and visual media – to ensure that PPEPI and its goals are well-known.

An interesting addition to the policy side of the program is an Executive Exchanges component that annually enables ten executives at member companies of the four PPEPI business association partners to undertake visits at host companies abroad for the purpose of developing collaborative projects between companies and to observe internal management and governance procedures.

AmCham and its PPEPI Secretariat work closely with both governments, all PPEPI partners, and with USAID, which is lending its generous support to PPEPI during this Pilot Year, to ensure maximum impact for all six pillars of the program. For AmCham members this is a vital component of the Chamber's activity to facilitate and support their business activity in Kazakhstan. As the Chamber celebrates its tenth anniversary in 2009, AmCham leadership of PPEPI is yet another demonstration of the Chamber's coming of age through its advocacy for its members.

PPEPI Press Conference

CANADA AS A PARTNER IN KAZAKHSTAN'S PPEPI

By Igor Abramov, Counsel,
and Lisa Koverko, Associate,
Heenan Blaikie LLP, Toronto

As an American who served at the U.S. Commerce Department for eleven years as Director of the Good Governance Program and who is now working with a Canadian law firm with nine offices across Canada, I take a particular interest in the U.S.-Kazakhstan Public Private Economic Partnership Initiative (PPEPI). Canada is a participant in this AmCham-led intergovernmental program that joins together the voices and interests of the public and private sectors. The Chamber has a large number of Canadian members whose commercial activity will benefit from the program's success. As a whole, the Canadian presence in Kazakhstan has been strong and consistent since even before the country gained its independence, and has grown significantly over the past two decades – not only in Kazakhstan, but across the region. The issues that PPEPI tackles are very much part of the Canadian business experience in Central Asia.

Kazakhstan has exciting opportunities on the horizon; it has made significant progress in liberalizing its economy, facilitating both micro and macroeconomic growth, and creating entrepreneurial opportunities. It is positioned as a transit corridor and a hub for serving markets well beyond Eurasia, and it has increasing amounts of foreign interest in investment opportunities. The PPEPI six pillar approach intends to further Kazakhstan's goal to develop into a significant player on the global stage. For this goal to be realized, the Initiative will need to incorporate the voices of the various actors who will be affected by this development.

Kazakhstan has an established social enterprise and collaborative culture. Throughout the last decade, self-help groups, NGOs, cooperatives and vocational enterprises have been implementing social assistance, training citizens and promoting the interests of communities around the country. In addition to these community-based initiatives, large international organizations, government agencies, and both national and trans-national businesses have promoted developments in trade, industry and infrastructure. It is important for Kazakhstan to leverage this cooperative culture to meet PPEPI program goals.

One of the challenges for PPEPI –an ambitious program – is for all of these actors, each coming from different backgrounds with different skills and agendas, and sometimes diverse interests, to find common ground and a common voice. In order to facilitate successful collaboration between the public, private, foreign and domestic sectors, all relevant stakeholders must be engaged in the process of implementing the goals of the PPEPI. Kazakhstan will only become economically competitive on the world stage if diverse sectors continue to mobilize to reduce corruption in the private and public sectors, develop institutional infrastructure and promote fiscal responsibility.

It is significant that each of the PPEPI partners – the two governments, the four business associations with a broad and diverse range of members - is equally represented throughout the program, beginning with the Coordinating Committee, through the Working Groups, White Papers, Roundtables, and Executive Exchanges Program. The government of Kazakhstan is both a participant in framing the recommendations that form the backbone of the White Papers and a recipient of their recommendations.

Nonetheless, consensus and common understanding take time to create among players who do not have an established history of meeting around a table in a small group to share viewpoints and to work towards a common goal. This process requires continuous dialogue among all stakeholders, both during the period in which the mandate is being established and after its establishment. Every stage of creating and implementing the mandate will involve a certain amount of compromise and a discussion of what interests and goals are at stake.

U.S. entities and large Kazakhstani institutions have a history of collaborating to successfully implement components of their mandates. The American Chamber of Commerce, Ernst and Young's Kazakhstan office, the American Bar Association and the U.S.- Kazakhstan Business Association have developed national accounting standards, promoted the introduction of jury trials, and invested resources in project implementation. However, PPEPI will be the first program integrating local businesses and civil society (through their memberships in the four PPEPI business association partners) into the process of prioritizing issues and establishing procedures for implementing these priorities. The voices of business and civil society are vital components in the process.

The U.S. Department of Commerce has made significant advancements in this area. From 2002 to 2004, the Department's Good Governance Program (GGP) trained four professionals who promoted good corporate governance and business ethics standards in Kazakhstan through seminars, workshops and trainings. In 2008, the Department's GGP and Eurasia Foundation of Central Asia partnered to establish a Center for Corporate Governance and Business Ethics to equip local business owners, national corporations and members of the government to implement and further propagate good governance programs and practices.

As good corporate governance practices are developed in Kazakhstan, it is the smaller businesses that are experiencing difficulty in complying with the standards, which can be complex and costly to enforce. As such, as regulations for governing trade and business practices are being developed, it is important that local merchants, national unions, and small and medium-sized businesses contribute to the discussion on how this PPEPI goal can be effectively implemented and how the necessary support and training resources can become affordable. This general engagement can be accomplished either formally or informally, through conferences, roundtables, seminars and workshops.

In addition to continuous engagement of key stakeholders, it is also important that the goals of the Initiative are developed within an environment that facilitates sustainability. Not only does sustainability create business value, but without

it, all development efforts will at best be temporary. This environment can be created by establishing a legal framework oriented toward free markets and the development of reliable institutions. This legal framework should be built around the Rule of Law to ensure protection from the abuse of power and inconsistent enforcement of the law.

One of the most important elements of creating sustainability is establishing rules that regulate behavior, set out standards of conduct, and create a level playing field on which both national and foreign investors can conduct business. For example, the PPEPI goal of achieving transparency requires that the rules mandating disclosure in publicly-traded companies are clear and fair. Legislation should be treated like a contractual agreement between citizens and the government, an agreement which will be most effective if people are part of developing the parameters of the terms and can enter into it voluntarily.

Sustainability is also facilitated through the formation of a judiciary that is viable, knowledgeable and independent. Providing an efficient method of dispute resolution is crucial in meeting the demands of an economy that is privatized and competitive. This can be accomplished by providing the courts with adequate funding that will allow them to make and publish their own decisions, by evaluating progress on a periodic basis, and by creating alternative dispute resolution mechanisms. One issue that impacts the independence of the judicial system is the extent to which it is still controlled by the Executive, who appoints all judges expect for those on the Supreme Court, determines how many judges the country should have, and how much the judges should be paid.

Additionally, there is a lack of adequate transparency in the court system; statistics on caseloads and prosecutions are hard to obtain and special permission is required to observe court proceedings. Within this uncertain framework, the robustness of the laws, measures and regulations to be implemented by the PPEPI will be threatened. However, there has been a visible willingness by the government to improve the transparency and fairness of the legal and regulatory system with the implementation of the jury trial in murder cases, pay increases of judges, and the increasing accessibility of legal education.

The above is only a brief indication of the issues that may be taken up, discussed, and presented for resolution by the PPEPI. Kazakhstan has taken many steps towards its goal of developing a prosperous economy and becoming a modern, competitive player on the world stage that can continue to attract global investment not only into the natural resource sector, but into other priority areas of the national economy. PPEPI is one more indication of the country's willingness to communicate with the international community, in this case the investment and trade community, as well as with its own companies and small businesses, as it moves forward on all fronts. Kazakhstan is to be lauded for its ambitions, its ability to articulate and face challenges, and its dedication to the diversification of its economy and desire to bring it up to world standards. The PPEPI can be a vital and positive element in this process.

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RULE OF LAW: EVOLUTION OF A POST-SOVIET LEGAL FRAMEWORK FOR INVESTORS

By Kenneth Mack, AmCham President

The Government of Kazakhstan acted boldly in creating the ***Public Private Economic Partnership Initiative (PPEPI)*** together with the United States Government, the AmCham and other business associations from the US and Kazakhstan. AmCham welcomes this opportunity to work with the government on priority issues for both the business community and for the government's long-term investment strategy. It is notable that very few emerging market states would consider inviting a foreign government and private sector organizations to join with them to promote domestic policy reforms. It is a sign of the confidence and open-mindedness of the Government's leadership that Kazakhstan has embarked on the PPEPI.

The most challenging pillar of the PPEPI, and the one for which Kazakhstan's government deserves the greatest credit, is the commitment to analyzing, challenging and overcoming corruption and promoting rule of law. These are issues that have been given public voice and opened to public discussion recently in several ground-breaking conferences in Astana this year.

Kazakhstan's government clearly has demonstrated its intent to bring about the necessary reforms. The Government understands that change will come through better education of local officials. The administrative and judicial authorities need better training and exposure to modern, western norms. In addition, of course, the Government needs to root out local practices that run counter to principles of rule of law. "Rule of law" can be confused with the enactment and enforcement of laws. While no official definition of "rule of law" exists, to most legal and policy experts it means a democratic legal culture manifested in the fair and equitable application of law.

We recognize that it takes time to change a legal culture, particularly one that has been subject to such rapid political and economic change as has been the case over the past two decades in the CIS countries. These are long-term processes telescoped into a compressed time-frame and still in evolution at many levels. The awareness that the state and its officials have as their chief purpose protection of the individual's freedom in society – and protection of the investor in the business community - is at an intermediate stage.

A group of legal scholars from Kazakhstan and other CIS countries in the early 1990s created a model Civil Code, which borrowed heavily from the Dutch Civil Code. Kazakhstan adopted this model as the basis for the country's Civil Code. It protects freedom of contract, provides for the establishment of profit making companies, and allows for law suits to redress commercial harm.

Moreover, Kazakhstan's Constitution protects free enterprise; and a large number of laws provide details on all of the various elements underpinning a viable market economy, including laws on banking, finance, corporations, land ownership, secured transactions, bankruptcy, and stock exchanges.

The Criminal Code and the Administrative Code, the two main enactments setting forth punishments for offenses, have not been reformed to the same extent as the Civil Code. More importantly, there has been little paradigmatic shift in the outlook of the law enforcement officials entrusted with policing the system.

From a textual standpoint, the majority of Criminal Code articles, including the chapter on "economic crimes," require that, in order for an individual to be held personally liable, the state must prove that he or she acted with intent to commit the act prohibited by a specific article. The requirement of proof of intent is a common feature of the criminal laws of most western legal systems. In most developed countries, the burden of proof placed upon the state to establish intent is a strict requirement, for otherwise the individual is left at the mercy of law enforcement agencies.

The problem of administrative and criminal actions against foreign investors has long been a problem in Kazakhstan, but since the onset of the financial crisis it appears that the number of cases has increased. It is often noted that the courts are unreceptive to arguments of the need to establish intent. In some cases there are indications that local courts may be acting together with local administrative authorities. Thus, the need for reform of Kazakhstan courts is of equal importance to the need to reform the administrative law enforcement system, as courts may remain subject to influence on a number of levels.

As an example, let us examine the treatment of foreign investors by the tax and other administrative authorities which, from the point of view of the foreign investor may be a significant rule of law challenge facing Kazakhstan.

In Kazakhstan, as in Russia and other CIS countries, the tax, customs, financial police, prosecutor's office, and other administrative

and law enforcement authorities, bring enforcement actions against investors in circumstances in which such actions would not be taken – at least not so quickly - in the west. The authorities may incorrectly apply the tax laws in reaching a finding of underpayment or nonpayment of tax. Even in those cases in which the authorities have accurately identified an underpayment, the foreign investor may well not have intentionally failed to pay.

A disquieting element in such situations is that senior corporate officials are subject to personal administrative and criminal liability. A criminal investigation is normally opened if the value of the alleged underpayment reaches approximately $17,000, a relatively low threshold that may expose corporate officers and the chief accountant to risk of prosecution.

With its abundance of hydrocarbons and a thriving oil and gas industry, Kazakhstan has set for itself ambitious goals of attracting foreign investment as an engine to diversify its economy. Diversification is a leading government priority with emphasis on industries such as financial services and agriculture that would greatly enhance the country's economic profile. Investment and trade across industry sectors are being driven by both local and by foreign investors, who are increasingly becoming aware of Kazakhstan's success story. Much has been done over the past two decades to encourage and support investment and trade in Kazakhstan, including the updating and restructuring of the legal code to keep pace with this rapid transformation, but the process is not yet complete. Rule of law entailing judicial and administrative change is an important element in the process.

Kazakhstan has far outpaced the other four Central Asian republics in terms of macroeconomic growth and political freedom. It is seen as a leading force in Asia to promote modernization and rule of law. The international community has great hopes, and optimism, that the Government will maintain its focus on the necessary changes that will encourage investment in this burgeoning market economy.

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TRANSPARENCY AS A FACTOR IN ECONOMIC DEVELOPMENT

By Jeff Erlich, President,
Eurasia Foundation of Central Asia

Public transparency is a high standard that can take many forms in both the government and the private sector, a goal sometimes difficult to achieve, but essential for public confidence in the operations it opens up to inspection and verification. Transparency is always a work in progress requiring a concerted effort on both sides to achieve its ultimate effect. The following reflections offer several diverse examples of transparency – or the lack thereof – and its consequences in the economic sphere.

In the past two years, the Government of Kazakhstan has taken several important steps to increase transparency in collecting and spending revenue. In May 2008, it ratified the UN Convention Against Corruption. Prime Minister Karim Massimov in June 2009 set a one-year timeframe for full compliance with the Extractive Industries Transparency Initiative. And in 2007, the government introduced an updated Law on Government Procurement.

These steps have been recognized by civil society leaders. For example, Vitaly Voronov, chairman of Transparency Kazakhstan, said at the 2008 Kazakhstan Growth Forum that the government "recognizes that corruption brakes the process of social and economic development [and] is a serious threat to the future development of the state."

The PPEPI Working Group on Government Transparency and Economic Efficiency has decided to focus on the implementation of the Law on Government Procurement, which introduced several important reforms in updating the prior law from 1997. Given that purchases by the government account for about 10 percent of GDP (as compared to an average of 17 percent in Europe), any additional moves to attract more and better qualified bidders could have important benefits to taxpayers, consumers and the government.

The working group intends to base its recommendations on the experience of foreign and domestic bidders, on the general assumption that implementation may be lagging behind the good intentions of the 2007 law. As well, the working group will examine whether additional reforms are needed: for example AmCham and the U.S.-Kazakhstan Business Association are interested in exploring the strong local preferences in procurement in the oil and gas sectors. As well, a variety of companies have reported what may be seen as loopholes, such as when a procurement is cancelled and the government or state-company buyer instead goes with a sole-source vendor; the working group would like to understand whether the 2007 law effectively closed these loopholes, or whether they still exist.

The Government of Kazakhstan too is interested in receiving feedback from businesspeople and recommendations on improving procurement transparency, as it recognizes the economic benefits of improved procurement practices.

However, along with these concrete steps toward greater transparency are actions that continue to raise concerns. The U.S. government, one of the PPEPI partners in its ***2008 Investment Climate Statement*** wrote:

"Despite continuously increasing investment into Kazakhstan's energy sector, concerns remain about a tendency on the part of the government to challenge contractual rights, to legislate preferences for domestic companies, and to create mechanisms for government intervention in foreign companies' operations, particularly procurement decisions. Together with vague and contradictory legal provisions that are often arbitrarily and inconsistently enforced, these negative tendencies feed an enduring perception that Kazakhstan is becoming less open to investment".

Kazakhstan's June announcement that it is suspending WTO talks and instead intends to negotiate accession in concert with Russia and Belarus gave pause to observers who see the international body as a guarantor of transparency in many aspects of procurement and business-rights protection.

As well, several recent cases have demonstrated the link between transparency and economic growth, when for example the share price of Uranium One, a Canadian partner of Kazatomprom, plunged 40 percent on news of the arrest in May of Kazatomprom senior executives on corruption charges. Following the arrest, Samruk-Kazyna announced it would investigate other asset sales by companies under its control, raising concern among businesspeople as to what other disclosures and upheavals impacting on investors might follow. The fight against corruption, while a welcome phenomenon, can take unexpected turns and have far-reaching ramifications for investment.

On a related subject, the impact of the twin themes of transparency and creation of a 'level playing-field' can also be observed in the capital markets, with predictable consequences. The risk premia attached to equity valuations correlate strongly to visibility and transparency, and investors respond positively to evidence that corporate governance matters are rigorously enforced. Disclosure of ultimate beneficial ownership of listed companies, together with the timely and orderly release of material information to the market can strongly influence the multiples investors are prepared to pay to hold stock. Observance of the principle of transparency has demonstrated significant benefits to emerging markets by increasing stock market valuations, attracting greater inflows into debt and equity instruments and generating a functioning and vibrant marketplace.

The challenge, then, for the PPEPI Working Group, as well as reformers in the government of Kazakhstan and their supporters, and for the private sector, is to help ensure that clear steps toward improved transparency are transmitted through both government and the private sector to the benefit of not only investors, but to the country's developing economy as a whole.

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ECONOMIC DIVERSIFICATION THROUGH PUBLIC-PRIVATE PARTNERSHIPS

By Ulf Hindstrom
Senior Banker, EBRD Astana Resident Office

That Kazakhstan needs to diversify its economy is not open to dispute; it is a government priority and is often commented on by the business community, both foreign and local. Many avenues are being tested to decrease the country's dependency on the oil and gas dominated industry. One avenue currently being followed is Public Private Partnerships or PPPs.

Kazakhstan has already been preparing for PPPs for several years. In December 2008, the Government launched tenders for the first major PPPs in the road sector, while akimats (municipal governments) are developing long lists of potential PPP projects in the municipal sector ranging from traditional utility services like water, district heating and urban transport to schools and hospitals. Expectations are high that PPPs will deliver not only improved public services and investment (including FDI) but also open new opportunities for the private sector.

In this respect, it is important to note that PPPs are not only about the construction of state assets (although this is still a common misconception in Kazakhstan), but about the private sector providing long-term public services. Concession companies create jobs, develop new skills, and reduce the dominance of the state in the economy. Experience shows that once the public service market segment is opened to private entrepreneurs, these tend to diversify into other sectors and become growth engines in themselves. One needs only think about the French utility companies that have become global players across a variety of sectors.

Are PPPs worth pursuing in Kazakhstan and what is the likelihood of success? The reply will be like the proverbial glass – half-full or half-empty depending on where you are coming from. The following is an attempt to examine the situation from both sides in light of pending road concessions.

The starting point is obvious. Kazakhstan has good potential for PPPs. The investment needs are huge, offering plenty of scope for innovation and efficiency improvement – traditionally core competencies of the private sector. Even in times of economic crisis, the private sector is able to raise financing for well structured PPPs – and the private sector is definitely interested in PPPs.

New Road Project in Kazakhstan

Over the past few years, the Government has made huge strides in improving the institutional and legislative framework for PPPs. Amendments to the Concession Law in 2008 removed many of the "fatal flaws" in the original law of 2007 (although scope for further improvement remains). A further step in the right direction was the establishment of a PPP Centre in September 2008 to accumulate know-how and ensure a consistent approach to PPPs across all sectors. And the state policy is broadly supportive of PPPs.

The proof of the pudding is, as usual, in the eating. The key to success lies in the implementation. In this respect there are two things that need to be done right: the process for selecting concessionaires must be open and transparent, creating a level playing field among interested parties. And the contractual terms offered must make the PPPs attractive to the markets by being balanced and fair; this is even more crucial for PPPs where the contract durations may be extremely long, up to 25-30 years.

On the first point, the requirement for openness and transparency is largely met by the Concession Law obliging concessionaires to be selected through a public competitive tender. However, on a few points it is less clear. As the law does not so require, tenders have been run without pre-qualification, although this is standard practice around the world to eliminate unsuitable bidders. The legal qualification criteria stress form over substance, which may lead to disqualification of qualified firms based on petty discrepancies or ambiguities. Lastly many selection criteria are highly subjective; for example "compliance with state strategies", "support of employment", and "level of compliance with environmental laws".

The element of discretion opens the door for favoritism and corruption, which may deter serious companies from entering the markets. If there is doubt over transparency and fairness of procurement, it will make raising finance more difficult, if not impossible, not least because of the risk of legal or political challenge after contract award. To eliminate these concerns, the Government should align the procurement legislation and practice with international standards. This would send a strong positive signal to the markets and add to the attractiveness of the PPPs.

On the second point, there is also work to be done. Although the quality of the draft road concession contracts are hugely better than those seen in earlier Kazakh concessions, they still include ambiguities and provisions that are not fully in line with best practice. For example, the Government has had a tendency to automatically shift to the private sector risks that it does not want to assume itself - for example, land acquisition and foreign exchange risks, instead of following the principle that the risks should be borne by the party who is best placed to control them. Non-standard risk allocation may result in the markets rejecting the PPPs. To ensure acceptability, it is good practice to market test the documentation before launch of tenders. Currently this is done only after the tenders are launched.

In addition, there are a number of purely technical matters that are sub-optimal. Perhaps because of lack of familiarity with PPPs, the draft contracts tend to focus on the construction phase for which they provide detailed design parameters at capped costs. A contributing factor is certainly the Soviet legacy with its prescriptive construction norms and compliance controlled by Gosexpertise. This is a pity. Private sector added value is often delivered through innovative technical solutions that government bodies have not thought of and which do not exist in the state norms. In contrast, the provisions for the operating phase and remuneration have tended to be overly generic, leaving scope for different interpretation. Lack of clarity makes it less likely that the Government actually will get the sustained benefits and quality it aspires to obtain, and it may come at additional cost to the Treasury.

These have, however, largely been teething problems similar to those seen in many other transition countries. Some problems could have been avoided if the Government had, from the start, taken a systematic approach to engaging internationally experienced advisors. All in all, the Government's leaning curve has been steep. Lessons have been learned through feedback from international operators with an interest in the concession projects, advice from EBRD and other IFIs, and by attending and organizing conferences in Kazakhstan and abroad. Naturally, there is still a long way to go. With the tendering process open, negotiations ahead and the discussions with financiers yet to start, several more issues will be unearthed during the coming months – that is part of the process. Much will now depend on how these final stages are managed.

Infrastructure is a Priority Need

In conclusion I would say that Kazakhstan is on the right path. The Government has made a bold decision to invite the private sector into areas traditionally provided for by the state, well aware that everything is not perfect at the outset. If the continuing process is skilfully managed, the Government has good chances of using concessions as a tool for economic diversification. The jury is still out.

Председатель правления корпорации "Шеврон" Дэвид О'Райли и генеральный директор ТОО "Тенгизшевройл" Тодд Леви торжественно вручают Президенту Республики Казахстан Н.А.Назарбаеву сосуд с первой нефтью на церемонии запуска проектов расширения Тенгиза. 5 июня, 2008 г.

Chairman of Chevron Corporation, David O'Reilly, and Tengizchevroil General Director, Todd Levy, present President of the Republic of Kazakhstan, N. Nazarbaev with the first oil from expansion facilities at a Commissioning Ceremony in Tengiz on June 5, 2008.

"Это самый крупный инновационный проект в Казахстане. Тенгизшевройл и есть корпоративный лидер в нефтегазовой отрасли Казахстана. Эти проекты дадут новый импульс развитию всего региона. Это большой успех, который будет служить в интересах инвесторов и на благо народа."

Н.А.Назарбаев,
Президент Республики Казахстан

"This is the largest innovative project in Kazakhstan. Tengizchevroil is indeed a recognized corporate leader in the national petroleum industry. These projects are expected to give strong momentum to the development of the entire region. This is a tremendous success for the interest of the shareholders and for the benefit of the community."

N. Nazarbaev,
President of the Republic of Kazakhstan

CRDF AND SCIENTIFIC DEVELOPMENT IN KAZAKHSTAN: PAST, PRESENT, FUTURE

By Kanat Shakenov,
Director, CRDF Office, Almaty

After the collapse of the Soviet Union, science in Kazakhstan faced major and fundamental challenges for nearly one and a half decades. Scientific institutions were struggling for survival, and many scientists left the country for employment abroad, creating a serious brain drain. Many others left science, but remained in Kazakhstan to seek jobs wherever they could. The very existence of the scientific infrastructure was at risk.

In an era characterized by a precipitous decline in GDP and skyrocketing inflation, the future development of science was not among the country's strategic priorities. The level of state funding for scientific research and development decreased dramatically. As a result, for more than a decade scientific infrastructure deteriorated, impacting on all stages of the scientific process: basic research, applied research, pilot production and mass production.

The role of the international donor community in preserving Kazakhstan's scientific heritage at that time was enormous and this support was much appreciated by the scientific community in the 1990s. International support enabled many institutions to survive and many scientists to remain in research, thus helping the country avert the final and irrevocable destruction of the scientific sector.

The U.S. Civilian Research and Development Foundation (CRDF) took an active role in supporting local science along with other donors. Since 1996, CRDF has committed more than $3 million in support of science in Kazakhstan. CRDF covered a broad range of scientific activities through its programs, namely, joint projects and collaborative research between Kazakh and U.S. scientists under the Cooperative Grants Program (CGP) in which 80% of funding went to Kazakh scientists. CGP grants averaged $60,000 and were awarded on a merit review basis. More than 20 awards were made to joint research teams. Within the framework of its Innovation programs, CRDF promoted pre-commercial R&D collaborations between researchers from Kazakhstan and U.S. industry through travel grants, research grants and regional technology commercialization activities. This support included travel grants to the United States and pre-commercial research grants between Kazakh researchers and U.S industry.

Dozens of scientists and engineers from Kazakhstan also participated in regional proposal writing and technology commercialization seminars. CRDF's institution-building and equipment grants provision activities included establishing three state-of-the-art shared equipment research centers at selected civilian research institutes in Kazakhstan. The equipment serves as a hub for regional economic and technological development. A total of 59 CRDF grants have been made in Kazakhstan, involving more than 300 Kazakh and U.S. scientists and engineers. The Foundation also provides support to U.S. government agencies and contractors implementing programs in Kazakhstan designed to engage former weapons scientists in non-defense related collaborations with U.S. counterparts.

CRDF makes available its administrative, financial and project management infrastructure to other organizations with scientific and educational programs in Kazakhstan. To date, CRDF has provided services to 15 projects in Kazakhstan.

The Present and the Future

Since 2000 science in Kazakhstan has substantially improved due to economic growth and significantly increased funding for science. A great deal of scientific equipment has been purchased over the last several years, and the community of scientists working on R&D has stabilized. However, the country's scientific community has needed to address many problems, many of them a consequence of very scarce funding in the 90s. Globally, however, the influence of science on economic progress has grown enormously. In the modern world economic growth and progress are not possible without sophisticated technology. This is particularly important for countries like Kazakhstan with emerging market economies that are at risk of becoming exclusively focused on natural resources. The wealth and well-being of any country should be linked to technological progress, not dependent solely on natural resources.

Today companies and industry worldwide are using scientific products to enhance their competitiveness. The changes occurring in science in recent decades have opened up absolutely fantastic opportunities—and challenges.

The difference in scientific/technological development between developed and developing countries is increasing constantly and increasing rapidly. Keeping pace in this high-powered 'race' is an extremely difficult task for any country. Nevertheless, Kazakhstan—possessing enormous natural resources and highly educated human capital—has set itself the ambitious goal of joining the world's top 50 most competitive nations. There can be no doubt that R&D is crucial to attaining this goal. Changes and development are required at an institutional level in order to create the conditions for R&D to advance to a higher level. In the modern world, science is no longer developed by individual scientists, but by highly-skilled, well-equipped scientific teams.

World-class research by Kazakh scientists is possible only if they are integrated into the international scientific community. There should be competition for financial funds resulting in the best, most effective,

and most future-oriented projects receiving funding. Competition will raise the quality of scientific groups and institutions, and this will lead to more funding, partners and investors. Due to limited financial resources, the trend today is for more and more companies worldwide to search for the most cost-effective R&D partners abroad, as well as in their own countries. This will lead to increased demand for high-quality R&D.

Certainly, the development of new knowledge—and the successful transition of new knowledge into new technologies, which may then be implemented in the real sector of economy—is a very complex and ambitious goal. There are many challenges, including the setting of priorities, selection of available/proposed projects, attracting investment, intellectual property issues, and project and data management. Of great importance is improving human capacities in science, especially that of the younger generation. The difficulties entailed in these challenges are clear, and the government of Kazakhstan needs international/foreign experience, as well as reliance on more international R&D collaboration. There should be clear mechanisms and incentives developed to attract more private funding into the science sector. Unfortunately, philanthropy in science is not common in Kazakhstan. Large businesses and corporations might give some consideration to supporting R&D development as part of their corporate social responsibility efforts.

CRDF is ready to continue working with the Kazakh government and advancing Kazakhstan's scientific heritage to a higher level and standard. With more than a decade of experience managing international research funding programs and supporting emerging science and technology infrastructure in more than 30 countries in Eurasia, the Middle East, North Africa and South Asia, CRDF is well-positioned to make a difference in bringing science and economic development together. At CRDF, our work engages thousands of scientists and engineers who work together across borders to address today's most critical challenges—from health and the environment to security and education. This experience in developing and managing programs in the complex regions that CRDF serves provides a valuable resource for the U.S. government, industry and research communities.

One CRDF success story is its joint implementation of the Basic Research and Higher Education (BRHE) program in Russia with the Ministry of Education and Science. The BRHE program transforms and reinvigorates the training of young Russian scientists by strengthening the basic research capabilities of Russian universities. BRHE has created an innovative, but tested model based on the research programs at universities of North America and Europe, to

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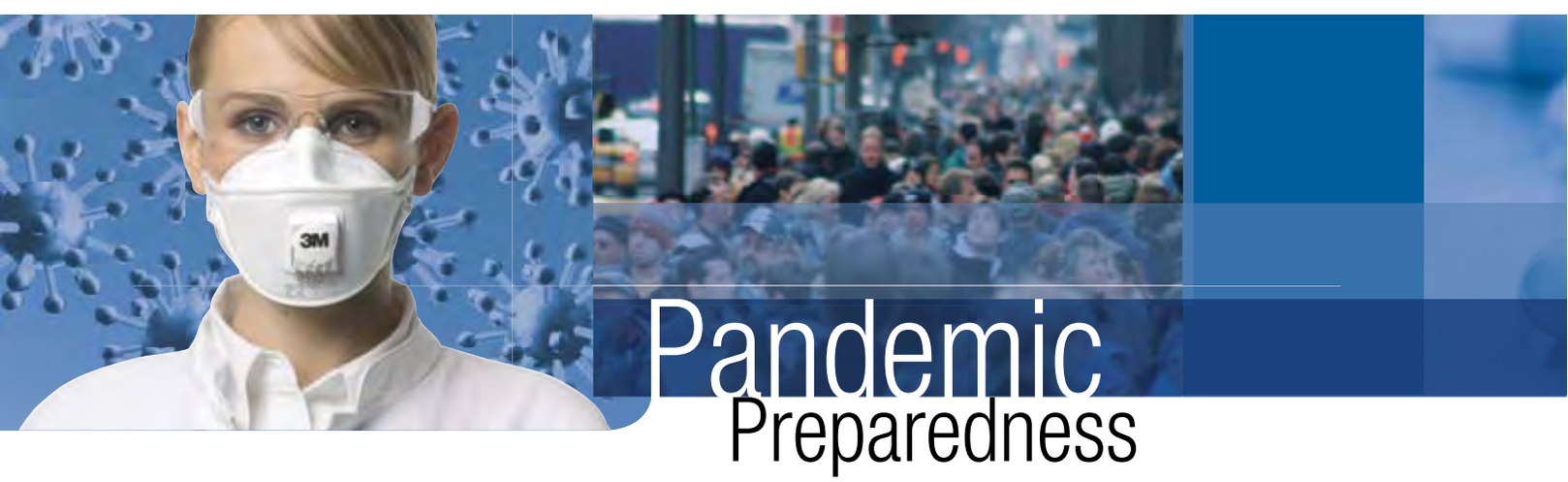
strengthen Russian research and education in the natural sciences (biology, chemistry, earth sciences, mathematics and physics).

The program's core strategy is to establish Research and Education Centers (RECs) within selected Russian universities. These centers are charged with promoting high-quality scientific research and education programs and cooperating closely with other leading research, education, government and community institutions. State-of-the-art equipment for high-level research and teaching, purchased with BRHE support, serves as a magnet to attract both established and young researchers. The program's results and impact have been so positive that Russia is providing full financial coverage for RECs and taking leadership and ownership of the program.

CRDF's *Science & Technology Entrepreneur Program (STEP)* is another program driving economic development and addressing some of Kazakhstan's challenges in joining the ranks of the most competitive nations. This program introduces local businesses and investors to innovation and seeds new science-business partnerships that help both local and international business increase their competitiveness. STEP training, events, and grant competitions teach scientists and engineers more effective ways to engage with business and industry. STEP activities create links between the research community and local businesses, establishing a market-driven R&D system that increases efficiency, int oduces new product , and solves existing problems. The benefit of these joint ventures goes well beyond profit margins, as new technical jobs are created — jobs that meet the needs of the community and grow in number as the consumer economy expands. Currently, a STEP workshop focusing on Intellectual Property Rights and Technology Commercialization is being planned in Kazakhstan for late June 2009.

There are other examples of successful joint projects available, and these could be potentially applied to Kazakhstan. The country possesses the necessary prerequisites for promoting and advancing its science to higher levels, including financial capabilities. At the same time, available international donor funding is decreasing. Perhaps it is time to start redirecting donor-recipient relations to more partner-partner relations. New mechanisms of mutually beneficial cooperation should be identified and developed.

CRDF is proud to be a part of the Public-Private Economic Partnership Initiative (PPEPI), a collaborative effort of the governments of the United States and Kazakhstan, headed by the American Chamber of Commerce in Kazakhstan. The working groups created within the PPEPI—including a Working Group on Collaboration in Science and Technology - could be a valuable tool for developing and sharing new ideas and vehicles that could be useful for further fostering scientific cooperation benefiting both Kazakhstan and the United States.



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NURLAN KAPPAROV: IMPROVING THE BUSINESS ENVIRONMENT SHOULD BE A TOP PRIORITY

By Sanjay Srikantiah – EMDAP Fellow
PPEPI Program Manager

Three months after Mikhail Gorbachev made it legal to start a business in the Soviet Union, Nurlan Kapparov wasted no time.

Kapparov's business career began in 1990 when he formed the Accept Corporation. The company was established as an electronics distributor until 1994 when it later moved into retail and alcohol production, helping privatize five production plants in Kazakhstan. In the mid-90's the Government of Kazakhstan began to invite successful entrepreneurs to take part in the management of state companies. Being one of them, Kapparov left Accept to become the President of the oil transportation company KazTransOil in 1997 and national oil and gas company KazakhOil (currently KazMunaiGas) in 1998. After a brief stint as Deputy Minister at the Ministry of Energy and Mineral Resources, Kapparov obtained a Masters degree in Public Administration from Harvard University's Kennedy School of Government in 2003.

Upon returning to Kazakhstan, he liquidated the Accept Corporation, taking the remaining assets and forming Lancaster Group with two partners. Since 2003, Kapparov has served as Chairman of Lancaster Group, a diversified holding company consisting of several divisions operating in different sectors of the economy – Energy, Renewables, Mining, Oil Services, Financial Services, Media and Hospitality. Lancaster's core business focuses on industrial projects aimed at adding value and diversifying the economy. Currently, the Group's largest project is a 50/50 joint venture with Italian firm Saipem, ERSAI Caspian Contractor, whose plant and premises are located in Kuryk in Western Kazakhstan's Mangistau region. ERSAI is a shining example of domestic entrepreneurship with more than 2000 employees and today is the largest oil service company in the country. With a capital expenditure of around $400M, it also is the second-largest industrial project built from scratch since independence.

In 2008, Kapparov spoke candidly about attracting private capital to develop an East-West Corridor stretching from Western China through the Caucasus at the launch of the U.S.-Kazakhstan Public-Private Economic Partnership Initiative. The imperative for this project is two-fold. First, transit through Kazakhstan represents the shortest distance between a booming Western China and Europe while also shaving almost 50% in transit time. Second, over time, there will be related industrial development along this corridor that will allow for Kazakhstan to improve its industrial diversity. This can be achieved by building Special Economic Zones along this corridor, which in turn allow for ease in export of Kazakhstani goods to both China and Europe. According to Kapparov, this project should be a major pillar of the country's economic diversification program, which he believes is struggling. As an entrepreneur himself, he emphasized the system of working with foreign and domestic investors in Kazakhstan must change.

Four Seasons Hotel, Bora-Bora

Four Seasons Hotel, Bora-Bora

Kazakhstan deserves excellent marks for managing development of its oil and gas resources and attracting foreign investment, but needs a new mindset in order to work with investors in non-extractive sectors. Why? In the case of natural resources, Kazakhstan did not have to market itself to the investment community; companies knew the resources were there so Kazakhstan had an advantage at the bargaining table. Kapparov cited that those companies looking to invest in industries that add value have many choices in today's global economy. If the Government of Kazakhstan then wants to cater to these industries, it needs a new approach. This involves a 'pull' approach whereby such investors are wooed to setup in Kazakhstan with an emphasis on making their setup and operations as smooth as possible. He cites the example of Singapore where the Singapore Economic Development Board (SEDB) gives prospective companies an entire gamut of information and allows them to register even before they set foot on soil.

Kapparov emphasized that new tax code needs to be combined with an improved business environment and industrial policy to have maximum effect. Kazakhstan stands at 90-91 in the World Bank's Doing Business ranking, but this can be improved. Reducing bureaucracy and corruption could be accomplished by introducing a single window approach, where an investor can get all the approvals and documentation authorized through one agency in a reasonable amount of time. He emphasized that the cost of real estate and telecoms and the lack of transparency in permitting overlapping jurisdictions as some the main deterrents of foreign direct investment in Kazakhstan.

Kazakhstan's corporate sector as a whole is quite weak because of a lack of transparency and less than adequate understanding of corporate governance and working with foreign investors. While regulation can only provide for limited oversight, good corporate governance needs to come from within as well. To accelerate this process, domestic companies need to bring talent (domestic and overseas) into top management positions to quickly raise the level of competence and corporate governance. Air Astana is a great example of how a state company working with a foreign partner can achieve this.

Improving the business environment will also require the government knowing what sectors it should and should not be present in. The government should be present in strategic industries such as pipelines, railways, upstream oil and uranium. But these industries should concentrate solely on their core business and outsource services to medium sized firms so they may have a chance to become leaders in this market. Outsourcing a company's non-core services would also lead to better quality as subsidiaries often charge a higher price and produce at a lower quality.

The presence of the government in niche segments of the economy is often threatening to private entrepreneurs knowing they would not be able to compete with a state run supplier. According to Kapparov, there are many sectors amongst non-strategic industries where the state still has a towering presence. This 'crowds-out' small and medium enterprises that can provide the same services in a potentially more efficient manner. The major implication of this is that with more than 50% of the economy in state hands, the development of the SME sector continues to be below expectations.

Kapparov cites that without marked improvement in the business environment, Kazakhstan will remain a factor-driven economy. Kazakhstan is now working to develop an industrial economy but an innovation economy is in his view far down the road. It may be futile for policymakers to hype an industry such as IT, when Kazakhstan does not possess a competitive advantage. An IT park built outside of Almaty has not attracted investment in the sector that was envisioned.

He also views the Regional Financial Centre of Almaty (RFCA) as an idea whose time may not have come yet. Certain basic elements of a financial center need to be in place first before confidence can be evoked amongst investors. For example, Kapparov is critical of the rampant growth in credit in the past 4 years and the lack of regulatory oversight that has resulted in the current problems with some of the big banks. He believes that ignoring such basic elements bodes ill for the RFCA.

Kapparov would advise policymakers to focus on aiding the development of a few anchor industries as opposed to try and develop all industries. In a market economy, the role of the government should be that of a facilitator as opposed to a developer. No country, he believes, has been able to develop 100 industries. But if support is given to 5-6 sectors, each has the potential to contribute 3-5% of GDP.

Given this mindset, he advocates supporting and potentially investing in six areas that Kazakhstan can diversify:

- Oil industry - services, machinery and petrochemicals add value to upstream oil
- Mining - projects that add value to Kazakhstan's mining industry
- Transportation/Logistics - enhancing transportation efficiency and building logistics hubs
- Agriculture - projects adding value to agricultural processing by producing finished products for export
- Energy - exporting gas, hydro, solar or wind generated electricity to nearby countries
- Tourism - improving tourism services and building infrastructure

Lancaster is actively investing in many of these areas with the help of strategic partners who possess the knowledge and/or technology needed for such projects. The Group's industrial holding includes Kun Renewables – a new project to begin production of solar-grade polysilicon in Astana that is used to create the raw material for photo-voltaic panels. Alatau Hospitality is a new holding that has been organized to invest in international hotel properties that are managed by world-class operators. The flagship project is the luxury Four Seasons hotel-residences in Almaty. Overseas properties include the Four Seasons Hotel in Bora-Bora (Tahiti).

Kapparov's entrepreneurial bent belies his grasp of policy reform and the realities of doing business in Kazakhstan. Having reached the highest levels in both the public and private sectors, he is actively participating in the policy dialogue with the government. He understands policy reform must be a joint effort and implementation must follow to attract the interest of private investors. The bigger challenge for him now though is actually getting private investors to Kazakhstan, something that can only improve with a better business environment.

Ersai Caspian Contractor vessel

RAIMBEK BATALOV: SMALL-MEDIUM BUSINESS DEVELOPMENT NEEDS INCREASED SUPPORT

By Sanjay Srikantiah – EMDAP Fellow
PPEPI Program Manager

In the early 1990's the collapse of the Soviet Union and transition to a market economy was seen as boon to many including Raimbek Batalov, now an industry leader in Kazakhstan. Batalov credits the processes and opportunities that opened up in the early 1990s in the former Soviet Union and Eastern Europe for pushing him and others to become independent and ambitious businessmen, even though their first steps were timid: buying and selling constituted the entire economic process at this early stage of Kazakhstan's development into a market economy.

Today Raimbek Batalov is President and Founder of the Raimbek Group, as well as Chairman of the Forum of Entrepreneurs in Kazakhstan. He is also a key Partner in the U.S.-Kazakhstan Public-Private Economic Partnership Initiative, an AmCham-headed policy-focused drive by both governments and their private sectors to improve Kazakhstan's business climate. The Raimbek Group is a privately-owned Kazakh industrial holding that employs 6000 people in Kazakhstan, Russia and China. Established in 1992, within a few short years the ambitiously growing company was transformed into a diversified corporate structure.

Batalov recalls that, while economic growth in Kazakhstan is now primarily driven by the large extractive industries, this wasn't the case in the early years of the country's independence. He began his career as a Kazakhstan distributor of electronic goods and gradually diversified into other products, eventually building up enough capital to form the Raimbek Group. During the mid-90s, the lack of a goods market gave rise to ample opportunities to start a business, but many firms spent all the capital they earned in the early years. Only a small segment reinvested earnings to grow their businesses.

As privatization began in earnest, Batalov expanded his enterprise to include investment funds, oil storage, sugar production and a chicken factory. The government of Kazakhstan auctioned vouchers allowing private citizens to buy minority stakes in formerly state-owned enterprises. Batalov participated in the auctions and purchased some of these vouchers, but unfortunately many of the companies auctioned off never became profitable.

The problems inherent in the structure of many of the formerly

Soviet enterprises pushed entrepreneurs to start businesses of their own. In the early years of independence, government played a minimal role, and the country's regulatory framework and tax code were still taking shape; starting a company was simple. Kazakhstan inherited a strong educational system from the Soviet Union which, when combined with a rush of private initiative, spawned the growth of many small businesses.

In the mid to late-90s the government began creating a regulatory framework and a tax code, thus strengthening its control over the economy. Private business began to expand as Kazakhstan built its economy – unfortunately bureaucracy and corruption followed.

At present, Batalov sees the Kazakhstan SME market as stagnant. Government plans to diversify the economy have not had notable success and investment in the extractive industries has taken precedence, fueled by high oil prices over the past several years. This industry leader identifies 70% of the problems affecting the SME sector as steming from stifling bureaucracy. He is also pessimistic about the new tax code's impact on small business development. It is Batalov's view that the government needs to provide three things for SMEs to succeed: clarity in how businesses conduct relations with each other and with the government; simplicity in matters of accounting and taxation; and security, both physical and with regards to ownership. Presently the system for SMEs is halfway between legal and illegal.

To promote greater diversity in the economy, Batalov believes factories need to be better managed and produce higher quality products, a model his company tries to follow. His company's model promotes fair business, marketing and personal training. Its founder believes not only in producing a good product, but also demonstrating the manufacturer's good intent. The Raimbek Group holds several companies including:

- Raimbek Bottlers, the leader in juice production in Kazakhstan
- Raimbek Agro, a dairy factory launched in 2001
- The Aimar Supermarket chain (part of the Wholesale club), a project developed with Deloitte and Touche
- Stroylogistic, a residential construction and maintenance company
- Almatykitap, one of the largest publishers and booksellers in the country

In recent years, the government of Kazakhstan has prioritized economic diversification, but in Batalov's opinion little has taken place in the way of diversification. Policymakers need to realize the SME market is changing and rules instituted in the mid to late 90s are far from adequate in today's environment. New provisions need to be more carefully thought out and input should be sought from the private sector. The new tax code adopted in January 2009 was not formed in this manner and will unfortunately have negligible impact on encouraging entrepreneurship.

Kazakhstan sits between two big markets, Russian and China, and the government needs to make transportation to and from these markets easier to facilitate regional trade. Despite Kazakhstan's small population, Batalov feels it can offer countries around it a growing transportation hub that will serve not only regional needs, but can open local markets out into Europe and Asia. This needs to be tackled systematically and aggressively, without further delay.

Financial constraints constitute a large part of the problem for SME's in Kazakhstan. Batalov estimates 50-60% of small and medium businesses exist in a shadow market. Micro-credit in Kazakhstan comes with a high interest rate and therefore startups are primarily financed through personal savings and bank loans. With that in mind, Batalov established the Forum of Entrepreneurs to help businesses get on their feet, offering help with accounting and providing some basic educational coursework for would-be entrepreneurs.

While leading the Forum, he continues to focus his energy on expanding his company's share in its market segments of food production, retail sales, and construction (urban development). The food industry and agricultural complex are the Group's

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AES is a large power generator in Kazakhstan, managing almost 30% of Kazakhstan installed generation capacity. AES has been operating generation facilities in the country since 1996 and is the largest foreign investor in Kazakhstan's power sector today. AES owns two coal fired power plants and has under concession two hydrostations in Eastern Kazakhstan. AES manages Ekibastuz GRES-1, the largest power station in Kazakhstan, and Maikuben coal mine in Pavlodar oblast, which were bought by Kazakhmys in May 2008. Eastern Kazakhstan regional electricity distribution company, a regional electricity retail company and Ust-Kamenogorsk heat nets company are state owned entities also under AES management. In 2008 AES entities received the ISO 14001 international certificate.

In 2005 AES in partnership with the Eurasia Foundation launched a Leadership Learning Center at the Kazakhstan American Free University in Ust-Kamenogorsk and Masters of Science in Environmental Management and Engineering at Eurasian National University in Astana. In 2006, AES renovated hospital wards in Ust-Kamenogorsk and Ekibastuz as part of an AES Kazakhstan medical project. In 2007 AES presented as a gift 6 ambulances to the East Kazakhstan population.

More than 6,500 people in Kazakhstan work at AES. AES is the power of being global.

most attractive fields and Batalov believes Kazakhstan has huge opportunities in this sphere. His company is now in a position to organize development of fruit and vegetable orchards after having increased production capacity in the juice sector by opening a Raimbek Food Company Ltd plant in Urumqui, China. The work in China is a continuation of the business started in Kazakhstan. Chinese companies built the plant in a very short time, with equipment provided by TetraPak in the Urumqui free economic zone. The company now has distribution networks in Beijing, Shanghai, Dalian and other major cities in China.

The Raimbek Group's founder has set his objective for the future as not only expanding market share of industries already owned, but also focusing on new areas such as agribusiness (fruit and vegetable orchards). He feels Kazakhstan's climate for growing fruits and vegetables has enormous potential. An immediate plan is to create organic juice products from wild apples, products that can be marketed for health benefits.

Batalov is not worried about the competition as his strategy focuses on sales growth and productivity through regional expansion. The group is aggressively developing the food and retail sectors and will remain focused in these areas going forward. The food and retail segments are growing at 50% and 20-25% respectively.

Returning to the subject of SME development, Batalov suggests that the government of Kazakhstan needs to strengthen their support for this underpinning of future economic diversification through funding business incubators to enable SMEs obtain basic

services like office space at a discounted price. Legislative reform could also facilitate obtaining micro credit, which currently is only available for the purchase and immediate sale of goods.

Raimbek Batalov is a rare combination of a successful businessman developing sectors of Kazakhstan's economy that are not always seen as beacons of diversification. Although agriculture and agribusiness is a government priority, there are few large enterprises working in this economic sector. With the vision, drive, and analytic cast of mind possessed by this businessman who seized the opportunities available in the early 90s, recognizing the country's needs as it developed into a market economy, Batalov has translated his experience into a personal success story, one that he now seeks to transmit to the next generation of Kazakhstani entrepreneurs.

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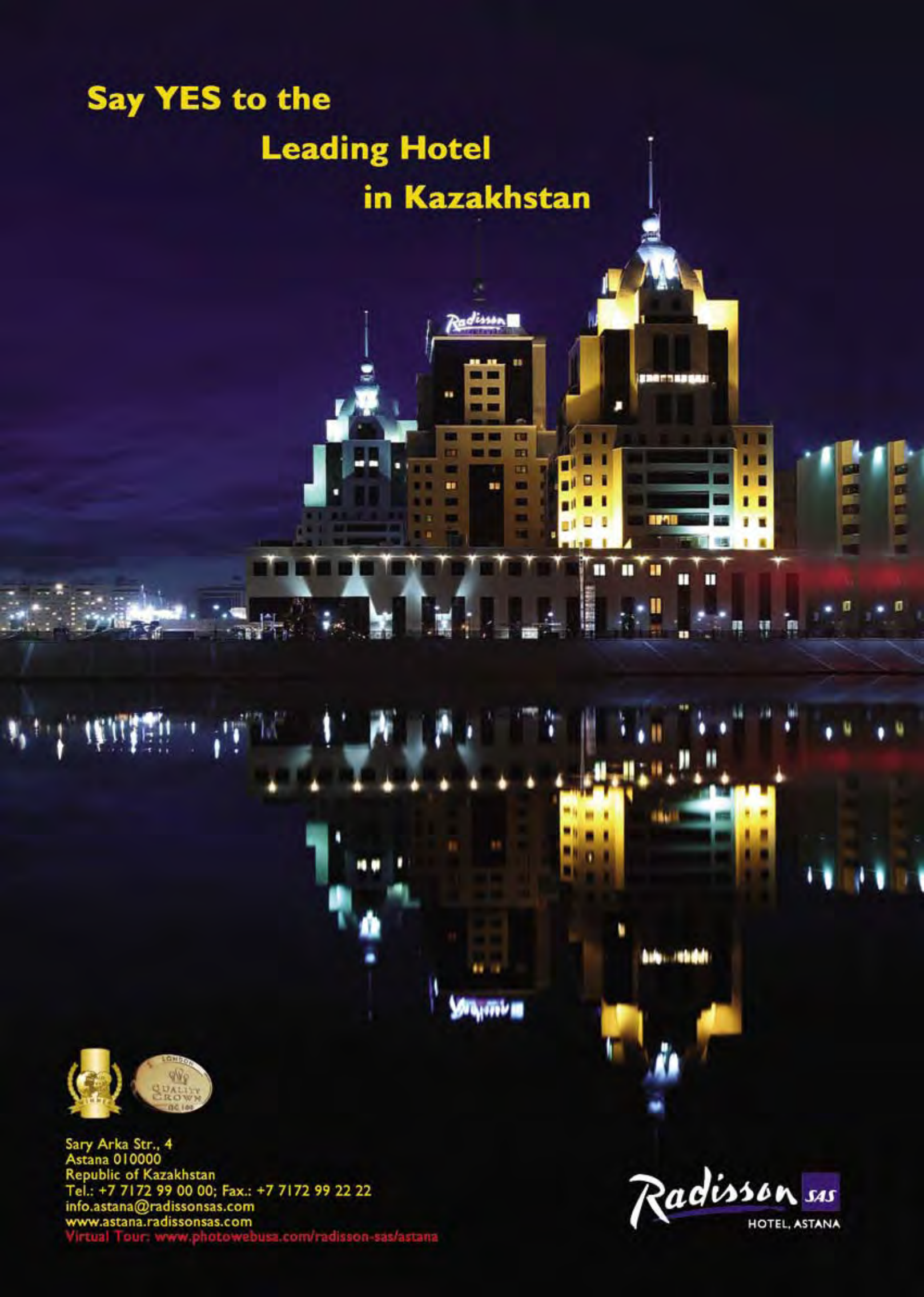

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ALMATY MARCH SUNDOWNER AT BORGO ANTICO RESTAURANT

The March Sundowner was held on March 27 at Almaty's favorite Italian restaurant, the Borgo Antico, drawing a crowd of over one hundred members and guests. As can be expected of this well-established and well-loved restaurant, Borgo Antico served up a hearty buffet of salads, pasta dishes, fish and meat dishes, and mouthwatering desserts. The restaurant's traditional décor brings to mind the best of Italian dining spots with its baronial wood paneling and network of rustic, yet elegant dining rooms. Board members mixed with members from all AmCham industry sectors while Frank Sinatra sang on a soundtrack in the background.

Zaida Ospanova, Codeco

The evening's sponsor was new member ***Codeco Kazakhstan***, a property developer and real estate company representing the Czech developer Codeco that is bringing European innovation to Kazakhstan's residential and commercial projects. The company works in cooperation with local companies on its Kazakhstan projects. In the Czech Republic Codeco has a large portfolio of projects encompassing residential, administrative, commercial, warehouses and film-studio projects, mainly concentrated in Prague. The company's major current project is Kolbenova City Development covering 14 hectares near the center of Prague.

Codeco Kazakhstan is currently engaged in two real estate projects in Almaty: the Czech Terraces residential project on Kok-Tobe hill and the Prague Business Centre near the Hyatt Hotel. The residential project is a modern townhouse project comprising 10 luxury apartments with sophisticated layouts. The office building will cover over 7,500 sq m. on 12 floors with 3 underground parking levels. It will feature outstanding architecture, mountain views, flexible office space, and high quality technologies.

The evening ended as members departed, fortified for the end of winter and a blustery early spring.

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Terminal has received international awards as 'Best Customs Clearance and Transportation Company' (Madrid) and 'National Economic Leader' for its contribution to Kazakhstan's economic development and adherence to European service quality standards from the CIS International Business Council and Global Resources Management Association (Switzerland, October 2006). In addition, the company has received the European Gold Award for 'Quality and Commercial Prestige' (Berlin, January 2007).

Terminal is a profitable company that applies the most up-to-date technology to logistics and economic analysis. The company's staff is an energetic team of young professionals skilled at successfully carrying out projects for major customers throughout Kazakhstan.

Terminal branch offices are located in Aktau, Atyrau, Aktobe, Astana, Karaganda, Shymkent, Teniz in the Atyrau region, and Bautino in the Mangistau region. There are Terminal representative offices in Pavlodar and Kyzylorda.

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ATYRAU APRIL SUNDOWNER AT THE RENAISSANCE HOTEL

Aliya Dzhapayeva, Ernst and Young

The traditional Atyrau April AmCham Sundowner sponsored by ***Ernst and Young*** was held on April 7, the first day of Atyrau Oil and Gas 2009, to welcome Chamber members and guests to the exhibition and conference at the Renaissance Atyrau Hotel. Attendance was over eighty, almost twice the usual number of Chamber guests in previous years. The Renaissance Hotel prepared a generous buffet with an endless supply of Italian wine to help guests unwind after a hectic day. The atmosphere was convivial and lively as more guests joined the AmCham function from other cocktail parties opening the exhibition. An honored guest was Dutch Ambassador Klaas van der Temple, who always attends AmCham functions in Atyrau and who is nearing the end of his diplomatic assignment in Kazakhstan this summer.

See Ernst and Young update in the Member News section.

Doris Bradbury, U.K. Ambassador Paul Brummel

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ALMATY APRIL BUSINESS ROUNDTABLE WITH TROIKA DIALOG

On April 22nd, AmCham had the pleasure of welcoming James Turnbull to a Business Roundtable Luncheon at the Hyatt Hotel. AmCham Executive Director Doris Bradbury's welcome was followed by a formal introduction from AmCham Vice-President and PricewaterhouseCoopers Partner Courtney Fowler.

James Turnbull, Troika Dialog

Turnbull is currently Managing Director of Global Markets and Investment Banking at Troika Dialog Kazakhstan. His experience in the Russian and CIS financial industry began in 1995 after obtaining a law degree from Cambridge University. He began his career at Linklaters advising on the development, structure and regulation of Russian Capital Markets and worked on early privatizations. Turnbull later served as Director of Credit Suisse First Boston's (CSFB) Legal Department and was responsible for the firm's Fixed Income business in the region. At CSFB he advised on numerous investments ranging from Eurobonds, structured lending syndicated loans, derivatives and private equity. Prior to joining Troika, he served as Director of Merrill Lynch's Fixed Income Group and was responsible for structuring and originating transactions in Russia and the CIS.

Turnbull began by recounting events that many experts believe to be the beginning of the credit crisis. Loan securitization and sale overseas began to show cracks in the summer of 2007 with the collapse of two hedge funds at Bear Stearns and the subsequent sharp rise in credit default swaps. While governments around the world initially believed the crisis could be contained, the bankruptcy of Lehman Brothers and government- backed merger between Bank of America and Merrill Lynch in the fall of 2008 forced many towards full or partial nationalization of their own banks.

Escalation of the crisis forced the Government of Kazakhstan (GOK) to follow suit. Since 2007, the GOK has taken unprecedented measures to support the economy and stabilize the banking sector. Some these have included: the reduction of minimal reserve requirements at national banks, a sizeable increase in bank deposit guarantees, the merger of national holdings Samruk and Kazyna into Samruk-Kazyna and a $10 billion anti-crisis program to support the economy and stabilize the financial sector.

Yet, according to Turnbull these have been largely unsuccessful. The first quarter of 2009 shows Kazakhstan clearly falling into a recession. Money allocated to banks has been largely underutilized and the difference between official and independent unemployment statistics illustrates the impact the financial crisis is having on the real economy.

While Turnbull was far from sanguine about the anti-crisis measures taken by Kazakhstan, he believes there is some positive news. A $10 billion loan from China in exchange for oil assets should benefit Kazakhstan's balance of payments depending on how much money enters the accounts in 2009. Turnbull views the Chinese loan is positive for companies such as KazMunaiGaz as it reduces financial risks and allows for the completion of existing projects. Kazkommertsbank and Halyk Bank stand to gain greater access to short term funding, with cash from the Chinese acquisition of 49% of MangistauMunaiGaz to be placed in the deposits of each bank.

Turnbull believes shrewd deal-making by China has put it in the lead for control of Caspian oil and gas resources, with India not far behind. He expects countermoves by Russia with potential acquisitions including Zhaikmunai, Tethys Petroleum, and BTA bank. The government's promise of an additional $1 billion from Arab nations seeking to expand Islamic banking in Kazakhstan is not likely to have much impact. He predicts more money to come from China through Samruk-Kazyna for uranium extraction, pipeline and railroad construction. Over time, real money going into real sectors of the economy will determine whether Kazakhstan is able to chart a sustainable path to recovery.

AmCham Executive Director Doris Bradbury,

Trevor Barton, Visor Capital

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БОРУСАН МАКИНА КАЗАХСТАН

ALMATY APRIL SUNDOWNER AT VIA DEL MONDO WINE BAR

Ali Takesh, Philip Morris Kazakhstan

The Almaty Sundowner on April 29 at the Via del Mondo Wine Bar attracted one of the largest gatherings for a Sundowner this year. Over 150 members and guests came out on a perfect spring evening to celebrate the return of balmy weather at a new and upscale wine bar, a unique institution in the city's rapidly growing number of appealing venues for excellent cuisine and a full range of wines. Via del Mondo offers an extensive choice of wines by the glass and also features its own wine-shop adjacent to the dining room. A staircase leads to a mezzanine featuring more seating above the intimate dining space on the main floor. Selected scenes from classic films are shown on a screen behind the bar. This is an oasis on one of the city's busiest mid-town streets. Sundays are for wine-and-cheese connoisseurs.

Yelena Tsoy, Sonya Bessonova

Richard Bregonje, John Burns, Laird Garrard

The Sundowner sponsor was ***Philip Morris Kazakhstan***, whose Managing Director (and AmCham Board member) Ali Takesh spoke about the company to the crowded restaurant. Philip Morris International (PMI), the world's largest international tobacco company, is represented in Kazakhstan with a state-of-the art full-cycle factory and six regional offices. PMI operates throughout Central Asia. In Kazakhstan it is a member of the Foreign Investors' Council, which provides a voice for the foreign investment community vis-à-vis the government of Kazakhstan. FIC is chaired by President Nazarbayev, who meets with the Council twice annually. Following the principles of corporate social responsibility, PMK is an active participant in providing support and solutions to Kazakhstan's social challenges. Over the past 14 years PMK's input into charitable programs reached US$ 6 million. Ali Takesh also spoke about the company's close attention to creating optimal employee policies and a competitive compensation and benefits package, which has increased significantly in recent years.

Stuart Schaag, David Mallette

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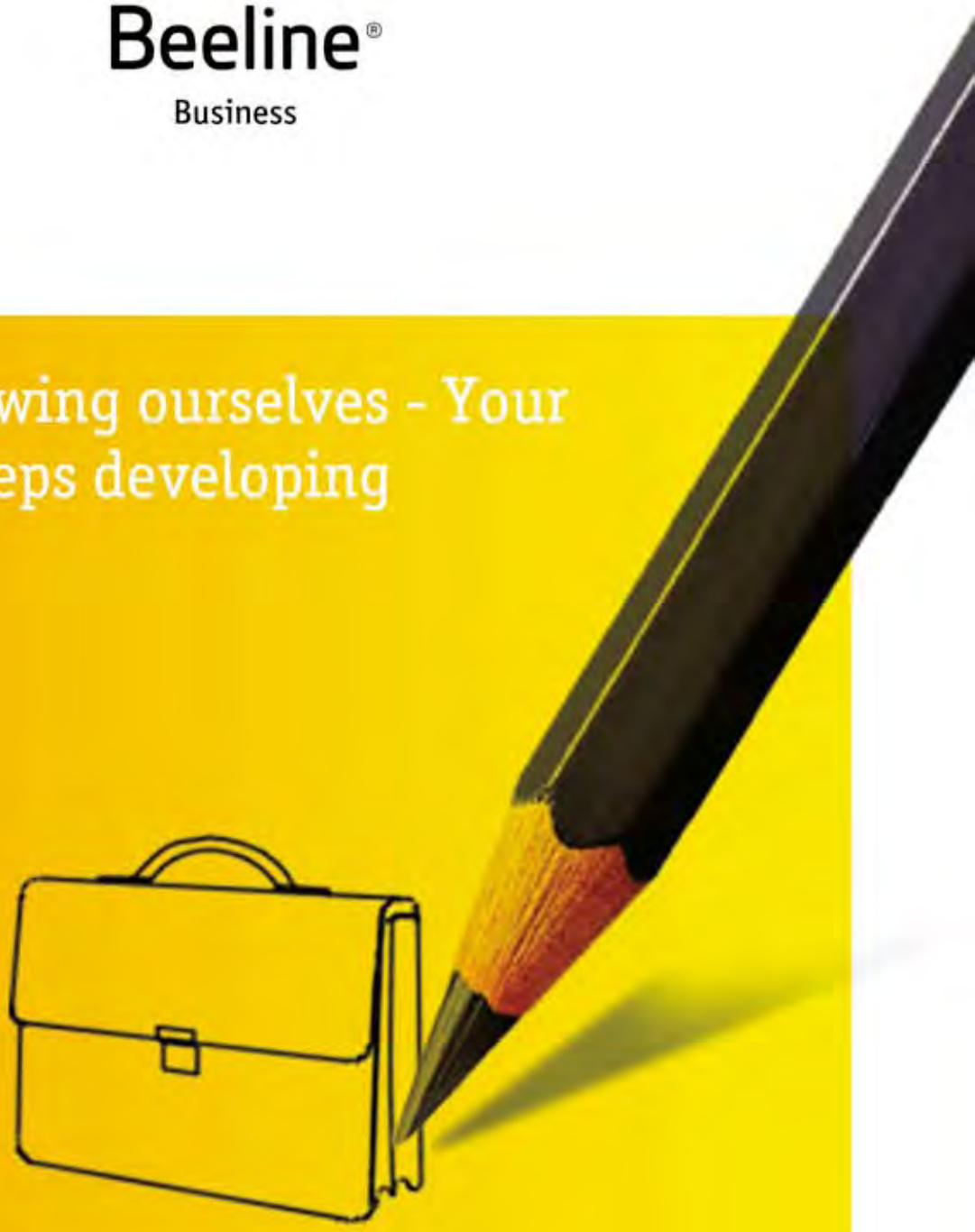

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2009 AMCHAM GALA AWARDS CEREMONY AND DINNER: HIGHLIGHTING MEMBER ACHIEVEMENTS

Kevin Milas, U.S. Embassy Deputy Chief of Mission, and Eileen Milas

The AmCham Achievement Awards for 2009 were presented at the Awards Dinner in the Bakchisaray Hall in Almaty on Friday evening, 22 May 2009. The gala event was attended by over 150 members and guests in evening attire seated at corporate tables with friends and colleagues. Music served as the dominant keynote with a live jazz duo performing during the pre-dinner cocktail as guests sipped champagne and an hour's performance after the Awards Ceremony by ***Jazz Session*** repeating their recent program at the Almaty Jazz Festival.

Hanging high on the walls of the Bakchisaray Hall and encircling the award presentation area at the front of the hall were the corporate banners of the evening's 13 sponsors: ***Silver Sponsors HSBC, Chevron, and the Radisson Hotel (Astana), Bronze Sponsors Tengizchevroil, Parker Drilling, Merck, Crown Central Asia, PBN, Borusan Makina, Turkuaz Group, and Contributing Sponsors 3M, Bracewell Giuliani, and Consolidated Contractors International***. The tables were softly lit by candles emerging from bouquets of roses and each guest received a golden Awards Program listing nominations in each category to follow during the Ceremony.

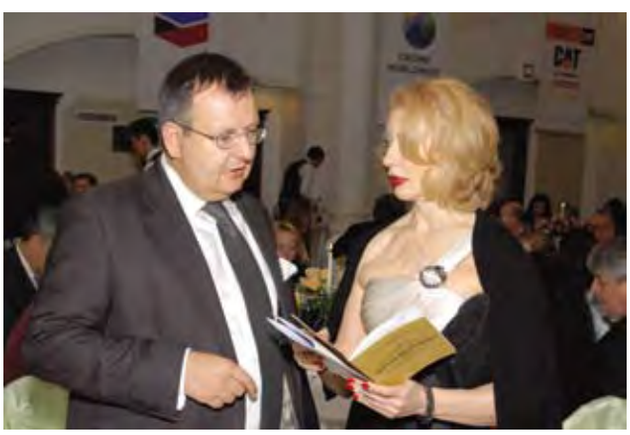
The 14 awards – 10 awards chosen by an independent Selection Committee from among 30 nominations, 2 honorary awards, and 2 AmCham Working Group awards – were presented by distinguished members of the AmCham community. All nominations were for outstanding corporate and individual achievements over the past year, a difficult year given the global financial crisis, but one in which AmCham members continued to do the excellent work that has always characterized their activity worldwide.

The Awards Ceremony began after dinner with a Welcome from U.S. Embassy Deputy Chief of Mission Kevin Milas, who stressed out that all nominees were being celebrated for their achievements, not only the award-winners.

AmCham Board Member Ali Takesh, Managing Director of Philip Morris Kazakhstan presented the evening's first award, ***Executive of the Year 2009***, to ***Todd Levy, General Director of Tengizchevroil (TCO)***, who has led TCO for over three years. This past year TCO has witnessed the largest, most technically complex production expansion in the region, nearly doubling production while continuing to improve environmental protection. Todd Levy has also won awards for TCO's corporate social responsibility activities and has significantly enhanced the company's Kazakh content.

Canadian Ambassador Margaret Skok presented the ***Women's Leadership Award 2009, to Farah Willey, Director of Sales, Radisson SAS Hotel in Astana***. Farah Willey has over 12 years' experience in the hotel industry in the Middle East, Eastern Europe, and the CIS. She played an important role on the pre-opening team for the Radisson in 2006, as well as during the official opening in 2007. She established the hotel's corporate portfolio of 250 companies and has increased revenue by 20% per year over budget targets. Largely due to Farah's efforts, the hotel has received the World Travel Award 2008 as a leading hotel in Kazakhstan and the International Quality Crown Award.

Hayri Ersoy, CEO of the Turkuaz Group, presented the ***Entrepreneurship Award 2009 to Kevin Freake, General Director of Kazanada***, a network of health care/ medical clinics across Kazakhstan founded in 2004. Over the past five years, this network has grown to encompass more than 30 clinics in 5 oblasts of Kazakhstan employing 160 local staff and 7 expatriate personnel on over 30 medical service contracts. In 2007 a majority interest in Kazanada was sold to Abermed Ltd., but Kevin Freake remains as General Director. The award was accepted on behalf of Kevin Freake by ***Donald MacKenzie, Abermed CEO*** in Kazakhstan.



Tomas Bravenec, Doris Bradbury

Farah Willey, Director of Sales, Radisson SAS Hotel Astana, Women's Leadership Award 2009

Todd Levy, Tengizchevroil, Environmental Health and Safety Award 2009

AmCham Director Ivan Doudin, General Director of Honeywell in Kazakhstan, presented the ***Excellence in Innovation Award 2009 to Borusan Makina*** Kazakhstan for the company's 3 innovative programs developed in cooperation with Caterpillar CIS dealers: the Contamination Control Program, Scheduled Oil Sampling Program, and Component Rebuild Center. The award was accepted by ***Ozgur Gunaydin, General Director of Borusan Makina***.

Greg Vojack, Managing Partner of Bracewell & Giuliani LLP, presented the ***Most Innovative Education and Training Program Award 2009*** to the ***European Bank for Reconstruction and Development (EBRD)*** for its Core Consultancy Skills Program designed by the EBRD Business Advisory Services. This program is a multi-year initiative to develop a local, world-class commercial consultant training industry. To date the CCS Skills program has been delivered 13 times in 7 cities across Kazakhstan to 200 consultants. By the end of 2010 it is expected that 1500 consultants will be trained under this program, for which EBRD has worked closely with the Kazakhstan Association of Management Consultants. The award was accepted on behalf of EBRD by ***Gabriel Al-Salem, EBRD Central Asia Regional Director.***

Gabriel Al-Salem returned to the podium to present the ***Environmental Health and Safety Award 2009*** to ***Tengizchevroil*** for their Operational Excellence Management System (OEMS), a company-wide approach to systematically manage safety, health, environment, reliability, and efficiency. TCO has invested more than $1.9 billion in environmental improvement projects over the past 9 years with environmental spending in the next 3 years set at $900 million. The award was accepted on behalf of Chevron by ***Don Stelling, Deputy Managing Director of Chevron's Eurasia Business Unit.***

Borusan Makina Kazakhstan Team, Excellence in Innovation Award 2009

USAID Central Asia Regional Director Janet Ballentyne, newly arrived in Kazakhstan, joined the guests to present 2 ***Community Service Awards***, one for a large corporate achievement and one for a small-medium sized company or NGO. The first award went to ***GSM Kazakhstan (K'Cell)*** for their Youth, Sports, and Education Programs. Among the many results of this large-scale community support initiative is a sports complex in Ust-Kamenogorsk, built in 2008, a scholarship program at the Eurasian National University, and multi-faceted assistance to Kazakh-British Technical University and Zhetyususkiy State University in Taldykurgan. This award was accepted on behalf of K'Cell by ***Daniel Mota, K'Cell Project Management Director.***

Arman Moldakhmetov, PBN Company

The second ***Community Service Award*** for a smaller company was presented to ***Kazanada*** for their support for children in the Shymkent region affected by the HIV/AIDS crisis. Kazanada provided financial support to enable these children to attend a summer camp near Astana where they received medical attention. The company also provides support to the Ekibastuz Children's Art School. This award was accepted on behalf of Kazanada by ***Abermed CEO Don MacKenzie.***

Arman Moldakhmetov, Managing Director of the PBN Company, presented the ***Support for Kazakh Culture Award 2009 to Chevron Munaygas*** for their Kazakhstan Artisans Business Development Program (KABDP). Under this program Chevron aims to reinvigorate the handicrafts industry in Kazakhstan and to promote an improved operating environment for artisans to market their traditional handicrafts. Chevron has trained over 500 artisans and held a first Crafts International Conference in Astana in March 2008. Two artisans received the UNESCO Seal of Excellence for their work. A National Coordination Council provides strategic guidance for this program supported by the government of Kazakhstan, UNESCO, USAID, and the British Council. The award was accepted on behalf of Chevron by ***Don Stelling, Deputy Managing Director of Chevron's Eurasia Business Development***.

EBRD Senior Banker Tomas Bravenec presented the ***2009 AmCham Service Award*** to ***Kevin Milas, the U.S. Embassy***

Hayri Ersoy, Turkuaz Group CEO

Deputy Chief of Mission, who will be departing Kazakhstan for his next post in June. Kevin Milas has had a lengthy career at the State Department, serving in Africa, Central and South America, and Europe. While in Kazakhstan under Ambassadors Ordway and Hoagland, he has been a strong friend to AmCham, supporting the Chamber in its new Public-Private Economic Partnership Initiative (PPEPI), as well as in a host of other initiatives and causes. He and his wife Eileen have attended many Chamber events and entertained the AmCham President and Executive Director at their residence in Astana.

Jeff Erlich, President of the Eurasia Foundation of Central Asia and ***Chair of the AmCham Corporate Social Responsibility Working Group***, presented two ***CSR*** Journalism Awards to local journalists who participated in a program to develop CSR reporting skills, winning a competition for the best CSR reporting: ***Marite Lubinaite*** was recognized for Russian-language reporting in the business weekly Kapital.kz and ***Sagira Kuzembayeva*** won for Kazakh-language reporting on Kazakhstan TV.

The final awards of the evening were two honorary awards to public figures for outstanding service. Past recipients have included ***Grigory Marchenko***, currently heading Kazakhstan's National Bank, ***Zhanar Aitjanova***, Deputy Minister of the Ministry of Industry and Trade, and ***Vladimir Shkolnik***, former Industry and Trade Minister, newly appointed to head KazAtomProm.

KazInvestBank Chairman Nurlan Kapparov, a distinguished AmCham member, presented the ***AmCham Honorary Award for Public Service to Deputy Prime Minister of Kazakhstan Yerbol Orynbayev*** for his support of AmCham through the Public-Private Economic Partnership Initiative and the Prime Minister's Tax Advisory Council. Yerbol Orynbayev has held an impressive series of senior public service appointments and served as Chief of the Prime Minister's Chancery before his present appointment. The Chamber looks forward to continuing to work closely with Mr. Orynbayev on behalf of AmCham members.

Nurlan Kapparov, Lancaster Group CEO

The second honorary award was the ***Ambassador's Award for the Best Contribution to U.S.-Kazakhstan Relations***. It was presented to ***Maksat Idenov, First Vice-President of Kazmunaygas***, formerly International Law Consultant on European and Central Asian Energy at the World Bank in Washington and Regional Vice-President at Royal Dutch Shell. Mr. Idenov has played a pivotal role as the government's lead negotiator on the Kashagan transaction and the development of a trans-Caspian oil export route. The Ambassador's Award was presented by ***U.S. Embassy Deputy Chief of Mission Kevin Milas.***

The evening ended with a lottery draw for a custom-made tuxedo by ***Barry Tewani of Imperial Tailors***, an AmCham member who donated his services to provide elegant black-tie attire for next year's Awards Dinner to one lucky AmCham member. The winner was ***Safa Butros, General Manager of Universal Business Systems (UBS).***

Finally, ***Jazz Session*** played their unique program from the Almaty Jazz Festival as guests chatted, danced, relaxed, and gradually departed after a long and celebratory evening. The evening was covered by *Biznis i Vlast'* and *Kapital* newspapers, and by Kazakhstan TV, which filmed parts of the Awards Ceremony and broadcast a Russian-language interview with the Chamber's Executive Director from the Bakchisaray Hall.

Don McKenzie, Kazanada, Entrepreneurship Award 2009

Daniel Mota, GSM Kazakhstan, Community Service Award 2009

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Said Khoury. The President of CCC.

UAE. Dubai

Projects: Dubai Mall was built by a joint venture of,Al Ghandi, Consolidated Contractors Company (CCC) Dutco Balfour Beatty and Turner Construction for Emaar Properties. The mall is the world's largest shopping mall, located in **Dubai. United Arab Emirates**. The mall's extensive array of leisure attractions makes it one of the largest entertainment destinations in the region too. The Dubai Aquarium & Underwater Zoo is a key attraction for families, and has over 33,000 aquatic animals. The aquarium also features the world's largest acrylic viewing panel and a walk-through tunnel. The Olympic-sized Dubai Ice-Rink and The Waterfall, which traverses the four levels of the mall, are also popular among families.

Kazakhstan:CCC-EPC.
Kashagan Sulphur, Slug Catcher & Flare Areas

Real Estate: Astana Business Center.
cccastana@ccc.gr

ALMATY JUNE BUSINESS ROUNDTABLE WITH ATF BANK / UNICREDIT GROUP

Hans Holzhacker

On April 22, AmCham welcomed Hans Holzhacker, Chief Economist at ***ATF Bank, a member of the Unicredit Group,*** to a Business Roundtable Luncheon at the Hyatt Hotel. AmCham Board member and EBRD Senior Banker Tomas Bravenec welcomed guests and introduced the luncheon's speaker, whose topic was "BTA and After: Fallout, Risks, Chances, Hopes".

After receiving his PhD. and Master's degrees in Economics and Sociology from the University of Vienna, Hans Holzhacker began his career at Nomura Research Institute in 1989, primarily focusing on macroeconomic and country risk analysis of Central and Eastern Europe. Before arriving in Kazakhstan, he worked for several Austrian Banks, namely Bank Austria Creditanstalt and Erste Bank and served as Senior Economist at the Institute of International Finance.

BTA was one of the fastest growing banks in Kazakhstan over the past decade, but like many across the globe it is now experiencing financial stress as tightening credit conditions rendered it unable to fund in international markets in 2008. This inability to raise new funds, coupled with a sharp deterioration in asset quality as real estate markets in Russia and Kazakhstan corrected throughout 2007 and 2008, has pushed the bank to the brink of insolvency.

Dr. Holzhacker presented his views on how different scenarios could play out and what each would mean for future economic growth in Kazakhstan. While he does not believe there will be a relatively quick fix to the banking and construction (real estate) sector, a meltdown of the financial system is unlikely. Banking though will undergo deep restructuring, with BTA at the center. According to Dr. Holzhacker, in 2008 bad loans in the construction sector increased sharply and now account for one-third of non-performing loans in Kazakhstan. Overall, Dr. Holzhacker estimates a further $6.6 billion worth of write downs in the banking sector, with some of this being restructured.

The tenge devaluation and restrictive lending environment have resulted in the bulk of bank deposits coming largely from government sources. Relatively speaking, government support has been low when compared to West European Banks despite lower then average capital adequacy standards and a higher loan/deposit ratio with respect to other emerging markets. Despite this, the likelihood of a bank-run or a meltdown is low, principally because deposits as a percentage of GDP sit at 11% and $40 billion remains in central bank and oil fund reserves.

Benjamin Paine, Hans Holzhacker

Recovery in credit growth will be slow as funding will be scarce during bank restructuring even if the international squeeze eases. Dr. Holzhacker believes that this will result in Kazakhstan becoming even more resource-based. Kazakhstan's growth was in the past fuelled by resource extraction and amply available foreign loans which financed residential construction and private consumption. With cross-border lending likely to remain subdued for some time, Kazakhstan will have to rely on resources even more than before, especially after fiscal reserves will have been depleted due to the government programs supporting the economy.

According to Dr. Holzhacker, Kazakhstan should expect a difficult first half of 2009 in industry, with oil and gas holding up quite well. He does not foresee further devaluation against the USD, because of recovered oil prices, resilient FDI in the energy sector and likely restructuring of banks' foreign debt.

Jean-Christophe Lermusiaux, Jason Hurwitz

Doris Bradbury, Hans Holzhacker, Shaukat Khan

ALMATY JUNE SUNDOWNER AT AB RESTAURANT

The AmCham June Sundowner was held on Friday, June 19 at the AB Restaurant in a wooded area off Dostyk Street. AB Restaurant owes its popularity to its rustic architecture and interior, its quiet and secluded location, and its verdant meadow-like surroundings dotted with small ponds. For this occasion the restaurant had erected tented canopies in the grass to cover the food and drinks for guests. Over one hundred members and guests attended, taking advantage of a perfect early summer evening to mix and discuss plans for the summer ahead.

Niko Pilic, Tennis Academy, Tennis.kz

The evening's sponsor was ***Tennis.kz***, a new tennis and sports club with its own tennis academy, the *Niki Pilic Academy* founded by the well-known tennis champion, Niki Pilic, whose son attended the evening, having traveled to Kazakhstan for the opening of the Academy and the tennis season. On the eve of the beginning of the Wimbledon Tournament, the timing was perfect to promote tennis, still in its early development in Kazakhstan, but growing in popularity in a country where sports and fitness are a priority.

The Niki Pilic Tennis Academy is being launched in Kazakhstan this year and will follow a five-year development plan. The Academy headquarters, founded in 1997, is located outside Munich on spacious grounds in the former Munich Olympic Park. Many tennis champions have trained there, including Boris Becker and Novak Djokovich. It has several international branches under development, but Tennis.kz in Kazakhstan is the first to be operational.

Daniel Connelly, Ivan Doudin and Elena Galieva

David Mashuri and Guest

The Academy's goal is to employ top-flight coaches and trainers, to hold regular monthly tournaments during the summer, junior tournaments, and annual professional tournaments for both male and female players with large prizes of up to $10,000. Public and community goals also form part of the Academy's growth strategy: popularizing tennis in Kazakhstan, encouraging schools to include tennis in their sports programs, and introducing a new national rating system. Tennis facilities will be built in both Almaty and Astana, as well as in other major cities across Kazakhstan.

Stuart and Inna Schaag

The Niki Pilic Academy is signing up students and players for this summer, and is organizing the first tournaments on the Academy grounds. AmCham members are encouraged to visit the facility and learn about the training program. As the Chamber organizes a charity tennis tournament every summer, this year's tournament will no doubt be at the new Academy facilities.

AMCHAM WORKING GROUP UPDATES

Information and Communication Technology Working Group

The Information and Communication Technology Working Group meetings in the past few months were focused on bringing International Computer Drivers License to Kazakhstan. The ICDL is the standard for computer literacy in over 140 countries; it is a competency standard that is acknowledged through testing. The ICDL process is based upon a standard worldwide syllabus, which is developed and maintained by the ECDL Foundation, based in Dublin, Ireland. This ensures consistent ICDL program quality in every country of operation. A notable progress was made in introducing ICDL to Kazakhstan. Specifically, Andrew Beklemishev, the Group's chairman was able to connect a local organization with the ICDL Foundation Headquarters and assisted this organization in preparing a proposal for the first stage of ICDL licensing process. The ICT Working Group will continue to support the advancement of this initiative once a local ICDL licensee is registered.

Recommendations to the Government of Kazakhstan to improve technology environment for businesses operating in Kazakhstan were at the top of the agenda of recent meetings of the ICT Working Group. Close cooperation with the Public Private Economic Partnership Initiative's Cooperation in Science and Technology Working Group was established and the Group has gained yet another channel to voice its concerns to the Government of Kazakhstan. The Group has put together a list of issues related to ICT that affect AmCham members and Kazakhstani business community at large. These issues range from licensing of certain technologies to information security standards to lack of qualified IT professionals. Recommendations to address these were submitted to the PPEPI Working Group in May 2009. The group will continue to closely work with PPEPI to address member issues and concerns and to ensure they are fully reflected in two white papers that will be submitted to the Government of Kazakhstan as a result of the PPEPI activities in its first year.

Foreign Investment Working Group

In 2009, the FIWG started out covering a broad number of issues including key changes in the government, legislative updates and the impact of the Tenge on foreign investors. The Tax Working Group took off with full steam and therefore, is being separated out as an independent working group. The FIWG hosted the Director of the Kazakhstan Foreign Investors Council Association who provided an overview of the FIC in Kazakhstan. Following considerable discussion, the FIWG decided to focus its efforts on the topic of Local Content Development (LCD).

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It is an issue that is frequently raised as a foreign investment related issue. The LCD legislation is very vague and the methodology is insufficient.

By identifying and clarifying specific issues related to current LCD requirements and legislation, the FIWG, through AmCham, has the ability to work directly with the government of the RK for clarifications and improvements. The FIWG will be compiling a summary of the current status of LCD regulations and legislation. In addition, FIWG will put together examples of how companies address the LCD issue. Based on a clearer understanding of the situation, the FIWG will define specific areas of confusion or vagueness that hinder either an understanding of, or compliance with the LCD requirements. Once fine tuned, this information will be used to identify areas that need to be addressed and the basis for direct dialogue with the government of Kazakhstan in 2009.

Tax Working Group

A new Kazakhstan Tax Code came into effect on January 1, 2009 containing revised legislation for Corporate Income Tax, Subsurface Taxation, Value Added Tax, International Taxation Property, Tax Social Tax, and other Levies. The Tax Working Group has dedicated the last six months to discussing its implications for corporations and individuals in Kazakhstan.

The most recent WG sessions have focused on the taxation of foreigners in Kazakhstan. The group welcomed Intercomp Executive Director Sholpan Kaliyeva, who delivered a presentation covering the definition of residents and non-residents in Kazakhstan, taxation of foreigners, tax on Kazakh-source income of non-residents, and social tax. The presentation was supplemented by an additional presentation on Tax Treaties by Tomas Balco of PwC, who expanded on the subject of residence, taxation of income, employment income, and director's fees.

The following Working Group invited Aizhan Abdigali, a senior at KIMEP, to deliver a presentation on the 2009 Tax Code and Budget Forecast (Theory vs. Reality). The presentation covered Kazakhstan's 2008 economic situation and forecasts for 2009. Tomas Balco followed this presentation with an update on the latest tax developments encompassing budget law, transfer pricing, indirect tax collection, and mineral production tax.

PwC staff delivered a presentation on the taxation of seconded personnel. This stimulated discussion on tax administration and corporate consideration of temporary employment when a domestic company procures labor services for a fixed period of time through a foreign company under a contract or binding agreement.

The Tax Working Group will continue its focus on the Tax Code for the next several meetings. A future topic will be the taxation of investment income.

PPEPI WORKING GROUP UPDATES

PPEPI

Anti-Corruption/Rule of Law [AC/RL]

Chair: Kenneth Mack – Managing Partner, Chadbourne & Parke (AmCham President)

In the first meeting, the group decided it needed to establish an overall definition for corruption from a global perspective and see where Kazakhstan fits within this definition. The group looked at corruption indicators and reports that have been published by USAID, the World Bank, Transparency International, as well as other prominent indicators on the topic. When the group reconvened for the second meeting, members continued their previous discussion by further elaborating the causes and sources of corruption in Kazakhstan, which included such views as poorly understood legislation and lack of national corruption reporting mechanisms.

Information will be gathered to properly define corruption as a whole, and corruption in Kazakhstan. The discussion will also be expanded to encompass legal issues under Rule of Law, issues affecting the courts and investors. Group members, based on previous discussion and research, will form concrete recommendations to be integrated into the first PPEPI White Paper.

Economic Diversification/SME

Business Development [ED/SME]

Chair: Ulf Hindstrom – Senior Banker, European Bank for Reconstruction and Development

The group was able to immediately delve into current issues being faced in Kazakhstan, as well as particular programs that are currently underway by either the ministries or the individual organizations of the participants. Focal points included World Bank Doing Business Indicators, legislation regarding public private cooperation, President Nazarbayev's 7 areas of business diversification, education and infrastructure, and SME development.

The group agreed to focus on SME development as it was the area where they could provide the most concrete recommendations. For the second meeting, several materials were provided on SME development in KZ. The group worked on identifying the particular aspects that they would like included in the first White Paper. The third meeting will be dedicated to writing concrete policy recommendations of the Working Group members based on previous discussion and research.

Cooperation in Science and Technology [CST]

Chair: Kanat Shakenov, Civilian Research and Development Foundation

At the first meeting, participants raised issues their organizations are working on in the sphere of science and technology. Ideas brought to the table included incorporating the concerns of AmCham's Information and Communication Technology Working Group, the United States/Kazakhstan bi-lateral agreement focused on science and technology issues, and the current issues being faced by the Ministries of Science and Industry. Each member agreed to share information via e-mail to begin working towards drafting the first policy paper.

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Between meeting time in April and May, participants provided more detail on their topics of interest as agreed earlier. When group members reconvened, they chose to focus the first paper on science development. The issue that will be addressed in the White Paper will include an analysis of human capacity building and improvements in infrastructure such as grant creation and data and financial management. The third meeting will be devoted to presenting concrete recommendations for policy paper submission.

Transparency and Economic Efficiency [TEE]

Chair: Stephen Wermert – Country Director, Asian Development Bank Kazakhstan

The first meeting of the TEE Working Group raised two issues of interest for the first policy paper: procurement issues in Kazakhstan, and the social side of transparency. After some deliberation on resources and actions necessary to pursue these issues, group members agreed to focus on procurement for the first White Paper. An action plan was agreed on. The PPEPI Secretariat obtained a copy of the 2007 procurement law, had it translated and sent it to working group members. Group members agreed that it was imperative to retain the services of somebody that could conduct research on contracting and procurement issues; something that will be accomplished through the joint efforts of USAID and the Eurasia Foundation.

The second meeting was postponed due to scheduling issues. It has been rescheduled for June 8. Group members plan on continuing with further discussion of issues relating to procurement in Kazakhstan. Members have consistently corresponded through e-mail since the first meeting in April.

Regional Economic Integration/ Trade and Customs [REI/TC]

Chair: Michael Jopson – General Director, Nestle Kazakhstan

During the first meeting, group members discussed the theme of the Working Group and what kind of difficulties they had encountered in their previous years of working within the trade sector in Kazakhstan. Certain issues that had been identified mainly dealt with the logistics of distribution and transportation. Members had agreed to talk to constituents regarding foreign and domestic trade and customs issues. The next meeting would be focused on sharing the experiences.

When the group reconvened for the second meeting, they agreed that the majority of problems regarding exports and imports were related to government action; more specifically relating to legislation and government feedback. Having identified the issues that the group wants addressed, a recommendation that will be presented for incorporation into the White Paper is a change to soft customs code as well as implementing ideas of USAID's RTLC program regarding the general areas of difficulty in importing and exporting. The third meeting will be devoted to discussing specific issues from the RTLC initiative.

This issue of Investors Voice includes for the first time reports from the five PPEPI Working Groups. This will be a regular feature over the life of the PPEPI program.

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AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

INFORMATION AND MEMBERSHIP APPLICATION

ABOUT THE CHAMBER

Registered in Kazakhstan as a non-profit organization in March of 1999 with 36 charter members, the **American Chamber of Commerce in Kazakhstan** currently represents over 200 member companies including US, multinational, and local businesses in 30 industry sectors. Their collective investment in Kazakhstan's economy is several billion USD. The Chamber is a member of the US Chamber of Commerce, the US-KZ Business Association, and has working relationships with many regional business associations.

BENEFITS OF MEMBERSHIP

- Chamber members are invited to participate actively in an organization existing for the sole purpose of serving its members.
- Economic, political, legal, social, charitable and business development information provided to the Chamber is distributed free of charge to members.
- Monthly business roundtable lunches with senior KZ and US government and business leaders are reserved exclusively for Chamber members.
- Seminars, conferences, monthly social networking events and charitable activities are organized for the benefit of Chamber members.
- Chamber membership contact lists and industry lists are available free of charge and exclusively to Chamber members.
- Chamber members are regularly invited to events hosted by the US Embassy and US Commercial Service.
- Member companies often provide exclusive discounts on products and services to other Chamber members.
- Free link to your website and a free page on the Chamber's website. Access to the *members' only* section on the site.
- Free resume service and free search for candidates.
- Advertising opportunities are available to members in the Chamber's bi-monthly magazine *Investors' Voice.*

MEMBERSHIP APPLICATION

(Please return this section to the American Chamber of Commerce in Kazakhstan)

Company Name _____

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_____

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Please include us in the following Working Groups:

- ☐ **Foreign Investment**
- ☐ **Human Resources**
- ☐ **Corporate Social Responsibility**
- ☐ **Education and Training**
- ☐ **IT and Telecommunications**
- ☐ **Trade and Customs**
- ☐ **Tax (Almaty)**
- ☐ **Tax (Astana)**
- ☐ **Tax (Atyrau)**

WORKING GROUPS

Working Groups made up of representatives from our member companies provide comment, discussion and submission of positions on areas including but not limited to: Foreign Investment / Taxation; Human Resources; IT and Telecommunications and Corporate Social Responsibility, Education and Training. The groups represent the united interests of the business community in Kazakhstan by identifying challenges faced by investors and proactively addressing them. Each group meets regularly, providing a forum for networking and the exchange of information. Groups are formed on an as-needed basis at the request of our membership.

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The Chamber is governed by a Board of Directors elected annually from and by the membership. Directors currently and in the past have included individuals from the following company members:

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MEMBERSHIP CATEGORIES AND ANNUAL FEE

☐ Corporate* A	(Worldwide revenues in excess of 100 million USD)	$4,000 USD
☐ Corporate B	(Worldwide revenues between 2 - 100 million USD)	$3,000 USD
☐ Corporate C	(Worldwide revenues not exceeding 2 million USD)	$2,000 USD
☐ Non-Profit		$1,000 USD
☐ Individual**		$ 500 USD

*Corporate membership entitles a company to delegate 3 individuals as Chamber voting members. The number of persons from each company participating in working groups, forums, business roundtables, and social events is usually not limited.

**Individual memberships are available only under special circumstances, for persons not associated with a company.

All applications for membership must be approved by the Board of Directors of the American Chamber of Commerce in Kazakhstan. For further information about membership benefits, the application process, or *Investors' Voice* magazine, please contact: info@amcham.kz

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FEBRUARY 2010 #38
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EDITOR'S NOTE

Dear Readers,

As 2010 gets underway, the global business community hopes for a recovery from the financial crisis that swept across the world in 2009. Last year was challenging, but Kazakhstan's business community and the AmCham membership held firm and Kazakhstan appears to have weathered the storm, albeit with some significant damage to its financial sector and reputation. As we slowly emerge from the crisis that is still running its course in parts of the Eurozone and emerging markets, Kazakhstan can appreciate the benefits and drawbacks of being an oil-rich nation whose fortunes rise and fall with the price of this precious commodity.

And so we await what 2010 will bring us amid cautious signs that a measured recovery is indeed in progress. The Kazakhstan tenge, which underwent a 20% devaluation in early February 2009, is on the rise, closely controlled and monitored by the National Bank. The Russian economy is beginning to roar once again, Chinese industrial demand is surging, and American investment abroad is a bright light in the still faltering U.S. economy.

With an eye on the future for the economy of Kazakhstan, this issue of Investors' Voice is devoted to cooperation in science and technology in a variety of fields vital to Kazakhstan's economic and social development. The issue is timed to appear at the *PPEPI Science and Technology Roundtable* in Astana on 16 February 2010, when panels of experts and prominent industry figures will speak about cooperation in medicine, the pharmaceutical industry, the role of special economic zones and technology parks, and will a look at tax incentives for innovation and the protections provided by intellectual property rights. A comparison of national science policy in the United States and Kazakhstan will also be outlined and U.S. Embassy staff will share thoughts on the pending U.S.-Kazakhstan Science and Technology Agreement.

In the present issue of **Investors' Voice**, you will find articles to complement the Astana Roundtable. Some writers are Roundtable panelists and others offer insightful articles to be read alongside the Roundtable reflections on science and technology as Kazakhstan maps out its path towards economic diversification. Regardless of the economic sector, innovation is the keyword for those businesses that wish to keep pace with developments in their industry.

We hope you will enjoy this issue devoted to an industry sector that surges ahead at breakneck speed, improving social well-being and shaping the global marketplace.

Doris Bradbury, AmCham Executive Director

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Guenter Dahm was appointed General Manager of Microsoft Kazakhstan in November 2008. He began his career in Germany, first as a software project manager and consultant. Between 1993-2004 he held positions at Parametric Technology, Seagate Software, Systemfabrik, and Micromuse. In 2004 he joined Microsoft and held a number of executive and managerial positions in Germany, France, and the United States before being appointed to head Microsoft operations in Kazakhstan. Guenter Dahm holds an engineering degree from Mercator University in Germany and an MBA from OUBS in the U.K.

Aidar Dauletov, General Manager, Cisco Kazakhstan
Aidar Dauletov joined Cisco Kazakhstan in 2008 as General Manager with a focus on business development. Under Aidar's leadership CISCO has become one of the key players in Kazakhstan's ICT market with a strong reputation and image in the country. Cisco Kazakhstan is actively engaged in telecommunications and the oil and gas industries, as well as in public sector projects. Before joining Cisco Aidar Dauletov was General Manager of Microsoft in Kazakhstan and Central Asia for 6 years. Prior to this, he served as Regional Manager for American Power Conversion (APC) in Kazakhstan and Central Asia for 7 years.

Aida Dossayeva, Director of Corporate Communications, GSM Kazakhstan/K'Cell
Aida Dossayeva joined GSM Kazakhstan/K'Cell as Corporate Communications Head in October 2008. Prior to this she worked at Oracle as Public Sector Account Manager and at Microsoft as Enterprise and Partner Group Director. She began her career in academic life in Kazakhstan's universities and was the recipient of a Fulbright Scholarship to study in the United States.

Augustine Gill, Regional Representative for Pakistan, Central Asia and Eastern Europe, American Red Cross.
Augustine Gill has been involved in international relief and development work since 1982 and has worked in Africa, Asia, the USA, and the Former Soviet Union. He has held senior level field and headquarters positions at Save the Children, International Rescue Committee, Church World Service and the American Red Cross. His specific areas of interest include disaster management and response, public health programs, capacity building, and improving operational excellence. He holds a Masters Degree in International Development Management from the School for International Training in Vermont. He speaks English, Urdu, Punjabi and some Russian and lives in Almaty with his family.

Rauza Kaliyeva, Head, Business Development, National Medical Holding, Astana
Rauza Kaliyeva began her career at Capital Partners, where she served as Development Manager from October 2006 to January 2009. In February 2009 she assumed the position of Head of Business Development at the National Medical Holding, a state-of-the-art medical complex in Astana. She is a graduate of Kazakhstan Medical Institute (2004) and received an MSc in Public Health from the University of Edinburgh (2006) under a Shell Chevening Centenary Scholarship.

David Mashuri, Country Manager for Kazakhstan, Pedersen & Partners
Before his present position, David Mashuri managed projects for the real estate consulting firm Scot Holland | CB Richard Ellis. Prior to that he was American Express Card Acquiring Manager at Kazkommertsbank in Almaty. Mr. Mashuri is a licensed Realtor in the state of Arizona where he worked with Century 21 from 2005 until 2007. Before this he managed his own company, D.M. Security Investments, specializing in health care and travel services, founded in 1997 in Los Angeles. David Mashuri holds a Master's Degree in Public Policy from Pepperdine University in Malibu and a Bachelor's Degree in Linguistics from Russian People's Friendship University in Moscow. In addition to his native Uighur, he speaks fluent English and Russian and can converse in Arabic and Kazakh.

Arnur Nurtayev, Centralized Distribution Project Head, Samruk Kazyna
Arnur Nurtayev graduated from Kazakh State Medical University in 2003 and continued his studies under a Bolashak scholarship at Bradford University in England, graduating in 2007 with a specialization in medicine and pharmacology. Between degrees he was employed as a business unit manager at Viva Pharm. When he returned from Bradford he joined the Samruk-Kazyna Centralized Distribution project which he now heads.

Jennifer Schneider, PPEPI Program Manager, AmCham
Jennifer Schneider joined AmCham as the PPEPI Program Manager in September 2009. Prior to arriving in Kazakhstan, she worked with a green marketing and consulting firm in California, where she helped establish the company's ecotourism division and designed its first ecotour. She has also consulted for the County of Monterey to design a for-profit training program for the County Government. She spent two years in Uzbekistan in the Peace Corps training local teachers and teaching elementary school English. She received an M.B.A with a focus on economics and finance from the Monterey Institute of International Studies and a B.A. in Anthropology from Lawrence University.

Tatyana Shoinbayeva, Marketing Specialist, Borusan Makina Kazakhstan LLP
Tatyana Shoinbayeva holds a B.A. in marketing from Kazakh State University of Foreign Languages and International Relations. She began her career as an English teacher before moving into a business career with ALTEL cellular company. In 2006 she joined Borusan Makina Kazakhstan as a Marketing and PR specialist in the Agriculture Department. In January 2010 she was appointed Marketing Specialist for BM Kazakhstan's overall operations.

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WELCOME ADDITIONS TO THE CHAMBER

NEW MEMBERS

KAZSTROYSERVICE

CORPORATE A

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KazStroyService provides engineering, procurement, and construction conforming to international quality, safety, and management standards for the oil and gas industry.

The company's major activities are: construction of oil and gas pipelines, oil refinery plants, gas treatment plants, gas compressor stations, petrochemical plants, and onshore infrastructure for the oil and gas industry, as well as other transport infrastructure projects - roadways and railway construction.

The KSS workforce numbers over 7000 staff, 97% of whom are local staff. KSS has 12 branches in Kazakhstan,as well as branches in India, Turkmenistan and the United Arab Emirates.

KSS owns 50% of Keppel and PSN, and 100% of KazstroyService Infrastructure India. The company is actively seeking additional long-term acquisitions.

Since being founded in 2001, KazStroyService has completed more than 100 large projects, including international projects like construction of the Atasu-Alashankou oil pipeline, Karachaganak-Uralsk gas pipeline, Kenkijak-Kumkol oil pipeline, Kazakhstan-China gas pipeline, Chinaryoskoye Associated Gas Treatment Plant, Akshabulak ASTP, and Nuraly oil - field construction.

KSS partners include KazMunayGas Exploration & Production, Agip KCO, KPO BV, KazGerMunay, KazTransOil, KazTransGas, Intergaz Central Asia, Kazakhstan - China Pipeline, and Kazakhoil Aktobe.

KSS was ranked #2 among Kazakhstan's top construction companies by National Business in 2008, and in 2007 KSS was the only Kazakh company to join the International Pipeline and Offshore Contractors Association (IPLOCA).

GMMOS KAZAKHSTAN

CORPORATE A

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From its fully owned and newly built premises of 50,000 square meters situated in the Promzone of Aktau, Mangistau Oblast, GMMOS Kazakhstan services the oil and gas, water and mining industries in Kazakhstan, the CIS and other countries.

Specialized in the manufacturing of pressure vessels, skid packages, process piping, structural steel, GMMOS Kazakhstan works to GOST and International Standards (ASME Stamps: U, U2, PP, S and Holder of NB R Stamp) and is an ISO 9001:2000 company.

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GMMOS Kazakhstan strategic thrusts are to become the preferred fabricator in Kazakhstan, to cater to growing demand, to maximize local content, and to be the employer of choice in Kazakhstan.

CAPITAL INVESTMENT CONSULTANTS

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The key to providing excellent advice lies in Capital Investment Consultants' ability to provide expertise globally and our personal knowledge of you and your wealth management requirements. We can connect you, your family, and your business to our network of more than 100 leading financial institutions, including major banks and top fund managers based the Channel Islands, Isle of Man, Luxembourg, and Switzerland.

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Services CIC offer include:

- Expert pension advice helping you avoid the complications of accessing your pension. We're experts in Qualifying Recognised Overseas Pension Schemes (QROPS), which free up your UK pension for transfer abroad without tax deductions. There are similar schemes for other countries.
- Asset management selecting the assets that meet your attitude to risk and access requirements, and managing them in a way that suits you.
- Tax planning helping you reduce your tax burden. There are lots of tax options available, some better than others. So we'll help you choose the better ones, and take care of your tax returns all as part of our wealth management service.

Time is one of the best commodities we have in relation to financial planning. Combined with compound growth it creates a serious strategy for savings, pensions and school fees. An interesting metaphor to illustrate the effect of compound growth in later years and why it is so important to start early is golfing. If at the start of a game of golf you bet your partner 10c for the first hole and you agree to double the wager each hole, so that the 2nd hole is 20c, third is 40c, and so on, the wager would quickly rise to $51.20 at the 10th, at the 15th $1638.40 and at the 18th it rises to $13,107.20.

In real life, you may consider a two-year old child who will attend university in 16 years, and who will need $472,339 for a four-year course. This assumes annual costs of $50,000 subject to 5% inflation. Taking out a 16-year savings plan you would need to invest $986.29 per month over that period to save the required $472,339. The total you would need to invest, assuming 10% annual growth, is $189,367. You would save a total of 60% in costs. We would be happy to provide you with a free no- obligation quote.

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MEMBER NEWS

LOGISTICS GROUP
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Globalink Recognized - Once Again

The Management of Globalink Logistics Group is pleased to announce that once again Globalink has been recognized as the "Leading Rail Freight Operator" by the Kazakhstan Freight Forwarders Association (KFFA).

This is not an easy title to attain, and it is tied directly to service, reliability, quality, and compliance. However, as the only logistics provider in Kazakhstan and the CIS market offering a complete suite of logistics solutions and as a recipient of similar recognition from KFFA in the past, this award further validates our commitment towards being the best in our field and always being there for our customers and clients.

What sets Globalink apart from its competition is the ability to manage containerized cargo as well as break-bulk shipments and heavy lift equipment. Additionally, by integrating the CIS, Chinese and European railway networks, Globalink offers a complete and comprehensive rail product to its clients.

To learn more about Globalink Logistics Group, the complete range of services we provide, and why "We Are The Partner You Can Depend Upon", please visit us at *www.globalinkllc.com* for further information.

СВИДЕТЕЛЬСТВО

ТОО «Globalink Transportation & Logistics Worldwide»

«ЛИДЕР ЭКСПЕДИТОРСКОГО БИЗНЕСА»

KLM SKYTEAM
Royal Dutch Airlines

New Economy Comfort Zone in KLM's Economy Class

As of December 2009, passengers traveling in Economy Class on all intercontinental flights operated by KLM Royal Dutch Airlines, including flights to and from Almaty, can choose seats offering greater comfort. The new Economy Comfort zone offers up to 10 centimeters more legroom and back supports that can recline twice as far. What's more, Economy Comfort passengers can also disembark more quickly after landing because their seating zone is located at the front of Economy Class.

KLM is offering the new Economy Comfort zone in response to customer demands for greater comfort and more choice in Economy Class on intercontinental flights.

Depending on the distances involved, the price of the new zone will amount to between €80 and €150 for a single leg of the journey. Flying Blue Platinum members and passengers traveling on a fully flexible Economy Class ticket can book Economy Comfort seats free of charge. Flying Blue Gold members can benefit from a 50% discount while Flying Blue Silver members can save 25%. The service in Economy Comfort will be the same as that in Economy Class.

Economy Comfort seats can be booked at *www.klm.com* via "Manage my Booking" or "Check-in online" facilities, or at the airport.

Reducing risk through intelligence

World-Check Extends its Support for the Foreign Corrupt Practices Act

Trusted by more than 3800 institutions in over 160 countries, including 49 of the world's top 50 banks, World-Check offers an end-to-end solution for assessing, managing and monitoring financial, regulatory and reputational risks. World-Check's global database of Politically Exposed Persons and heightened risk individuals and organisations, Enhanced Due Diligence (EDD) reports, passport verification and country risk assessment tools provide the means to address the full spectrum of risk across all markets and industries. Represented across five continents, World-Check's international team monitors emerging risks in more than 50 languages, covering over 240 countries and territories worldwide, extends its services throughout Central Asia and the Caucasus. It adheres closely to the U.S. Foreign Corrupt Practices Act in its due diligence investigations. Based in the U.K. and with an established presence in Kazakhstan, World-Check is a member of AmCham in Kazakhstan and has done presentations on money-laundering and other issues at an AmCham Business Roundtable in Almaty and an Anti-Corruption Roundtable in Astana.

THE FCPA AND WHY IT MATTERS

The Foreign Corrupt Practices Act (FCPA) 15 U.S.C. §§ 78dd-1, et seq. was enacted in 1977. At the signing, President Carter emphasized his belief that corporate bribery was "ethically repugnant."[1]

The Act forbids companies and their foreign representations to conduct or mediate bribery abroad. It concerns all US-registered and listed companies. Virtually any US entity doing business overseas, from the privately held small manufacturer to the one man software shop, will be subject to the Act. It requires the enactment of certain internal controls and makes a willful failure to do so a violation.

Many entities other than recognized multinationals are taking the first steps in doing business overseas. For them, a thorough understanding of the FCPA is necessary to navigate the enforcement: sales need not only be to governments; private sales may also be within enforcement jurisdiction if there is an interface with government for even peripheral reasons. Use of intermediaries, subsidiaries or other business formats may not shield the entity from liability. A misinterpretation of the facilitating payments by finance personnel in the field may give rise to prosecution. This may also expose publicly traded companies to a Sarbanes-Oxley compliance issue.

There are a number of actions that affected entities can take in order to reduce the likelihood of a violation. Among them are:

- adoption of an ethical business culture
- implementation of a comprehensive anti-corruption policy
- knowing who you are doing business with.

[1] *Foreign Corrupt Practices and Investment Disclosure Bill Statement, Signing Ceremony, December 20, 1977*

Pedersen & Partners
EXECUTIVE SEARCH

Pedersen & Partners takes over EWK International in Russia

Pedersen & Partners, a leading executive search firm with 37 international offices, announced today the take-over of the Russian operations of EWK International, a well-established player in the Russian executive search market. The combined team will work under the Pedersen & Partners brand with offices in Moscow and St. Petersburg.

The two founders and owners of EWK International Russia, Sergei Serdioukov and Maxim Chouvaev, joined the Pedersen & Partners team as Partners. Mr. Serdioukov is, as of today, the Country Manager for Russia for the combined operations. Teams from both companies are working closely to ensure that during the integration process existing clients continue receiving consistently high-quality executive search services.

Gautier Vasseur, Partner in charge of Russia and Central Asia, comments: "Thanks to the take-over of EWK International we are doubling our presence in Russia and are gaining a team known for its client focus and expertise in the Russian market. We are certain that our Russian and international clients will benefit from the combined wealth of experience and international reach now available to them."

Sergey Serdioukov comments: "Pedersen & Partners acts as a partner to its clients and has a solid long-term commitment to Russia. We are happy to be part of Pedersen & Partners' strong international executive search organization and look forward to expanding our client relationships across CEE and MEA."

Sergei Serdioukov (sergei.serdioukov@pedersenandpartners.com) and Maxim Chouvaev (maxim.chouvaev@pedersenandpartners.com) have been active in executive search in Russia since the mid-1990s and have been partners since 1997, when they led Korn/Ferry's office in Russia. Since 2005 they have owned and managed the Russian office of EWK International.

More information about Pedersen & Partners is available on www.pedersenandpartners.com

PREPARING CENTRAL ASIA AGAINST THE THREAT OF NATURAL DISASTERS

By Augustine Gill, Regional Representative, American Red Cross

Using new technologies and innovations in the disaster management field, American Red Cross is determined to make Central Asia one of the most prepared areas of the world. Its new programs focus on boosting the disaster management capacity of both urban and rural communities in the region through partner Red Crescent Societies and their volunteers. The programs are focused on the earthquake threat in cities and dangers of floods and mudslides in rural mountainous communities. American Red Cross is working with National Red Cross and Red Crescent Societies around the world to draw from successful programs and adapt them to the unique characteristics of Central Asia. American Red Cross hopes that these programs will bring fresh energy to disaster preparedness in the region.

The Red Cross and Red Crescent Movement is the largest disaster response network in the world. The costs of comprehensive preparedness may seem high. However in the context of the price paid for loss of human life and economic opportunity, in addition to the physical destruction, disaster preparedness is an essential investment. One dollar spent on disaster preparedness can save seven dollars in disaster response.

Red Crescent field staff and volunteers planning for disaster management activities

The Urban Earthquake Preparedness Program

Central Asia has a history of severe earthquakes: Tashkent was devastated in 1966, Ashgabat in 1948, and Almaty in 1887 and 1911. Almaty and all Central Asian capitals aside from Astana lie in fault zones that are among the most susceptible in the world to destructive activity. According to the U.S. Geological Survey, the earthquake threat level in Almaty is 4, the highest assigned.

Seismologists are able to make very rough predictions for if and when earthquakes will occur based on historical seismic activity. In the region's past, major seismic events have occurred every eighty to one hundred years. The energy that has accumulated within the earth's crust is released during these periods, and once relieved, starts gradually building up again. In Almaty, the last seismically active period occurred between 1885 and 1911. Another period of high seismic activity around Almaty is expected between 2011 and 2016. With the threat of a significant earthquake imminent, the Central Asian region is examining how to prepare for and mitigate the damage of such an event.

Despite the attempts of many smaller NGOs to prepare the region, an extensive urban earthquake preparedness program has not yet been implemented. The earthquake threat to many of the most populous cities in Central Asia is comparable or more severe than the well-known seismically sensitive places in the world like Japan or California, but Central Asia lacks the culture of preparedness.

The **Prepare Central Asia** program will empower local residents to initiate their own preparedness activities mitigating loss of life, health and property. Simple training and information will be ubiquitous and accessible, and residents will be inspired to seek out preparedness resources through a social marketing campaign that publicizes the disaster risks in their city. The scale of the program is not one school or one neighborhood: it ambitiously aims to prepare a critical mass in each city in which it is implemented. American Red Cross hopes that the movement will perpetuate itself after the initial high-impact program is phased out and replaced with community leadership and a culture of preparedness.

American Red Cross is applying its strength in leadership and management combined with the local knowledge of Kazakh Red Crescent Society to facilitate the needed dialogue between the many relevant departments, institutes, and organizations that have interest in a Prepared City. Each of the involved groups has valuable perspectives, ideas, plans, and resources, but too little support individually to work to their full potential. The **Prepare Central Asia** program gives them the opportunity to collaborate on their shared goals, which would benefit the entire city.

Almaty is the pilot city for the program. As the initiative becomes mainstream and initial goals are met, the Prepare Central Asia program will focus on other large urban earthquake-prone areas in Central Asia. The top priorities are Bishkek, Tashkent, Ashgabat, and Dushanbe.

Red Cross and Red Crescent Societies work directly with the government in disaster response, so particular emphasis is placed on their relationship with the Ministry of Emergency Situations. The department has already made detailed plans in the event of an

earthquake, but hasn't had the resources to engage the public in a preparedness effort on a citywide scale. The Ministry is enthusiastic to have American Red Cross and Kazakh Red Crescent work as intermediaries to ensure that the general population learns what they can expect during disaster response. The program will drastically increase the capacity of the Ministry of Emergencies with technical support and by empowering individual residents with skills and knowledge.

The program's success and sustainability lie with the local residents, and thus Kazakh Red Crescent.

- *Kazakh Red Crescent* is the mobilizing force
- *American Red Cross'* role is supportive: project managing, capacity building, fundraising, and source for technical expertise.

The program is of unprecedented scope for the region. Defining a Prepared resident as one who has been trained, made an emergency plan, and built a disaster kit, the three-year program has the goal of facilitating the preparation of 300,000 Almaty residents,

Red Crescent field staff assisting flood victims in Central Asia

essentially one person per household. The target for the social marketing campaign is to reach one million people, equivalent to two-thirds of the population. Programs for the most vulnerable demographics will be emphasized: elderly, children, disabled, homeless, those not fluent in Kazakh or Russian, and low-income residents. People living or working in the riskiest areas of the city according to seismic assessments will also be targeted on a priority basis.

Just as many residents of earthquake-prone areas find it simpler to hope than prepare, many businesses would rather not think about the economic effect of an earthquake in their area. Earthquakes destroy necessary infrastructure, and many small and medium-size businesses are unable to reopen after a major earthquake. Transportation facilities may be destroyed or overburdened, limiting movement of goods and people. Utility systems and telephones are often down. The Urban Earthquake Preparedness program recognizes the sensitivity of businesses in the region, and will emphasize their participation and preparation.

In order to reach the diverse population of Almaty, the program will seek collaboration for many channels and methods of information delivery. Largely due to underfunding, past public awareness campaigns in the region have not utilized technology to draw attention to the threat of a major earthquake in the region. The Urban Earthquake Preparedness Program recognizes that many Central Asian city dwellers, especially students and professionals, have access to computers and the internet, and will take advantage of this as a tool to distribute information about risks and necessary preparation methods. American Red Cross and Kazakh Red Crescent are developing a user-friendly website that provides necessary information about preparedness, basic earthquake science and rally points. They are also developing an e-learning course, which will allow both volunteers and the general population to complete trainings and to develop an individual and family disaster preparedness plan by computer.

The objectives of the Prepare Almaty program are too far-reaching for the American Red Cross and Kazakh Red Crescent Society to handle alone. The success of the program and achievement of its goals hinge upon the collaboration of organizations such as schools, universities, local and international businesses, NGOs, government agencies, religious communities, and private housing organizations. The strength of these relationships will define the capacity of the program.

The research phase of the program will be launched on April 1, 2010, and the program is scheduled to go into full gear in September 2010. In addition to collaborative groups, American Red Cross is seeking relevant financial and technical partnerships with corporations, organizations, and diplomatic missions.

ARC Disaster Response in Haiti

In events of immense destruction such as the January 12th earthquake in Haiti, chapters of the Red Cross and Red Crescent Movement come together in support of the local national society to support emergency services in affected communities. As part of the global Red Cross Network, ARC has contributed 36 disaster management specialists and technical support to the naval hospital USNS Comfort, relief supplies for 50,000 people, funding to cover food for 1 million people/month, 562 units of blood, and informational support to survivors, evacuees, and Haitan-American families.

Many people want to help Haiti, but do not know how they can be most effective. At this point in the recovery process, the best thing to do is donate money. The Red Cross Red Crescent emergency appeal is trying to raise 103 million to assist 300,000 people. If you are interested, visit redcross.org and click "Donate Now".

INVESTING IN THE PHARMACEUTICAL INDUSTRY: AN INVESTMENT IN THE NATION'S HEALTH

By Arnur Nurtayev, Centralized Distribution Project Head, Samruk Kazyna

Free Access to Public Health Services – A Constitutional Right

Access to medicine is a major element in the public health system which guarantees Kazakhstan's population free medical care (GFMC) under the country's Constitution ("Every citizen of Kazakhstan has the right to health protection and free medical aid", Constitution of the Republic of Kazakhstan). Each year the national budget contains a major line item covering the cost of providing the population with medicine. In 2009 the budget allocated in excess of US $360 million for GFMC.

Systemic Problems and Solutions

The supply of medicines under GFMC is decentralized today. Public hospitals are involved in pharmaceutical procurement, delivery, storage, and planning, even though this is not their immediate responsibility. For this reason there are significant price variations for the same medicine in different regions of Kazakhstan. Intermediaries, late delivery and storage affect both the quality and cost of medicines, which are often unjustifiably expensive.

Poor planning also affects many health organizations and facilities: some hospitals have surplus stocks of medicines, while others are under-stocked.

This uneven situation in pharmaceutical manufacturing and supply makes streamlining pharmaceutical processes in the domestic market an absolute necessity.

In February 2009 SK-Pharmaceuticals was created by government decree under the Samruk-Kazyna National Welfare Fund with the mandate of improving the sustainability and competitiveness of Kazakhstan's pharmaceutical industry. SK-Pharmaceuticals aims to streamline the process of supplying medicines to hospitals and clinics in line with international quality standards, thus ensuring the quality and availability of medicines, as well as standardizing pharmaceutical information.

One of the major objectives of SK-Pharmaceuticals is to streamline the supply process for medicines, thus reducing and standardizing prices. Medicines will then be available at the same price across Kazakhstan. A pilot project aimed at centralized distribution of pharmaceutical supplies to public hospitals under GFMC is currently underway. Acting as a centralized distributor, SK-Pharmceuticals has proven successful in the initial stage of supplying medicines to national health facilities in accordance with GFMC. The pharmaceutical pilot tender (less than 5% of all listed medicines) has demonstrated the effectiveness of this centralized distribution strategy. Most medicines were procured from Kazakhstani companies, indicating strong government support for local manufacturers. As a result costs have been reduced by 40%, increasing the volume of medicines available under the program.

An equally important objective is establishing an efficient transport and logistics infrastructure. In partnership with a major distribution company, the centralized distributor is able to ensure rapid delivery of medicines to public hospitals in all regions of Kazakhstan. Introduction of a centralized distribution system makes it possible to streamline the process of supplying medicine to Kazakhstan's citizens and to improve pharmaceutical planning to meet the demand of public health facilities. Proper planning prevents shortages of medicines and ensures timely replenishment of stocks.

Good pharmaceutical procurement practices (GPPP-Good Pharmaceutical Procurement Practices) are an important element in the domestic pharmaceutical strategy. Compliance with quality standards ensures that the population is supplied with safe, effective, high-quality medicines.

Domestic Pharmaceutical Production

The domestic pharmaceutical industry has recently demonstrated rapid growth averaging 12-15% per year. However, despite fairly rapid development, problems remain. Chief among these is that Kazakhstan's pharmaceutical supplies are 90% dependent on imports of medicines manufactured abroad. Domestic

production satisfies only 10-11% of demand across the country's total pharmaceutical market.

According to the World Health Organization, a country is considered developed if local production can satisfy at least 30% of domestic demand. President Nazarbayev stated publicly in May 2009 that "by 2014 over 50% of domestic pharmaceutical demand should be met by domestic production". In order to achieve this goal, SK-Pharmaceuticals is stimulating domestic production through guaranteed public procurement of medicines and by construction of pharmaceutical factories. This makes it possible to not only meet domestic demand, but also to export medicines manufactured in Kazakhstan. To achieve this, local companies are given preference for manufacturing the country's pharmaceutical products. Foreign pharmaceutical producers working on joint projects have also expressed their interest in collaborating with local companies.

A New Pharmaceutical Factory in Astana

President Nazarbayev has set the goal of building a pharmaceutical factory in Astana to manufacture vaccines, insulin, antibiotics, and a range of other vital medicines. A feasibility study and cost estimates are currently in process. Implementation of this project will make it possible to supply more than 50% of the country's drug requirements and to increase export of Kazakhstani pharmaceuticals.

Public Health Public-Private Partnerships

SK-Pharmaceuticals was created as a centralized distributor in order to streamline and systematize the pharmaceutical market. After centralizing distribution of medicines, SK-Pharmaceuticals plans to attract private capital through public-private partnerships. The centralized distributor plans to select and merge with a large distribution company with an extensive distribution network in Kazakhstan.

Cooperation within a public - private sector partnership will facilitate supply chain efficiency, ensuring greater availability of drugs and stimulating the domestic pharmaceutical industry. The public sector will be represented by SK-Pharmaceuticals, the majority shareholder.

Drawing on Foreign Experience

The experience of France, Germany, Great Britain, Malaysia, and other countries was drawn on to design a system of centralized pharmaceutical distribution for Kazakhstan. A comparative analysis of foreign pharmaceutical procurement systems shows that, despite some differences, they share common trends: consolidation of procurement at the national level regardless of the healthcare model, and transfer of the procurement and logistics functions for pharmaceutical supplies to specialized companies.

The basis for a centralized national distribution system for medicines was provided by Malaysia, where the public-private partnership model provided successful for procurement and distribution of medicines. In 1994 the Pharmaniaga company was founded in Malaysia to act as a centralized pharmaceutical distributor. This model allowed Malaysia to increase domestic pharmaceutical production to 60 % by 2007.

We can see from the above that Kazakhstan has set itself an ambitious goal to develop the pharmaceutical industry to meet the demands of its citizens. Studies have pointed out the weaknesses in Kazakhstan's current pharmaceutical production and supply methods, and solutions have been sought. Many of these solutions are currently in progress, but much remains to be done. This is highly collaborative work in which foreign experience is useful, but in which Kazakhstan will ultimately set its own goals. Many objectives are entailed, not least of which is diversification of the economy, leading to a self-sustaining model of economic development that will enable Kazakhstan to meet its own needs in health care to a greater extent than it does today.

INTERNATIONAL COLLABORATION TO IMPROVE KAZAKHSTAN'S HEALTH SERVICES DELIVERY

By Rauza Kaliyeva, Head of Development, National Medical Holding, Astana

The health care sector is one of the most vital, yet complex sectors for the citizens of any country. Both in terms of public policy and the economy, a country without an adequate health care system faces enormous budgetary challenges and cannot develop properly – neither domestically nor in the perceptions of the international community. The sector's complexity is due to its many sub-sectors which differ in their tasks, but are all targeted at improving delivery of health services. Medical education, nursing, preventive care, inpatient and outpatient care, medical insurance, biomedicine, clinical research, IT, health care economics and finance, and hospital management are just a few of the many pillars on which health care delivery depends.

Some of these pillars are purely clinical, others are related to management. However, all of them are interdependent and intertwined: poor medical education produces weak doctors, and bad management leads to high costs and inefficient use of resources. As a result the patient gets low quality care and may develop complications that will be more expensive to treat.

To untangle this vicious circle, the government of Kazakhstan is implementing programs to address different health care-related issues from various sub-sectors. One of these programs, the International Standards of Hospital Management program consists of three components: hospital management, technology transfer, and training of hospital managers. This program was launched last year and is operated by the National Medical Holding (NMH) – a joint stock company that currently owns and manages five tertiary-care medical facilities and the Astana Medical University, all based in Kazakhstan's capital city.

Hospital Management

NMH medical facilities differ by specialization and include a Neurosurgical Center, a Center for Maternal and Child Health, a Diagnostic Center, a Children's Rehabilitation Center, and an Emergency Center. The International Standards Program envisages that international hospital management standards will be introduced first into these facilities. NMH began by inviting an international hospital management company to run the Center for Maternal and Child Health (the largest facility by total area and number of beds), planning to transfer the acquired know-how to other subsidiaries later.

The tender was announced in 2009 and the hospital management services contract was awarded to VAMED - a group of companies based in Austria specializing in engineering, construction and management of health care facilities. According to the terms of the three-year contract, in 2009 VAMED provided a CEO, COO, CMO and CNO (chief nursing officer) to run the center on a daily basis. HR, IT, finance and logistics consultants were contracted for services as required.

In 2010 this team will be joined by foreign physicians who will train their Kazakhstani colleagues in new treatment techniques. It is believed that this project will enhance the Center's clinical strengths by empowering physicians with new skills. The project's ultimate goal is to receive international accreditation by the Joint International Commission (JCI) and thus become the first JCI-accredited center in Central Asia and the CIS.

While at this stage it is premature to assess the project's success, interim results show positive changes at the Center. Doctors are now motivated to learn English and to read articles in international medical journals, the HR Department is simplifying procedures to speed up decision-making, the Quality Control Department is introducing new JCI-required procedures (e.g. patient identification wrist bands), accounting is switching to budgeting in accordance with cost centers, the IT department has fully re-organized personal computer use and is preparing the center for the Integrated Hospital Information System (HIS), and pharmaceutical purchases are being integrated with accounting. Some of the other interim results are shown in the yoy comparison table below:

2008	Indicator	2009 (D)
10 276 patients	Number of treated patients	14 246 patients (+38.6%)
11.5 days	Average length of stay	10.0 days
2 108 852 T	Revenue (K)	2 581 102 T (+22.4%)
216 045 T	Revenue from out-of-pocket medical services (K)	266 480 T (+23.3%)
78 742 T	Expenses: technical maintenance (K)	63 278 T (-19.6%)
- 295 858 T	Net loss (K)	-180 478 T (-39%)

Even though the project began only recently, it is clear that international experience has provided the sector with the necessary impetus for development.

Technology Transfer

Technology transfer is the second component of the International Standards of Hospital Management at NMH. Its goal is to develop and introduce into its clinics new hospital management techniques related to marketing and sales, branding, medical services production, corporate culture and corporate management for hospitals. Once these methods are in use at NMH facilities, they will be transferred by the Ministry of Health to other medical facilities in Kazakhstan.

One of the projects run within the technology transfer component is concerned with hospital branding. A hospital is not necessarily a pleasant place to be; it does not sell health, neither does it guarantee a complete cure. Nonetheless, hospitals need to attract patients, both local and international, and branding is a tool by which hospitals can create an emotional connection with patients, earning their trust and loyalty. The NMH has developed a guideline for hospitals wishing to enhance their brand value.

Since the NMH subsidiaries all had logos differing from that of their parent company and its values, positioning, and commitment to quality standards, new logo development for NMH and its clinics was a constituent part of the project. The table to the right shows and describes both old and new logos.

Old logos	*New logos (developed by Movators firm)*
	NATIONAL MEDICAL HOLDING
	Symbolizes mother and a child looking at each other
	EMERGENCY CARE CENTER *Symbolizes a wheel of an ambulance car*
	NEUROSURGICAL CENTER *Symbolizes intercellular connection: transmission of nervous impulse*
	Symbolizes the sun
	ASTANA MEDICAL UNIVERSITY *Symbolizes the first letter of the Latin alphabet*
	DIAGNOSTIC CENTER *Symbolizes an arrow which directs the course of treatment*

Training Hospital Managers

In order not to depend on international managers in the future, the government included a third component to the International Standards of Hospital Management program – training for hospital managers, who at the end of their one and a half year program of studies receive an MBA in Hospital Management. The program is run by the Astana Medical University and envisages two enrollments of twenty students per year in September 2009 and September 2010. The program's international academic partners are Parkway College (Singapore), Danube University (Austria) and Columbia University's Global Health Research Center of Central Asia. Upon completing their training, the newly-minted MBAs will be sent to regional hospitals where they will apply their newly-acquired hospital management skills.

It is hoped that this three-pillar program, run by NMH and administered by the Ministry of Health, will trigger a chain of positive changes that will be taken up and continued by other medical facilities in the region, ultimately improving Kazakhstan's quality and safety of medical care.

BORUSAN MAKINA KAZAKHSTAN LEADS INNOVATION IN ITS SECTOR

By Tatyana Shoinbayeva, Marketing Specialist, Borusan Makina Kazakhstan

Borusan Makina (BM) Kazakhstan, established in Almaty in 1999, is an integral part of Turkey's Borusan Holding, a leading Turkish conglomerate with annual revenue exceeding four billion US dollars and over sixty years of experience. Borusan Holding operates in the areas of pipe, steel, and plastics production, logistics, telecommunications and energy, as well as automotive and construction machinery dealerships.

BM Kazakhstan leads innovation in its sector in Kazakhstan. The company's leadership in technological innovation was recognized when it was presented with the *2009 AmCham Excellence in Innovation Award*. Today BM Kazakhstan operates throughout Kazakhstan with 22 branches and almost 400 employees. Its customer base includes general construction, mining, agriculture, energy, and oil and gas contractors.

The company is the official dealer in Kazakhstan for world-renowned Caterpillar construction machinery, engines, Terex O&K mining machines, Agco agriculture machines, and Kenworth trucks. The spare parts and service operations for these brands are also provided by BM Kazakhstan.

Borusan Makina SOS Laboratory

Turkish and International Innovation Transfer to Kazakhstan

As a part of Borusan Holding and as a partner of Caterpillar, Borusan Makina Kazakhstan uses the Lean 6 Sigma system throughout its organization. Lean 6 Sigma is a management system aimed at improving the decision-making process and eliminating potential failures early on by efficient use of statistics and management methods.

Since early 2008, Borusan Makina Kazakhstan has initiated a series of innovative actions aimed at reducing operating costs for its customers and increasing efficiency of its machinery. The company's Scheduled Oil Sampling (SOS) Laboratory, Contamination Control Initiatives and Component Rebuild Center (CRC) were created to ensure these objectives are achieved.

The Contamination Control Program is implemented globally by Caterpillar and has specific guidelines. Upon successfully completing this program, dealer accomplishments are recognized according to their STAR level ranking. The BM Kazakhstan Varvarinskoe project was ranked a 5 STAR CC facility by Caterpillar in 2008 - the highest ranking in the evaluation. The program's main concept for dealers is to keep the workplace contaminant-free by removing used oils, filter, dust and debris from the environment.

In our project, used oils and filters were accumulated in waste tanks instead of spilling them out into the environment. In addition, kidney loops were utilized in this program so that instead of replacing oil in the truck components at each maintenance interval, by recirculating them through special filtration systems oil change intervals were extended. This has prevented wastage of used oil.

Another important element in the CC program is health and safety. As the program's major goal is to keep the environment dust-free, special workshop doors were installed to prevent dust penetrating the workshop from outside. Together with altering work habits so that doors are always kept closed, it became possible to sustain a dust-free environment.

Last but not least, preventing oil leakages while repairing machine components promotes health and safety since oil on the ground may cause critical accidents involving BM staff and/or customers. Special oil dispensers and pads (instead of sawdust) have been installed to collect used oil and to clean wet or slippery floors and grounds. These are only some examples of the CC program implemented in our organization. The Varvarinskoe MARC project is the first and only facility awarded the Caterpillar 5 STAR rating within the CIS territory.

The SOS Lab has state-of-the-art technology and equipment to determine the condition, metal content, contamination level and cleanliness of oils and other sample fluids. Based at the Karagranda branch, the SOS Lab has tested over 7000 oil samples since May 2008. In addition to this laboratory, the Contamination Control

Technical Service Vehicle

Program provides consulting and auditing services for BM Kazakhstan workshops throughout the country, helping ensure a safe and clean workshop environment, and ultimately increasing the effectiveness of the work performed at the workshops.

Finally the CRC program aims to reduce customer operating costs by salvaging their components in-country, thus eliminating the need to buy new parts. The CRC main objective is to reduce customer operating costs. In the past it was not possible to rebuild major machine components in our workshops, and so BM replaced failed engines with new engines, the most expensive solution to engine failure. In order to provide our customers with a cost-effective solution, we established a Component Repair Center in our Karaganda facility and invested in Rottler CNC machining equipment. Instead of replacing an old engine with a new one, this equipment enables us to machine engine blocks, cylinder heads, connecting rods and many other minor components. This provides an inexpensive solution for our customers compared to the cost of new components. In addition, disposal and scrapping of replaced engines into the environment is reduced. This center is unique among Caterpillar dealers in the CIS .

The new Component Rebuild Center began construction in Karaganda in 2009 and is scheduled for completion in 2010. This new facility in the center of Kazakhstan will include a warehouse, SOS Labs, training center, several service bays, and other areas to provide comprehensive, high-quality customer service.

BM Kazakhstan also believes in a «hands-on» approach when serving its customers. This is why at large mining sites in Kazakhstan BM has project teams on-site 24/7 helping customers maintain the productivity of their Caterpillar and O&K machines. These projects include the Varvarinskoe project in the Rudny area, Ormet in the Aktobe area and VasGOK in Kokshetau. In addition to this dedicated staff, a service fleet of 65 vehicles provides the highest quality service.

Another point that makes Borusan Makina Kazakhstan unique in the mining market is its Reman & Exchange programs. Remanufacturing is the process of retuning a product at the end of its life to bring it up to a «new» condition in a manufacturing environment. It operates as a one-for-one exchange in which end-of-life products are returned for a remanufactured replacement, thus reducing waste and minimizing the need for raw materials to produce a brand-new item.

With a sustainable business model and a high-quality, lower-cost product support option, Reman is good for business, good for customers and good for the environment. The exchange program is a process endorsed by Caterpillar for exchange of Caterpillar components. The products are remanufactured and marketed by dealers authorized to perform and sell exchange components under terms of an agreement between Caterpillar and the dealer. A Cat dealer's exchange program for major engine components can cut repair time and costs.

The largest industrial sector for which BM Kazakhstan provides machines/service is the mining sector. In addition to almost 180 people dedicated to the mining sector and with technical staff at Kazakhstan's largest mines, BM Kazakhstan also delivers the best mining products to its customers. Another «first» for BM was delivery of the first Large Caterpillar underground mining trucks in the CIS region.

Moreover, BM launched implementation of the Cat® Product Link system in Kazakhstan in early 2009. The Cat® Product Link system provides machine data via internet using satellite technology. Both customers and BM can monitor the main technical data of CAT Machines equipped with this system, making it easier to suggest appropriate service and maintenance to the customer. This high-tech system maximizes machine uptime, stabilizes productivity, creates an easier fleet management system, increases service response and resolution time, and maximizes operator performance. In addition to these improvements, the resale value of the machines with Cat® Product Link» tends to be higher and owning/ operating costs lower. Cat® Product Link is a great customer tool both financially and for productivity.

BM Kazakhstan is a benchmark for its partners and competitors as it was the world's first Caterpillar dealer in the world to modernize its CAT gas generator sets G3520C in March 2009 to operate in island mode

Component Rebuild Center

(without a parallel with the grid). The company also has the technology to absorb CO2 out of a gas engine exhaust and utilize this for the end users of Caterpillar engines.

Another BM-implemented innovation in its Caterpillar engine business is installation of engines at Coca-Cola and Pepsi factories that also generate heat, steam and cooling capacity in addition to electricity. With over 20 gas engines that generate 40 MW power, Caterpillar engines generate energy for one of the biggest power plants in the CIS, the Ormet project. This is not only one of the first, but also the largest usage of this method in CIS countries.

In addition to its Caterpillar dealership, BM Kazakhstan is also the distributor for AGCO agriculture machines and its Challenger brand. As agriculture is a significant part of Kazakhstan's overall economy, BM sees this sector as very important and continues its investments in the sector. The latest investment includes dealership of Swedish-based Vaderstadt seeding machines. The first three units of this machine have already been delivered to customers in Kazakhstan's northern regions. Also, the 50th unit of Challenger tractors has been delivered to AGCO's main customer, Damdi Firm. In order to increase market share in the agriculture industry, BM attends AgroProdExpo and Agritek every year and, together with AGCO company, conducts operator training for pest control machines for current and potential customers.

After ten years of hard work, BM is now a major force in its industry with the brands it represents and the service it provides to its customers. Due to the company's belief in Kazakhstan's potential, Borusan Makina will continue its investments in Kazakhstan for decades to come.

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MICROSOFT – LEADING THE WAY IN INFORMATION TECHNOLOGY

By Guenter Dahm, General Manager, Microsoft Kazakhstan and Central Asia

Given the scale of challenges impacting countries across the region, regardless of economic maturity or geography, from the global downturn to climate change, governments and society are looking for renewed leadership and partnership from industry. As a leader in the innovative and fast-moving technology sector, Microsoft has the insight, experience and scale to partner with governments, industry and society to generate solutions through technology for these shared challenges through its long term commitment to the region.

For many CIS countries, the aim is to reach a westernized model of technology adoption and utilization. Looking to Western Europe, North America and the strongest countries in Asia Pacific for inspiration, these countries are revolutionizing their education systems, support for small and larger enterprises, local economic conditions, local and regional government. The driver and enabler throughout this overhaul is technology. Raising awareness of technology and how it can be used, developing a strong local software economy and focusing on economic stimulus levers such as employability, e-skills, digital citizenship and e-literacy are at the heart of the defined ICT programs rolling out in Kazakhstan, Russia, Latvia, and many other countries in the region.

Microsoft is part of the essential fabric of the region, playing a vitally important role in helping the economy thrive, addressing important societal challenges, and empowering individual organisations, business workers, governments and consumers reach their full potential through technology, innovation and passion.

Microsoft is helping to drive a focus on skills and ensuring those technology capabilities through initiatives such as Microsoft Innovation Centres, in partnership with local governments, business, education organisations and other NGOs. There are also the Software-plus-Services Incubation Centres which are helping to develop applications and technology based around software and services for business.

Microsoft in Kazakhstan offers innovative and relevant technology that is interoperable and secure by design, which emboldens the productivity of local organisations, helping them reach their full potential.

Microsoft is committed to be a responsive and responsible leader, working with governments, industry and society to source and scale innovative solutions for shared economic, social and environmental challenges.

Microsoft's bold goal of pushing the state of the art has unleashed technologies and products that have transformed our personal and working lives. Microsoft is at the centre of the defining trends in technology that will shape how individuals and societies will adapt, change and grow.

Microsoft helps to connect people and things they love, empowering them to enjoy their digital lifestyle the way want to and delivering inspiring new experiences across the web, PC and mobile that are made possible through innovative technology and business-models.

What does this all mean in reality? Delivering digital literacy across the entire region of CIS countries is a real challenge given the different levels of development within the different countries. It is important that Microsoft works with governments and other third parties to promote e-education, build e-Services platforms and work with Government to deliver digital citizen services such as e-Identify. Skilled workers represent the next generation of the local workforce and will help drive economic prosperity for the region, so this directive is being translated by Microsoft across all of emerging markets, not just the EU countries, through its e-Skills initiatives.

Signing Ceremony for MoU on Learning, 30 September 2009: Farhad Kuanganov, Ministry of Education and Science, and Guenter Dahm, General Manager, Microsoft Kazakhstan

The key for Microsoft is to help developing countries address societal challenges and become players on global marketplace, especially at a time when the global economic recession has impacted significantly.

The focus on e-Government and the Local Software Economy is a crucial part of helping to spur economic recovery in Kazakhstan. Microsoft plays a role as an enabler of what will be a new world of business through partnerships with local and regional governments and software and hardware partners.

Microsoft is a regional partner helping businesses drive efficiency in Kazakhstan – virtualisation technologies and other practical innovations in software help businesses to be more efficient and be in a stronger position for economic recovery.

Developing e-Skills is crucial in Kazakhstan. It is important that Microsoft works with governments and other third parties to promote e-education, build e-Services platforms and work with Government to deliver digital citizen services such as e-Identify. Skilled workers represent the next generation of the CEE workforce and will help drive economic prosperity for the region.

Awards Ceremony, 6th International Math, Physics and Informatics Olympiad, 16 January 2010.

Also e-Health and e-Education are the huge focus for the public sector in Kazakhstan. Microsoft's developments around healthcare and education systems and other key innovations in the area give us a platform to talk about how Microsoft is influencing this key issue.

Microsoft is working with partners across the region including governments to help drive digital literacy and education. Its technologies are helping to drive better education, by allowing teachers across the region to share best practises through shared experiences of online forums.

Microsoft is working with government and industry towards the development of an inclusive and sustainable knowledge-based society. This includes developing the cooperation framework and technology solutions to tackle accessibility, internet security, intellectual property and economic development, and digital inclusion. Building on the deep policy engagement, Microsoft is helping implement innovative solutions with the public sector that help governments deliver more effectively.

Microsoft is innovating with offerings that enable governments to deliver on critical economic, social and environmental goals such as Innovations in Healthcare, Innovations in Education, partnering with universities to raise the standards of IT –education and innovative industry partners to drive innovations.

The Global initiative "Partners in Learning" (PiL) was announced by Microsoft in 2003, and now 112 countries have joined this initiative. Kazakhstan joined the Partners in Learning initiative in 2004 and signed an Agreement on Cooperation in IT Development in Education and MoU with Kazakhstan's Ministry of Education and Science. On September 30 the PiL 2.0 Memorandum was signed, prolonging the program to 2013. Since 2004 over fourteen thousand teachers have been trained under the PiL initiative.

Microsoft is working with government and industry to develop a thriving local software economy. Through investment in our own intellectual capital, as well as the technology and entrepreneurial capacity of the region, we are looking to fuel short term recovery and long term growth in the region. Our research projects and partner network extend into every geography, generating experience, expertise and value throughout the wider knowledge-based economy. Investment and partnership of this kind is the only sustainable path leading from the current context to full economic recovery.

Microsoft develops and partners to create key Local Software Economy Programs that help fuel entrepreneurship through the BizSpark Initiative, local growth and competitiveness. Microsoft invests in local technology capacity through research investments and partnerships, as well as programmes and initiatives that foster broader skills development.

As a leading technology company, Microsoft is strongly committed to supporting the human foundation of the knowledge-based economy, through training and opportunities for every stage of the technology skills continuum. Our work with governments, universities and local industry identifies where our resources and expertise can be applied to address local needs. We bring the same spirit of innovation to our programmes and initiatives that we've applied in our business strategy - sharing our resources, expertise and solutions towards shared objectives.

Microsoft is committed to helping individuals find a pathway to more fulfilling and challenges opportunities in the knowledge-based society. This work ranges from basic access to technology and skills training to complex and comprehensive support for the rising technology stars of the future.

K'CELL ALWAYS PIONEERS, ALWAYS LEADS

By Aida Dossayeva, Director,
Corporate Communications, GSM Kazakhstan/K'Cell

In 1877 the first fixed telephone rang in Sweden, only a year after Alexander Graham Bell was awarded a patent for the electric telephone in the United States. In 1956 the world's first mobile network was launched in Sweden, followed by its first competitor seven years later in 1963. Then in December 2009 the world's first 4G (LTE) network was commercially launched in Stockholm (Sweden) and Oslo (Norway).

All these historical developments making people's lives easier and happier have one thing in common. They were all made by TeliaSonera and its parent and subsidiary companies in Scandinavia. In Kazakhstan TeliaSonera's leadership strategy is reflected in KCell's business – the country's largest mobile operator in which the Swedish-Finnish group has major interest.

TeliaSonera has an established tradition for pioneering in the telecommunications industry. In addition to the above, it has a solid track-record in being first to launch dual band technology, seamless roaming, a unified messaging solution, voice reading of email, wireless high-speed Internet access, and mobile IP. 'Always pioneer' – this is TeliaSonera's motto.

As Europe's fifth largest telecommunication operator in terms of market value, TeliaSonera is present in over 20 countries with a total population exceeding 450 million, including the Nordic and Baltic countries, Kazakhstan, Russia, Ukraine, Belarus, Turkey, Spain, Azerbaijan, Georgia, Moldova, Tajikistan, Uzbekistan, Nepal and Cambodia. The number of subscriptions held by the companies in which TeliaSonera is a shareholder exceeds 140 million. Over two-thirds of these subscriptions are generated by Eurasian operations. TeliaSonera's net sales exceed US$15 billion and the company employs about 30,000 people globally.

A significant part of the company's business is its operations in Kazakhstan, where TeliaSonera owns a major interest in GSM Kazakhstan (Kcell and Activ brands), the leading mobile network provider in partnership with the national operator, Kazakhtelecom. The Swedish-Finnish group is the major investor in the country's telecommunications industry. The total volume of investment by the company in Kazakhstan since Kcell was established in 1999 stands at over US$1.5 billion. TeliaSonera CEO Lars Nyberg is a member of Foreign Investors' Council of Kazakhstan.

In announcing the 2009 business results to the media in December, Kcell CEO Veysel Aral stated: "We are proud of the achievements we accomplished last year. In a harsh economic situation we made the correct management decision to retain market leadership. We are confident of our future and have ambitious plans for 2010. Our commitments to the highly professional and client-oriented way of doing business will contribute to the development of Kazakhstan's advanced telecom market for the benefit of our subscribers, the country's government, shareholders, partners, employees and society."

There is good reason for Kcell to be proud of its work. In 2009 the company expanded its network to cover 2,499 cities, towns and villages and 99% of Kazakhstan's roads within license obligation. Kcell and Activ brands offered many tariff plans and campaigns to the market, both the corporate segment and individual users. Data transfer saw a 46% increase in the Kcell network last year with 21% growth in the quantity of EDGE/GPRS users. Rational network enhancement, intense marketing, and continual product development resulted in an 18% growth in subscriptions, expanding the number of subscribers to over 7 million people. This is 48% of market share for Kcell. The company has modernized its GSM network to position it for the next stage – the upcoming launch of 3G technology that will deliver new communication services and products to customers.

Kcell has also actively initiated and participated in social programs over the past eleven years, contributing over $5 million to corporate social responsibility projects. The key values of Kcell – innovation, reliability, social responsibility, responsiveness, and participation in the country's economy – were embodied in the company's new image introduced last year. This image conveys the next stage in Kcell's development and is a part its leadership strategy.

TeliaSonera

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THE ROAD TO A KNOWLEDGE ECONOMY AND A CONNECTED NATION - CISCO

By Aidar Dauletov, General Manager, Cisco Kazakhstan

As we leave behind the first decade of the new century, politicians and business leaders alike are starting to formulate their vision for the future of their countries and organizations. Evaluating the lessons from the economic downturn, the world is bidding farewell to 20th century models and is looking into what the 21st century is bringing for all of us.

Innovation, education, talent and the knowledge economy are some of the key words on our agendas. As a representative of a technology company, I am often asked how technology, in particular IT and communications, can help visions and strategies come true. While the answer is essentially a complex one, there is one common denominator whose true impact we are only starting to understand: the internet.

Broadband: Digital Infrastructure for the 21st Century

In October 2009, the European Union published a whitepaper on the Future of the Internet which says: "The Internet has become one of the most critical infrastructures of the 21st century, supporting social and economic developments just as railways, roads and aeronautic transport networks have been doing over the past century."

Building a connected economy starts with laying the foundations. Broadband is becoming the fourth essential infrastructure for any nation, next to water, electricity and the physical transportation infrastructure which consists of roads, railways and airports.

All countries face the challenge of competing successfully in the globalized economy, while meeting the immediate demands of their citizens for improved standards of living.

Countries that have invested in a national and regional "info-structure" with ubiquitous broadband access have been able to compete better in the global marketplace, while raising the standard of living at home. According to the World Economic Forum's Global Competitiveness Index, both broadband penetration and ICT investment as a percentage of GDP have been shown to have a high correlation to a country's competitiveness.

The Next Step: a Connected Nation

The Cisco concept of a connected nation centers on this notion of a national info-structure. It is concerned with connecting citizens, government and businesses, enabling knowledge economies, providing better quality of life, new services and supporting the flow of commerce.

Within the connected nation concept are key areas of focus such as health, education and government. Connected small and medium sized businesses are the engines of economic growth and entrepreneurship. iGovernment is the next generation e-government, which presents an integrated face to the public by connecting disparate government departments, agencies and functions to provide more mature citizen-centric services.

Foresight 2020: the Changing Landscape Companies Need to Face

In a research study[1] sponsored by Cisco, the Economist Intelligence Unit interviewed 1600 top executives from around the globe to explore the most important economic, industry and corporate trends to be expected over the next 10 years. One of the key findings was that running an efficient organisation by itself will no longer deliver a lasting competitive edge. Research into trends up to 2020 clearly shows that competitive advantage will come from high value, qualitative differentiators, such as personalisation of products and services, approaches to customer relationship management and customer service, as well as knowledge management.

As the world is becoming more connected, a new kind of business model is emerging where productivity becomes synonymous with collaboration. This new business model enables companies and public sector organizations to transform themselves and to harness the power of Web 2.0 technologies. Companies need to address three major themes that we've seen emerging in the market. Number one, the concept of an empowered customer — someone who is looking for the product or service that they want in a personalized way. The second is the issue of real-time information. And finally, the concept of a borderless organization in which talent can be located anywhere, and where business can be created instantly.

Collaborative business models – supported by technologies, such as unified communications or telepresence virtual conferencing – are emerging globally, and Kazakhstan and Central Asia are no exception. The supply-chain driven economies in our region require collaboration, and the higher organizations move up the value chain – meaning the creation of more added value locally – the more important collaboration will become.

To deliver personalised products and services, for example, companies will need to handle more complex relationships with customers, suppliers and partners, as well as cross-functional teams across regions and countries using Web 2.0 technologies. Collaboration will become more important inside and across organisations, especially where customers and suppliers are involved in product or service development.

[1] *Foresight 2020: Economic, Industry and Corporate Trends, EIU, 2006*

Cisco TelePresence virtual meeting room

In the innovation context, collaboration brings huge opportunities. Procter & Gamble announced that within the next few years, 50% of all new product and service ideas should come from outside the company. Customers, partners, suppliers are joining up to create new products and services – and the internet as the platform is enabling them to do so.

At Cisco, we recently announced the 2nd round of I-Prize, a competition open to entrepreneurs and innovators around the world. Cisco I-Prize aims to bring together global teams to develop technology and business ideas using Cisco's collaboration technologies and to run those ideas through a process for identifying the technologies of the future.

A Glimpse into Some Key Sectors

Looking into specific sectors for manufacturing cost control and operational efficiency will remain key goals. However, there will be an increased number of suppliers to interact with over the next decade. Relationships with suppliers and other outside parties will be more important: effective sharing of knowledge, communication and collaboration will be critical.

Also, skilled labour in regions such as Central Asia can participate in higher-value activities – such as product development & design – due to digitization and transfer of information. Product development teams globalize and information will be passed from timezone to timezone, cutting costs and cycle times. As customers and suppliers will be involved more closely in production processes, organisations will need to watch out for technologies that are enabling such collaboration inside and outside companies, across geographic distance and borders.

Unified communications, for example, enable employees to reach others more quickly and eliminate delays caused by the inability to reach key decision-makers. It integrates solutions that support effective communication and collaboration, including messaging, mobility as well as voice, video and web conferencing and is helping users reach the right people and resources the first time.

Small and medium businesses could benefit to a large extent from technology – enabling them to become real-time suppliers of larger enterprises and making their operations more efficient. However, ICT technology adoption in small and medium businesses in Kazakhstan is still low, mainly due to the lack of financial resources as well as in-house IT skills. Such issues are easy to overcome by integrated communications solutions offered via financing structures and managed services, which can offload SMB's from the initial investment burden and solve the skills problems as well.

In the energy sector, IP-based network technology will serve as the platform for a smart, highly-secure energy grid for the 21st century, the so called SmartGrid. Leveraging the broad set of Cisco technologies, solutions, services and partners, utilities will be able to create new business and operational models, enhance physical and cyber security, and provide energy consumers the widest set of benefits.

In the service sector, employees will be expected to have higher value interactions with customers and greater collaboration with other product providers. In this sector, competitive advantage will be achieved by offering services anywhere and any time – through the internet and mobile devices alike.

In fact, citizens could enjoy the same level of services from their government agencies. If I can book an airline ticket electronically, check-in the night before my flight and even select my seat without the need to walk into a physical airline office, I could do the same requesting an official document like a passport or driving licence. Similarly, if I send a parcel from one country to another and can track precisely where that parcel is currently located, why could I not do the same with my application for a building licence? However, if I have some more complex issue to solve, I would like to have qualified, personal advice from a well-prepared civil servant. In essence, simple processes can be automated, allowing self-service, so government agencies can focus on more complex, high value-add tasks.

The Internet Generation Enters the Workplace

And while I am writing this article sharing with you my thoughts about innovation, collaboration and knowledge-based society, my children look up from

their computers and wonder why I am making it sound so complex and complicated. They are doing just what I am writing about: they communicate and collaborate with old and new friends over social networks, find information they need in seconds, prepare for their school lessons by watching lectures of the world's best professors, and discuss their idea for a super cool gaming software with someone on the other side of the globe. They are growing up with the internet and on the internet, and will be entering their working life with a wealth of new ideas.

Cisco: Commitment and Partnership with Kazakhstan

For the past several years, Cisco in Kazakhstan has been working together with various local partners to help build the country's digital infrastructure, the basis for the connected economy. In education, we brought the Cisco Networking Academy to Kazakhstan to provide students with the latest knowledge in information technologies and networking and help addresss the IT skills gap. We have currently over 1,000 students at 49 networking academies at secondary schools and universities across the country. They are part of the world's largest online learning community.

We are committed to support Kazakhstan in its transformation from a natural resource-based economy to an innovation and knowledge-based economy. We are here to share our experience on how we engage with governments around the world to help transform and renew education and healthcare – think of virtual classrooms, distant learning, telemedicine, electronic patient records, among others - and to contribute to make Kazakhstan one of the most competitive economies.

Networks for connected businesses

In conclusion, technology is opening up unprecedented opportunities. Partnering and collaboration, innovation and speed of execution are more important than ever. The network as the platform is enabling people to communicate and access information any time, anywhere through any type of media on any device. Exciting times ahead!

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P&G office in Kazakhstan was opened in 1994 with headquarter in Almaty. Since its opening Procter and Gamble Kazakhstan has become one of the fastest growing P&G branches in the region.

Currently P&G Kazakhstan is one of the largest importers and advertisers in the country. It employs around 200 employees directly and over 1500 employees indirectly, including contractors, distributors, warehousing operations, agencies and suppliers. P&G Kazakhstan markets around 30 popular brands, which are designed to touch and make our consumers' lives just a little better every day. As a result, P&G Kazakhstan has been recognized by the consumers as one of the best FMCG companies in the country and was granted the 'Perfection' award several times in a row.

Please visit http://www.pg.com for the latest news and in-depth information about P&G and its brands.

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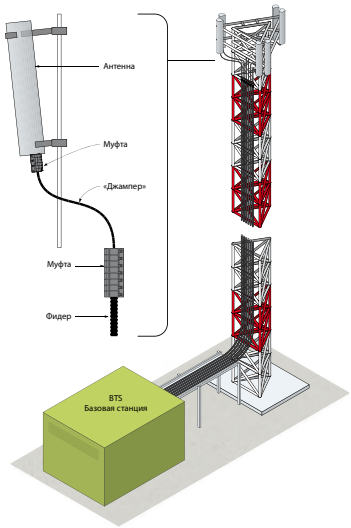
MOBILE COMMUNICATION – A NEW SOLUTION TO REPLACE OUTDATED TECNOLOGY

By 3M Corporate Communications

As Kazakhstan's industrial capacity grows rapidly, the technical solutions it requires for increasingly sophisticated operations also increase exponentially. 3M has contributed to these solutions, working alongside the country's industry, whether large or small, for many years. With over fifty years in the telecommunications industry, the 3M Communication Markets division offers the broadest, most comprehensive suite of scalable solutions to Kazakhstan communications service providers from underground and buried plant to central offices, premises, and more. Proven systems from 3M optimize network testing, construction, locating and maintenance for faster, more reliable high-bandwidth transmissions, enable physical media-layer capabilities for FTTP and DSL deployments from central office to customer premises, and deliver fiber optics technologies to leverage existing infrastructure or to install completely new networks.

Recently 3M launched a new solution, 3M's One-Step Closure for Wireless (OSCW), for the mobile communication market. This solution promises a cost-competitive solution to ensure mechanical and environmental protection for the cable connection at wireless towers in cellular networks.

Kazakhstan mobile operators of cellular communication continue to expand the range and to improve the services of voice communication, ensuring high-quality transfer of data and video images. This requires bigger and bigger transmission band and leads to gradual migration to 3G, 3,5G and even 4G technologies.



Transfer to the new generation CDMA standard does not mean increasing the number of basic stations, but it does require modernizing the existing stations to prepare them for transfer of wider frequency bandwidth.

The new generation GSM standard usually requires use of higher frequencies to transfer wider frequency bandwidth. High frequencies necessitate use of shorter wave lengths that may be subject to greater risk of interferences. In order to increase network capacity and reduce telephone power, the typical coverage zone of the cellular antenna is divided into smaller zones.

This implies an increase in the installation density of mobile communication antennas and consequently an increase in their number.

The high installation density of the basic stations and antennas, as well as the need to service them every 12-24 months requires more progressive technology to mount their structures. A mobile basic station transfers the data across the coaxial cables (feeders) to the antenna. At this section there are two points required for reliable sealing and periodical verification in order to provide for a high-grade signal in the mobile antenna structure. This would be in direct proximity to the antenna and near the feeder at the tower base.

The first point is the feeder connection with the cable jumper, and the second point is the jumper connection with the antenna at the other end. These two points of connection may be the source of major problems for cellular operators. The main problem consists in the DIN-connector and N-type connector on the coaxial cable. Coaxial cable has a larger-diameter core than the jumper. That is why their connection is made by means of a special non moisture-proof connector for the coaxial cable. The connector oxidizes upon contact with water, which will immediately degrade the signal. Moisture also may penetrate the feeder through the connector. The general cellular antenna signal may be lost due to integrity failure on the feeder cable, necessitating additional protection.

In some countries cellular operators use four methods for sealing connections:

1. *Tape technology*, i.e. winding the cable splice with sealing and insulating tapes.

2. *Heat-shrink materials* – tubes and gaskets with the gluing layer to be shrunk at the splice through open flame heating.

3. *Cold shrink* by means of cold shrinking tubes and mastic tapes pre-laid on the cables to connect under the tube.

4. *Mechanical closures.*

Protection by taping is possible, but this requires periodical servicing and depends on the installer's experience and tape quality.

Premium Class insulating and sealing tapes ensure reliable protection, but they have a number of disadvantages. The tape sealing method depends on the installer's familiarity with the product; effective protection is ensured only if the tape is correctly applied. If several cables are closely positioned, the winding process may be difficult, taking up to 20 minutes per joint. The cost of Premium Class tapes for sealing one splice may be as much as US$5-15.

Some communication operators apply general-usage tape, assuming it is the most effective and cheapest tape. However, tape costs are lowest when sealing a joint at the construction stage (less than US$3). The problem that arises is that the service term of this tape is normally less than a year. Moreover, any tape – whether Premium Class or general usage – will degrade when used repeatedly. That is why the cost of operations entailed by the tape method is the most expensive approach.

Protection by means of heat-shrink materials is more expensive than the tape method, but is usually cheaper than the cold-shrink method and use of closures. However, problems related to the safety and process of mounting make this method inconvenient. First, a heating device is required. Open flame and an electrical fan elevate the risk involved in the process and require that special permission be obtained. Second, heat-shrink materials may not be used repeatedly for sealing, therefore entailing additional cost. Last, mounting the heat-shrink materials properly requires an experienced installer.

Protection by means of cold-shrink tubes ensures effective moisture resistance. However, it still has some disadvantages – repeated use is impossible and in order to replace a tube, two cables must be disconnected to place the new cold-shrink tube on them. In terms of cost, the cold-shrink method is more expensive than the above methods.

Mechanical protection of the splice is performed by special closures. 3M produces two types of closures:

1. *OSCW-L- closure* for sealing the connection between the feeder and the jumper.

2. *OSCW-S- closure* for sealing the connection between the jumper and the antenna.

These two closures only differ in size. They consist of two longitudinal half-shells connected by hinges and a latch, thus producing a one-piece closure without small parts. This feature makes it possible to mount the closure without disconnecting the cables in contrast to the heat-shrink tube or cold-shrink tube method.

The connector is positioned in an empty cavity within the closure which remains clean and dry at all times. This cavity is protected around the perimeter of each half-shells with a self-balanced sealing gel that prevents moisture penetrating the connector. This gel ensures a tight fit to cables of various diameters, preserving the tightness for multiple opening/shutting of the closure. This avoids additional material costs for closure opening during the twenty-year life of the operation.

No instruments or devices are required for closure mounting on the cable. Operations are simple and few in number. The connection sealing operation itself may be implemented with one hand in less than a minute. The simplicity of the mounting process together with simple design ensures its error-free installation on the cables irrespective of the installer's experience.

The effectiveness of 3M closures can be easily seen by comparison with tapes in terms of mounting time. When installing six antennas on a tower – frequently a tower outside city limits - it is necessary to mount and seal six connections between the feeder cable and the jumper and six connections between the antenna and the jumper. The net time for mounting with tapes will be four hours as opposed to the use of closures, which will cut the time to one hour.

Thus the mechanical sealing method with closures entails no disadvantages for the first three sealing methods. Major costs at the initial construction stage will be quickly compensated during the operations stage because no additional investments will be required.

The above is only one example of 3M innovation and technical contributions to industrial issues in today's sophisticated and fast-moving industrial climate. As Kazakhstan's economy expands and diversifies, a whole host of challenges have emerged and will continue to emerge requiring innovative solutions. 3M is a company known for innovation and technical expertise, both for simple and more complex situations.

THE KAZAKHSTAN LABOR MARKET: CURRENT TRENDS IN EXECUTIVE RECRUITMENT

By David Mashuri, Kazakhstan Director, Pedersen & Partners

Science and Technology is the industry sector that may well pose the greatest challenges for identifying qualified personnel in Kazakhstan. The following article outlines Pedersen and Partners' thoughts on Kazakhstan's labor market and the approaches we recommend and follow in our own recruiting practice.

As in many countries, the labor market in Kazakhstan has undergone significant changes as a result of the impact of the global crisis as economic development has slowed down from stable double digits since 2001 to 2007 to 3.2% in 2008 and 2.5% by the end of 2009. While the country's national currency, the Kazakh Tenge (KZT), underwent devaluation relative to the US Dollar by 20% in early February and the 2009 rate of inflation stood at roughly 6.2% according to the State Statistical Agency, the changes in labor market, which started in the last months of 2008, intensified in 2009 due to a sharp decline in international trade.

However, these changes cannot be described as purely negative. Despite the fact that many Kazakhstani staff lost their jobs or received lower wages, especially in the financial and construction sectors, there has been a positive adjustment to the labor market, allowing strong employees to reinforce their positions and weak employees to understand the need to gain experience and education, or to change their scope of work altogether.

If in the Soviet period, with its high level of job security and guaranteed wages, work was regarded as inevitable, in today's market conditions employees understand that the employer needs not only education and experience, but above all the knowledge, skills and abilities to use all of this for the benefit of the company. Kazakhstan's openness and active integration into the global community, as well as the development of new technologies have brought new opportunities, but the labor market in Kazakhstan is still experiencing a shortage of skilled professionals, including senior managers. Pedersen & Partners is working hard to help businesses in Kazakhstan find these skilled professionals for senior-level positions, both in the local and foreign labor markets. As a result of our interaction with the leadership of local and international companies, we can discuss trends in the local labor market.

As a result of rapid economic growth and staff shortages, before the crisis competition for staff was intense, giving employees a strong bargaining position on positions and wages, which were often not justified by the employee's actual knowledge and experience. Today, however, the market has moved onto the side of employers, who can now dictate a more stringent selection of staff, thanks to higher competition for jobs, and offer more modest salaries and benefits. Nevertheless, salaries of local senior managers remain quite high in comparison to salaries of their foreign counterparts, both in the CIS and abroad. Although, salaries have increased less than 10% compared to 2008, monthly net salaries in Kazakhstan are as follows: General Manager – US$7,000 to US$10,000; Financial Director – US$5,000 to US$8,000; Sales and Marketing Director – US$6,000 to US$9,000; HR Manager – US$4,000 to US$7,000.

In recent years Kazakhstan's labor market was flooded with lawyers, bankers, marketing and financial analysts, yet still suffered an acute shortage of qualified senior managers with international experience and skilled engineers in the science and technology sector. Pedersen and Partners has successfully placed executives in IT and telecommunications companies, but more often than not candidates had to be sought outside of Kazakhstan. Today the demand for skilled professionals in upper-level management still exists, but long gone are the days when a Western MBA could have significant impact on employers as they seek more "tangible" skills.

The most in-demand positions at Pedersen & Partners in Kazakhstan are senior executives: company presidents, heads of representative offices, general managers and their immediate subordinates - financial managers, sales managers, business development, marketing, and human resource managers. The most active sectors of the local economy are, in descending order, pharmaceuticals, consumer goods, oil and gas, finance, IT and telecommunications. Thanks to the state-of-the art database system based on Lotus Notes, shared by all Pedersen & Partners 37 offices worldwide, we can literally find executives anywhere in the world. Since the staff shortage is evidenced in virtually all sectors, we have to consider expatriates with broader experience, but another strong trend is now emerging - the replacement of foreign staff by local staff. Companies are making the decision to replace expatriates due to cost reductions, tighter work permit legislation, and the wish to have local experts with ties to the local market who can build long-term relationships with partners.

Another reason for the shortage of personnel is increased labor mobility and reduced duration of employment in one location. About 2/3 of employees in local companies work in the same place less than five years. Mobility has a dual significance: on the one hand, workers can «overstay» and lose a broader understanding of the market, but on the other hand transition from place to place more frequently than every three to five years may be a sign of employee instability.

In Europe, candidates are reluctant to change jobs often as companies try to save costs by closing vacancies through internal reorganization and reallocation of duties. Most likely, the labor market in Kazakhstan will follow the European model, but this is still in the future. Kazakhstan's territory occupies ninth place in the world, but because of the country's low population density with only 5.2 million people in the workforce (slightly over one-third of the total population), the lack of manpower is strongly felt.

These conditions have led to an expectation of a unique set of skills that employers seek today in candidates. Due to the region's distinctive historic and cultural heritage and Kazakhstan's desire to integrate smoothly into the global economy, candidates must possess good knowledge of the local and international market in their profession, a good command of English, great analytical and strategic skills, an ability to understand the local post-Soviet mindset and management style, along with a good knowledge of western-style management. The employers are also looking for managers with vision who have the ability to anticipate more than one scenario and the conceptual skills to translate strategic issues into simple operational processes.

Today Kazakhstan's companies devote more attention to the field of labor law and to assessing the effectiveness of HR policy with regard to business strategy, corporate communications and management performance assessment. Companies are trying to retain and strengthen their managerial staff using these and other tools. Of course, the first motivation for an employee to change jobs is a desire to raise their salary level. Other important factors include the organization's environment, corporate culture, career opportunities and training.

Employers should pay closer attention to these and other factors to retain their employees and develop their management staff to the level of developed countries. Pedersen & Partners sincerely believes that Kazakhstan's labor market is rapidly developing its own professionals who will soon be able to compete with their foreign colleagues for jobs in the global market.

PPEPI EXECUTIVE EXCHANGES: SUCCESS STORIES

By Jennifer Schneider, PPEPI Program Manager, AmCham in Kazakhstan

The PPEPI Executive Exchange Program, a component under the larger PPEPI policy-development program, was designed to send ten Kazakhstani executives per year from businesses and organizations in Kazakhstan to partnership placements abroad for up to one month. Executives engaged in sectors vital to Kazakhstan's economic growth were eligible to apply for individual collaborative visits that would promote business development and expose participants to best practices in their host businesses/organizations abroad. Ideally these individually-designed projects would also integrate one or more of the PPEPI five "pillars":

- Anti-Corruption/Rule of Law
- ransparency/Economic Efficiency
- Regional Economic Integration/Trade and Customs
- Cooperation in Science and Technology
- Economic Diversification/SME Development

On a purely pragmatic level, the Executive Exchange Program also afforded the opportunity to develop relationships with foreign partners that would carry forward into the future.

Executives drawn from across Kazakhstan in all fields of business were awarded travel grants this past year to cover the costs of international travel. Each developed a customized program based on his/her area of experience with an invitation and support from a host organization. To date, Executive Exchange winners have completed visits targeted towards animal husbandry, agriculture, business development, trade and customs, and logistics. They have visited not only the United States, but Thailand and the Netherlands in pursuit of their objectives. Through the program, participants have forged business relationships, signed Memorandums of Understanding, studied best practices, and researched the latest technologies. Below we provide a glimpse into the programs of three of our winners.

Daulet Chunkunov – Raising Animal Husbandry to the Next Level

Daulet Chunkunov, the first winner of the Executive Exchange Program, traveled to the United States in mid September with an extensive itinerary that took him through four states studying animal husbandry practices. Mr. Chunkunov, currently the Vice President and Agriculture Advisor for the Alem Management Company in Almaty, has worked with Winrock International and has extensive experience developing the livestock industry in Kazakhstan.

Mr. Chunkunov's participation in the Executive Exchange program coincides with a time when the government of Kazakhstan is increasing its support

of agriculture and animal husbandry. Although Kazakhstan's vast lands provide significant potential for cattle grazing, the industry remains underdeveloped. As part of Mr. Chunkunov's agenda, he studied U.S. technologies and best practices that may be adopted by Kazakhstan to improve the productivity of the industry.

Mr. Chunkunov was hosted by World Sires, a leading cattle genetics marketing organization based in Visalia, California. He designed his program to study the vertical integration of the cattle industry, state-of-the-art technology, and beef marketing—both nationally and internationally. In addition to pursuing partnerships with U.S. companies in the cattle industry, Mr. Chunkunov discussed soil and forage lab development that has the potential to raise the quality of feed supplies in Kazakhstan.

During his time in the U.S., Mr. Chunkunov traveled to North Dakota, Arizona, California, and Texas visiting meat and dairy farms, research centers, and genetics

companies. As a result of the relationships he cultivated while there, he plans to purchase equipment for processing and distributing dairy and beef cattle feed.

In California, he participated in negotiations with the State Trade Office to open a local office in Kazakhstan. In Texas, he secured invitations for Kazakhstani farmers to attend the annual meeting of the Association of Meat Breeds. Additionally, he is preparing to write a Memorandum of Cooperation with Arizona State University regarding food safety and will be signing a memorandum with the Department of Agriculture for the State of Texas agreeing to carry out joint projects on dairy fattening and agricultural expansion, especially in the fields of rice and cotton

Kanat Minzhassov – Improving the Quality of Cattle Feed

High-producing cattle breeding comprises a significant portion of Kazakhstan's agricultural industry, yet the feed currently used lacks the protein, carbohydrates and minerals necessary to meet standard requirements. The low nutritional quality of the feed inhibits both yields and the development of the Kazakhstan agriculture sector. Since 2007, however, Kanat Minzhassov has been involved in research trials studying the adaptability and productivity of American alfalfa, a high protein crop and important component of cattle feed, in Kazakhstan. These trials were ultimately successful demonstrating that the crop offers significant potential for raising yields in the local cattle industry. Mr. Minzhassov's Executive Exchange trip will prepare him for the next stages in the process—beginning marketing and sales in Kazakhstan.

Kanat Minzhassov, a Partner at the North Kazakhstan Branch of Taurus Service and the Director of the North Kazakhstan Cattle Breeding Institute under the Ministry of Agriculture, was awarded the Executive Exchange travel grant in early September. He has since completed his travels which took him to Wisconsin for the World Dairy Expo and then to his host organization in Pennsylvania. Mr. Minzhassov was hosted by T.A. Seeds, a family business started 77 years ago during the Great Depression to sell seed products to eastern farmers. T.A. Seeds continues to cull seeds on-site, and received, as a result of their focus on quality, 244 first place winners in 2008 in university and independent trials for their corn, silage, alfalfa, and soybeans.

During his 10 day trip, Mr. Minzhassov attended an International Scientific-Practical Conference at the University of Pennsylvania and visited farmers engaged in breeding black and white cattle. He commented on the high level of adaptability in animal husbandry, the degree of computerization in operations, and the solid experimental reputation of the University. He will continue working with them on adapting high-quality fodder for Kazakhstan's local environment.

In addition to alfalfa, Mr. Minzhassov examined the results of experiments regarding early ripening hybrids of maize cultivated in Kazakhstan. Through a joint program, he and T.A. Seeds will continue research on maize to make conditions for cob and green fodder suitable for high-quality silage.

Sabirzhan Jangozin – Cross-Border Transport and Logistics

Mr. Jangozin has worked with freight-forwarding and customs procedures for nearly 15 years. As the Deputy Director of the Development and Logistics Department for Aktsept Terminal in Almaty, Mr. Jangozin is responsible for organizing multi-modal transportation, arranging customs procedures in the field, and managing the risks associated with logistics and customs. He was awarded the Executive Exchange travel grant to attend a Regional Training-of-Trainers Workshop on Multimodal Transport and Logistics. The workshop, which was sponsored by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Tranport Division, took place in Thailand in November.

With international commerce increasing during the age of globalization, Central Asia occupies a strategic location between Asia and desirable markets such as Europe, Iran, and Russia. Infrastructure in many Central Asian countries, however, is inadequate and customs regulations are complicated. Effective, knowledgeable freight-forwarders are needed to manage the challenges presented by transporting goods internationally. The UNESCAP workshop met this challenge by enhancing the practical knowledge of national coordinators with respect to the principals and practices of multimodal

transport, logistics and supply chain management. Additionally, the workshop familiarizes practitioners with the legal regimes in the region as they relate to trade.

The workshop also addressed the development of national plans with regards to regional integration, trade and customs. Over the next 10 years, the Central Asian countries are planning to develop six transportation corridors with the help of the Central Asia Regional Economic Cooperation (CAREC) program. As a result of his position and experience in the field of freight-forwarding, Mr. Jangozin was able to share practical knowledge specific to Central Asia with participants during discussions of the planned transit corridors.

Preparing participants to train others in the relevant material occupied a key place during the workshop. In this regard, sessions aimed to improve participants' abilities to run effective training programs and addressed issues such as training fundamentals, teaching and learning resources, and evaluating the performance of a learner and the effect of a lesson. Now, Mr. Jangozin will use these newly developed skills to train specialists in Kazakhstan on international freight-forwarding and logistics.

Seven other Kazakhstani executives used their grants to undertake collaborative visits abroad that will serve them well in their chosen fields, each area being a priority for Kazakhstan's drive towards economic diversification. Agriculture is clearly a field in which the country has excelled in the past and in which, with

encouragement and targeted resources, it will excel again. Improving cross-border transportation, freight-forwarding, and logistics are also absolute necessities for regional economic integration, not only within Central Asia between Kazakhstan and its neighbors, but also integration between East and West through Kazakhstan – most notably between China and its trading partners in Kazakhstan and westwards.

The Executive Exchanges Program has been a relatively modest part of the PPEPI Pilot Year that is now coming to an end. It has been, however, a rewarding initiative for those executives who were successful in receiving grants (adjudicated by an independent Selection Committee) and carrying out their visits. The support and enthusiasm of their hosts abroad was an essential element in the program's success.

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листов до 100 мм x 3 м

AMCHAM ANNUAL GENERAL MEETING REVIEWS ACTIVITIES IN 2009

The Chamber's **Annual General Meeting (AGM)** was held at the InterContinental Hotel on Friday evening, 29 January to report to members on AmCham activities in 2009. The AmCham Board of Directors presented the **2009 Annual Report**, which was also distributed in the form of a 35-page booklet at the meeting. The Report will be sent out to all member companies in February together with the February issue of **Investors' Voice**. A Sundowner sponsored by **AES Silk Road**, a founding AmCham member, was held after the AGM. Attendance was excellent with 150 members registered for both events.

AmCham President Kenneth Mack welcomes members

AmCham President Kenneth Mack (Managing Partner, Chadbourne & Parke) opened the AGM by reporting on the year's major initiative, the *U.S.-Kazakhstan Public-Private Economic Partnership (PPEPI)*. Co-funded by AmCham and USAID in its Pilot Year (March 2009-end of February 2010), PPEPI is a broad-ranging advocacy program that gives voice to the business community in pushing for improvements to Kazakhstan's investment and trade environment.

A small PPEPI Secretariat was created within the AmCham offices in March 2009 to deliver the various program components, chief of which was creation of five PPEPI Working Groups tasked with drafting two White Papers each at six-month intervals for the Prime Minister's Office. Working closely with Deputy Prime Minister Orynbayev, who provided strong support for the program at all times, and with U.S. Ambassador Hoagland, a strong dialogue has developed at the ministerial level with the PPEPI Working Groups.

A detailed report on all stages of PPEPI and its Working Groups, White Papers, Public Roundtables, and Executive Exchanges program is provided in the published **Annual Report**. A feature article on the PPEPI Executive Exchanges is found elsewhere in this issue Discussions are underway concerning an extension and expansion of PPEPI after February 2010.

Other advocacy initiatives in which AmCham is actively involved are the *Eurasian Business Platform* (U.S. Chamber of Commerce in Washington), which raises the profile of Central Asia and the Caucasus with Washington policy-makers, the *Tax Advisory Council* under Prime Minister Massimov, and the *Foreign Investors' Council* , in which all Board members and the Executive Director play an active role.

AmCham Board Secretary Tomas Bravenec (Senior Banker, EBRD) then spoke about the AmCham and PPEPI Working Groups, two different sets of Working Groups, each with their own mandate. Together these Groups number fifteen, each active in a specified field of enquiry. While the PPEPI Groups are fully engaged in producing White Papers for the government, the AmCham Working Groups function as discussion groups focusing on priority areas identified by members in a flexible manner, inviting speakers from the government and, where possible, generating special projects such as the CSR Group's annual journalism training project. The AmCham Groups are open only to Chamber member companies, while the PPEPI Groups are open to a diverse group of CEOs and policy-makers invited to join the Groups. Both sets of Working Groups meet monthly.

Executive Director Doris Bradbury presents the 2009 Annual Report

Executive Director Doris Bradbury reported on AmCham Membership, Events, and PPEPI Public Roundtables. Despite the challenges of the past year,

when Kazakhstan and countries worldwide were caught up in the global financial crisis, a liquidity crisis originating in the banking sector that severely impacted business around the globe in 2009, AmCham and its members weathered the storm well. Although some member companies delayed their renewals this year, the Chamber allowed those members who wished to remain in the membership to delay payment of their fees pending a resolution of their cash flow problems.

New memberships continued to grow in 2009 at roughly the same rate as in previous years – between 15-20%. A large number of visits to Kazakhstan by leading multi-national companies, with overviews of the business climate requested of AmCham, were noted during the year, resulting in decisions to establish representative offices in 2010 when the global crisis had abated.

AmCham events have not abated this year, nor has member interest and participation in these events. A record attendance of 300 members with guests and families was noted at the AmCham Independence Day celebration, which also marked the Chamber's Tenth Anniversary. The annual black-tie Awards Dinner was extremely well-attended. The monthly luncheon Business Roundtables continued to attract prominent speakers on priority topics – in 2009 mostly concerned with financial issues relating to the crisis and the recovery period – and well-attended by members. Sundowners at popular local restaurants and at member hotels also attracted record turnouts of members this past year.

The new events in 2009 were the public PPEPI Roundtables, three of which were held in Almaty and Astana with a fourth Roundtable in New York City at the request of Deputy Prime Minister Orynbayev during the annual Kazakhstan Investment Forum. These Roundtables, day-long interactive events were extremely well-attended by diverse audiences from both the public and private sectors. The media formed a particularly strong presence.

Paul Cohn (Ernst & Young) delivers the AmCham 2009 financial results

The PPEPI Roundtables were a qualitatively new development for AmCham, which had not engaged in public advocacy, nor organized major conference-style events before. They have added greatly to the Chamber's public profile and ability to speak out on behalf of member interests.

Vice-President Courtney Fowler speaks about the AmCham regional presence

Vice-President Courtney Fowler (Partner, PricewaterhouseCoopers) delivered a report on the Chamber's presence in Kazakhstan's other major cities with a heavy concentration of AmCham members: Astana, Atyrau, and Aktau. The Chamber maintains Resident Representatives in each location to stay in touch with the interests and concerns of members engaged in the oil and gas industry (Caspian region) and government business (Astana).

Due to PPEPI, AmCham devoted significant attention to Astana in 2009, but the Chamber organized events and was present in both Atyrau and Aktau for their regional oil and gas conferences in April and November. As always, the April issue of **Investors' Voice** was devoted to Western Kazakhstan, highlighting the oil and gas industry, as well as other regional economic issues.

Charitable contributions were maintained this year, though somewhat reduced, given the economic climate. The Chamber contributed to the Almaty Little League, the Almaty Children's Jazz School, and to several orphanages which received over $7000 from the proceeds of the AmCham-HSBC Cup in July.

Ivan Doudin (Honeywell) delivers an AmCham communication overview

Board Member Ivan Doudin (General Director, Honeywell Kazakhstan) reported on AmCham publications and communications, always a vital area of the Chamber's activity. **Investors' Voice**, the AmCham flagship publication, continued to print five issues per year, 60 pages on average in each issue with 7-8 feature articles devoted to a selected theme, Member News, and Chamber Events. The magazine covers continue to highlight the contemporary art of Kazakhstan. Circulation for each issue averages 3,000 copies sent to members, leading non-members, embassies, government offices, and to international recipients elsewhere in Central Asia, the CIS, Europe, Canada, the Middle East, and Asia-Pacific. Five-star hotels in Kazakhstan also receive copies for their business centres, lobbies, and guest rooms.

The annual **AmCham Membership Directory**, a 150-page publication providing a half-page description of each member company, was updated in the summer of 2009 and distributed to all member companies, as well as all embassies. It is also distributed free of charge at major conferences in Almaty, Astana, and the Caspian region, ensuring that visiting companies have a reference guide to AmCham members and their business activities in Kazakhstan.

AmCham brochures were supplemented by two brochures on the AmCham Working Groups and the PPEPI program. **The AmCham website** was redesigned, relaunched, and expanded in a format that allows for frequent updating and is both more attractive and user-friendly.

The AmCham electronic **Newsletter** provides biweekly information to members about upcoming events and conferences, the latest Chamber news, and special offers by members.

Board Treasurer Paul Cohn (Partner, Ernst & Young) delivered the Chamber's 2009 Financial Report showing a balanced budget with a modest surplus.

Board Member Daniel Connelly (CEO, Citibank Kazakhstan) delivered the results of Chamber Board elections for 2010: President Kenneth Mack, Vice-President Courtney Fowler, and Secretary Tomas Bravenec were re-elected, and new Board members Walter Daniel (Partner, White & Case) and Mark Tate (Director of Corporate Lending, HSBC) were welcomed to the Board.

At the February Board meeting several days later the three incumbents on the Board were re-elected to their positions as President, Vice-President, and Secretary respectively.

An **AGM Sundowner** followed the meeting downstairs in the InterContinental Hotel's Almaty Room, a two-tiered room with a sweeping staircase connecting the upstairs meeting room with the downstairs reception area. The wrought-iron staircase reflects the room's previous function as the hotel casino with its invocation of games of chance in the diamonds, hearts, clubs, and spades decorating the railings.

Generously sponsored by AES Silk Road and faultlessly served by the InterContinental Catering Department, the evening continued with members and guests enjoying a buffet dinner and drinks. The new Board members chatted with members congratulating them on their election to the Board, and traded business and social news. As always, it was a high-spirited evening to kick off 2010 in style.

Kenneth Mack, Doris Bradbury, and Jennifer Schneider welcome new Board members Mark Tate (HSBC) and Walter Daniel (White & Case) following the AGM

AMCHAM WORKING GROUP UPDATES

Tax-Almaty

Chair: Tomas Balco, Senior Tax Manager, PwC

During the December and January meetings, the Tax Working Group maintained its objective of both educating members on the latest tax issues and engaging in policy advocacy. Baker & McKenzie presented on Investment Funds in Kazakhstan in December and group members discussed the problems with VAT on the resale of assets by leasing companies. They also debated issues associated with taxes due by the bank upon debt restructuring. The Working Group voted to focus on these two topics for policy advocacy over the next few months.

In January, PricewaterhouseCoopers gave a presentation on the most recent changes to Kazakhstani tax legislation. Topics covered include the withholding tax on capital gains, transfer pricing, distressed debt, and certificates of residency. The majority of these problems relate to a lack of clarity in the law creating difficulties in assessing capital gains, determining appropriate transfer pricing, and selling non-performing loans, among others. In February, the Tax Working Group will take the group's recommendations to the Prime Minister's office.

Foreign Direct Investment

Chair: Robert May, May Group Consulting

The Foreign Investment Working Group returned to the topic of brand protection, discussing the options available to those companies experiencing problems with counterfeiting. It was noted that the responsibility of collecting information on contraband sources generally falls on the individual company rather than the government. Members agreed to invite a lawyer specializing in the issue to present during their February meeting.

In regards to local content requirements, the group discussed the challenges inherent in meeting these obligations due to the shortage of qualified labor in Kazakhstan. Members speculated that the inability to hire highly-qualified personnel will inhibit the country's attempts to diversify its economy and stimulate science and technology. It was noted that the legislation applies primarily to the extractive industries and that the issue is a political one that will continue to be debated. The new Customs Union also featured heavily in the debate as it is expected to have a significant impact on foreign investment in Kazakhstan.

Trade and Customs

Chair: Timurlan Altayev, Halliburton

With the Customs Union between Russia, Kazakhstan, and Belarus in the front of everyone's mind, the Trade and Customs Working Group received an update on the drafting of the new code. The Group covered the development of the code, its basic problems, and general recommendations for its improvement. Group members debated the changes needed to the current customs regime in order to have a positive impact on Kazakhstan's competitiveness.

Halliburton presented on the issue of work permits, discussing changes and improvements to the legislation. The presentation covered the requirements for hiring foreign labor, the labor force points calculation, special conditions that may apply to specific industries, and permit extensions, among other topics. The meeting concluded with a debate over the effects that the labor legislation will have on business and attempts at economic diversification.

Human Resources (HR)

Chair: Christophe Menger, Kazakhstan Director, Fircroft Recruiting

The Human Resources Working Group held their January meeting in Atyrau at the Renaissance Atyrau Hotel. The group plans to host meetings more often in the region in order to reach AmCham member companies located in western Kazakhstan. During this meeting, Fircroft presented a Recruitment and Labor Market Overview in the Atyrau Region, in which they looked at industries that have the most demand for specialists and industries in which specialists are in short supply. It was noted that the lack of qualified specialists is the main reason for attracting talent from abroad.

PricewaterhouseCoopers presented on Salary Trends in Western Kazakhstan and provided an overview of benefits given in other CIS countries. Information obtained through a PwC survey shows that benefits in Russia and Azerbaijan are higher than in Kazakhstan. The group finished the meeting with a discussion on whether the financial crisis has affected Atyrau less than other regions in Kazakhstan. Members stated that production development such as the Bolashak refinery that is part of the North Caspian project has lessened the impact of the downturn.

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PPEPI WORKING GROUP UPDATES

With drafts of the Winter 2010 White Papers due in early February, the PPEPI Working Groups have been working intensively to solidify their ideas and formulate substantive papers. Members concentrated on expanding existing recommendations, framing arguments, and reviewing the first White Paper drafts. The updates below provide a brief look at the last two sets of Working Group meetings.

Transparency/Economic Efficiency

Chair: Nurlan Kapparov, Chairman, Lancaster Group
Winter 2010 White Paper: Improving Transparency Through Better Regulation of Corporate Lending

Prior to the December meeting, the Transparency/ Economic Efficiency Working Group drafted a technical document that analyzed the current state of the Kazakhstan loan market, the banks' role in the financial crisis, and the role of the Financial Supervisory Agency (FSA). These topics were discussed in detail during the December meeting and finalized to be included in the first draft of the White Paper.

The Group was greatly assisted by senior representatives of local and foreign banks, and by Dr. Meruert Makhmutova, Executive Director of the Public Policy Research Center.

During the January meeting, the Working Group met with FSA representatives to discuss their draft. In preparation for the final paper, the group debated the likely impact of their suggestions and the best way to frame them in order to draw the government's attention to the most critical issues. The group has recommended a three-phased approach to addressing the problems in the domestic banking system. These phases focus on leading Kazakhstan from prescriptive compliance to a risk-based modeling method in the long term. The group also discussed the role of risk management reporting in the banking sector, corporate transparency, and the need to develop alternative sources of corporate financing.

Regional Economic Integration/Trade & Customs

Chair: Michael Jopson, Kazakhstan Director, Nestle
Winter 2010 White Paper: A Consideration of the Kazakhstan-Russia-Belarus Customs Union

During their December meeting, the Regional Economic Integration/Trade and Customs Working Group outlined the framework for their Winter White Paper. They noted that the content of the paper will be heavily impacted by the details of the new Customs Union, especially how procedures, implementation, and compliance will be managed. To clarify these issues, the group drafted a letter to the Customs Committee outlining their questions regarding the new Union. Additionally, the group has arranged to receive a presentation from the Customs Committee to draw out key points and determine in which areas the Working Group can influence the customs code.

The Group was greatly assisted in their discussions by its two Government of Kazakhstan members – Industry and Trade Deputy Minister Zhanar Aitjanova, who combines responsibility for WTO Negotiations and Integration of the new Customs Union, and Serzhan Duisebayev, Deputy Chairman of the Customs Committee.

In January, the group focused on understanding the relationship between the National Customs Code of Kazakhstan and the Customs Code of the Customs Union. Based on their conclusions, the group developed recommendations on topics including conditional pricing, a single oversight body, and a one-window system to simplify customs procedures. They also discussed specific impacts the Union will have on importers/ exporters and potential investment mechanism preferences that may be given to producers of goods and services under the new Union to protect Kazakhstani industry.

Anti-Corruption/Rule of Law

Chair: Walter Daniel, Partner, White & Case
Winter 2010 White Paper: Strengthening Kazakhstan's Anti-Corruption Efforts

Walter Daniel replaced Ken Mack as chair of the Anti-Corruption/Rule of Law Working Group during the December 2009 meeting. The group selected a Rule of Law focus for their Winter White Paper that will look at (1) simplifying laws and regulations to eliminate opportunities for corruption and (2) empowering civil society by providing citizens with legal advice and redress. Recommendations will center on simplifying legislation to reduce contact between offenders and enforcers and promoting a bottom up approach that encourages the respect of citizens' rights. The paper will deal with topics such as current tax legislation, international arbitration, freedom of information, and awareness of legal rights.

The group developed these concepts further during their January meetings as they reviewed the first draft of their White Paper. They discussed existing legal advocacy programs in Kazakhstan and debated the effects that student legal clinics and legal support centers could have on improving Rule of Law and expanding access to legal services for vulnerable populations. Additional discussion topics included enforcement of court decisions, a government ombudsman, and the role of mass media in fighting corruption.

The Group was greatly assisted in their discussions by Justice Deputy Minister Beketayev, the Group's Government of Kazakhstan member, and by Jeff Erlich,

President of the Eurasia Foundation of Central Asia, who will be launching a new Anti-Corruption Council co-funded by USAID and the Government of Finland in the near future.

Cooperation in Science and Technology

Chair: Kanat Shakenov, Kazakhstan Director, Civilian Research and Development Fund (CRDF)
Winter 2010 White Paper: Local Content in Science and Technology

During the December meeting, the Cooperation in Science and Technology Working Group looked at the issues driving innovation. Debate centered on the factors that make a good IT industry and ways in which the government can create a supportive environment for research and development. Although this is a complex process that includes creating incentives and linking the various actors involved, one key component is the challenge of staying ahead of the curve by maintaining a forward-looking perspective.

The Group's January meeting focused on fleshing out the remaining recommendations for the White Paper. Among other topics, the group discussed the structure of the Science Fund including the existing overlap with other agencies, and the possibility of aligning different public and private sector actors through creation of a database. As a follow up to the previous meeting, Microsoft presented their Local Software Economy Initiative aimed at enhancing innovation in Kazakhstan's ICT industry.

Science and Technology will be the theme of the upcoming PPEPI public Roundtable in Astana on 16 February. Speakers will discuss tax incentives for innovation, intellectual property rights, public health and the pharmaceutical industry, and the role of special economic zones and high-tech parks.

Economic Diversification/SME Development

Chair: Tomas Bravenec, Senior Banker, EBRD
Winter 2010 White Paper: Competitiveness: Key Drivers and Impediments

The Economic Diversification/SME Development Working Group opened their December meeting with a debate over the focus of their recommendations, given the urgent situation that SMEs currently face as a result of the financial crisis. They elected to split their White Paper, which will address key drivers and impediments of competitiveness in Kazakhstan, into three divisions (1) Costs, (2) Quality of Long-Term Factors, (3) Market Needs. These divisions will examine issues such as taxes, workforce development, infrastructure, and international competitiveness.

In January, the Working Group asked the USAID Business Environment Improvement program to briefly present on their initiatives to stimulate Kazakhstan's business environment. Members then discussed the role the government plays in diversifying the economy and the best way to support entrepreneurs. The debate included topics such as Kazakhstan's competitive advantages and the possible effects of WTO accession, technical education, attracting new technologies, state checks and licensing procedures.

This Working Group is the largest and most diverse in terms of membership, and must deal with one of the broadest, yet critical themes facing Kazakhstan today.

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AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

INFORMATION AND MEMBERSHIP APPLICATION

ABOUT THE CHAMBER

Registered in Kazakhstan as a non-profit organization in March of 1999 with 36 charter members, the **American Chamber of Commerce in Kazakhstan** currently represents over 200 member companies including US, multinational, and local businesses in 30 industry sectors. Their collective investment in Kazakhstan's economy is several billion USD. The Chamber is a member of the US Chamber of Commerce, the US-KZ Business Association, and has working relationships with many regional business associations.

BENEFITS OF MEMBERSHIP

- Chamber members are invited to participate actively in an organization existing for the sole purpose of serving its members.
- Economic, political, legal, social, charitable and business development information provided to the Chamber is distributed free of charge to members.
- Monthly business roundtable lunches with senior KZ and US government and business leaders are reserved exclusively for Chamber members.
- Seminars, conferences, monthly social networking events and charitable activities are organized for the benefit of Chamber members.
- Chamber membership contact lists and industry lists are available free of charge and exclusively to Chamber members.
- Chamber members are regularly invited to events hosted by the US Embassy and US Commercial Service.
- Member companies often provide exclusive discounts on products and services to other Chamber members.
- Free link to your website and a free page on the Chamber's website. Access to the *members' only* section on the site.
- Free resume service and free search for candidates.
- Advertising opportunities are available to members in the Chamber's bi-monthly magazine *Investors' Voice.*

MEMBERSHIP APPLICATION

(Please return this section to the American Chamber of Commerce in Kazakhstan)

Company Name _____

Industry Area _____

Contact Individual(s) _____

_____

Title(s) _____

Address _____

Tel. _____ **Fax:** _____ **E-mail** _____

Please include us in the following Working Groups:

- ☐ **Foreign Investment**
- ☐ **Human Resources**
- ☐ **Corporate Social Responsibility**
- ☐ **Education and Training**
- ☐ **IT and Telecommunications**
- ☐ **Trade and Customs**
- ☐ **Tax (Almaty)**
- ☐ **Tax (Astana)**
- ☐ **Tax (Atyrau)**

WORKING GROUPS

Working Groups made up of representatives from our member companies provide comment, discussion and submission of positions on areas including but not limited to: Foreign Investment / Taxation; Human Resources; IT and Telecommunications and Corporate Social Responsibility, Education and Training. The groups represent the united interests of the business community in Kazakhstan by identifying challenges faced by investors and proactively addressing them. Each group meets regularly, providing a forum for networking and the exchange of information. Groups are formed on an as-needed basis at the request of our membership.

GOVERNANCE

The Chamber is governed by a Board of Directors elected annually from and by the membership. Directors currently and in the past have included individuals from the following company members:

AES	**Halliburton**
Baker & McKenzie	**Honeywell**
Bracewell & Giuliani	**HSBC**
British Gas	**The Hyatt Regency**
Chadbourne & Parke	**KPMG**
Citibank	**LeBoeuf, Lamb, Greene & MacRae**
Conoco Phillips	**White & Case**
Coca-Cola	**PetroKazakhstan**
Deloitte	**PricewaterhouseCoopers**
DUCAT	**Philip Morris**
EBRD	**Raytheon**
Ernst & Young	**The InterContinental Almaty**
GE International Operations	**Scot Holland Estates**
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MEMBERSHIP CATEGORIES AND ANNUAL FEE

☐ Corporate* A	(Worldwide revenues in excess of 100 million USD)	$4,000 USD
☐ Corporate B	(Worldwide revenues between 2 - 100 million USD)	$3,000 USD
☐ Corporate C	(Worldwide revenues not exceeding 2 million USD)	$2,000 USD
☐ Non-Profit		$1,000 USD
☐ Individual**		$ 500 USD

*Corporate membership entitles a company to delegate 3 individuals as Chamber voting members. The number of persons from each company participating in working groups, forums, business roundtables, and social events is usually not limited.

**Individual memberships are available only under special circumstances, for persons not associated with a company.

All applications for membership must be approved by the Board of Directors of the American Chamber of Commerce in Kazakhstan. For further information about membership benefits, the application process, or *Investors' Voice* magazine, please contact: info@amcham.kz

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The Belvedere Grill Room is a favorite romantic hideaway in the city with its fascinating panoramic view. That is why the time you spend here is always a true and unique romance. Our Executive Chef, Daniel Brooker, with his culinary talent and expertise in the kitchen following traditions of modern cuisine with international flavors and French influence, continuously enhances the experience. The menu features alluring entrees, seafood delicacies, and truffles; all prepared with seasonal freshest products. After the dinner guests prefer to stay a bit longer in the restaurant on comfortably arranged sofas by the window enjoying coffee and fine cognac.

For further information and bookings, please call
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