

IV Investors' Voice

The American Chamber of Commerce in Kazakhstan

Kazakhstan's Leading International Business Association

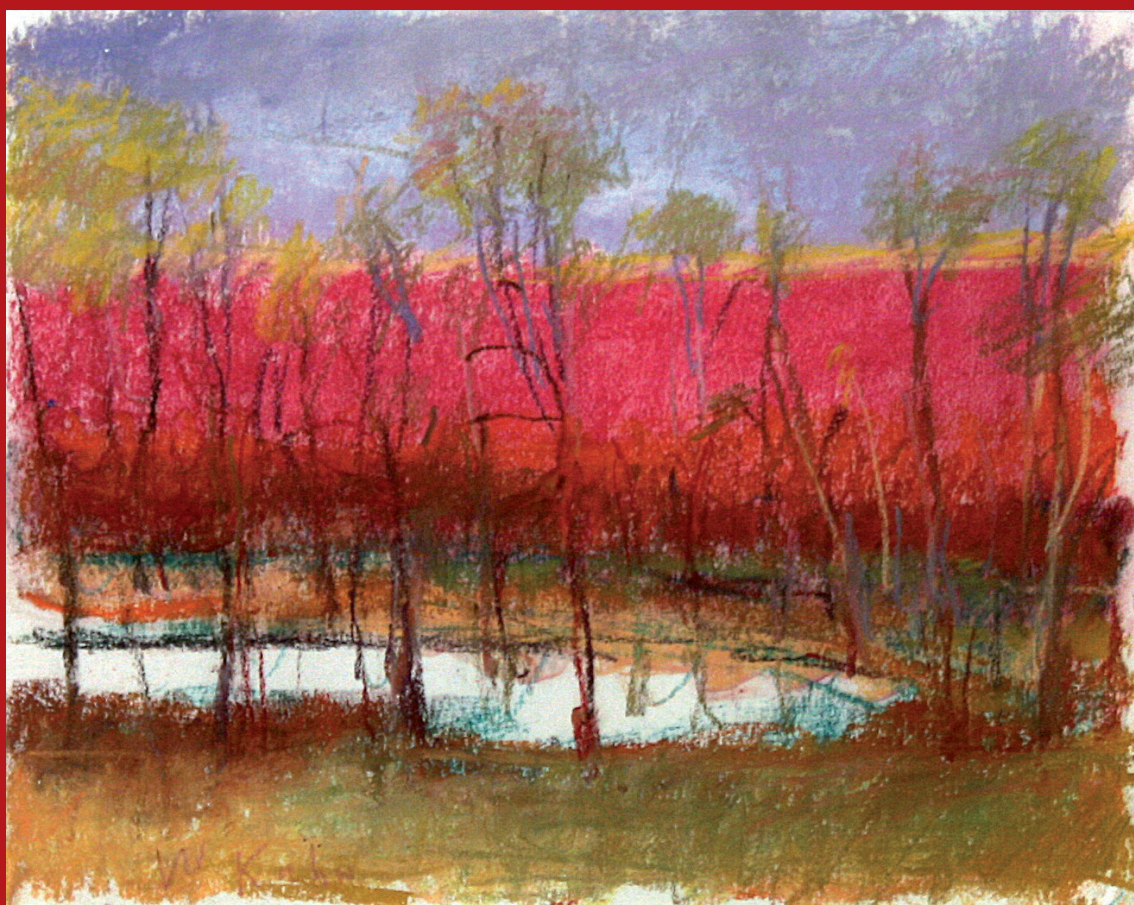


October 2020
AUTUMN ISSUE

www.amcham.kz

#90

Kazakhstan's Economic Recovery / Oil and Gas Recover Momentum



- ▶ ExxonMobil – A Lower-Carbon Energy Future
- ▶ Chevron Opens Creative Public Space in Atyrau
- ▶ Tengizchevroil – Crisis Reveals Character: TCO Commitments to Kazakhstan
- ▶ KPO Achievements – First Half-Year 2020
- ▶ IFC – Kazakhstan's Post-Pandemic Recovery
- ▶ EBRD – Kazakhstan's Economy in the Post-COVID World
- ▶ Believing in Kazakhstan's Economic Recovery?
- ▶ JP Morgan – The 2020 Economic Crisis: A Silver Lining
- ▶ ICD – Islamic Finance as an Alternative Financial Tool During the COVID Pandemic
- ▶ Deloitte - The Role of Fiscal Policy in Kazakhstan's Economic Recovery and Beyond



TASTE THE FEELING



**TOGETHER
TASTES
BETTER!**



«COCA-COLA», «COKE», «COCA-COLA ZERO», «COKE ZERO», «FANTA», «SPRITE», CONTOUR BOTTLE, DYNAMIC RIBBON ARE REGISTERED TRADEMARKS OF THE COCA-COLA COMPANY. ©2020. PRODUCT IS DECLARED.

PREMIUM SERVICED OFFICES

TALAN TOWERS EXECUTIVE HUB
on floors 12, 22 and 24

THE ECOLOGICAL IMPERATIVE IN OFFICE DESIGN

TALAN TOWERS EXECUTIVE HUB – state-of-the-art serviced offices designed according to the concept of eco harmony.

We offer a new way of doing things: managed workspaces, which allow our customers to focus on business and to pay just for the space they occupy during the period of the lease, without having to worry about management or the other issues associated with leasing office space.

Ready-made flagship offices on a short-term lease provide the opportunity to work surrounded by Kazakhstan's business elite and to hold important meetings and presentations in the most prestigious complex in the capital.



www.ttexecutivehub.com

+7 7172 73 50 46

+7 777 002 002 5 (WhatsApp)

sales@ttexecutivehub.com



BOARD OF DIRECTORS

CREDITS

EDITOR IN CHIEF:

Doris Bradbury

COVER ARTWORK:

Wolf Kahn

CONTRIBUTORS:

Giovanni Capannelli

Shaimerden Chikanayev

Almas Chukin

Cassandra Colbert

Erlan Dosymbekov

Rashid Gaissin

Marina Kahiani

Timur Kunanbayev

Eric Livny

Anthony Mahon

Kairat Medetbayev

Assel Mukhambekova

Klara Nurgazyieva

Agris Preimanis

Benjamin Priddy

Dana Skakova

Samir Taghiyev

Khalel Tuganbayev

Aset Shyngyssov

David Waldron

PUBLISHER:

**American Chamber
of Commerce in Kazakhstan**

Tel.: +7 (727) 330 92 50

Fax: +7 (727) 330 92 51

EXECUTIVE COMMITTEE



Kenneth Mack
President
Principal
Mack Law



Bela Ferenczi
CEO
GE Central Asia and
Azerbaijan



Paul Cohn
Treasurer
Partner
EY



Ashley Clarke
Secretary
Chief Operating Officer
KPMG

BOARD MEMBERS



Doris Bradbury
Executive Director
AmCham



John Baltz
Managing Director
Eurasia Business Unit
Chevron



Gordon Haskins
Chief Executive Officer
Al Hilal Bank Kazakhstan



Tibor Kolejak
Country Manager
Microsoft Kazakhstan



Dean Matlack
Commercial Counselor
U.S. Consulate General
in Almaty



Gani Uzbekov
Founder and CEO
SILK



Saule Zhakayeva
Deputy Chair
Corporate Banking Head
Citi Bank

For information about the AmCham, please email info@amcham.kz

For information about Investors' Voice and the Chamber's website,
please email Yekaterina Seifulina at Yekaterina.Seifulina@amcham.kz

To enquire about financial issues,

please contact Rimma Kazhemyakina at Rimma.Kazhemyakina@amcham.kz

EDITOR'S NOTE



Dear Readers,

The *Autumn Investors' Voice* is usually fully devoted to the oil and gas industry, but 2020 has been an unusual year and, although the oil industry retains its central importance in Kazakhstan's economy, as a result of the Covid-19 pandemic this year the oil industry is matched by the priority of Kazakhstan's economic recovery. After seven months of global struggle against the health, economic, and social ravages of the pandemic, countries across the planet are coming to grips with the need to rebuild and revive their economies. As everywhere, Kazakhstan allocated government support to protect its economy and population during the pandemic, and now it must enact a national plan to restart its formerly vibrant economy marked by decades of enviable growth.

The oil industry faced its own crisis in 2020 as Covid-19 decimated the global demand for energy. At one point early on, the price of oil on the world's stock exchanges plunged to an unheard of low for the industry. However, the price quickly rebounded and now stands at a modest level in keeping with the rebirth of demand. The industry's corporate leaders – *Chevron, ExxonMobil, Shell, Total*, and the oilfield consortia that they lead and in which they participate – have maintained their operations and social commitments to Kazakhstan, thus protecting their workforce with an eye to the future. The articles in the *Autumn Investors' Voice* attest to this continuing commitment.

Over the summer, the Government of Kazakhstan mapped out a comprehensive economic recovery strategy that was articulated in President Tokayev's *Address to the Nation* on September 1. The strategy was far-reaching, entailing not only economic recovery but also social and legal reforms that would transform Kazakhstan – reforms that have long been awaited and were received with hope by investors, both foreign and domestic, and by the population at large. *The Autumn Issue* contains a broad range of opinion, together with recommendations by economic experts from among AmCham members outlining some of the concerns that have long confronted investors in a broad range of industry sectors in Kazakhstan.

Kazakhstan has an embarrassment of riches that await development beyond the oil industry, although oil and gas will remain the country's powerhouse for many years into the future. The oil industry strongly supports Kazakhstan's comprehensive economic development and participates in this development on all fronts. Foreign investors understand the country well, and wish to see Kazakhstan's full potential realized to the benefit of its population. Kazakhstan's recovery and reforms will receive the full support of the AmCham community.

Doris Bradbury
Editor-in-Chief, *Investors' Voice*

TABLE OF CONTENTS

Oil & Gas Industry

Cover Art: White Pond
by Wolf Kahn

ExxonMobil - A Lower-Carbon Energy Future.....9	Deloitte - Fiscal Policy in Kazakhstan's Economic Recovery...34
Chevron Opens Creative Public Space in Atyrau.....11	EY - Kazakhstan's Economic Outlook – Looking Ahead.....36
Crisis Reveals Character: TCO Commitments to Kazakhstan.....15	Visor - Kazakhstan's Economy At The Crossroads.....38
KPO Achievements - First Half-Year Period 2020.....19	Morgan Lewis - What You Need to Note for Arbitration.....40
	KPMG - Working at AIFC in Terms of Corporate Law.....43
Kazakhstan's Economic Recovery	Grata - Kazakhstan's Capital Market – A Positive Outlook?....45
Giovanni Capannelli - Believing in Economic Recovery....22	Grata - Obstacles To PPP Development in Kazakhstan.....47
J.P. Morgan - The 2020 Economic Crisis: A Silver Lining..25	Member News.....50
EBRD - Kazakhstan's Economy in the Post-COVID World..27	Advocacy Update.....54
IFC - A Sustainable Approach to Kazakhstan's Recovery..31	Working Groups Update.....55
ICD - Islamic Finance - An Alternative Financial Tool.....33	New Member Profiles.....57

CONTRIBUTORS

Deloitte



Anthony Mahon, Partner and Energy & Resources Leader, Deloitte Kazakhstan

Originally from Deloitte in the UK, Anthony Mahon spent three years working for Deloitte in the Middle East and joined Deloitte CIS in 2012. He leads Deloitte's Caspian Energy & Resources practice across all service lines. A tax partner who specialises in international tax, mergers and acquisitions and restructuring, he advises a range of Kazakhstan's most significant subsoil users.

Anthony Mahon holds a BSc from Aston University and is a member of the Institute of Chartered Accountants of England & Wales.

EBRD



Agris Preimanis, Director, Kazakhstan Head of Office, The European Bank for Reconstruction and Development

Agris Preimanis was appointed EBRD Country Director for Kazakhstan in March 2017. From September 2017 till January 2020 he also served as Chairman of the Kazakhstan Foreign Investors' Council Association (KFICA). He previously held the position of EBRD Kazakhstan Associate Director, Regional Lead Economist and Senior Economist for the Financial, VC and PE sectors. Before joining EBRD, he worked for ten years at Oxera, a UK-based advisory firm, advising financial services firms and regulators in the UK, Europe and US.

Agris Preimanis holds a DPhil in Financial Economics from Oxford University, an MSc in Finance from Birkbeck College, and a BSc in Economics and BA from Stockholm School of Economics in Riga.



Eric Livny, Associate Director, Regional Lead Economist, The European Bank for Reconstruction and Development

Eric Livny joined the EBRD in September 2019 as Regional Lead Regional for Central Asia. In his current role with the Bank, he advises senior management on the Bank's country strategies, liaises with governments and international financial institutions, and leads the industrial policy stream within the Bank's Community of Practice on Competition Policy.

Between 2007-2018, Eric Livny served as President of the International School of Economics in Tbilisi (ISET) and the affiliated ISET Policy Institute. In 2015-2017, he advised Georgia's Ministers of Economic and Sustainable Development.



Dana Skakova, Associate Economist, The European Bank for Reconstruction and Development

Dana Skakova is an Associate Economist covering Central Asia within the EBRD. She provides support on macroeconomic and structural reform analysis and policy advice for Central Asia. Before joining EBRD, she served in the Astana International Financial Centre and the National Bank of Kazakhstan. She has also worked at the Dubai International Financial Centre where she was engaged in a consulting project for Kazakhstan.

Dana Skakova holds a BSc Economics from University College London and an MPhil in Economics and Finance from Cambridge University.

EY



Eran Dosymbekov, Managing Partner for Kazakhstan and Central Asia, EY

As Managing Partner for Ernst & Young in Kazakhstan and Central Asia, Eran Dosymbekov supervises a variety of projects in the region, most of which are aimed at public sector reforms, including: infrastructure development, cleantech, regional integration, and tax and customs administration. Furthermore, Eran is a part of the EY Emerging Markets global network.

Eran Dosymbekov specializes in advising EY's corporate clients throughout the Caspian region on tax, transactions and international structuring. He is a member of the Caspian Mineral Resource Committee, which operates under the International Tax and Investment Center.



Kairat Medetbayev, Partner, Assurance, Energy Leader, Kazakhstan and Central Asia, EY

Kairat Medetbayev has over 15 years of professional experience, including 2-year secondment to EY Calgary (Canada) supporting audits prepared in accordance with IFRS and US GAAP. His auditing expertise ranges from oil and gas, energy, pharmaceutical, agriculture, and construction sectors both for Kazakh and international clients.

Kairat Medetbayev holds an MSc in Finance from the University of Wales and a BSc in Business Administration and Accounting from the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP). He is a Certified Public Accountant (US CPA) and a Certified Auditor of Kazakhstan.

Giovanni Capannelli



Giovanni Capannelli, President, Q-Advisory

Giovanni Capannelli is a development economist and regional integration expert. After receiving a Masters' and PhD in economics from Hitotsubashi University, Tokyo, he worked for the Bank of Italy and served as professor at the University of Malaya in Kuala Lumpur. He then spent two decades at the Asian Development Bank in several positions, including as Senior Economist in the ADB Office of Regional Economic Integration and as Kazakhstan Country Director. He is currently serving as an independent board member of the Kazakhstan Stability Fund and the KazakhInvest National Company.

Giovanni Capannelli holds a PhD and a Master's in Economics, both from Hitotsubashi University, Tokyo, and a Bachelor's degree in Economics from Bocconi University, Milan, Italy.

CONTRIBUTORS

GRATA International Law Firm



Marina Kahiani, Partner, GRATA International Law Firm

Marina Kahiani is a Partner at Grata International Law Firm who focuses her practice on a wide range of M&A and finance transactions, including project finance and capital markets, infrastructure transactions, financial services regulation, and workouts and debt restructurings in many industries. She has over 12 years of experience in the Kazakhstani legal services market as well as experience in matters dealing with the former Soviet Union.

Marina Kahiani's clients include international finance institutions such as the Asian Development Bank, the China Development Bank, the European Bank for Reconstruction and Development, the International Finance Corporation, the Islamic Corporation for the Development of the Private Sector, and major local financial institutions, including banks and microfinance organizations.



Shaimerden Chikanayev, Partner, GRATA International Law Firm

Shaimerden Chikanayev is the global head of GRATA's finance practice. He has over 13 years of legal experience advising both public and private sector clients on infrastructure, public-private partnership (PPP) and project finance, including cross-border lending transactions involving security and cross-border capital markets transactions.

Shaimerden Chikanayev has excellent knowledge of a wide range of industries, in particular energy, healthcare, utilities and social infrastructure, financial services and transportation across Central Asia and Azerbaijan.

Islamic Corporation for the Development of the Private Sector (ICD)



Samir Taghiyev, CIS Regional Head, ICD

Samir Taghiyev is a private sector development professional who specializes in closing private sector deals, entering new markets, raising funds, and helping to create successful joint investment projects with investors from Central Asia. He has extensive private sector experience in Kazakhstan, Uzbekistan, Russia, Turkey and the CIS.

Samir Taghiyev represents ICD as a member of the Audit Committee, Board of Directors (BoD) at Asr Leasing (Tajikistan) and at Taiba Leasing (Uzbekistan). He holds an MBA from Durham Business School in the UK and is fluent in Azerbaijani, Russian, and English.

International Finance Corporation (IFC)

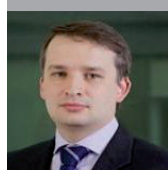


Cassandra Colbert, Regional Manager for Central Asia, International Finance Corporation

Cassandra Colbert is IFC's Regional Manager for Central Asia, based in Almaty and covering Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. Prior to joining IFC, Ms. Colbert worked as a mechanical engineer, and then as a bank examiner. She joined IFC in 1997 as an Associate Investment Officer in the Latin America and Caribbean Department in Washington, DC. Before Central Asia, she occupied numerous positions in field offices across Latin America and Africa, processing transactions and developing business for IFC in manufacturing, mining, energy, and banking.

Cassandra Colbert holds an MBA in Banking and Finance from the Simon School of Business, University of Rochester, NY.

J.P. Morgan Chase



Timur Kunanbayev, Managing Director, Head of Investment Banking, Central Asia and the Caucasus, J.P. Morgan Chase

Timur Kunanbayev is Managing Director and Head of Investment Banking for Central Asia and the Caucasus for J.P. Morgan Chase since 2008. Prior to joining J.P. Morgan in 2007, Timur occupied a number of executive positions in the financial sector in the region. He commands more than 20 years of experience in international finance, with specific focus on corporate finance and venture capital.

Timur Kunanbayev holds a Bachelor of Economics from the Kazakh State Academy of Management, and a Master of Commerce from the University of Sydney. He is one of the first holders of the Chartered Financial Analyst (CFA) designation in Kazakhstan.

KPMG



Rashid Gaissin, Partner, Head of Legal, KPMG Kazakhstan and Central Asia

Rashid Gaissin joined KPMG in 2020 as Head of Legal Practice in Kazakhstan and Central Asia. Prior to joining KPMG, he was Co-Managing Partner in a large international law firm, where he led large cross-border transactions, M&A deals, transactions for transnational corporations, industrial companies, and financial institutions. Previously he led the legal practice for Kazakhstan and Eurasia in another Big Four firm and served for 9 years as Managing Partner of a large Central Asian/Kazakh law firm.

Rashid Gaissin has extensive experience in advising local and international clients on a wide range of legal issues in various sectors: banking and corporate finance, oil & gas, pharmaceuticals, retail & consumer markets, metals & mining, aviation, and electronics.



Assel Mukhambekova, Manager of Legal Services, KPMG Kazakhstan and Central Asia

Assel Mukhambekova has recently joined KPMG. Before joining KPMG she worked as a lawyer in several international law and consulting firms and Kazakh banks. Assel Mukhambekova has extensive experience in providing advisory services to international and Kazakh clients on a wide range of legal issues over 15 years, including banking and corporate finance, corporate and M&A, project and structured finance, foreign investment, employment, antimonopoly, regulatory and other legal issues related to business in Kazakhstan.

Assel Mukhambekova graduated from Kazakh Humanitarian Law University (Almaty) with honors in 2002 and received an LLM degree from Stirling University, UK.

CONTRIBUTORS

KPMG



Khalel Tuganbayev, Manager of Legal Services, KPMG Kazakhstan and Central Asia

Khalel Tuganbayev is a Kazakhstan qualified lawyer with extensive experience in large, complex cross-border and M&A deals, representing local and foreign corporate and financial clients to acquire/sell enterprises involving multiple jurisdictions both inside and outside Kazakhstan. He also successfully represents clients in Kazakhstan courts and international arbitrations. Prior to joining KPMG, he worked for major international law firms and one of the Big Four firms.

Khalel Tuganbayev holds a Master of Law degree in International Law from the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP).

Morgan Lewis



Aset Shyngyssov, Managing Partner, Morgan Lewis

Aset Shyngyssov is Managing Partner of the Morgan Lewis Kazakhstan practice with offices in Almaty and Nur-Sultan. He has experience in complex transactions in various industries, including oil and gas, mining, energy and banking and real estate, both in Kazakhstan and throughout Central Asia. He has been consistently top-rated for over 10 years in Chambers Global, Legal 500 EMEA, and other law directories for his experience in natural resources, corporate, and commercial law in Kazakhstan.

Aset Shyngyssov earned his LL.M. from Indiana University Law School - Bloomington in 1998, where he was an Edmund Muskie Fellow. He graduated summa cum laude from Kazakh State Law University in 1996 and earned his B.A. summa cum laude from Kazakh State University of International Relations and World Languages in 1993.



Klara Nurgazyeva, Partner, Morgan Lewis

Klara Nurgazyeva has been advising international and Kazakhstan clients for more than 15 years on large-scale oil & gas and mining development projects, major mergers and acquisitions transactions in the energy sector, telecommunication, infrastructure, and other industries in Kazakhstan and other Central Asian countries. She represents clients in domestic litigation and works with lawyers in relevant jurisdictions on foreign litigation or international arbitration, mainly on disputes in the energy sector.

Klara Nurgazyeva holds a Master's degree in Petroleum Law and Policy from the University of Dundee (Scotland). She is a member of the AIPN (Association of International Petroleum Negotiators) CIS-FSU Regional Committee.



David Waldron, Partner, Morgan Lewis

David Waldron is a Solicitor Advocate and accredited mediator. He counsels clients involved in international commercial, oil, gas, energy and antitrust disputes and leads the European eData group and the international arbitration group.

His arbitration work includes hearings before the International Chamber of Commerce (ICC) and the London Court of International Arbitration (LCIA) in London, Paris and other major venues. He also handles disputes in the High Court of England & Wales and in appeals. In addition, he is authorized to conduct proceedings at the DIFC Courts based in the Dubai International Financial Centre (DIFC). He is a member of the International Bar Association and London Court of International Arbitration (LCIA).

David Waldron holds a BSc (Hons) and an M.A. from King's College in London. He is listed in the Legal 500 UK, Chambers UK, and the Legal 500 UK.

Tengizchevroil (TCO)



Benjamin Priddy, Communication Lead, Tengizchevroil (TCO)

Benjamin Priddy is Communications Lead at Tengizchevroil (TCO) in Atyrau. Since joining Chevron's Corporate Affairs division in 2014, he has worked in a variety of public and government affairs roles. He served as International Government Affairs Advisor in Chevron's Washington, D.C. office, where he was responsible for supporting advocacy initiatives with the executive branch of the U.S. Government and foreign embassies. He was also Public Affairs Advisor at Chevron's Richmond Refinery in California.

Benjamin Priddy holds a Master's Degree in Russian and Eurasian Studies from Georgetown University's School of Foreign Service, and a Bachelor's Degree in International Studies and German Language from Louisiana State University.

Visor



Almas Chukin, Partner, Visor Kazakhstan

Almas Chukin is a Partner at Visor Kazakhstan, one of the largest private equity investment companies in Central Asia. He has extensive experience in banking and investment in executive positions at Halyk Bank, Compass Asset Management and Kazyna Capital. Prior to leaving the public sphere in 1997 he served in the Ministry of Economy and Finance, and served as Charge d'Affaires at the Kyrgyz Embassy in the United States.

Almas Chukin started his career as an Associate Professor of political economy at Kyrgyz State University undergraduate and post-graduate studies at Moscow State University. He has also served on the American University of Central Asia Board of Trustees since 1998.

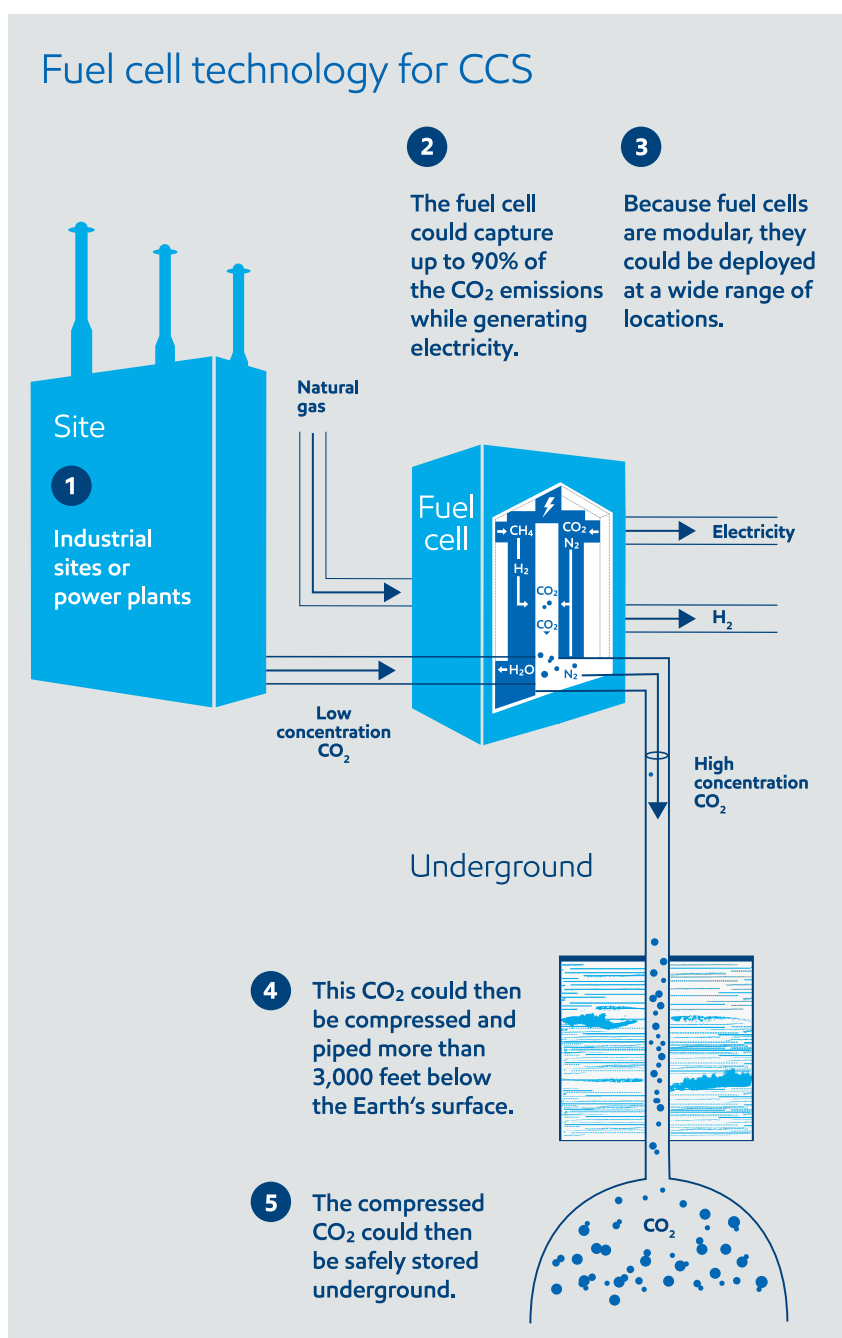
Positioning for a lower-carbon energy future

ExxonMobil

Carbon capture and storage

CCS is a technology that captures CO₂ emissions from industrial processes and the production or use of fossil fuels or biomass, and stores them deep underground in dedicated geological storage, preventing the CO₂ from entering the atmosphere. It is an important GHG emissions reduction technology that has wide applicability in the oil and natural gas production, power and industrial sectors. The IEA, in its SDS, projects a rapid deployment of carbon capture, from more than 25 million tonnes captured in 2019 to almost 2,800 million tonnes per year by 2050. CCS can also be used to achieve carbon removal or “negative emissions” when CO₂ is captured from burning biomass or directly from the atmosphere.

ExxonMobil is a leader in CCS, with more than 30 years of experience in developing and deploying CCS technologies. In recent years, we have expanded our CCS R&D portfolio. In November 2019, we extended our more than 5-year relationship with FuelCell Energy to further enhance carbonate fuel cell technology for the purpose of capturing CO₂ from power plants and industrial facilities. This technology potentially has significantly higher efficiency than conventional technology. Current



efforts are focused on further understanding the fundamentals, expanding process integration options, and developing the pathway to large-scale deployment. ExxonMobil is exploring options to conduct a first demonstration of this technology at one of our operating sites.

In addition, we are progressing research in developing new materials for CO₂ capture that may offer advantages over conventional technology. In 2019, ExxonMobil and Mosaic Materials (Mosaic) entered into an agreement to evaluate Mosaic's novel materials that may offer the potential to capture and separate CO₂ with increased energy efficiency. Also in 2019, ExxonMobil and Global Thermostat signed a joint development agreement to evaluate the ability of their direct air capture technology to capture CO₂ from the atmosphere.

Advanced biofuels

Fuels for heavy-duty transportation (trucking, aviation and marine) require an energy density that liquid hydrocarbons provide. Biofuels have the potential to meet this need.



Genomatica single process step for conversion of cellulosic sugars to biodiesel

ExxonMobil continues to progress research to transform algae and cellulosic biomass into liquid fuels (biofuels) for the transportation sector. These advanced biofuels have the potential to reduce GHG emissions by more than 50 percent compared to today's transportation fuels. They also offer advantages versus other biofuels by not competing with food and reducing fresh water use. ExxonMobil is making progress toward first demonstrations of advanced biofuels production in the next decade.

Cellulosic biodiesel program

We have made significant progress through collaborations to convert cellulosic sugars (made from sources like agricultural waste and wood) to biodiesel. To advance this technology, we are working with two companies; one focused on converting cellulosic biomass to cellulosic sugar and one focused on converting sugar to biofuel. Genomatica has developed microbes that can potentially convert cellulosic sugars to biofuel through a single bio-conversion step. We have doubled the yield of biodiesel from a variety of cellulosic sugars over the past few years, successfully validating Genomatica's process in the lab. In early 2019, we began collaborating

with Clariant, which is able to commercially produce cellulosic sugars with its sunliquid® technology. We are testing sugars made with Clariant's process with the Genomatica microbes to understand the commercial viability of this novel integration. ExxonMobil's unique science and engineering capabilities are critical to integrating the two technologies into a potentially more affordable and scalable option.

Algae program

We have been working with SGI for a decade to develop strains of algae that will convert CO₂ and sunlight into energy-rich bio-oil, which can then be processed at existing refineries (similar to crude oil) into renewable fuels. To increase the speed of development, we are progressing two tasks in parallel. We continue to progress needed biology modifications to the algae in the lab, while working on outdoor algae ponds to understand the process engineering aspects of growing algae in real-world environments. We are making progress on both fronts with a target to be technically ready to produce 10,000 barrels per day of biofuel by 2025. This first proof of production is a critical step towards full-scale deployment which is likely decades away.



ExxonMobil - SGI Algae Pond Research in Calipatria, CA

CHEVRON OPENS CREATIVE PUBLIC SPACE IN ATYRAU

Chevron is not only Kazakhstan's largest private oil producer, holding stakes in two out of three of the nation's largest oilfields – Tengiz and Karachaganak - but also a good corporate citizen. Beyond contributions to partner countries through direct business investments and taxes, Chevron contributes to local communities through strategic social investments. Everywhere Chevron operates, it strives to build lasting partnerships to create prosperity now and for decades to come by investing significantly in major projects and local goods and services, creating jobs and generating opportunities for local communities.

A key focus area for Chevron is supporting Kazakhstan's next generation with the development of new skills and knowledge that help build the country's capacity and capability and enable Chevron's talented young people to unleash their potential. Chevron's support for educational development programs reaches out to thousands of young people, teachers, and educators from urban and rural areas.



The *Atyrau Youth Development Initiative (AYDI)* is a Chevron-initiated project to bring innovative and interactive programming to Atyrau's young people and communities. AYDI has been implemented since 2015 in partnership with the Atyrau regional government, international and Kazakhstan community organizations.

The program combines interactive trainings, practical experiences, and community engagement providing unique learning and professional skill-building opportunities. In partnership with local government, educational institutions and businesses, the program seeks to build a dynamic network of community-based youth services and creates systems working together to support positive youth development in the region.

As a result of its first burst – the *Zangar* program – administered by the *International Youth Foundation* in 2015-2020, more than 11,000 young people in Atyrau have received interactive training on life skills and STEM disciplines. In total, they have recorded 8,000 hours of volunteer work with many also participating in several festivals and championships. Over 50 educational organizations of Atyrau were involved in

the project and more than 400 teachers passed international certification as trainers. In 2020, Chevron completed construction of the *Youth Palace* in Atyrau, which provided young people in the region with space for educational, professional, and vocational development along with social, community wellness and recreational opportunities.

"Chevron is committed to regional development and long-term investment in the future of Kazakhstan's youth. We consider the Investment in youth as an investment in economic development and social stability of the country. We ensure that programming is driven by local needs and developed in partnership with local organizations for the well-being of Atyrau residents,"

*Yerkin Zikibayev, Corporate Affairs Manager,
Chevron-Eurasia.*

Jaspac

Building on Zangar's success, Chevron opened new creative public space in the *Youth Palace* – *Jaspac* (Jas means 'young' in Kazakh). A coalition of the *British Council*, *Impact Hub Almaty*, and *Urban Forum Kazakhstan* in partnership with the Atyrau Oblast Akimat will further manage the AYDI project which aims to develop Atyrau as an open, inclusive, and equitable city where young people are economically productive and socially active.

Launched in September 2020, *Jaspac* programs will be tailored to meet the contemporary needs of youth and communities in Atyrau and support development of a more prosperous and safer city and region. *Jaspac* will promote human capital development, engagement, and networking at the regional level.



Jaspac consists of a STEM zone, an amphitheater, a lounge zone, a computer and media labs, as well as a workshop area in which a wood milling machine and laser processing are available for all attendees. A large range of associated activities and programming will reach young people, parents, teachers and youth workers. The innovative and project-based learning will effectively prepare young people for career success in the future.

FabLabAtyrau (Fabrication Laboratory), a small-scale workshop offering advanced digital fabrication, is designed to help young people develop key skills and enhance their creativity. The laboratory houses a set of fabrication and rapid prototyping machines and tools, including a 3D printer, laser cutter, vinyl plotter, and a computerized milling machine for use of real-world tools to design and create prototypes for their projects. *FabLab* provides an opportunity for people with little technological expertise to develop highly complex inventions using technology that was previously available only to engineers of major companies.



The *I-SEED* program (*Innovation – Social Entrepreneurship and Education*) was implemented in Atyrau in 2017 to support the development of social entrepreneurship. The project's goal is to equip future social entrepreneurs with the skills, knowledge and supporting networks (local and international) needed to create sustainable solutions for the social problems facing local communities.

As part of the program, students gain knowledge and skills in setting up and running social enterprises; fundraising and investment; business planning; marketing; presentation skills and pitching. The project also helps young people develop soft skills and become more confident and competitive in the labor market.

We are proud of the *I-SEED* results in Atyrau. In 2017-2020, more than 3000 young people participated in social entrepreneurship training; 113 people took part in the mentorship (mini-accelerator) program; and 12 teams received grants of \$3000 to implement their own startups. To date, the network of *I-SEED* supporters exceeds 2000 people in Atyrau.

Urban Forum Kazakhstan is building cultural awareness in Atyrau by introducing urban engagement values to citizens, sharing instruments and skills, establishing sustainable ongoing dialogue and networking among community members. All activities are designed to promote sustainable development of the urban environment with emphasis on citizens' participation.

The project will develop a permanent platform that acts as a link between local communities, businesses, the municipal administration, and experts. The project will focus on understanding Atyrau's identity and encouraging a dialogue around issues and problems requiring resolution.

The *Impact HUB* project, known for building a networking platform and supporting social entrepreneurs globally, including Kazakhstan, has launched a youth-oriented program in Atyrau. The goal is to share innovative ways of engaging young people in civic initiatives. The program helps Atyrau's young people develop creative and unconventional solutions to the region's social, cultural, environmental problems, employing best principles and practices of social entrepreneurship.



Chevron's operations globally and in Kazakhstan are based on a fundamental vision called *The Chevron Way* with the goal of improving lives and enabling human progress as one of its cornerstones. Given the opportunities created for Atyrau's young people through the *Youth Palace* and *Jaspaces*, we believe this will be a safe place for youth to learn, be heard, discover new interests and talents, share ideas, and plan for the future of the region and the country.





CELEBRATING GROWTH AND PROGRESS.

A quarter of a century ago, Chevron recognized the potential in Kazakhstan. Together, with our partners, we've invested billions in the Kazakhstani economy. Created tens of thousands of jobs. And we've become the country's largest oil producer. In fact, Tengiz Field is now among the top producing oil fields in the world. That's taking potential and turning it into progress. Today and for many years to come. **Learn more at chevron.com/worldwide/kazakhstan**

WE AGREE.



human energy®

Вдохновляя прогресс

FUELING PROGRESS



TENGIZCHEVROIL



CRISIS REVEALS CHARACTER: TCO CONTINUES TO DELIVER ON ITS COMMITMENTS TO KAZAKHSTAN

by Benjamin Priddy
Communication Lead
Tengizchevroil

The first half of 2020 presented challenges unlike any the global oil and gas industry has encountered. Health concerns stemming from the pandemic, commodity price declines, and economic uncertainty combined to create a complex operating environment. Despite this difficult backdrop, Tengizchevroil (TCO) maintained safe and uninterrupted production operations, advanced work on critical path activities for the next phase of expansion – the *Future Growth Project-Wellhead Pressure Management Project (FGP-WPMP)* – and continued delivering on its commitments to Kazakhstan and TCO shareholders.

In early spring, as COVID-19 spread throughout Kazakhstan and into areas of TCO's operations, the company took strong actions to protect the health and safety of its workforce. These included pausing non-essential work and projects in Tengiz and temporarily returning home more than 27,000 people to reduce camp density and allow people to have greater access to medical facilities and resources in their home locations.



In close coordination with Kazakhstan's health experts and regulatory agencies, TCO focused on ensuring sufficient safeguards and mitigations are in place to protect its workforce and business throughout the ongoing pandemic. Across all facilities, personnel are required to wear masks, practice strict physical distancing and abide by all sanitary measures put in place. COVID-19 PCR testing, contact tracing, isolation of affected employees and close contacts, as well as compartmentalization of work groups, have been successful in helping mitigate the spread of coronavirus in Tengiz operational areas.

In June and July, TCO executed a safe and successful crew change of essential personnel in Tengiz, relying on these measures to help reduce the risk of spread of the virus and protect our workforce and our business. To date, TCO, in collaboration with Kazakhstan's national health authorities, has conducted more than 78,000 COVID-19 PCR tests. Together with other safeguards, proactive testing and identification of potential cases has limited the number of active coronavirus cases in Tengiz.

Base business production operations have continued uninterrupted throughout the pandemic. In the first half of 2020, TCO produced 14.26 million metric tonnes (112.51 million) barrels of crude oil. Progress on *FGP-WPMP*'s critical path activities has also continued. In June, the project achieved a significant milestone as the last fabrication module sailed away from Korea ahead of schedule, culminating a four-year effort involving numerous international teams.

FGP-WPMP, currently the largest capital project in the global oil and gas industry, is now 79 percent complete and the remaining project scope primarily consists of construction and commissioning work in Tengiz. Pre-commissioning works have commenced on the *Integrated Operations Control Center* in Tengiz, and module staging is ongoing on the *Third Generation Plant (3GP)* and *Third Generation Gas Injection (3GI)* site. TCO remains focused on safely progressing the project with a targeted startup of *WPMP* in late 2022, with *FGP* to follow in mid-2023.

Remobilization of personnel critical to supporting TCO's continued ability to safely produce, avoid interruptions to production operations and keep *FGP-WPMP* on schedule commenced on September 1. A return to work plan will continue over the next several months as conditions associated with the pandemic allow and in compliance with all sanitary requirements and safeguards.

Despite the challenges of the current operating environment, TCO continues to deliver on its commitments to Kazakhstan. In the first half of the year, TCO made direct payments of almost \$4 billion to the country and has invested \$2 billion in Kazakhstani goods and services, including \$1.4 billion for goods and services related to *FGP-WPMP*. This brings total TCO investments in Kazakhstani goods and services to \$34.9 billion, and direct payments to Kazakhstani entities to over \$150 billion since TCO founding in 1993.



Support for local communities remains steadfast. Giving back to the communities where we live and work has always been a core value for TCO, distinguishing TCO and guiding our actions to deliver results the right way. We recognize the success of our organization and people isn't dependent on what happens only within TCO, but also in the communities where it operates.

Since the beginning of the coronavirus pandemic, TCO has provided equipment and supplies, established medical facilities and helped expand COVID-19 PCR testing capacity to help contain the spread of the virus in local communities. To date, TCO has contributed approximately \$7 million to procure personal protective equipment and oxygen concentrators for the Atyrau Oblast healthcare department.

TCO provided its DASH-8 aircraft to return home students and family members of local residents who were unable to travel due to the shutdown of international flights. TCO arranged for a cargo aircraft to deliver more than 20 tons of medicine to Atyrau, and the company has worked with the government to deploy 50 medical specialists and additional staff from Atyrau Oblast and international locations to provide supplementary support to the regional healthcare system.

Today, TCO is leading an initiative together with its business partner and contractor organizations to raise funding for the construction of a 200-bed infectious disease hospital as part of a new medical complex in *Kulsary*, a neighboring community in the *Zhylyoi* District near Tengiz. A groundbreaking ceremony was held in early August and construction on this project continues.

Partnership with TCO stakeholders in the Government of Kazakhstan, Atyrau Oblast, regional Akimats, sanitary epidemiological authorities, law enforcement agencies and TCO's shareholders has been critical in ensuring the success of TCO's ongoing response efforts. Over the past 6 months, the combination of adverse and unforeseen external events has undoubtedly taken a toll on all businesses and industries in Kazakhstan, and on their most important assets – their people.

There is a great saying that crisis does not build character, it reveals it. The resiliency, determination and strength of TCO's workforce in continuing to fulfill TCO commitments during this period of extraordinary challenges have been remarkable and have revealed the character of our organization. From the work done to position TCO's business for success in any environment to the ongoing support provided to the local communities we serve, our people are truly our greatest asset.

Looking ahead, TCO is focused on safely and successfully remobilizing personnel to Tengiz, maintaining uninterrupted production operations and advancing the *FGP-WPMP* project. Standing together as one team and drawing on the strength of the organization – clearly demonstrated through the crisis period to-date – the TCO workforce is helping pave the way for advancements in Kazakhstan's oil and gas industry for decades to come.

Bertling 

BERTLING – ALWAYS
A SMART MOVE.



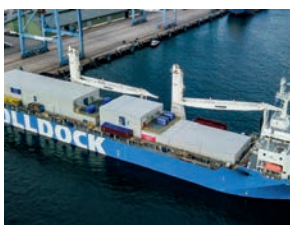
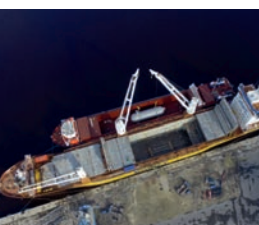
An excellent operational performance does not need many words of explanation, but one simple answer: Bertling.

**Your Freight Forwarding Specialist
in Kazakhstan:**

Bertling Kazakh Logistics LLP
Admiral Lev Vladimirsky Str.
Building #9
E02A4H5 Atyrau
Kazakhstan

Contact: Aliya Zhaksylykova, Director – BKL
Phone: +7 7122 763171
Email: aliya.zhaksylykova@bertling.com

Contact: Colin MacIsaac, CEO Bertling Logistics
Phone: +44 7585 902187
Email: colin.macisaac@bertling.com



We take energy forward



We're committed to making energy safer, cleaner, and more efficient for people and the planet. By combining industry-leading technologies and services with operations in over 120 countries, we're collaborating with customers to transform the future of energy—everywhere.

bakerhughes.com

Copyright 2020 Baker Hughes Company. All rights reserved.

Baker Hughes 



Карачаганак: на пути устойчивого развития

История Карачаганака навсегда вписана в летопись казахстанской нефтегазовой промышленности. Открытый в далёком 1979 году, сегодня Карачаганак — это многомиллиардные инвестиции, рекордные объёмы добычи, инновационные технологии и тысячи рабочих мест. С 1998 г. освоение Карачаганака осуществляется международным консорциумом КПО в составе Royal Dutch Shell, Eni, Chevron, LUKOIL и АО «НК «КазМунайГаз».

Внедрение наилучших мировых практик, опыт и профессионализм первоклассных специалистов, а также партнерство с Республикой Казахстан обеспечивают высокие производственные результаты на международном проекте, ставшем одним из флагманов отечественной нефтегазовой отрасли и локомотивом экономики западно-казахстанского региона.

В своём стремлении к совершенству КПО руководствуется принципами устойчивого развития и социальной ответственности бизнеса. Это означает, что помимо производства, важнейшими приоритетными направлениями в деятельности компании являются охрана труда и окружающей среды, развитие человеческого капитала и поддержка казахстанского бизнеса. Сегодня на Карачаганаке пишется история успеха и создается наследие для будущих поколений казахстанцев.

«Карачаганак Петролиум Оперейтинг Б.В.» Казахстанский филиал

090300, Республика Казахстан, Западно-Казахстанская область,
Бурлинский район, г. Аксай

тел: **+44 208 8288 262**; из СНГ: **+7 71133 6 2262**

факс: **+44 208 8288 620**; из СНГ: **+7 71133 6 2620**

www.kpo.kz

KARACHAGANAK PETROLEUM OPERATING (KPO) ACHIEVEMENTS – FIRST HALF-YEAR 2020

Karachaganak Petroleum Operating (KPO) recently announced its performance results for the first half-year period. Despite the impact of the global oil and gas industry downturn further exacerbated by the COVID-19 pandemic, KPO has shown remarkable results: over this period the company produced more than 75 million barrels of oil equivalent of stable and unstable liquid hydrocarbons, export raw gas and sweet fuel gas. Moreover, 5 billion cubic metres of raw gas were re-injected into the reservoir, representing 49.3 % of total gas produced. To date, KPO Partners have invested more than \$26.6 billion into the development of the Karachaganak field.



KPO General Director Edwin Blom

"KPO plans to fulfil its obligations for liquids and gas production in accordance with the approved annual 2020 Work Program and Budget. Considering the risks posed by COVID-19, KPO is undertaking its best efforts to maintain profitability based on a number of oil price scenarios."

"We should take this opportunity to adopt new digital technologies to streamline business processes impacted by the current crisis. This requires resilience, extraordinary thinking and commitment. KPO will capture lessons learned from this crisis and will become even stronger and better prepared for what the future holds in store for us."

"KPO production performance is ahead of budget. Plateau extension projects such as the KGDBN and 4IC projects are at the stage of implementation."

KPO General Director Edwin Blom

KPO has always been focused on environmental issues. Both short-term and long-term activities are executed in line with the approved plan with special subsoil use requirements duly followed.

KPO has achieved a gas utilization rate of 99.9 % for the first half-year period of 2020, a world-class achievement.

To date, KPO's overall investments into environmental activities totals \$417 million. KPO continues fully monitoring emissions to the environment including air emissions, wastewater discharges, waste storage, as well monitoring of air quality, surface, subsurface water and soil.

KPO is one of the leading companies in Kazakhstan's oil and gas sector in terms of procurement of goods and services from local manufacturing companies. From the day of the signing of the Final Production Sharing Agreement, thousands of Kazakhstani companies have attained invaluable expertise while working on a world-class project. At the end of the first half of the current year, the share of Local Content in KPO contracts for the supply of goods, works and services exceeded 59 %, or more than \$331 million in monetary terms.

KPO continues implementing its social infrastructure program, delivering many major projects aimed at developing the social infrastructure of the West Kazakhstan oblast.

During the past two decades of the Karachaganak field development, hundreds of kilometers of new roads were laid, and hundreds of schools, hospitals, sports and cultural facilities in the West Kazakhstan region were built at the expense of KPO. To date KPO's total investment in development of the region's social infrastructure has exceeded \$416 million. The list of priority objects for construction is defined by the WKO authorities. Only local contractors are involved in all stages of construction and execution of the social projects.



Thus, in May 2020, the *Sports and Health Centre* in Zhangala village was successfully commissioned. In July, KPO completed an overhaul of the No.7 Municipal Clinic located within the regional hospital in Uralsk.

On August 2, the bridge reconstruction was completed in Uralsk. Just recently, a new school was completed as part of the social infrastructure program. This three-storey school building for 450 pupils is located in a new, densely populated microdistrict in the northeastern part of Uralsk.

The school building premises are differentiated into 2 main functional groups: educational and general school. The educational group is designed for teaching 1, 2 and 3 levels of education. The general school area is subdivided into separate groups: sports, auditorium, medical services, administrative and household, libraries, and catering. Construction was carried out in accordance with modern technologies and requirements; the building is fully equipped and commissioned on a turnkey basis.



Besides its social infrastructure program, KPO has handed over medical equipment to support COVID-19 prevention and treatment to Aksai, Uralsk, and regional hospitals and polyclinics. Support of West Kazakhstan hospitals included state-of-the art intensive care equipment including artificial lung ventilation apparatuses and personal protective equipment, thermal cameras, PCR analysis equipment and test systems, quick test sets for COVID-19, bedside monitors, electrocardiography units, syringe pumps, lab testers and other infection control equipment, as well as two ambulances (over 3 bln KZT in total). KPO also took part in the nation-wide “Biz Birgemiz” (We Are Together) campaign by donating funds to support the most vulnerable members of the community.

Professional development of Kazakh national employees continues to be one of the key areas for KPO. A few years ago, KPO launched the *Enhanced Development Program* to identify high potential employees and define their future development plans to enable them to unlock their maximum potential and achieve the highest career growth. The program aimed to clearly define career goals and support the participants in preparing effective professional development plans.



Based on the EDP program outcomes, more than 50 % of the participants have already been promoted in line with their professional development plans. For the first half-year period the ratio percentage-wise of KPO local employees has been as high as 96 per cent out of overall engineering and technical personnel and 81 per cent in managerial roles.



KPO General Director Edwin Blom concludes:

“The current crisis has introduced new global trends into play, forcing businesses to alter their approaches to work and KPO is no exception. KPO reviewed its priorities and business processes to overcome coronavirus pandemic challenges exacerbated by the drop in oil price. That said, KPO will continue its close cooperation with regulatory authorities, regional government bodies, industry partners and other stakeholders in order to integrate the country's interests, key business goals and our corporate values.

The KPO team is looking into the future with confidence and optimism and is ready to deliver the plans for development of the Karachaganak field in strong partnership with Kazakhstan. This partnership has stood the test of the time and it will overcome the challenges caused by the pandemic so that we can continue the journey to a successful and bright future for all of us.”



TRANSPORT TRANSLATION ACCOMMODATION

CPSC

RECRUITMENT MANPOWER WORK VISAS



info@cpsc.kz

ALMATY

38A KARATAYEVA STR., OFFICE 81

TEL +7 (7272) 980484

KAZAKHSTAN RUSSIA UZBEKISTAN USA TURKMENISTAN

BELIEVING IN KAZAKHSTAN'S ECONOMIC RECOVERY AND RESPONSE TO THE COVID-19 CRISIS?

by Giovanni Capannelli
President, Q-Advisory
Former Kazakhstan Country Director
Asian Development Bank

As the COVID-19 pandemic imposed drastic quarantine and lockdown measures across the world, the Asian Development Bank (ADB) quickly mobilized a huge amount of financial and human resources—some \$50 billion—to help its member countries in the Asia and Pacific region face the upcoming economic crisis. Despite its relatively small population in comparison to other Asian countries, Kazakhstan has received the highest per-capita financial support from ADB with respect to other Asian countries, including a \$1 billion budget support loan and \$5 million as technical assistance grants in the form of medical supplies and equipment and a “solidarity fund” delivering training programs upgrading the skills of workers who lost their jobs due to the pandemic. No other international financial institution has done more than the ADB to support the government of Kazakhstan in its effort to weather the crisis generated by COVID-19.



Two reasons justify such massive financial support. First, ADB believes in the immediate response crafted by the country's authorities. Of course, there have been mistakes and more could have been done, but, overall, the short-term measures introduced by the local authorities have been adequate and timely. A well-thought out policy of the National Bank of Kazakhstan has helped maintain monetary stability, limit the depreciation of the tenge, and provide liquidity to the banking system. The government has introduced measures to assist the most vulnerable parts of the population and help business entities, especially small and medium-sized enterprises (SMEs), limiting the damage on their balance sheets. After some initial uncertainties, the Ministry of Healthcare has also been able to keep the health crisis under control and provide some breathing space to the hospitals, clinics, and health-related workers.

The second reason for the large financial support provided by ADB to Kazakhstan relates to the importance of the country's economy for the entire Central Asian region. While intraregional trade and investment indicators remain relatively low by comparison with other regions of the world, other Central Asian countries rely on remittances

from Kazakhstan-based workers. Other intangible factors suggest a decline in Kazakhstan's economy would have major negative consequences for neighboring countries.

How does the situation look in the medium-long term? As of today, unfortunately, not so good. President Kassym-Jomart Tokayev, in his Address to the Nation of 1st September 2020, reaffirmed the country's aim to implement the Five Institutional Reforms introduced in 2015 and announced creation of a *Supreme Presidential Council on Reforms* and an *Agency for Strategic Planning and Reforms*. The latter is meant to improve public administration, strengthening its decision-making system and human resource policy. The plan moves away from a system based on the public apparatus, trying to involve the private sector and civil society in the planning, implementation and evaluation of reforms.

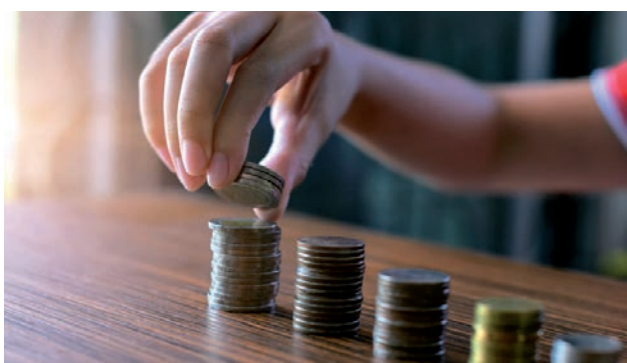
The President's speech indicates the need to strengthen the legal system, ensuring rule of law and enforcement of business contracts, reinforce the fight against corruption, enhance competition policy, and create a new *Agency for Protection and Development of Competition* in an attempt to create a level playing field for all companies and entrepreneurs, including SMEs, micro entrepreneurs, and foreign firms.

While all these are much needed areas for reform, what still doesn't seem to be on the horizon is a serious plan for improving the political system. Deep political reform is needed for any economic and governance reform to last and be effective. President Tokayev's speech vaguely introduces the possibility for "village" akims to be elected directly by local communities. If this happens, it will be a good development. But the extent of reform remains insufficient. Yes, there are also legislative improvement being introduced in the political sphere, such as amendments to the laws on "*Political Parties*", "*Elections*" and "*The Status of the Parliament and its Deputies*", and a new law on "organization and conducting of peaceful assemblies". But today the country needs more.

Next year Kazakhstan will celebrate its 30th anniversary of independence. Under guidance of the First President, Nursultan Nazarbayev, this young country performed well, especially until the global financial crisis of 2008-09. Over the years that followed, it was still able to grow at a good speed, but the commodity price shock of 2014 and the tenge depreciation that followed marked a major economic slowdown from which the country has been unable to fully recover. While the economy quickly recovered from the initial shocks, average gross domestic product (GDP) growth in 2010-13 and 2016-19 remained below pre-crisis rates. Against 4.5 % growth in the country's GDP in 2019, ADB forecasts Kazakhstan's GDP to decline by 3.2 % this year before increasing by 2.8 % in 2021. Of course, the global pandemic, together with the bleak prospects in

the oil industry are deeply affecting these figures, leaving permanent scars on the economy and society.

Is such a negative cycle going to repeat in the coming years, pushing economic growth to a lower normal as has happened in previous crises? The answer is yes — unless the authorities will be bold enough to adopt a structured package of political reform. Despite the adoption of economic diversification programs in the past, Kazakhstan remains heavily dependent on hydrocarbons and the export of basic commodities. With a large number of people already laid off from work, social unrest may increase as the most vulnerable population feel the economic impact of prolonged containment measures.



An increasing share of the population is already unable to earn basic income or buy enough food, medical supplies, and other basic goods. A very large number of Kazakhstan's households have no savings to rely on in times of crisis. Urban settlements may experience an uptick in criminal activities and law enforcement and security personnel will find it increasingly challenging to maintain public order. Xenophobia may also surge and extremist groups may find easy ground to mobilize new supporters, posing threats to security.

Crises are always a combination of danger and opportunity. Wise and forward-looking policymakers know how to respond to the threat with appropriate short-term policies, while adopting bold medium- to long-term measures, including structural reforms to improve the country's overall standing. Given the extent of the shock generated by the COVID-19 pandemic and the plummeting in oil prices on Kazakhstan's economy and society, there is no better timing than "now" to design and implement major changes. It is difficult to predict how political authorities will be ready to introduce the needed structural reforms. Hopefully they will not miss the most important opportunity since independence to grow and mature as a country.

Neither the global financial crisis, nor the external shocks of 2014-15 were deep enough to induce deep structural changes. The policies Kazakhstan adopted were insufficient to maintain the rapid growth path experienced in the past. The country has therefore already lost two opportunities and

cannot afford to miss the current one. All indicators suggest the economic and social impact of the unfolding crisis will be unprecedented in the country's history. The authorities should be pro-active in introducing structural political reform and changing the business model, or they may be forced to react to protests and social unrest. It is now time to take firm action on improving governance institutions. Without a profound effort to reform the country's political systems, any economic reform will be ineffective or unsustainable and costly as it will not improve the situation in the medium- to long-run.

Structural reforms are expected to improve the system, not destroy it. Kazakhstan's current model has many important strengths that should not be compromised by reform. Such strengths should be used as pillars to maintain stability while inducing change. The solidarity defining the extended family in traditional nomadic society are essential elements of a post-COVID-19 economy, helping the population maintain social cohesion and remain resilient to shocks. Other important strengths enabling Kazakhstan to navigate the changes include the people's adaptability to evolving situations and integrating minorities. Kazakhstan has always been a reform leader in Central Asia, another important strength of this young nation.

It is clear that the ongoing global economic slowdown will persist for some time. Commodity prices are likely to remain subdued. Most economists agree that a rapid global recovery is highly unlikely due to exploding fiscal deficits and threatened access to capital and liquidity for businesses. Output losses and unemployment level will surpass those of any previous crises experienced in modern times. Oil demand is expected to be down by more than 20 million barrels for a sustained period of time. There also remain significant health challenges related to the likelihood of multiple infection waves with a vaccine unlikely to be available to the population in the next several months. Under these circumstances, designing a path for recovery provides a unique opportunity for policymakers to introduce a body of structural reforms to set a new course for Kazakhstan's economic and social development.

There are seven fundamental areas of reform for Kazakhstan's authorities to consider. Structural change in governance and institutions is prerequisite to the success of reform in the economy and society. That is why the *first pillar* (governance, institutions and public service delivery) is focused on improvements of the political system. Private sector development, induced by an enabling environment for competition and the functioning of markets, is a *second pillar*, followed by the strengthening of macroeconomic and fiscal conditions.

The *fourth pillar* (sustainable economy through digitalization and innovation) and the *fifth pillar* (new spatial dynamics) deal with industrial transformation and diversification

towards ensuring environmental sustainability, embracing progress in agriculture as key growth driver, promoting innovation, and redefining the spatial economy through smart cities and the establishment of regional hubs in niche markets, for which maintaining an open trade and investment policy remains of strategic importance.

A key lesson from the pandemic is that economic systems must respect the environment and cannot disregard Mother Nature. A strong focus on innovation and investment in science, basic research and new technology is important in this regard to make better use of the country's tremendous potential of natural resources. To facilitate the introduction of innovation and new technology, it is important to develop an ecosystem that nurtures the proliferation of startups and venture capital.

The *sixth priority* is in social sectors, namely health and education, aimed at fostering human capital and establishing the foundations for a learning society. Finally, the *seventh pillar* of reform focuses on the need to shift to a new economic system which stresses the importance of solidarity, reducing income gaps, maintaining social cohesion, leaving no one behind, and strengthening social safety nets.

The sequencing of reform in the seven priority areas through an appropriate timeline and implementation mechanism is crucial to ensuring successful change. Attention to details and a solid data set, together with the presence of an appropriate set of performance indicators as part of a structured feedback mechanism, is also crucial to ensure the process follows the designed path through continuous targets' readjustments. Ultimately, such performance indicators depend on the amount of public resources allocated from the government budget and other sources to the execution of each pillar of reform.

While structural reform needs to be carefully envisioned and designed, what is also very important is how change is going to be implemented. The devil is always in the details. What is essential is to follow a solid process with codified steps executed by trained people and well-educated experts. Too many reports and presentations are being produced. Studies, including learning from international comparisons and best practices abound, but they lack focus on roadmaps and action plans that ensure effective implementation. Consulting firms compete to prepare articulated strategies and visions. However, they rarely engage with national and regional administrations to ensure that plans are properly transformed into reality, following the assigned timeframes and performance indicators.

Moreover, Kazakhstan still lacks a culture that effectively enables learning from history, including both success and failure. Programs and implementation plans need a few

selected monitoring indicators which enable real time feedback on results and evaluation mechanisms to inform the design of new programs and plans. Effective execution does not end once the project is completed but continues to provide feedback to inform the next projects.

Given the experience of the Soviet Union and the largely autocratic system still in use today, policymakers tend to find solutions in the top-down creation of plans and programs. Too rarely are solutions found in the creation of efficient markets for resource allocation. Such an approach must also change. To the extent possible, markets should replace plans, while private companies should be nurtured over state-owned enterprises. Of course, this is not a general rule, as there are several instances when market failures justify the use of government agencies for the provision of public goods. However, the generalized attitude in Kazakhstan to take refuge in public plans and programs should be replaced by a stronger faith in markets to allocate resources and organize efficient trade activities.



To introduce a strategy for structural change, policymakers must also recognize that reform can only be implemented by individual champions. Given Kazakhstan's history and political economy, the champions of reforms are to be found in a unique combination of a few credible individuals from the old reformist guards—who will provide the necessary wisdom and experience—together with a group of young and dynamic innovators, who will bring enthusiasm and dynamism to the process. Many of these young Kazakhs are in fact women with positions of responsibility abroad. These bright women need to be brought back to the country to make best use of their talent for serving the nation.

In conclusion, although it will be difficult to see all the above reforms introduced in the next few months, the concrete changes the new *Presidential Council* and *Agency for Strategic Planning and Reforms* will be able to introduce before the end of the year will tell us if the authorities will be able to seize the emerging opportunities to unleash the country's potential—and if we should believe in Kazakhstan's long-term economic recovery and response to the COVID-19 pandemic.

THE 2020 ECONOMIC CRISIS: A SILVER LINING

by Timur Kunanbayev
Managing Director
Head of Central Asia Investment Banking
J.P. Morgan

At the risk of stating the obvious, 2020 has been a difficult year for Kazakhstan by all accounts. First came the commodity price slump, manifesting itself most vividly in a dramatic collapse of oil prices, which are often viewed as the proxy for the country's economic well-being. In a near-perfect storm, this coincided with the rapid onset of the COVID-19 pandemic as Kazakhstan faced the new, hitherto unknown set of challenges brought about by sharp contraction of economic activity both domestically and internationally.



After emerging from the initial blow, seemingly unscathed with the COVID-19 infection rate under control and oil prices recovering somewhat, Kazakhstan was then forced to reinstate most of the pandemic lockdown restrictions, which hit both production and demand hard while at the same time reducing oil output on the back of the OPEC+ deal.

Although the full effect of the crisis is yet to be seen, it is already clear that its consequences will be both long-lasting and far-reaching. According to various analysts, Kazakhstan's real GDP is expected to shrink between 2.5% and 5% this year, wiping out the 4.5% growth achieved in 2019 almost completely. Inflation will inevitably pick up too: the National Bank now predicts it will be within the 8-8.5% range for 2020, considerably above its own medium-term target band of 4-6%.

Domestic demand has been hit the most, with retail sales falling by a spectacular 45% and 31% in April and May before recovering in subsequent months. Despite the recent clean-up efforts, questions remain about the health of the banking sector, with impaired loans set to increase by the end of the year, while the already narrow margins are coming under further pressure as credit costs soar.

It's obviously not easy to look for positives against this rather challenging backdrop. Still, let me offer a word of optimism here. Can these current conditions be somewhat of a blessing in disguise, setting the ground for rethinking an economic paradigm and providing an impulse for future

growth? One respected Kazakh economist said in the middle of another oil price plunge back in 2015: we need oil prices at \$20, not at \$100 per barrel if we really want to secure Kazakhstan's long-term future for good.

His argument was that it becomes next to impossible to undertake structural reforms when oil prices are high simply because in such environment everyone is complacent, and so pushing through any proposition that may put this (evidently illusory) state of blissful well-being at risk becomes an insurmountable task.

This applies not only to Kazakhstan, but for any country exposed to cyclical factors. After all, why would governments and corporate entities be willing to embark on plans that, at best, offer long-term benefits at a time when money is free-flowing and economic agents have the luxury of restricting themselves to risk-free cosmetic changes?

So, can the current conditions push the country towards a more forward-looking set of reforms that would have been barely palatable in more prosperous times? We have already seen some encouraging signs that this is possible.

The Government has responded rather quickly to the crisis by deploying a massive 6 trillion tenge stimulus package to the Kazakhstan economy. The response from the non-oil sector of the economy has been quite profound, with strong performance in recent months coming in the construction, agriculture, transportation and telecom sectors - in essence, those very sectors that the Government has been striving to spur (with limited success) in recent years. Such has been the extent of this shift that some analysts now expect the non-oil sectors to be the main growth drivers from 2022 onwards, with oil production broadly flat.



Furthermore, the National Bank has also come out strong, brandishing some of its policy measures with more power and prowess than perhaps ever before. The tenge - which, for once, has been allowed to free float through the crisis - has acted as a shock absorber, and its flexibility was indeed a notable improvement in the economic policy framework since the last oil price shock in 2014/15.

The currency's depreciation of about 15% against the dollar at the height of financial market meltdown in March 2020 was met with a rate hike to 12%, which helped tame

volatility without the unwanted spending of the reserves. Again, this use of monetary tools has been quick, decisive, and ultimately effective.

At a more ground-roots level, this current crisis also highlighted weaknesses in Kazakhstan's education and healthcare systems, prompting massive upgrade of both systems on a scale not previously seen. Note the heightened focus on remote education, development of hospital infrastructure and, more generally, acceleration of reform and modernization processes that have long been dormant.

And then there are the small and medium businesses (SMEs) – the frequently talked about, but even more often overlooked and underappreciated part of the economy – which, despite the gloomiest expectations, have seemingly weathered the storm well. Whether it's survival of the fittest or just their genuine *modus operandi* in the face of economic difficulties, an increased number of SMEs reacted by optimizing costs, exploring alternative sales channels, and making active use of the various government-sponsored support programs. In a way, the crisis pushed those operators to move quickly and look for new, unconventional solutions which may simply have not been relevant before.



In short, the crisis has brought about the very change that the country has long been waiting for. It is now vital that those early promises are sustained and don't end up being a 'flash in the pan' that will be waived once things get back to normal. What everyone is looking towards now is continuation of those reforms, consistency of the policies and, most crucially, remodelling of the overall approach to development and creation of the nation's economic wealth. With that, in a decade's time we could be looking at 2020 as the year when Kazakhstan turned the corner, rather than just experiencing 'yet another crisis'. The hope is certainly there as we look towards a better future.

Pioneering Aviation Excellence in Cenral Asia

- Aircraft Management
- Technical Management
- Charter
- UAV (Unmanned Aerial Vehicle/Drone) Inspection
- Brokerage
- Consultancy
- Sale & Acquisition
- Availability 24/7/365



65 N.Nazarbayev Avenue, suite 300
 Almaty 050004 Republic of Kazakhstan
 Tel.: +7 727 355 66 44
 Email: info@primeaviation.kz
 Contact email: sales@primeaviation.kz
 Website: www.primeaviation.kz

KAZAKHSTAN'S ECONOMY IN THE POST-COVID WORLD

by **Agris Preimanis**, Kazakhstan Country Director,
European Bank for Reconstruction and Development (EBRD)

Eric Livny, Lead Regional Economist, EBRD
Dana Skakova, Associate Economist, EBRD

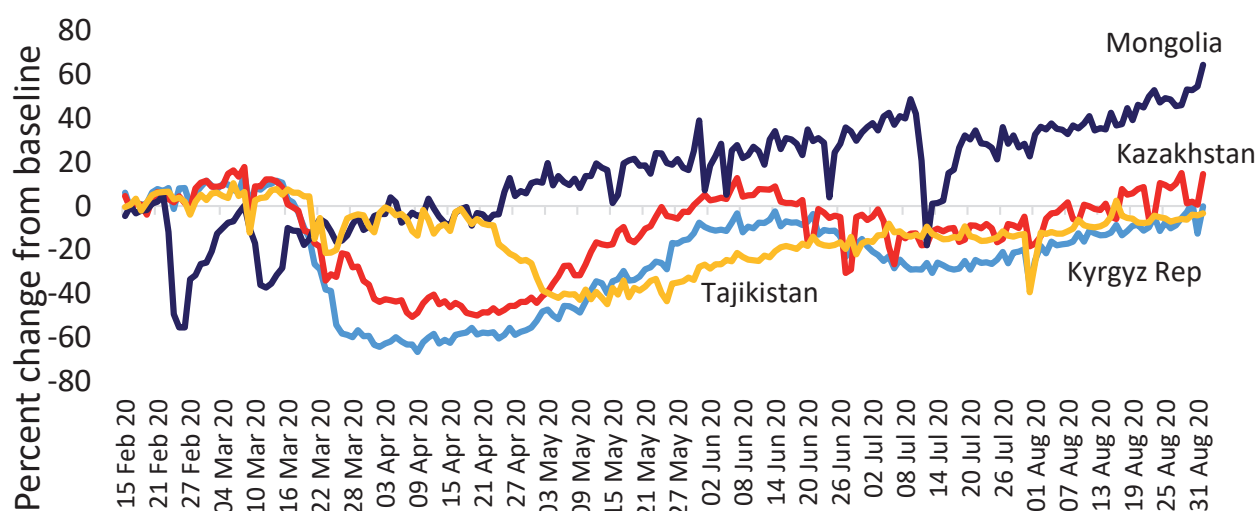
Despite what may be implied by the title of this article, we are not yet living in any kind of post-COVID world. Yes, most recent Google mobility data indicate that the worst is probably behind Kazakhstan. However, people are not yet moving – to work, shopping centres or touristic sites – as much as they should at this time of the year. In short, we are not yet back to full employment (or enjoyment), and the immediate future ahead is very unlikely to be of the V-shape quick recovery type.

According to our estimates, Kazakhstan's real GDP – measuring the value of domestically produced goods and services in a given year, adjusted for inflation – is likely to take the largest hit in the country's history, of about 3-4%. Transport, trade and the service industry as a whole are the main drivers of the current slump, compensated only to some extent by expansion in construction works in housing, infrastructure and mining (up by 11.2% in the first half of 2020), as well as modest growth in mining, agribusiness, and manufacturing activities (up by 2.2%, 2.4%, and 4.8%, respectively).

The expected recession of 3-4% is rather mild compared to many peer countries, at least in part thanks to very generous stimulus spending (close to 9% of GDP) by Kazakhstan's government. Unfortunately, however, the crisis is disproportionately affecting the most labor-intensive segments of the economy, such as service SMEs, which account for more than 60% of all jobs in the country. Though shooting up in recent months, official unemployment figures do not fully account for the pain inflicted on Kazakhstan's population, given that many of the new unemployed or underemployed have never been formally employed in the first place. Moreover, the pressure on jobs and wages – here in Kazakhstan, as well as in most other countries - is not likely to go away very quickly.

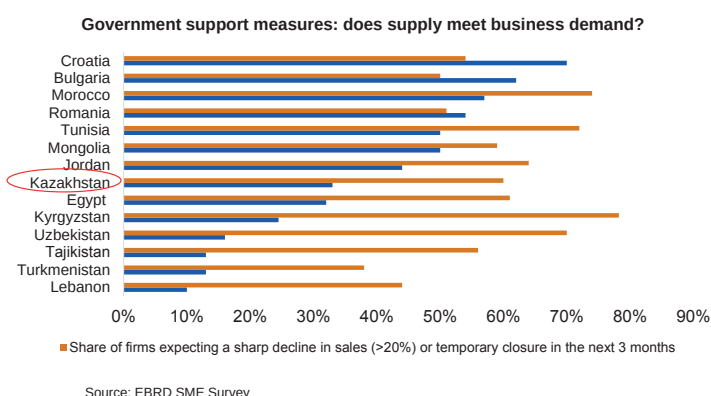
According to a recent survey of SMEs across the 15 countries of EBRD operations, 39% of the Kazakhstani companies surveyed do not see their sales fully recovering to the pre-Covid level in the next 6-12 months; of these, about 5% expect to shut down. And, with border closures disrupting supply chains and hindering international trade and travel, the outlook is even gloomier for export-oriented businesses, typically the best companies in any sector.

Mobility trends in Central Asia:
Average of mobility to retail and grocery shops, parks, workplaces
and transit stations



Source: Google mobility trends and authors' calculations

As much as the government of Kazakhstan is doing to keep businesses and people afloat, the demand for government assistance (which we proxy as the share of SMEs expecting a sharp (>20%) decline in sales, see Chart above) far exceeds what is being supplied. In part, this may be an issue of communication: only 1/3 of surveyed SMEs have benefited or expect to benefit from any form of government assistance. A solid majority (60%) report not having enough information. So much for the immediate future.



THE POST-COVID FUTURE: WHAT KIND OF FUTURE?

Questions about Kazakhstan's development model did not emerge yesterday. In fact, the pandemic has sharpened the dilemmas the country's policymakers have faced ever since independence. How to leverage the country's mineral wealth to eventually free it from oil and gas dependence? How to spur innovation across the entire economic spectrum? How to prepare the country's fast-growing labor force for the knowledge economy era?

Even a cursory glance at the available statistics will show that investment in capital has been sluggish at best ever since the crisis of 2014-16. Kazakhstani companies are apparently not eager to invest, while banks do not have strong appetite for risk. Growth in credit to corporations (as opposed to consumer loans) has been negative ever since the massive spike in government-directed lending in 2016 despite strong incentives provided by KazAgro's 'cheap loans' or credit subsidies available under Baiterek's *Economy of Simple Things* program. Foreign direct investment – another major channel of technological upgrading – has remained concentrated in CAPEX-heavy mining and quarrying.

Walking off the well-trodden path – exploiting the country's oil & gas riches in Kazakhstan's case – is not an easy proposition for any country, company or individual. It takes extraordinary leadership to recognize the need for transformation ahead of time, and the ability to manage change and uncertainty.

Companies often reinvent themselves when faced with a looming technological disruption (such as the transition from film to digital in photography) or changing consumer tastes (such as the shift from smoking to vaping currently disrupting the mighty tobacco industry). Companies are organized in a way that makes such reinvention possible – though not easy by any means. They have clear decision-making structures and hierarchies that allow them to make bold decisions and implement them.

Market economies are much more complex. Instead of hierarchies, they have loosely organized free markets. And while great at incremental innovation and efficiency, markets can also fail when it comes to saving the planet and ... breakthrough innovation. To start a new industry, markets, just like orchestras, may need direction or coordination.

The following example may help explain the role of coordination in a free market environment. When declining international prices sent Taiwan's traditional sugar industry on a downward spiralling trajectory, the individual farmers involved did not know what to do next. The sugar value chain was well-organized, all the way from field to fork. Venturing into a new activity, such as exporting orchids, was not feasible from an individual business perspective.

As far as farmers were concerned, it made no sense to invest in the absence of specialized infrastructure and services – research labs, public health systems, and a modern cold chain to take Taiwanese flowers to the global market. Investing in specialized infrastructure serving exporters of orchids did not make any sense in the absence of a sizeable industry. Hence, a "coordination failure" – a fancy name for a classic chicken and egg problem applied to economic development.

Taiwan did eventually develop a viable orchids industry with annual exports close to USD 200m in 2019. Coordination took the form of a government-financed USD 65 million investment in every element of the ecosystem: a genetics laboratory, new roads, water and electrical hook-ups, and even low-interest liquidity for farmers to build the greenhouses.

Coordination failures are not the exception but the rule in development. A new processing industry needs access to competitively produced raw materials, infrastructure, and skilled personnel. It may also need specialized regulations. Ski lifts go well together with access roads, water infrastructure, hotels, ski rentals, and restaurants. For a ski resort not to be a mess, it needs a master plan. Coordination is a form of industrial policy the essence of which is to synchronize investment decisions – by different private sector actors, development banks, such as the

EBRD, and the state. Early adoption of renewable energy by Kazakhstan is a story of success grounded in this model of coordination.

Just a few years ago, Kazakhstan's entire electricity sector was powered by carbon energy, including coal, gas and heavy oils. Now, through close to a decade of joint efforts to develop the regulatory framework (tariff setting, initially through feed-in tariffs and now based on auctioned tariffs; improving the bankability of Power Purchase Agreements; etc.) and advancing the country's overall investment attractiveness, renewable energy reached 2.3% of the total energy mix in 2019, with total installed capacity of 1050 MW at end of 2019. Importantly, this has been achieved by attracting significant amounts of FDI from the UK, Germany, France, China and other countries. EBRD's own contribution to the sector reached close to USD 500mln, financing total renewable generation capacity of 625 MW.

THE WAY FORWARD

Kazakhstan can re-engineer and re-energize its economy through targeted coordination focused on innovation, not blanket subsidies covering whole sectors, such as agriculture, or import substitution broadly defined.

Two obvious areas in which coordination may be most urgent and feasible are digitalization and education.

The post-Covid reality is ripe for technological change. E-banking and e-commerce, distance working and learning, smart cities and homes – these disrupting technologies are already here. The challenge (and the opportunity) is to embrace them and ride the wave of technological innovation to a better future. One may start with the obvious: public investment in digital skills and broadband internet everywhere – something that the market will take much longer to achieve given very large gaps in economic development and incomes across Kazakhstan's regions.

Together with targeted digitalization stimuli and public-private dialogue, this investment can be used as a coordination device to develop IT clusters in selected locations and drive efficiency gains across all sectors and economic activities. With further advances in distance learning and working, investment in digitalization will reduce the pressure on urban infrastructure, congestion and pollution in Kazakhstan's largest cities.

At the same time, it will help equalize opportunities across the country's vast geography: improve access to goods and services, to better jobs (in the two capitals and the international labour market), as well as to higher quality/flexible training and education opportunities.

Finally, Kazakhstan will not be able to complete its economic transformation without reinventing its education system, adjusting it to the needs of the knowledge economy. The challenge at hand is anything but simple given the enormous institutional inertia of the current mass education model with its emphasis on standardization (one-size-fit-all curricula), face-to-face lectures in large classes, and exam-based certification.

By now, there is a good understanding of how modern technologies could be employed to deliver high quality and affordable education: flexibly, better tailored to individual needs in terms of content and learning modalities. There is less consensus on some other aspects of future education systems. The UK and Scandinavian countries, to take one example, have very different approaches to private schooling. The coordination task facing Kazakhstani policymakers is to build political consensus for change, introduce and test experimental designs, learn from the experience and scale up.

* * *

COVID-19 may have acted as a disruptor-in-chief. The challenge is now to take advantage of the opportunities it has inadvertently created. This is the key to a better future, in Kazakhstan and everywhere else.

As for the EBRD, we will continue doing our best to support Kazakhstan through the crisis and beyond. Our top priority is to deliver an effective anti-crisis response, but we will continue investing in Kazakhstan's longer-term growth. One such investment is BAKAD, a USD 585mln PPP project, which EBRD helped prepare and finance. By investing in a 66-kilometre ring road, BAKAD will improve the ecological situation in Almaty and help create better transport links. And as construction works gain momentum, the project will boost economic activity in the entire Almaty region. Crucially, the project will also open up a pipeline of PPP projects in transport, hospitals and other areas of the economy.

EBRD's investment in 2020 to date has reached more than USD 450mln, including projects in the financial sector, electricity generation and gas sectors and manufacturing and services, all of which seek to increase private sector resilience and prepare Kazakhstan for strong growth. Importantly, investment is only one element of our modus operandi. All EBRD projects are accompanied by strong engagement with the government of Kazakhstan on reforms in areas such as renewable energy, financial market regulations, the investment climate, public-private partnerships and many other areas. The EBRD investment and its drive for reform should help Kazakhstan achieve broad-based growth in better education and innovation.



MURATOV

PARTNERS

FOLLOW TRADITIONS FOCUS ON THE TRENDS

Muratov Partners is a law firm with considerable experience and well-established principles of legal practice since 2014. Today Muratov Partners provides a wide range of legal services and is skillful in supporting business activities. Qualified lawyers advise on domestic and cross-border corporate, capital markets, finance, M&A, bankruptcy and rehabilitation procedures, licensing, tax matters and commercial mediation as well as litigation and arbitration.

Muratov Partners law firm has a deep knowledge of Kazakhstan's investment environment and investment issues across all industry sectors.

The firm successfully advises on complex transactions and high-profile matters involving major local and international companies. The key principles guiding the work of Muratov Partners are the best qualifications and reliability.

muratov.kz
info@muratov.kz
+7 727 2 777 600

Almaty
Nurly Tau Business Center
17/1 Al - Farabi Avenue, Office 17, Block 5B

Atyrau
Atyrau Plaza Business Center
17 B Satpayev Avenue, Office 804



AMERICAN CHAMBER OF COMMERCE IN KAZAKHSTAN

A SUSTAINABLE APPROACH TO KAZAKHSTAN'S POST-PANDEMIC RECOVERY

by **Cassandra Colbert**

Regional Manager for Central Asia

International Finance Corporation (IFC)

The pandemic has upended lives and livelihoods and devastated the global economy. Yet, for Kazakhstan, this current crisis could serve as a catalyst to launch key reforms to spur economic activity.

Kazakhstan, the largest country and economy in Central Asia, is blessed with an advantageous location, abundant natural resources, and a dynamic populace. The heartland of Eurasia, the nation offers immense economic potential. In less than two decades, Kazakhstan moved from lower-middle-income to upper-middle-income status in 2006. In 2019 – driven by buoyant consumer spending and mining related investment – the country's economy grew at an impressive 4.5 percent while maintaining low unemployment and substantial poverty reduction.

However, due to the COVID-19 pandemic and plunging oil prices, the country – heavily reliant on hydrocarbons – needs to brace itself for challenging conditions ahead. For the first time since the late 1990s, the economy is expected to contract by 3 percent in 2020 with a moderate recovery of 2.5 percent in 2021, according to the World Bank.

Although Kazakhstan's gross domestic product (GDP) showed mild growth at 2.3 percent in the first quarter of 2020, economic activities weakened subsequently as commodity prices dropped, trade declined, and COVID-19 preventive measures slowed economic activity. A prolonged crisis is likely to increase poverty and inequality in the country. Preliminary estimates suggest that poverty may rise this year from a projected 8.3 to 12.7 percent – equating to more than 800,000 additional people living in poverty.

In response to the crisis, the Kazakhstan government has deployed a \$10.1 billion stimulus package to support small businesses, the worst-affected sectors, and households. But in the medium to long-term, the country urgently needs a new growth model – a shift from relying on natural resource extraction to a more diversified and competitive economy to be able to achieve high and sustainable growth.

Accelerated broad-based growth can help Kazakhstan build a resilient trajectory for a sustainable post-pandemic economic recovery.

To promote economic diversification, non-oil tradable sectors require private investment, employment programs, and supportive public investment. A healthy financial sector, robust national infrastructure, and a conducive business regulatory environment will help drive this transformation. Further, efforts should be made to reduce monopolies in

several sectors and level the playing field for the private sector, which can play a key role in transforming the country's growth model to achieve improved competitiveness through diversification.

Future Roadmap

Given the current challenges of the pandemic, focusing on three key areas – strengthening the financial sector by addressing the issue of non-performing loans (NPLs), enhancing food security, and green growth – can help the country realign its growth trajectory amidst economic challenges linked to the global pandemic.



With the initial economic shock following the pandemic's outbreak, any prolonged decline in business activities will significantly hamper the long-term viability of firms and undermine the ability of households to repay loans. Already an issue over the past decade, NPLs have grown further since the pandemic began. In July 2020, the country's NPL ratio stood at 9.0 percent. Such vulnerabilities in the banking sector will reduce access to credit and business growth. Resolving NPLs is therefore critical to improve the efficiency of credit allocation to the private sector.

As a leader in this ecosystem, the International Finance Corporation (IFC), a member of the World Bank Group, is well positioned to support the development of strong distressed assets markets in Kazakhstan through its *Distressed Asset Recovery Program (DARP)*.

In addition, an adequate regulatory and legal framework and an independent judicial system will help facilitate recovery by enabling investors to negotiate and implement appropriate workout schemes for vulnerable businesses.

Efficient NPL management and adopting international banking practices will help improve the stability of the financial sector. Such reforms will ensure that SMEs in Kazakhstan have access to long-term finance and attract strategic investors.

Another challenge posed by the global pandemic is a vulnerable and disruptive supply chain, including in the food production sector. Building resilience across the

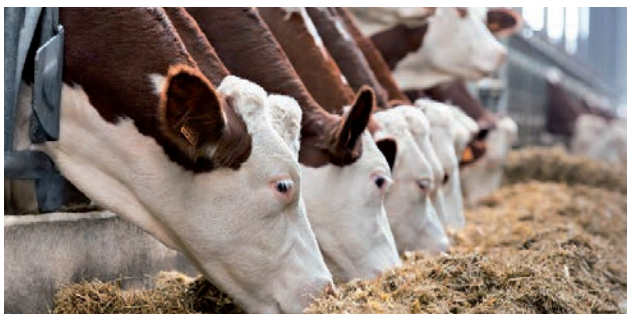
national agri-food system is therefore critical to help Kazakhstan address poverty and food security. This also is an opportunity to diversify the economy.

Several sectors, including grains and livestock, present untapped market and investment potential. With its large stock of rain-fed land and relatively low labor costs, the country is one of the world's leading wheat producers. However, Kazakhstan currently exports mostly raw product, and the sector would benefit from improved processing technologies to add more value and attract higher prices.



Drawing new investments and improving productivity would boost competitiveness, leading to an estimated increase of over 60 percent in wheat exports. The livestock sector also offers immense potential with growing demand from domestic and large international markets. The two neighboring countries, Russia and China, already import meat and dairy worth over \$9 billion annually. With vast expanses of rangeland and availability of feed, Kazakhstan is well positioned to expand its livestock exports and food-processing industry.

However, though the livestock sector has demonstrated steady growth over time, this has been driven by increasing domestic demand and import substitution. Exports of animal products are still a small share of total production, growing from \$77 million in 2005 to just \$145 million in 2015.



Given the pandemic, a defined focus on agricultural reforms is essential to establish a level playing field for the private sector. Targeted reforms would help unlock the full potential of grain and livestock sectors, including state support mechanisms, improvements in transport and logistics, restructuring large farms, and trade facilitation.

Attracting new private investment to enable technology and skills transfer is equally important. In the livestock sector, the country will also need to invest in quality improvements such as testing and monitoring to meet international quality and phytosanitary standards.

Finally, the COVID-19 crisis presents opportunities for Kazakhstan to “*Rebuild Better*” in a greener, more sustainable, inclusive and resilient way. Kazakhstan is one of the most carbon intensive economies globally with an undiversified source of energy and low water availability. The country's unsustainable use of natural resources has increased its vulnerability to climate change.

To meet the growing demand for energy, new investments are required to upgrade and maintain transmission and distribution facilities that will help reduce losses and increase energy efficiency. Privatization can attract additional investment and improve corporate governance of the sector. Kazakhstan would benefit from pursuing energy and resource saving measures in manufacturing, agribusiness, and residential housing.



The government can further strengthen policies and regulation in priority infrastructure sectors such as energy, water, and transport – favoring the use of green technologies. Nature-based solutions and hybrid systems that combine infrastructure with ecosystem services can reduce overall costs, increase agriculture productivity, and create jobs quickly.

Reforms in these three priority areas - *NPLs*, *food production*, and *energy efficiency* - will help Kazakhstan tackle the economic challenges posed by the COVID-19 pandemic. They will further position Kazakhstan as an exemplary economy in the region and help accelerate the nation's transformation into a modern society with a knowledge-based, diversified, and private sector-driven economy. IFC is ready to deepen its partnership with the country on this exciting journey of development, as Kazakhstan undertakes key reforms for an inclusive and sustainable future.

ISLAMIC FINANCE AS AN ALTERNATIVE FINANCIAL TOOL DURING THE COVID-19 PANDEMIC

by Samir Taghiyev
Head of CIS Unit
ICD Regional Office in Kazakhstan

Islamic Finance, a viable alternative to conventional financing, is becoming an important growth driver in Central Asian economies. During periods of economic and financial crisis, the Islamic financial sector in most parts of the world remained largely unscathed from any major financial difficulties. On record, no Islamic bank required a bailout with a magnitude of those witnessed in developed markets. Islamic financial assets and investments were not exposed to the highly leveraged sub-prime products that led traditional asset and fund managers into severe financial difficulties.

The Shariah prohibition on *Riba* (interest-based transactions), *Gharar* (contractual uncertainties / excessive risk), *Maysir* (zero-sum risk transferring mechanisms), *Jahala* (ignorance of investing parties) and the mandatory requirement of real assets to structure financial products ensured that Islamic financial institutions were free from exposure to subprime portfolios. The emphasis of Shariah to ensure transactions are linked to the real sector enables productive economic activities that generate income and wealth.

As a result, the Islamic financial system gained widespread global attention given that its underlying philosophy and concepts prevent build-up of a highly leveraged financial sector, multiplied several times over the real value of the underlying tangible assets. Subsequently, Islamic financing expanded significantly in Central Asia and beyond. A growing number of countries initiated regulatory amendments and/or conceptual exploration of the possibility to enable the Islamic financial sector to take root in their jurisdictions. In Central Asia, countries exploring Islamic finance include Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

In Central Asia, Kazakhstan arguably has the most enabling legal / regulatory environment for Islamic banking and finance transactions. Following the passing of Kazakhstan's Islamic finance law in 2008, the regulation underwent multiple amendments in 2011, 2013 and 2015. Islamic Finance Amendments and introduction of new legal provisions for *Sukuk*, *Takaful* and *Ijarah*, as well as *Tawarruq*, became effective since 2015.

Islamic banking activities in Central Asia are limited, although there has been significant growth in recent years with conventional players expressing keen interest to spin-off Shariah operations or convert their business model to comply with Islamic law. In Kazakhstan, Abu Dhabi's *Al Hilal Bank* is its sole, fully-fledged Islamic bank while *Zaman*

Islamic Bank, in partnership with the *Islamic Corporation for the Development of the Private Sector (ICD)*, the private sector development arm of the *Islamic Development Bank Group (IsDBG)*, transformed its operations and became the country's second Shariah financier. Aiming to accelerate development of the industry, Kazakhstan formed ties with established Islamic finance markets from GCC countries with which it intends to create a joint Islamic bank or fund to finance projects in Kazakhstan.

ICD is very active in this important journey through its close collaboration with private sector players in Kazakhstan and overall Central Asia. Over the last 20 years, ICD has substantially expanded its operations across various parts of the world. The Central Asia region represents 19% of approvals among member countries since ICD's inception.

ICD has established *Ijarah* leasing companies in Kazakhstan, Azerbaijan, Uzbekistan, Tajikistan and Kyrgyzstan in the last decade. The Islamic leasing market in Central Asia countries is most developed in Kazakhstan, and the country's first *Ijarah* leasing company (www.kic.kz) was established in April 2013. The business pipeline for the ICD-backed leasing company in Kazakhstan is promising. The scope covers several key sectors, including healthcare, pharmaceutical, transportation, and logistics.

ICD has a dedicated team focused on advising Governments and Corporations in our member countries on *Sukuk* issuance. The ICD team is driven by the conviction that *Sukuk* is appealing to member countries because it offers an alternative source of capital and diversifies the country's investor base. Building on the Group's accumulated experience in Islamic debt issuance, the *ICD Sukuk & Capital Market Program* facilitates development of the Islamic capital markets by:

- ✓ *Assisting Member Countries to tap the international Islamic Capital Markets*
- ✓ *Helping Member Countries to complement T-bills with short-term Sukuk*
- ✓ *Advising on Corporate Sukuk Issuances*

The *Sukuk & Capital Markets Program* aims to further diversify its product offering in the future to have a greater impact on the Islamic Capital Markets by considering:

- ✓ *ICD issuance of local currency Sukuk to support its ongoing activities in member countries (planning for first issuance to be in Kazakhstan Tenge)*
- ✓ *Facilitating access by blue chip companies in our member countries to local and international capital markets by acting as an anchor investor*
- ✓ *Project finance Sukuk (construction of hospitals, PPP, infrastructure)*

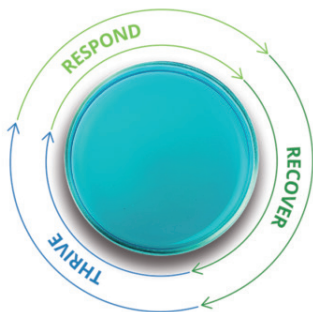
RESPOND, RECOVER, THRIVE – THE ROLE OF FISCAL POLICY IN MOVING KAZAKHSTAN'S ECONOMY TO RECOVERY AND BEYOND

by Anthony Mahon
Partner, Cross-Border Energy
Deloitte Kazakhstan

As Kazakhstan and the wider world began to take measures to protect people against the impact of COVID-19 in March 2020, it was still difficult to imagine the depth and breadth of the impact the ongoing global pandemic would have upon all aspects of life, work, and the economy. From the immediate acute health risks, to the curtailment of freedom of movement, combined with the effects upon food security, education, employment, leisure and all related areas of the economy, it seems that little has escaped the direct impact of Coronavirus.

In order to protect public health and to shield both employers and employees from the adverse effects of the economic shock of COVID-19, governments, including that of Kazakhstan, have been compelled to deploy a range of fiscal measures. Sharp increases in healthcare spending, liquidity support for business combined with support packages for those most severely affected by the impacts of COVID on employment and economic activity, have all led to significant unscheduled budgetary outflows and, in most countries, have resulted in unplanned negative budget balances.

Governments are now faced with the challenge of trying to achieve a suitable balance between managing state budgets effectively whilst providing appropriate economic conditions in which businesses and the economy overall can begin to recover and build towards a more prosperous future. For both governments and private enterprise alike, the strategies to both face up to and then adapt to the challenges posed by the ongoing COVID-19 pandemic can be divided into three distinct phases - *Respond, Recover and Thrive*.



Kazakhstan (like most countries) has spent the last six months very much in *Respond* mode and the measures referred to above all represent critical components of the country's response to the ongoing crisis and associated economic shocks.

The Government and National Bank Joint Plan to Restore Economic Growth set out 10 broad pillars around which the country's response to the ongoing crisis would be based; with the second of which confirming that legislative amendments would be introduced to facilitate the attraction of direct investment.



President Tokayev's Address of 1st September 2020 then went on to state explicitly that international tax rules in Kazakhstan require special attention to both stimulate the influx of foreign investment and encourage the reinvestment of profits in Kazakhstan. Prime Minister Mamin's response to the President's Address also highlighted improvements in fiscal policy as one of the core objectives with which the Ministry of National Economy has now been tasked.

Winston Churchill once famously said, "Never waste a good crisis" and this rule definitely applies to the situation in which Kazakhstan now finds itself. The country stands at an economic policy crossroads where it can choose either to implement short-sighted fiscal reforms policies that seek to increase budgetary revenue by grabbing a greater share of available profits and cash flows by expanding the scope of taxation, withdrawing and restricting exemptions and the availability of relief, or it can choose another path altogether.

Tax policy clearly will have a significant part to play in ultimately funding the budgetary impact of continuing healthcare spending to support both the population and economy during the *Respond* and *Recover* phases. However, it has been widely stated that any drive to restore public finances must not come too early as the road to exit the current crisis may go on for some time.

As Kazakhstan looks to rebuild deficits in public finance, taxes will have a critical role to play in terms of both generating revenue and also determining how taxes should best be levied, administered and collected in the post-COVID economy. However, tax policy makers should understand that the clearest path towards boosting tax revenue is by facilitating economic growth and enabling businesses to prosper by providing strong and sustained economic stimulus measures that do not prematurely choke off the fuel for business growth.

President Tokayev's Address, which led to the launch of a draft action plan, speaks very clearly of the need to provide conditions to stimulate new investment, specifically referring to improvements to the international taxation framework in Kazakhstan. However, the significant taxation reforms to both international tax and domestic tax law under consideration would, it seems, have completely the opposite effect and would actually discourage investment in Kazakhstan. These include:

- *reductions in the deductibility of charges paid to group companies*
- *restrictions in the ability of investors to access double taxation treaty relief*
- *the removal of exemptions from withholding tax obligations*
- *reductions in the ability of companies to obtain VAT refunds*

Restrictions on global mobility, combined with reduced spending in Kazakhstan's core mineral extractive industries

and all other sectors have led to a significant reduction in the willingness and ability of new investors to come to Kazakhstan to discover, evaluate and discuss new investment opportunities in the country. Consequently, it is more crucial than ever that the state authorities work to provide the best possible investment climate conditions to encourage existing investors already doing business in Kazakhstan to make new investments and to facilitate the entry of new investors into the country.

Tax law that strays from generally accepted international or domestic best practices and renders investment in Kazakhstan less attractive would have completely the opposite effect. Kazakhstan has the perfect opportunity to choose the "Ak Zhol" in terms of its taxation reforms; to radically re-state its intentions with respect to investor taxation and truly demonstrate that the country is a welcoming destination for new investment. Now is the time to choose strategic long-term benefits over short-term gains, for Kazakhstan today and for the benefit of future generations.



Business

New level of device control

Control equipment via mobile network and control the installed SIM cards



ECONOMIC OUTLOOK – LOOKING AHEAD

by **Erlan Dosymbekov**

Managing Partner, EY, Kazakhstan and Central Asia

Kairat Medetbayev, Partner, EY

The COVID-19 pandemic and containment measures taken by various governments to halt its spread have delivered a massive blow to the global economy, plunging it into a recession. In late June, the IMF revised its economic growth forecast for 2020 from -3.0% to -4.9%, having noted that the recovery would take much longer than expected. The eurozone's economy could contract by 10.2%, while US economic growth could take an 8% hit.

The latter is a sharper downturn than the one currently expected by the Fed (5.5-7.6%). Yet, given the considerable amount of uncertainty surrounding the pandemic, macroeconomic forecasts for 2020-21 are likely to be revised more than once. The Chinese economy is recovering rapidly, rebounding from a record 6.8% y-o-y decline in Q1 2020, its first decline in 28 years. In Q2 2020 China's GDP increased by 3.2%.

According to government estimates, Kazakhstan's GDP dropped 1.8% y-o-y in response to weak macroeconomic fundamentals and negative market trends. A decline was observed during the lockdown in Q2 2020, while in the preceding quarter the growth rate was 2.7% y-o-y. The coronavirus state of emergency and lockdown introduced by the authorities were felt most keenly in the services sector, which declined 5.6% in the first six months of 2020.

By contrast, the real sector fared well, posting a 4.1% y-o-y increase in output, with key contributors being the construction and processing industries – up 11.2% and 4.8%, respectively. Kazakhstan's government generally remains quite positive about the economic outlook for 2020, pinning most of its hopes on current business support measures (albeit with a lagged effect), a strong manufacturing sector, and an anticipated rebound in the services sector.



What are the market's concerns?

The world economy's V-shaped recovery after the COVID-19-induced slump continues to have a positive impact on commodity markets. In June, global energy consumption declined by 7.4 mbpd compared with the same month last year – a major improvement since April, when it dropped

by as much as 21.8 mbpd. Against this backdrop, the agreement reached by OPEC+ countries in July to lower output cuts from 9.7 to 7.7 mbpd by the end of this year and 5.8 mbpd from 2021 through April 2022 came as no surprise. And there is no doubt that oil exporters will stay tuned to market trends and adjust their long-term production plans, as they have already demonstrated the ability to respond quickly to arising challenges. In fact, this has been a key takeaway from the evolution of the OPEC+ deal this year.



Hydrocarbon prices

By mid July 2020, oil prices had mostly recovered from their fall in March, buoyed by the new OPEC+ deal and growing investor appetite for risk as major central banks continued to pump money into their economies. As a result, Brent prices have broken above \$40 a barrel, up 80% from the April levels. The forward curve remains in mild contango, much less pronounced than in April, sending crude oil freight rates tumbling by half since April.

What is next for the industry?

Capital expenditures in the oil and gas industry are expected to decline by 30% or more in 2020 over 2019. Project cancellations and delays continue to happen in the industry. The impact this will have on demand for equipment and personnel across the sector will be significant. Throughout this crisis, the priority of companies in the oil industry, especially oilfield servicing businesses, has been to maximize liquidity by capital conservation and reducing costs.

Companies reacted fast to sustain business continuity. Opportunities remain for companies to achieve long-term direct and indirect cost reductions, preserve revenue and attain greater capital efficiencies. Turning fixed costs into variable costs with shared services, management and outsourcing solutions can be a valuable strategy for preserving capital.

While focusing on the short term, companies must also prepare for the next phase when oil and gas markets stabilize in a reduced addressable market. As the industry continues to evolve, companies need to accelerate re-evaluation of their operations and strategies and increase digitization. Consolidation and deconsolidation, digitization and decarbonization will likely be the industries' key priorities going forward.

1. Consolidation and deconsolidation

Companies need to take a hard look at what they want for both their customers and broader stakeholders, and allocate capital accordingly. They have two choices.

First, commit to scale by acquiring businesses to become vertically integrated and increase market share, concentrate product and service segments and rationalize supply. For this approach to work, companies should have a plan (and capital resources to execute that plan) to acquire enough market share to create sustainable margins.

Second, choose to be smaller with differentiation. This means divesting businesses that do not fit this new strategic direction or where companies lack scale and are capital-constrained with no possibility to build enough market share. Developing differentiation can be achieved through focusing on niche markets, driving offerings via technology and providing new business models or partnerships to customers.

In any case, capital must be allocated only to opportunities that allow a company to gain competitive advantage in a particular product, service line or market.



2. Digitization

Digitization will be at the center of any transformation. According to the 2020 *EY Global Capital Confidence Barometer*, 70% of oil and gas respondents are undergoing digital transformation and evaluating automation strategies to cut costs, optimize operations and create new M&A opportunities. Companies may be tempted to put these initiatives on hold due to the current crisis, but accelerating them is actually the better strategy.

Combining digital technologies with existing product and service lines could play a greater role in reducing cost per barrel and accelerate time to first oil via optimized well design and planning, supply management, reduced operations and maintenance costs, and maximized operational uptime.

Since the COVID-19 outbreak, oil and gas companies have rapidly deployed remote operations and digital infrastructure to improve drilling efficiencies and sustain employee well-being. The current crisis is likely to accelerate the rethinking around digital strategies by oil and gas companies.

3. Decarbonization

Once oil and gas companies have addressed the immediate issues and embark on planning for what comes next, executives will turn their attention to potentially existential issues, such as decarbonization and energy transition. Climate change and the urgency to do something about it will remain. Diversification is inevitable for upstream operators and contractors. Disruption fosters transformation and presents a great opportunity for oil servicing companies to expand their addressable markets, gain exposure to end markets that are expected to experience structural growth and redefine investor perceptions.

The path a company chooses and the success with which it treads that path will depend on areas of expertise, assets and the nimbleness with which it can apply them to new markets. The oil and gas sector has considerable expertise in development and engineering, operations and maintenance, and project management, which is valuable to both industries within and beyond energy.

Traditional business lines may need to be abandoned in favor of new ones. Competencies may need to be adapted and new ways of doing business explored. Risks that companies are not accustomed to managing may need to be taken, and risk appetites may need to be increased.

Summary

The ongoing disruption is a great opportunity for companies to expand their addressable markets, gain exposure to end markets expected to experience structural growth and redefine investor perceptions. Preparing for the future likely means abandoning traditional business lines in favor of new ones and generally increasing risk appetite.

Sources:

1. *EY Global/Oil and Gas/ Celine Delacroix* https://www.ey.com/en_gl/oil-gas/three-themes-for-ofs-companies-emerging-from-covid-19-and-the-price-shock
2. *Russia and Kazakhstan oil and gas quarterly review by EY Energy Center Central, Eastern and Southeastern Europe & Central Asia (CESA) July-August 2020.*

KAZAKHSTAN'S ECONOMY AT THE CROSSROADS

by **Almas Chukin**
Partner, Visor Kazakhstan

Kazakhstan's economy is at the crossroads, again. In 1992, the newly-independent country bravely undertook to open its vast resource potential to foreign investors. Later, large-scale privatization followed with major players emerging in metals and other sectors. Then the time came to position the country in the world globalization process, which was done through Kazakhstan's multi-polar or multi-vector foreign policy, a strategy that worked well for the country. Kazakhstan joined the *Customs Union* (subsequently, the *Eurasian Economic Union*) and the *World Trade Organization (WTO)* in parallel; developed strong ties with China through the *Shanghai Cooperation Organization (SCO)*, and signed an *Enhanced Partnership and Cooperation Agreement* with the *European Union* and its Member States in 2015, an Agreement that entered into force this year.

2019 will go down in history as the year in which Kazakhstan's long-serving first President, Nursultan Nazarbayev resigned and Kassym-Zhomart Tokayev was elected as his successor. This was followed by the global pandemic crisis and the world's general realization that this crisis signaled the beginning of the end of the oil era.

Thus, the future for Kazakhstan after the Covid-19 crisis will not be a return to the pre-Covid paradigm. Thailand can welcome back millions of tourists and Germany and Switzerland will sell even more industrial goods, but Kazakhstan's major export commodity – oil – has lost its shine, turning from a "strategic must have" into a more traditional equal among equals.

There are two major consequences of this change of fortunes. Surprisingly, the first is that activity in the oil sector should increase – not the opposite. Since the market expects oil demand to peak in 2030-2035, then start declining to around 40-50% of the peak until 2050 before reaching a plateau for a long time to come, every incentive should be given to investors in the oil industry now. Kazakhstan's Government understands this and is already making reasonable concessions to investors in major negotiations to secure long-term project prospects. Disputes within JV and PSA's have been for the most part amicably resolved and rights for different deposits are becoming easier to obtain.

Another challenge arising from the changing fate of oil isn't a short-term problem. Directly and indirectly (if you put together all receipts from taxing oil, related oil services, and transfers of savings from the National Fund to budget support), revenue generated by the oil industry adds up to roughly 60% of total government expenses. If the squeeze comes from both falling export volumes and

prices per barrel, it will be hard to replace lost revenue for the government. This means either belt tightening or short-term solutions like borrowing.

Unfortunately, previous efforts to diversify the structure of the economy and develop new markets have on the whole failed and Kazakhstan's economy is still dominated by oil, metals, transit infrastructure, grain and other commodities. The silver lining in this situation is that the country's economy didn't suffer greatly from the Covid-10 quarantine restrictions (expected GDP decline is below 3% for 2020).

One of the few bright spots of development is the renewable energy sector. Kazakhstan adopted an aggressive "green economy" strategy up to 2050 and is close to reaching its first benchmark of 3% of total electricity consumption this year. Last year 2.4 billion kWh of electricity was produced from renewable sources at plants with total capacity of 1 GW; this year production is anticipated to reach 3 billion kWh and installed power – 1.6 GW.



These impressive numbers show that smart government policy can bring considerable results. Through careful planning and modernization, the government has created an effective framework for investments totaling around \$2.5 billion. This result was reached with almost zero cost to the state budget, instead transferring relatively modest subsidies to consumers through the price mechanism. The subsidized price at which RFC is buying wind energy, for example, is around 20-22 tenge, which is 4.5-5 US ¢ today. That tariff is at the lower end of the world's average wholesale prices for electricity. Kazakhstan's wholesale tariff for electricity is limited by government regulation to 8.5 tenge or 2 US ¢, making Kazakhstan the third cheapest country globally.

On the other hand, life is placing serious requirements on all government players. The time of easy solutions and quick gains is over. This year, the number of electricity power capacity contracts auctioned was significantly lower than in previous years due to the limitations experienced by the national grid. During the low-demand hours of the day from midday to early afternoon, solar stations produce at 700 MW capacity, thus beginning to compete with traditional energy stations.

In order to prepare for the future, *KEGOC* needs to consider a smart grid, prosumer emergence, tariff parity, and other innovative technologies. This requires not only drafting plans, but identifying funding to invest into this future. The key condition for investment is a return on it, but this is not possible without introducing sustainable electricity tariffs, yet even a gradual increase in energy prices could cause major disruptions to the whole economic cycle.

It is no secret that extraction and other industries in this country are not very energy efficient. Extremely low electricity prices are one of the major factors in its overall global competitiveness. Price adjustment, if done in radical manner, clearly could be detrimental to all parties. Industrial consumers of electricity should be informed about government policy intentions, allowing time to adjust and invest in necessary transformations of their business operations.

In his recent address to the Majilis, President Tokayev declared the urgent need for radical economic reforms, and a special agency was created to analyze strategic issues and design the necessary reforms. This new agency already has an extensive list of immediate concerns. Russia, a close ally of Kazakhstan, is moving into even deeper confrontation with the West, entailing the imposition of new sanctions or threats with regularity.

China, another close neighbor, has its own issues with the United States, creating both problems and opportunities for Kazakhstan.

Internally, the key challenge is to create jobs, preferably good-quality, well-paying jobs. Kazakhstan has a potentially not bad problem to solve –the baby boom of 2000 and onwards. In the 90's of the last century, the birth rate was low but it exploded when things started to change quickly for the better. As a result, 275,000 children born in 2004 will turn 16 years old this year. In 2025, this number will be 360,000, and starting from 2030, each year 400,000 young people will receive their first passport. These increases in newborns together with a decline in the mortality rate mean a net addition to Kazakhstan's population of one million people every four years or, figuratively speaking, adding one new city the size of Nur-Sultan.

Crises come and go, but problems tend to stay. There is currently an optimistic view of the future based on past accomplishments, but there is a serious need to turn the page and look into the bright future Kazakhstan can build if it uses its accumulated resources wisely. The alternative is to squander savings for the dubious goal of returning to the status quo, which is not the best strategy for the future.



GLOBALINK
LOGISTICS

ONE STOP
LOGISTICS
SOLUTION

sales@globalinklogistics.com
www.globalinklogistics.com



WHAT YOU NEED TO NOTE IF YOU CHOOSE ARBITRATION

by Aset Shyngyssov
Managing Partner, Morgan, Lewis

Klara Nurgazyeva, Partner
David Waldron, Partner

One of the aims in the Government's *Investment Roadmap for 2020 – 2024* is to renegotiate existing contracts with a foreign, non-Kazakhstan, element (foreign party, foreign goods or performance of works or services abroad, etc.) executed by Kazakhstan national companies to change the governing law for the law of the Astana International Financial Center (AIFC) and the dispute resolution clause for litigation or arbitration at the AIFC, and then to apply the same choice of law and dispute resolution approach in new contracts. It is currently unclear what the situation is for contracts that already contain international arbitration clauses.



In this article we will not consider the pros and cons of the existence of AIFC (as in *Macbeth*: “*Things without all remedy should be without regard: what’s done is done*”). Nor will we analyze litigation at the AIFC court, because it is new and developing. We will continue to monitor the court in practice and will then consider practical hints and tips.

In this article, we will consider arbitration only. Arbitration is sometimes considered more efficient and predictable to foreign parties than litigation before national domestic courts. However, in practice arbitration can be lengthier and more expensive than domestic litigation. The reason for the high cost is not only the mistaken perception (in a number of cases) that lawyers are greedy. There might be a number of reasons for this. But at the outset it might just be an improper business decision to choose arbitration at the AIFC International Arbitration Center (AIAC) or another major arbitral institution or to arbitrate a dispute at all.

The following summarizes some key practical issues that may help a reader when deciding upon arbitration, whether at the AIAC or elsewhere, to reduce or better manage the arbitration costs and to enjoy the benefits that arbitration and an enforceable arbitration award can really bring. We will consider only arbitration matters in connection with disputes between commercial entities under a contract, rather than investment-related disputes against a state. It is hoped this article will help to establish and sustain the AIAC as a competitive arbitral institution.

1. Clear Agreement to Arbitrate

Jurisdictions with a supportive arbitration law should recognize and protect the intentions of parties to arbitrate. In order to achieve this, it is important that the dispute resolution clause be clear that the parties have agreed that any dispute between them be submitted to arbitration rather than settled in a court.

Arbitral institutions have standard form arbitration clauses, and usually such clauses are “copied & pasted” into contracts, sometimes with additions / modifications. If a contract is executed in English only, there is usually no problem in determining the parties’ clear intention to use arbitration for dispute resolution.

If a contract is in Russian, care must be taken. Reference to «арбитражный суд» (arbitration court) may lead to arguments about whether the intention was to submit a dispute to a Russian court dealing with commercial disputes or arbitral institution. As a recent client precedent showed, Kazakhstan courts prefer interpreting such ambiguity in favor of arbitration and a domestic arbitral institution, and arbitrators supported this view with blatant disregard for the applicable law, terms and conditions of the contract and intentions of the parties to the contract.



The Russian Supreme Court, however, did not accept this approach for valid reasons. But, before the final decision of the Russian Supreme Court was received, the parties wasted money and effort on unnecessary arbitration and enforcement of an illegal arbitral award. This all could have been avoided if the parties had made a clear dispute resolution clause. It is therefore better to have a clear arbitration clause and a proper language to avoid unnecessary disputes and costs. A model clause from an arbitral institution would be best in this respect.

2. Choice of Arbitral Institution

(a) Rules

The rules of arbitral institutions vary in the scope of the tribunal’s or party’s rights and obligations, the right to consolidate disputes under different contracts into one proceeding, the possibility to submit requests electronically or to have virtual hearings, among other alternatives. During the negotiation stage it is therefore always better to

check which rules to choose with lawyers whose main area of practice is international arbitration and who are aware of the rules prevailing in different arbitral institutions. Among other things they will also consider the geographic locations of the parties, the number of contracts on a single or similar subject matter, the number of arbitrators, the place of arbitration, and the arbitration language.



(b) Arbitration Costs

There can be a material difference in the arbitration costs (excluding legal fees) of different arbitral institutions. Sometimes the choice of the geographically closest arbitral institution does not guarantee lower arbitration costs if the institution is one of the most expensive. It is worth mentioning that according to the AIAC web site: *“All applications, administration and hearings at the IAC are free of charge until 31 December 2021. And all parties to a contract which is agreed before 31 December 2021 and includes the AIAC for dispute resolution will be eligible to receive free administration of any dispute resolution at the AIAC under that contract before and after 31 December 2021.”*

This sounds like a nice proposal, although it would give more comfort if the AIAC clarified whether there will be separate fees for (i) applications; (ii) administration and (iii) hearings and from what fee(s) (administration alone or all three: applications, administration and hearings) the parties to the contracts with the AIAC arbitration clauses executed prior to 31 December 2021 will be released. In addition, for proper forecasting of costs and expenses for a long-term procedure like arbitration and in order to properly choose the arbitral institution, it would be good to know from what exact or estimated amount a party to a contract may be released now by choosing AIAC and what to expect after 31 December 2021.

In addition to predicting the above administrative charges, it is even more important to have a clear picture of how an arbitrator or tribunal's fees will be charged (hourly rate, fixed fee, etc.) and/or whether there are certain limitations on such fees (e.g., maximum threshold for an hourly rate). For example, the *International Chamber of Commerce (ICC)* charges on an *ad-valorem* basis, while the *London Court of International Arbitration (LCIA)* limits the hourly

rate of arbitrators. There is no such information on the AIAC web site and the AIAC should clarify this ASAP to make this institution competitive.

(c) Arbitrators

Parties in court play no role in selection of the judge and have to accept the risk that a judge lacking knowledge and/or experience in certain matters of the dispute may consider the dispute. An objective benefit of arbitration is the potential to appoint qualified expert(s) in the relevant area(s) as arbitrator(s). Therefore, in drafting the arbitration clause and when choosing an arbitrator, it is always important to take into account, at a minimum the candidate's jurisdictional background (e.g. civil law or common law), relevant industry knowledge, reputation, experience in arbitration (preferably, international), nationality, and the language of the arbitration.

Some arbitral institutions permit the parties to choose as arbitrator(s) any qualified person subject to the institution's approval of the proposed candidate; others set a list of approved arbitrators. Currently, the list of AIAC arbitrators is limited to the panel of 38 approved arbitrators. Such a limited panel may make parties hesitate before choosing AIAC for arbitration in a contract.

3. Governing Law

An arbitration clause in a contract is a stand-alone agreement inside the contract. The parties to a contract must keep in mind that the law governing the substance of the contract, and the law governing the arbitration, and (in some circumstances) the law governing the interpretation of the arbitration clause may differ. Careful drafting is necessary to avoid unintended consequences and explicit choice is important. This will help parties avoid unnecessary disputes and related costs.

If the AIFC law is chosen, it is important to note that it is not a pure English law jurisdiction. The AIFC law consists of (i) *the relevant Constitutional Law*, (ii) *the AIFC Acts of the AIFC Bodies that may be based on the principles, statutes and precedents of the law of England and Wales and/or standards of the world leading financial centers and* (iii) *Kazakhstan law on all matters that are not regulated by the Constitutional Law or the AIFC Acts*. The Constitutional Law is silent on the arbitration or interpretation of arbitration clause and there are no special AIFC Acts on these matters. Therefore, there is a risk that Kazakhstan law would apply in accordance with the above definition of the “AIFC Law”.

Nothing prevents parties to an arbitration agreement from choosing, for example, English law, but it is important to keep in mind that the assistance of lawyers who are qualified in the chosen law will be required, and there will therefore be a related additional cost.

4. Evidence

In arbitration, as in court procedures, each party to a dispute must prove their case. As a matter of practice, the procedure for collecting and presenting evidence in international arbitration materially differs from the one in Kazakhstan courts or arbitral institutions. In this article we highlight some key elements of the major categories of evidence – documentary evidence, witness evidence and opinions of expert witnesses.

(a) Document Production

In Kazakhstan courts a party must produce only the documents on which the party relies, while in international arbitration there is a potential that the procedural rules or arbitrator(s) may require disclosure of many documents related to the issues in dispute. It may seem good that almost all documents are in electronic form these days, but although this may decrease the volume of hard copies, it has enormously increased the volume of information that must be processed and considered. This requires both legal advice and a large-scale captive discovery management operation that includes technical operations, forensic services and managed review.



For example, our firm was one of pioneers to establish a dedicated “e-data practice” back in 2004, and we have been innovating the practice and delivering thought leadership ever since. Our e-data team includes lawyers, data scientists, technologists, and process designers. The availability of the right team and required technology permits us to quickly and thoroughly process, identify, review and submit required documents within the procedural deadline. In some circumstances it might be better for a company to conduct a preliminary internal investigation (with the help of an “e-data” team like ours) prior to commencing arbitration in order to make the final decision whether to arbitrate a dispute or not. Further, parties may be expected to preserve evidence early on in a dispute, even before proceedings are commenced.

It is important to take advice on this as arbitrators can take a dim view of lost or destroyed evidence. In addition, it is important to ensure that all required consents for processing personal data of employees (e.g., e-mail correspondence) are received from the employees before commencing arbitration or at least prior to documents production. It is better to have this consent in every employee’s employment contract from the outset to avoid delays in arbitration.

(b) Witness Evidence

In common law-style arbitrations fact witnesses are very important. Their testimony may be crucial for proving or defending a case. Therefore, the availability of all witnesses who had a significant role in entering into or performance of the contract that is the subject of the dispute in arbitration is important to establish early. Unfortunately, it is not uncommon that an employee who could have been a reliable witness may have left the party to a dispute before commencement of arbitration. To mitigate negative consequences, it is important for the HR team to track all former employees who were involved in contracts with arbitration clauses and/or to set out in the employment contract or termination contract the employee’s duty to assist the employer in the event of arbitration.

(c) Expert Witnesses

Certain issues (e.g., technical, financial or legal (if the subject matter is regulated by foreign system of law)) may be resolved by arbitrators only with the assistance of experts. Experts may be appointed by arbitrator(s) or parties. Since the appointment of experts occurs regularly, it is up to each party whom to choose and how quickly to appoint the expert. Again, as a matter of practice, it is more efficient if a party has a clear view concerning who could act as an expert (especially on technical matters that are complex and unique to a certain contract). Early identification of an expert or better yet, a pool of experts, is key to an efficient arbitration.

The above list is not exhaustive; there are many other things that could be considered before deciding to engage in arbitration or commencing arbitration. We hope this article will help business in considering whether to choose arbitration in a contract with a national company under the umbrella of the *Investment Roadmap* or any other contract before taking the first step, and help the AIAC become a “first choice” institution not through the Government’s initiative, but rather due to the AIAC’s attractive, efficient procedures in terms of time and costs.

UNDER ASTANA INTERNATIONAL FINANCIAL CENTER (AIFC) LAWS: WORKING AT AIFC IN TERMS OF CORPORATE LAW

by Rashid Gaissin
Partner, Head of Legal Practice
KPMG Kazakhstan and Central Asia

Assel Mukhambekova, Legal Manager, KPMG
Khalel Tuganbayev, Legal Manager, KPMG

The following article addresses the most frequent questions about establishing a legal presence at the Astana International Financial Center (AIFC).

What form of legal entity is best for conducting business at the AIFC?

The choice of the best form for a legal entity at the AIFC depends on the nature of the proposed company's activities, its structure, the size of its investments, the term for its functioning, and other considerations. There are two types of AIFC legal entities: those registered on the AIFC territory (private company, public company, special purpose company, general partnership, etc.) and recognized AIFC legal entities (branches and representative offices of companies registered or established outside the AIFC).

The most popular form for AIFC legal entities is a private company, of which there are more than 330 registered at AIFC. Given the popularity of this legal form, more information is provided below.

What are the requirements for a private company to register with the AIFC?

The basic requirements for a private company are as follows:

- at least one shareholder, which can be an individual or a legal entity;
- the company's name is immediately followed by "Limited" or the abbreviation "Ltd." - for example, ABC Limited or ABC Ltd.;
- at least one Director, but only an individual;
- its shares cannot be offered on public exchanges;
- a USD 300 registration fee.



The advantages of a private company are as follows:

- Shareholder liability is limited to the amount that remains unpaid on the shares held by the shareholder;
- no requirements on minimum share capital;
- shareholders are allowed to define the number of directors and their competence.

The general rule is that shareholders have equal management rights for a private company. However, they are entitled to define different classes of shares entailing different shareholder rights. The form of a private company is flexible and there are no strict rules with respect to corporate governance, assuming the company does not conduct regulatory activity (financial services, brokerage, banking, and so forth).



What authority registers AIFC legal entities?

The AIFC Financial Services Authority (AFSA) registers legal entities as an independent AIFC regulator. AFSA also carries out accreditation and licensing, maintains a register of AIFC participants, monitors and supervises participant activities, and can take measures against them. During registration a private company is assigned a business identification number.

Must the share capital be in Kazakh currency?

AIFC regulation allows for the share capital to be in USD.

Can property be used as part of the share capital?

AIFC regulations allow the incorporators to use property as part of the share capital. In this case, the board of directors of a private company must determine the reasonable cash value and notify AFSA that part of the share capital is non-cash. There is no requirement for a private company's minimum share capital.

Can an AIFC-registered company register a pledge of shares?

There are no restrictions on pledging the shares of an AIFC-registered company, nor to registering this with the AIFC authorities. Registration is conducted by a division of the AIFC exchange.

After registering a company at the AIFC, is the AIFC participant required to have an account at a Kazakh bank or an AIFC-registered bank?

There is no requirement to have an account only with an AIFC-registered bank or a Kazakh bank. However, because the AIFC company is treated as a tax resident of Kazakhstan, it must have a Kazakh bank account for the purpose of tax payments.

Are company audits mandatory? Are there any exceptions?

Within 6 months after the end of the company's financial year, a director of the AIFC participant should prepare and approve accounts for the previous financial year, which will then be examined and subject to an audit report.

The annual audit return should contain the following:

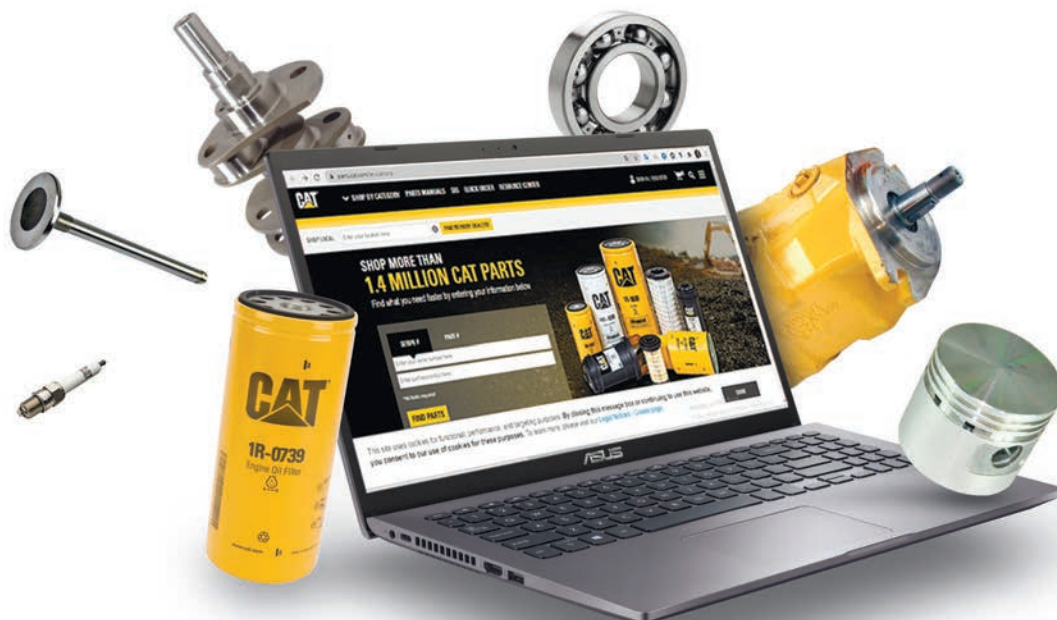
- *its financial statements for the last financial year;*
- *a statement for each class of company shares;*
- *information about the director and, if applicable, the secretary;*
- *information about the shares if these are held by the company as treasury shares; and*
- *other information and declarations (if any) required by the AIFC laws.*

Unless otherwise stated in its Articles of Association, a private company is not required to conduct an audit if the company has existed for more than one financial year, the year immediately preceding that financial year, and has:

- *an annual turnover of not more than U.S. \$5,000,000;*
- *an average of not more than 20 shareholders.*

NON-CONTACT ORIGINAL CAT® SPARE PARTS SALES

<https://parts.cat.com/ru/borusanmakinakz>



BORUSAN KAZAKHSTAN COMPANY SET UP THE FIRST ORIGINAL CAT® SPARE PARTS ONLINE SHOP IN KAZAKHSTAN

KAZAKHSTAN'S CAPITAL MARKET – IS THERE A POSITIVE OUTLOOK?

by Marina Kahiani
Partner, GRATA International

The recent outbreak of COVID-19 pandemic has not created new issues for Kazakhstan's economy, but it has uncovered the existing ones. Long before the pandemic it was already clear to the Government that "oil era" was coming to an end and new instruments needed to be developed to attract investment to the country. In response to this challenging reality, the Government will need to apply non - resource based means to boost the economy. Creating a strong capital market to attract regional and foreign investors to Kazakhstan is one such non - resource based measure.



Kazakhstan's largest ever privatization of its most valuable state-owned assets, including through initial public offerings (IPOs) of "blue chip" Kazakhstani companies on the stock exchange of the *Astana International Financial Center (AIFC)*, the *Astana International Exchange (AIX)*, the *London or Hong Kong Stock Exchanges*, and establishment of AIFC, intended to become the financial hub for the whole of Central Asia and the *Eurasian Economic Union*, are important steps undertaken by the Government to strengthen Kazakhstan's capital market.

However, the Government's ambitious plans are not always implemented smoothly. Though some success has been already been achieved, the main results are yet to come and Kazakhstan's capital market is still in an early stage of development. One of the key indicators of a weak capital market in Kazakhstan is that even large players still prefer to get major financing from the banks, given that attracting money through the stock exchange is challenging with no guarantee of success.

According to the Finance Ministry's *Committee for State Property and Privatization*, 2020 year was supposed to bring IPOs to the market for *Kazakhstan Temir Zholy*, *KazMunaiGas*, *Kazakhtelecom*, *KazPost*, *Air Astana*, *Qazaq Air*, and *Samruk Energy*. However, it is September 2020 already and there is no hope that any of these IPOs will take place this year or even next year. According to public sources, *KazMunaiGas* and *Air Astana* have postponed their IPOs to 2022 and *Kazakhstan Temir Zholy* has postponed its IPO to 2023.

As for *Kazakhtelecom*, it has been decided not to go for an IPO at all and instead sell the shares to Kazakhstan's *Unified Pension Fund* in a private sale and purchase transaction this year. A similar decision – sale to a strategic investor instead of an IPO – was made for *KazPost* (planned in 2021), *Qazaq Air* (planned in 2022), and *Samruk Energy* (planned in 2021).

At the first glance, it may seem that the IPO delays and cancellations are due to the global crisis caused by the COVID pandemic. However, long before the outbreak, most of these IPOs planned for 2017-2018 were moved back to a later period several times. The real reason behind the IPO delays was the companies' lack of preparation for the IPO in terms of compliance with international standards and, as a result, a low appetite for Kazakhstani assets from global investors, along with lack of liquidity in the local market, the absence of strong local investors, including retail investors, and a generally undeveloped capital market.



Notwithstanding bad luck so far with most of the announced Kazakhstani IPOs, the last two years became landmark years for the country's capital market due to another noteworthy initiative of the Government – the AIFC.

Modeled on the DIFC (*Dubai International Financial Center*), AIFC is the new gateway to investing in Kazakhstan and Central Asia. AIFC is intended to alleviate investor doubts about the transparency of the country and the whole region. AIFC has its own law (based on common law principles) and its own court of arbitration (the AIFC court is headed by the former UK Lord Chief Justice, Lord Woolf).

English is the official AIFC language. AIFC provides to its participants tax exemptions (0% capital gain tax and 0% corporate income tax and property tax in certain cases), as well as work permits/visa free regime for foreign employees of the companies registered within AIFC. AIFC has its own stock exchange – the *Astana International Exchange* supported by international partners such as the *Shanghai Stock Exchange*, *Nasdaq*, *Goldman Sachs* and the *China-Kazakhstan Production Capacity Cooperation Fund*, which are shareholders of the *Astana International Exchange*, together with AIFC.

In 2018, *Kazatomprom*, the world's largest uranium producer, had its IPO on the *London Stock Exchange* and *Astana International Exchange*. This was followed by its SPO in 2019. Another successful transaction on the Astana International Exchange was the SPO of *Halyk Bank*, the largest commercial bank in Kazakhstan, in 2019. Other prominent names listed on the Astana International Exchange in 2018-2019 were *Polymetal International*, *Ferro Alloy Resources*, and *Kcell*, to name a few.



Nonetheless, recent success on Kazakhstan's capital market should not be the basis for enthusiasm. There are too few attractive investment instruments, low liquidity, retail investors are not sufficiently active and educated, and the investment legal framework and corporate governance need improvement.

Conclusion

Kazakhstan realizes that it does not have any choice other than developing its economy through non-oil-based sources, such as a strong capital market. The Government is taking aggressive measures to boost the local capital market, such as privatizing state assets and developing the AIFC framework, an institution unprecedented in other CIS countries. It remains to be seen whether such measures will be successful.

Though these steps create unique opportunities for market participants, such opportunities are yet to be realized in practice. Kazakhstan is still at an early stage on its long journey to a well-developed capital market. More effort is needed to create new investment products, develop the retail investors segment, improve corporate governance and the legal investment framework generally, and enhance market infrastructure, as well as other measures. Otherwise there is a risk that the country will not only fail to develop a successful capital market, but will also waste the money and effort already spent.



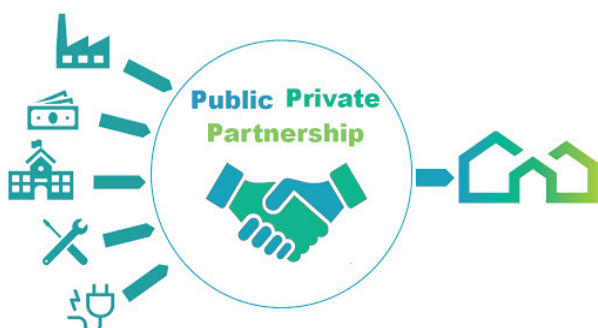
OBSTACLES TO PUBLIC-PRIVATE PARTNERSHIP DEVELOPMENT IN KAZAKHSTAN

by **Shaimerden Chikanayev**
Partner, **GRATA International**

Introduction

By 2016 Kazakhstan established what was considered a solid legal and institutional basis for public-private partnership (PPP) projects that led to a sharp increase in PPP formation with 15 PPP agreements signed in 2016, 161 in 2017, 292 in 2018 and 294 in 2019. In addition to being the leader in Central Asia in terms of establishing a PPP legal and institutional framework and the number of PPP Agreements executed, Kazakhstan has also been successful in pursuing the 66 km *Big Almaty Ring Road* benchmark concession project (a toll road around the city of Almaty), also known as *BAKAD*. This project finally reached its financial closure on 7 August 2020, making it the largest PPP project in Central Asia.

BAKAD is supported by the *European Bank for Reconstruction and Development (EBRD)*, the *Bank of China*, *PGGM*, the *Eurasian Development Bank* and the *Islamic Development Bank*. It is a groundbreaking PPP project for Kazakhstan because it is the first large-scale PPP project in Central Asia structured with international advisors in an open competitive process conforming to international best practices.



On its face, therefore, the Kazakhstan government's PPP policy has so far been very successful. The *Ministry of the National Economy* and *Kazakhstan's PPP Center*, as the bodies with the most important role in developing Kazakhstan's PPP policy, should be congratulated for what has been done. However, by 2019 it became increasingly clear to all the major stakeholders that PPP development in Kazakhstan was moving in the wrong direction, as current PPP policy and governance proved inefficient, often concealing public borrowing.

The *General Prosecutor's Office*, the *Accounts Committee* of the *Finance Ministry*, and the *National Chamber of Entrepreneurs (Atameken)* each conducted their own investigations of PPP practice in 2019 and publicly confirmed cases of fake PPPs, lack of transparency, and misuse of the PPP mechanism, including corruption by regional and local officials. The problems in the PPP mechanism became so

acute that in July 2019 Kazakhstan's President, Kassym-Jomart Tokayev, acknowledged that the whole PPP concept in Kazakhstan had been discredited.



Major Problems with PPP Development

There are various obstacles to the proper development of PPPs in Kazakhstan, but the following are the major ones:

• **Absence of a National PPP Policy Document (Strategy)**

In 2011 the Government approved the *Program for Development of Public-Private Partnership 2011–2015* (the PPP Program). Unfortunately, there were no further PPP policy documents after this Program ended in 2015, and PPP development in Kazakhstan since then has been chaotic and not very successful.

Because Kazakhstan has not had a national PPP policy with clear objectives, targets, and priority sectors for partnerships since 2015, there has been disproportionate use of the PPP mechanism at the local level (as of 1 September 2020, 813 PPP agreements worth 1.8 trillion tenge have been signed, only 9 of which are national-level projects and 803 are local-level (municipal or regional projects). The local projects are mainly small-scale and service-oriented (that is, lacking capital investment) kindergarten PPPs. About 54% of the executed PPP agreements are kindergartens.

Whereas the national-level PPP and concession projects in Kazakhstan were conducted under oversight of many controlling state entities including the PPP Center to ensure a truly competitive and transparent PPP selection process, the regional and local-level PPP projects had more relaxed oversight. The regional projects therefore acquired a common perception that the PPP model is an easy, one-off opportunity to win government-backed revenue lasting up to 30 years.

It is therefore no surprise that many regions' officials and investors with close ties to the regional and local

authorities sought to implement projects through the PPP mechanism (often by way of direct negotiations and without competition), rather than under the *Public Procurement Law* that requires an open tender. The fact that more than 50% of the PPP agreements executed by the end of 2019 were sole-sourced (without an open tender) raises serious concerns.

Many of the regional PPP projects over the past four years are therefore associated with corruption — for example, the infamous case in Mangistau region in 2019, where the deputy head of the region was sentenced to ten years in prison for “protecting” a foreign investor who proposed constructing an ice-rink stadium in Aktau under the PPP model.

Another negative result of the lack of a national PPP strategy is a public misperception of which PPP projects are really needed. This means many good projects pursued by foreign investors do not receive support because government officials do not want to take responsibility for them. The current Almaty LRT PPP project is an example of the public sector partner unexpectedly backing out in the middle of the tender process.

Although four international consortia had already invested time and money and successfully passed the first stage of the open tender, entering the second stage in 2019, the Almaty LRT PPP project has been on hold for more than a year due to the decision by Almaty’s newly-appointed mayor to abandon the PPP model. Instead he wants the public sector to build and operate the LRT system, presumably because this option is considered better value for money.

This change of plans in the middle of a well-prepared international open tender may have been triggered by the new mayor’s doubts arising from Nur-Sultan’s bad experience with the light rail system project. The Nur-Sultan project was not structured as a PPP, but its failure was an embarrassment to the government. Lack of long-term strategic planning and an inconsistent approach to PPP development by government officials jeopardizes foreign

investment in Kazakhstan’s PPP projects for a much-needed upgrade of its public infrastructure.

• *Continuous and piecemeal changes to the PPP legislation*

As a result of inconsistent, piecemeal changes in legislation there is still confusion in Kazakhstan around determining who is a public partner/ concession grantor and which assets may be identified for legal recourse by a private partner/concessionaire. To the best of our knowledge, this confusion was a major obstacle causing a more than two-year delay in financially closing with the lenders of the BAKAD project. From the bankability perspective, there is a significant difference if the grantor is the state, which has many assets, or a ministry that effectively possesses no assets to meet its contractual obligations.

The *PPP Law* provides that only the state, not municipal entities or regions (e.g. Almaty or Kostanai region), as the case may be in some other countries, can act as a public partner. Until 2017, the *Concession Law* concept of a public partner was identical to the *PPP Law* concept (that is, only the state may act as the concession grantor).

However, in 2017 the *Concession Law* was amended and now sets out that only authorized state bodies can act as a concession grantor and enter into concession agreements. The current legal definition of a concession grantor does not make sense because state bodies are not «subjects of civil law». Therefore, they do not have any assets and cannot enter into civil law agreements on their own behalf (strictly speaking, state bodies can act and sign concession agreements on behalf Kazakhstan, a region, or a city).

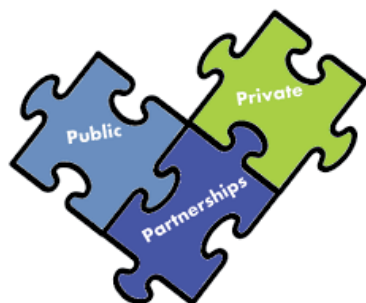
Moreover, the *PPP Law* provides that a PPP agreement is a multilateral agreement and there may be several public partners in one agreement. This is impossible if Kazakhstan is the only candidate for the role of public partner as currently stated under the *PPP Law*.

Systematic interpretation of Kazakhstani legislation suggests that not only Kazakhstan can act as a public partner/concession grantor, but also, de-facto, cities and regions (oblasts). Therefore, a private partner in a local-level PPP project has legal recourse only against the municipal budget of a city or region, not the national budget of Kazakhstan.

In accordance with Kazakhstan’s Civil Code, so-called “local subdivisions” (cities and regions) are different «subjects of civil law» (that is, for an entity to enjoy property rights and be a party to a contract, it must be a subject of civil law, a status usually reserved for natural and legal persons) that have different budgets (the national budget versus local budgets) and they are not responsible for each other’s obligations. The Budget Code also says that for local-level



PPP or concession projects, the public partner's monetary obligations are imposed on the local budget of the city or region, not the national budget.



Current PPP Policy

By 2019, therefore, it became increasingly evident that PPP development required significant adjustment and that the current PPP policy and legislation that enable exponential growth of the regional-level PPPs may wipe out Kazakhstan's state budget and seriously undermine the economy.

To address these issues, in May 2019 Kazakhstan's government announced a new PPP policy that prioritizes project quality (in contrast to previous state policy unofficially prioritizing project quantity). For the new PPP policy, the National Economy Ministry established a categorisation of all future PPP projects depending on required compensation from the state budget:

- i. **category 1 projects** require compensation of all expenses from the state budget (i.e. the "availability payment" PPP model);
- ii. **category 2 projects** require compensation of operating expenses only; and
- iii. **category 3 projects** do not require any compensation from the state budget (the "users pay" model).

Since 2019, the new PPP policy in Kazakhstan gives preference to the category 3 "users pay" model rather than projects requiring financial commitment from the public sector partner (categories 1 and 2).

To enshrine this new 2019 PPP policy in legislation and following the President's recent instructions to restore Kazakhstan's economic growth and support employment, amendments to PPP legislation will be introduced to increase project efficiency.

For this purpose, the National Economy Ministry prepared a draft law that, amongst other changes:

- i. *makes possible full reimbursement a private partner's investment costs from the state budget only if operation of the PPP facility (social infrastructure with no chargeable services possible) does not allow recouping of the private partner's investment;*
- ii. *makes possible compensation of the private partner's investment costs for a PPP project from the state budget only in equal amounts and within a five-year period;*
- iii. *introduces an auction to award a PPP contract giving priority to the entrepreneur who attracts the largest private investment, thus reducing the burden on the state budget.*



Conclusion

It remains to be seen whether current PPP policy will be successful. However, it is already clear that this new 2019 PPP policy has not been well developed. Neither the PPP Centre nor the government offered a clear understanding of what should be viewed as quality PPP projects, as it seems that so far the only criterion for quality is the absence of requests for financial support from the public sector partner.

As the coronavirus outbreak spreads across the globe, it is likely that many existing PPP projects in Kazakhstan will experience considerable revenue generation challenges.

At the same time, the need to attract private investment in Kazakhstan's healthcare system, agriculture, utilities, and other public infrastructure has become even more acute. The time has come to revisit the existing 2019 PPP policy. One option is develop a new national PPP Strategy focused on more well-designed infrastructure PPPs at the national level involving international financial institutions and foreign investors in priority sectors of economy, with fewer small-scale, service-type, local-level PPPs awarded without open tender (fake PPPs).

MEMBER NEWS

AVON

the company for women

AVON Appoints New General Manager for Central Asia, Assel Sadykulova



Assel Sadykulova joined Avon as an Advertising Specialist at the end of 2009. After spending two years with the Marketing team, in 2011 she was promoted to Head of Marketing, Kazakhstan and Kyrgyzstan. In 2016, Assel continued her career with the Avon Balkans cluster in Central Europe with responsibility for developing Commercial Marketing functions in Bulgaria, Serbia, Macedonia, Albania and Montenegro.

In 2018 she became Head of the Campaign Development team in Central Europe, developing a masterplan for 19 countries. In that role she participated in developing a new approach to marketing processes, merging regional and local marketing teams and transforming Avon business to online platforms.

In mid-2020, Assel Sadykulova returned to Kazakhstan as General Manager of Avon Central Asia, including Kazakhstan, Kyrgyzstan and Export Market countries (Uzbekistan, Azerbaijan, Belorussia, Mongolia and Armenia). Assel says about her new appointment:

"It is a tremendous opportunity to return from international experience with cross-functional teams and lead Avon's business in Central Asia at such an exciting moment in the company's transformation. This is a time of positive change and development of e-commerce for business in Kazakhstan. The consumer has also evolved with greater expectations for products and services. This is a great challenge and a motivation for healthy competition".



Kazakhstan International School Welcomes its New Head, Ole Bernard Sealey



Kazakhstan International School (KIS) welcomes its new Head, Ole Bernard Sealey. Ole Sealey previously worked at the Universal American School (UAS) in Dubai after serving for three years as Head of Secondary at the Greenfield Community School in Dubai. He has also served as a Middle School Deputy Principal, has taught History, Humanities, Geography, and Physical Education, and is a former executive member of the British Columbia Association of International Baccalaureate World Schools.

Ole Sealey has studied leadership theory and understands the needs of KIS. Under normal circumstances, Mr. Sealey would have observed school operations for the first 100 days before undertaking major decisions about the School's further development, but COVID-19 has required rapid decision-making. In his first month at KIS, he has improved the learning environment at the *Edelweiss Early Years Campus*, creating a safer and more inviting space for the School's youngest learners, and has overseen the *KIS Slow Opening* strategy, cautiously bringing students back to school.

Finally, Mr. Sealey has been successful in providing a very effective *Distance Learning Program (DLP)*, working over the summer to improve KIS distance learning, investing in significant resources, and ensuring a quality learning experience for students online. As the school settles into its new routines, KIS is fortunate to have a supportive, visionary leader who will help KIS achieve its goal of becoming Kazakhstan's leading international school.



MEMBER NEWS

Haileybury Schools Almaty and Astana Announce New Headmaster Appointments



New Headmaster of Haileybury Almaty – Simon Mills

The Governors of Haileybury Schools Kazakhstan are pleased to announce the appointment of Simon Mills as the new Headmaster of Haileybury Almaty. He took up his new post in August 2020.

Simon Mills was Head of College at Robert Gordon's College, which he joined in August 2014. Robert Gordon's College is one of Scotland's largest independent schools and it is one of the most successful private schools in the UK. Simon has strong interests in developing the full potential of young people, extending the power of digital education, helping pupils develop their ability as leaders and developing international links and best practice with schools globally. He has been an inspector of schools in the UK with Education Scotland, and has served on several national educational committees.

Simon Mills' previous roles have included Headmaster at Lomond School, Second Master (Senior Deputy Head) at The Portsmouth Grammar School, Head of Geography and Housemaster at Stamford Endowed Schools, and teacher of Geography at Blundell's School. Prior to that Simon worked with BP Oil on their Graduate Management program. He was born and studied in Scotland and then studied Geography at Pembroke College at Cambridge University.

Simon Mills said of his appointment, *"I am delighted to have been selected to lead Haileybury Almaty forward in the next stage of its educational journey and happy to join parents, pupils and staff. High quality education represents the key to unlocking human potential and this is what motivates me as a teacher and a Headteacher."*



New Headmaster of Haileybury Astana – John Coles

The Board of Haileybury Schools has appointed John Coles to the position of Headmaster of Haileybury Astana as of September 2020. He has been engaged in education for 24 years, having previously worked at three leading independent schools within the UK before moving with his family to Kazakhstan. He has a strong connection with the Haileybury Group, having worked at Haileybury U.K. for 9 years. During his career he has gained considerable Senior Leader experience, most recently leading the Haileybury School in Almaty.

Due to his work in developing Digital Learners he has regularly presented at Education conferences such as BETTS, has also lectured, and coached future Middle and Senior Leaders in conjunction with UCL and the Institution of Education.

The Board felt that the combination of this experience, and his knowledge of Kazakhstan made him the outstanding candidate for the role. Mr Coles has committed to an initial five-year contract, thus allowing Haileybury to undergo a period of stability and development following the excellent work the previous Headmasters have achieved.

John Coles said of his appointment, *"Since I arrived in Nur-Sultan, earlier this month, my family and I have been marvelling at the amazing buildings and have visited many locations as we have started to get to know and enjoy such a beautiful city. Although we are not new to living in Kazakhstan, we very much look forward to learning more about this area of the country, and of course meeting parents and getting to know more of the Haileybury Community".*



Visa, Astana International Financial Center and AIFC's Fintech Hub Launch Educational Program for Entrepreneurs in Kazakhstan

Together with the *Fintech Hub* of the *Astana Financial Center (AIFC)* and the AIFC, supported by *Kazakhstan's Ministry of Trade and Integration*, Visa announces the launch of an educational program for entrepreneurs, *#WhereYouShopMatters*. Other partners of the program are *Atameken* and the *Kazantsev Group Center for Assistance to Entrepreneurs*. The program is part of Visa's *#WhereYouShopMatters* global initiative, which aims to champion and enable entrepreneurs around the world and encourage consumers to support local micro, small and medium-sized businesses (SMEs).

SMEs are one of the most affected sectors of the economy due to COVID-19 shocks. The pandemic and quarantine have had a major impact on business development and consumer experience around the world, including in Kazakhstan. It is very important that business owners not only understand changes in consumer behavior, but also quickly adapt to conditions by introducing e-commerce tools and digital payment solutions.

The educational program within the global *#WhereYouShopMatters* initiative will allow Kazakhstani entrepreneurs to find out which tools, solutions and skills are needed to drive business in the new reality. The program's relevance is also confirmed by the results of a survey among SME's from 7 cities in Kazakhstan, conducted by FusionLab. 32% of respondents noted interest in the topic *"How to develop a business online when everything is bad offline"*; 30.9% would like to gain knowledge on the topic *"How to turn a crisis into an opportunity: effective work in conditions of uncertainty"*; and 27.5% were interested in *"Attracting additional funding"*. This was taken into account in designing the program.

The program consists of two blocks, including 7 modules and 27 video lessons. During training, SMEs will learn how to shift their business online and where to start, how to accept payments on a website and using e-wallets, how online accounting and taxation for e-commerce works, and much more. Online education for Kazakhstani entrepreneurs is free of charge; registration can take place at <https://fintech.atameken.co/signIn>.



U.S. Chamber of Commerce Launches U.S.- Kazakhstan Business Council

The U.S. Chamber of Commerce has announced the launch of the *U.S.- Kazakhstan Business Council (USKZBC)* with the goal of advancing economic and commercial cooperation between the United States and Kazakhstan. Trade between the United States and Kazakhstan stands at approximately \$2 billion per year, with ample room for growth in sectors such as agriculture, energy, mining, and infrastructure. The Council will carry on the mission of the former *U.S.-Kazakhstan Business Association (USKZBA)* through an enhanced business and policy platform.

"The U.S. Chamber is delighted to help expand U.S.-Kazakhstan commercial engagement. With the members of the Council, we will focus on supporting initiatives and needed reforms that will contribute to the economic pillar of the U.S. strategy for Central Asia. Building on existing corporate in engagement in Kazakhstan, we are excited to now play an active role in the bilateral relationship as the two countries prepare to celebrate the 30th year of diplomatic relations,"

Myron Brilliant, Executive Vice President and Head, International Affairs, U.S. Chamber of Commerce.

Chevron, the largest investor in Kazakhstan, has been named Corporate Chair of the Council and will help advance the business community relationship in the country, which is home to more than 700 U.S. companies.

"The integration of the U.S.- Kazakhstan Business Association into the U.S. Chamber will provide the business community with the necessary tools to grow this important relationship"

Nigel Hearne, President, Chevron's Eurasia Pacific Region.

The Council will be housed within the U.S. Chamber of Commerce Middle East, Turkey and Central Asia Affairs Department, headquartered in Washington, and led by Senior Vice President Khush Choksy.

HeidelbergCement 15 Years of Success in the Kazakhstan Market

HeidelbergCement is one of the leading global producers of construction materials operating in Kazakhstan since 2005, when it joined Bukhtarma Cement Company, one of Kazakhstan's largest cement plants. HeidelbergCement is continuously expanding its footprint in Kazakhstan. In addition to Bukhtarma Cement Company, CaspiCement and Shymkentcement belong to HeidelbergCement Group. The company also has a network of cement terminals throughout the country.

HeidelbergCement is a customer-focused business that not only offers high-quality products, but also provides a high level of customer service. Through investment in production facilities, introduction of new technologies, and adoption of European standards, HeidelbergCement seeks to fully meet the high requirements of Kazakhstani consumers. The Company offers a wide range of products, featuring not only standard, but also specialized, high-quality cement types in full accordance with current international standards.

The success of HeidelbergCement in Kazakhstan is based on providing consumers with a high-quality, stable products, speedy delivery, and the best service.

The Company is a member of the *Global Sustainable Development Professional Board*. Sustainable development rests on three pillars: economic development, social welfare, and environmental protection. HeidelbergCement views each part of the three pillars strategy as critical to its future success. The Company contributes significantly to improving Kazakhstan's living standards, abides by the country's laws, and is actively involved in social and cultural campaigns, both on the local and regional scale.



**Locally produced cement
from world-wide
HeidelbergCement brand**

ALMATY

050004
Zhybek Zholy ave., 76

Tel.: +7 (727) 258 44 55
e-mail: sales@heidelbergcement.kz

WWW.CEM.KZ



AMCHAM ADVOCACY UPDATE

JUNE – OCTOBER 2020

The Council to Improve the Investment Climate – October

Since March 2020 when the Covid-19 pandemic was officially confirmed and Kazakhstan announced a nation-wide quarantine, followed by outbreaks of the coronavirus that engulfed the country's population and the Government, it has been difficult for AmCham to conduct advocacy with the regularity of the past ten years. The June session of the *Council To Improve the Investment Climate* was cancelled when the Prime Minister himself was quarantined due to the virus, and numerous other senior members of the Government, including Ministers and even President Nazarbayev, were either hospitalized or withdrew into quarantine at home.

Nonetheless, throughout July and August AmCham was in contact with *Prime Minister Mamin*, *National Economy Minister Ruslan Dalenov*, *Finance Minister Erulan Zhamaubayev*, and *State Revenue Chairman Marat Sultangaziyev*, scheduling meetings to provide input for the economic strategy the Government was developing over the summer.

The Prime Minister indicated he would be unable to meet until the autumn, but wished to resume the Council in October. The Ministers and SRC Chairman agreed to meet during the summer, but with constant rounds of Government planning sessions in progress, AmCham meeting dates were cancelled. However, AmCham communicated investor concerns and recommendations to the Ministers in writing.

AmCham thus looks forward to its first meeting in October after a lengthy hiatus as Kazakhstan struggled with Covid-19 and the Government debated an ambitious economic reform strategy that, if fully enacted, will entail significant social and legal reforms. The October Council session will have a slate of speakers from the diplomatic community, the OECD, and above all, from the AmCham membership to address the program in President Tokayev's September 1 *Address to the Nation*. The Government has stated its intention to attract further foreign investment, and the major question is to what extent does the recovery strategy correspond to this objective.

AmCham Annual Economic Policy Conference – Late October

Each year AmCham organizes a daylong Economic Policy Conference on an important topic relevant both to the foreign investment community and to the Government. The Conferences involve Cabinet Ministers and Ambassadors as Keynote Speakers to open the proceedings, followed by panels of experts from the AmCham membership and international financial institutions.

Conferences are well-attended by an engaged and participating audience, and are reported in the press and on government websites.

The topic for this year's Conference is *Food and Pharmaceutical Security: Planning for the Future*. Unfortunately, future health crises, epidemics, and pandemics may occur, and Kazakhstan must not be caught unprepared in the future. While food was abundant this year, Kazakhstan continues to rely on imported food to maintain the food supply chain. The need to develop agriculture to ensure the country's food security in the future can be achieved if the necessary conditions are created.



The problems in the pharmaceutical supply chain are complex and will be harder to resolve, although efforts to do this are underway. Kazakhstan's healthcare system needs reform, and pharmaceuticals, together with hospital equipment and protective items for medical staff treating Covid patients, were lacking. The foreign business and diplomatic community stepped up to support Kazakhstan's hospitals, pharmacies, and medical professionals, but the crisis presented significant challenges.

AmCham is designing the Conference with a strong lineup of speakers that will be delivered over several days on a virtual platform. Dates and further information will be available in October.

AmCham Economic Recovery Webinars – October/November

AmCham plans a series of webinars throughout the autumn and early winter to analyze and comment on the economic, legal, and social reforms announced in President Tokayev's September *Address to the Nation*.

Each webinar will focus on one area of reform as discussed by several AmCham members with expertise in this area. The webinars will examine both the specific reforms and their broader implications for the foreign investment community, as well as Kazakhstan's near-term and long-term economic recovery.

AMCHAM WORKING GROUP UPDATES

MAY – JULY 2020

The twenty AmCham Working Groups resumed meeting at the end of May and continued into July on a new virtual platform that merged the Groups addressing identical topics in the five cities where the Groups have met individually since the Groups were formed. The original structure enabled each Working Group to focus on issues prioritized in each city. Thus each Group had its own 'character' in Almaty, Nur-Sultan, Atyrau, Aktau, and Shymkent. The new virtual structure for the Groups has opened up contact between the individual cities and their issues as each Group now meets jointly under a single Chairperson.

The following Updates cover each of the joint virtual Working Group meetings between May-July. Meetings will resume in virtual mode in September.

Almaty Healthcare Reform Working Group – May 20

The Almaty Healthcare Reform Working Group co-chaired by *Ksenia Babushkina, EY Partner and Head of Advisory Practice*, and *Andrei Yorsh, Baker & McKenzie Partner and Intellectual Property specialist* met on May 20.

Andrei Yorsh reported on President Tokayev's support for introduction of a nation-wide digital system for patients' medical records and the Majilis' recent approval for vaccinations that will be divided into voluntary and mandatory vaccinations for schoolchildren. The Majilis has also equated electronic cigarettes and hookahs with traditional cigarettes and increased the minimal age for sale of tobacco products from 18 to 21 years. The Health Ministry's new Health Code was approved by the Majilis and sent to the Senate for consideration. If the Code is adopted in its current version and signed by the President, it will enter into force on January 1, 2021.

Ksenia Babushkina spoke about COVID-19, stressing Kazakhstan's lack of preparation to combat and contain the pandemic. The Kazakhstan healthcare and medical system is weak and in need of fundamental reform to ensure quality healthcare for the country's population, particularly in the regions. Healthcare reform has become a priority to address the current stage of the pandemic and a possible COVID-19 second wave.

Localization of the production of pharmaceuticals and medical devices was the final topic under discussion. COVID-19 demands for medicines and hospital equipment reveal the limitations and risks in the supply chain that relies on medical supplies from abroad. Kazakhstan's domestic pharmaceutical and medical industry must address the supply of priority medicines, protective clothing for medical workers, and hospital equipment to ensure the country's medical security.

Almaty/ Nur-Sultan Tax Working Group – June 2

The Almaty/ Nur-Sultan Tax Working Groups chaired by *Anthony Mahon, Deloitte Tax and Legal Partner*, met on June 2 in a joint virtual format.

Igor Kolupayev, a Baker & McKenzie Advisor, addressed COVID-related tax breaks, presenting an overview of tax changes and the coronavirus impact on the business environment. SMEs have a deferral of their tax and social payments to June 1 and property taxes applied in tourism, public catering, and hotels, malls, cinemas, sports and fitness facilities have been adjusted to 'O' to the end of 2020. Up to the end of the year individual income tax will not be required for individual entrepreneurs engaged in their usual business. All tax penalties are suspended until August 15, 2020 and the deadline for tax returns has been postponed to the 3rd quarter of 2020.

Deloitte Tax and Legal Manager Karina Kalimzhanova delivered a presentation on changes in the Tax Code under consideration in the Majilis. Main points were defining "royalty" and "bonuses", as well as classification of fixed assets and international taxation, which lack a common interpretation by tax officials and taxpayers. Other potential Tax Code changes include introduction of a universal tax declaration, a lower threshold for VAT registration, and a change in the statute of limitations.

A unique topic on robots, namely RPA (robotic process automatization) in business processes was also discussed. The robots are intended to perform repetitive actions – create and fill out templates or transfer information from one platform to another - to reduce time for staff workers, excluding human factors that may lead to mistakes. The robots might also be able to assist in creating documents without involving lawyers.

Atyrau/ Aktau/ Shymkent Tax Working Group – June 3

The Atyrau/ Aktau/ Shymkent Tax Working Groups chaired by *Anthony Mahon, Deloitte Tax and Legal Partner* met on June 3. The Agenda for the June 3 Tax Working Group was identical to the Agenda for the June 2 Working Groups in Almaty and Nur-Sultan.

Human Resources Working Group – June 26

The first joint meeting of the four Human Resources Working Groups (Almaty, Nur-Sultan, Atyrau, Aktau) was chaired by its new Chairperson, *Maxim Gubashev, General Director and CIS Commercial and Finance Controller, Fircroft Group*, based in Atyrau, on June 26.

The meeting discussed HR issues related to the COVID pandemic. A major concern was the expatriate managers and executives who had left Kazakhstan during the pandemic and, due to the country's border lockdown, could not return to Kazakhstan to resume their work. This was preventing companies and their staff from conducting their work.

Almaty/ Nur-Sultan Foreign Investment Working Group – July 3

The joint Foreign Investment Working Groups (Almaty/ Nur-Sultan) met under their new Chairman, *Juan Carlos Escobar, Managing Director for Philip Morris International in Kazakhstan & Central Asia*, on July 3.

Rustem Sadykov, KPMG Tax and Legal Partner, delivered a presentation on challenges to economic recovery during and after the pandemic with special focus on potential tax changes, mainly VAT and CIT increases. Changes in tax rates had already been introduced, namely in VAT, for which the rate was reduced to 8% on sale and import of goods deemed 'socially important' up to October 1. 0% VAT had also been set on inland air transportation services. A proposal to introduce progressive personal income tax, still at the very early discussion stage, was also discussed.

The government was also considering an increase in VAT to 16% (currently VAT is 12%) and CIT - to 24% (currently CIT is 20%) in order to support Kazakhstan's economic recovery later on. There is considerable concern in the business community that increases of this nature will worsen the country's already difficult economic situation. According to *First Deputy Prime Minister Alikhan Smailov*, decisions on VAT and CIT increases would be announced in August.

Trade and Customs Working Groups – July 23

A joint meeting of the four Trade and Customs Working Groups (Almaty/ Nur-Sultan/ Atyrau/ Aktau) was chaired by *Globalink Logistics President Siddique Khan* on July 23.

The Chairman updated the Group on issues raised at previous meetings in 2019: customs inspections, inclusion of royalties into customs value, and virtual warehouse/ SNT.

Customs Inspections: The most frequently audited points during customs inspections are customs value (conditional prices, corrections, proofing process), HS codes, and classification of goods. The most important update was the new statute of limitations for customs claims (cumulative) after January 1, 2020, which is calculated as date of Customs Declaration + 3 years and audit + 3 years.

Royalties Inclusion into Customs Value: Royalties are included in customs value of imported goods, thus directly affecting customs duties and entailing the risk of declaration corrections and additional payments. Royalties can be included in the import contract or a separate license agreement. The license agreement clearly states that sale (import) of goods is not allowed without payment of royalties.

Almaty/ Atyrau Corporate Social Responsibility (CSR) Working Group – July 29

A joint meeting of the CSR Working Group (Almaty/ Atyrau) met under by new Chair *Thomas Jose, Beiersdorf Eurasia General Director* on July 29.

Taking Beiersdorf as a case study in CSR initiatives, Thomas Jose listed Beiersdorf CSR support for the worldwide struggle against the COVID pandemic, with reference to Kazakhstan.

With reference to Eurasia, Beiersdorf was supporting the medical staff in the five Central Asian countries with Universal Nivea cream and PPE clinical garb to protect medical staff at work in hospitals and clinics, as well as working together with the Red Crescent and Small Supermarkets to support low-income elderly in need of financial assistance (*Basket of Care* project).



Technology and Innovation Working Group – July 31

The Almaty Technology and Innovation Working Group chaired by *Microsoft Country Director Tibor Kolejak* met on July 31.

Claudia Petre, Microsoft HR Manager for the Baltics and CIS, delivered a presentation on "Building a Digital Collaboration Ecosystem for Your Employees" focused on the experience of the Microsoft team in working remotely. In many cases, process and productivity slowed down as staff working from were less engaged than when working as a team in the office. The Microsoft corporate culture ensures that managers introduce staff to the distance work culture, supervising and inspiring them remotely.

NEW MEMBER PROFILES



Johnson & Johnson

CORPORATE A

Adilet Nazarbayev
CIS Cluster Lead
42 Timiryazev Street, Pavilion 23
Almaty, Kazakhstan

Telephone: 7 (727) 356 88 11
E-mail: rblatov@its.jnj.com
Website: www.jnj.com

For more than 130 years, Johnson & Johnson (J&J) has aimed to keep people well at every stage of life. As the world's largest and most broadly based healthcare company, J&J aims to improve access and affordability, create healthier communities, and put a healthy mind, body and environment within reach of everyone, everywhere.

J&J established a branch office in Kazakhstan in 2012 that covers the entire Central Asia region. The office promotes Janssen medicines and consumer healthcare products, as well as researching the medical devices markets. The company operates in three broad divisions:

- **Consumer Health** - the J&J iconic skin health, self-care, and essential health brands help people live healthier lives every day.
- **Medical Devices** - as pioneers in medical devices, J&J focuses on expanding patient access, improving outcomes, and reducing health system costs.
- **J&J and Janssen Pharmaceuticals** address today's most devastating, complex diseases. With advanced biologic and other treatments, Janssen is changing the way diseases are prevented, intercepted, treated, and cured.



BASF

CORPORATE A

Saule Baitzhaunova
Managing Director
211A Rayimbek Avenue
Almaty, Kazakhstan

Telephone: 7 (727) 222 12 88
Email: sabina.ainazarova@basf.com
Website: www.basf.kz

BASF was founded in 1865 in Baden and is today the world's largest chemical company. The BASF Group employs more than 117,000 employees in almost every country in the world. In 2019 the company generated sales of Euros 59 billion. The BASF portfolio is organized into six segments: chemicals, materials, industrial solutions, surface technologies, nutrition and care, and agricultural solutions.

BASF has been operating in Central Asia for over 25 years, during which time BASF Central Asia has earned a reputation as a strong partner and socially responsible company providing innovative solutions and high-quality materials for a sustainable future. Central Asia headquarters are located in Almaty and serve as a regional center for Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Key industries served in Central Asia are agriculture, oil and gas, mining, and performance materials.



Discovery

CORPORATE A

Victoria Davies
General Manager

Discovery House
566 Chiswick High Road
London W45YB, United Kingdom

Telephone: +44 20 8811 3000
Email: ekaterina_mihajlovic@discovery.com
Website: www.corporate.discovery.com

Discovery (formerly **Discovery Communications**) is an American mass media company founded in 1985 based in New York City. Discovery has an annual revenue of \$11.1 billion and employs approximately 9,000 employees worldwide. It is listed on the S&P 500 and is traded on NASDAQ.

With over 8,000 hours of programming each year and a viewership of 2.8 billion subscribers worldwide across 220 countries and in 50 languages, Discovery's international popularity is well-known through its channels, which include the *Discovery Channel*, *Animal Planet*, *Science Channel*, *TLC*, *Food Network*, *HGTV*, and the *Travel Channel*.

Discovery has three major regional operations outside North America: Asia Pacific; Europe, the Middle East, and Africa (EMEA); and Latin America. It also has regional headquarters in Miami, London, Milan, Singapore, Amsterdam, and Warsaw.



NEW MEMBER PROFILES

Quehenberger

logistics ■■■■■■■■■■

Quehenberger Logistics

CORPORATE A

Kirill Chibrikin
CEO
11- B Lane Degtyarny
St. Petersburg, Russia

Ilyas Mamyshev
Country Manager
20 Benberin Street
Almaty, Kazakhstan

Telephone: 7 (705) 30 16 190
Email: kirill.chibrikin@quehenberger.ru
ilyas.mamyshev@quehenberger.kz
Website: www.quehenberger.com

Quehenberger Logistics is an Austrian logistics company based outside of Salzburg with operations in 18 countries across Central and Eastern Europe and Scandinavia. Global staff number 2,900. The company has 10 offices in Russia, 5 offices in Ukraine, and 3 offices in Belarus. It opened its Kazakhstan office in Almaty in March 2018 and plans to open a second office in Nur-Sultan in 2021.

The company began operating in 2010. It provides transport by road (400 trucks), railway, air and sea with customs clearance at borders and warehousing services and customized industry solutions. Major industries served are retail, fashion, consumer goods (FMCG), automotive and tyres.

WEATHERLY AIRCRAFT COMPANY

Weatherly Aircraft

CORPORATE B

Gary Beck
General Manager
Amsterdam, the Netherlands

Kahramon Asronov
Head of Representative Office
7 E-30 Street, 2nd Floor, Office 7
Nur-Sultan, Kazakhstan

Telephone: 7 (776) 529 79 00
Email: kahramon@flyweatherly.com
Website: www.flyweatherly.com

Weatherly Aircraft has been an American manufacturer of agricultural aircraft since 1976. The company's aircraft are approved for import and operation in Kazakhstan and 11 other agricultural countries. Weatherly aims to build a distribution system of independent aircraft dealers.

Weatherly aircraft are optimized for wheat and other grains, providing the most productive (ha/hr) and most cost-efficient (KZT/ha) agrochemical sprayer by comparison with any other farm equipment, with or without wings. The aircraft can increase crop yield and profits more than any other agrochemical equipment and can replace existing An-2 aircraft to double productivity.

Weatherly provides comprehensive support for Kazakh ag-aircraft owners and operators, including:

- Complete aircraft technical services, maintenance, and spare parts
- Training of ag-pilots, technicians, and business services
- Aircraft purchase-financing on competitive terms.

MURATOV

PARTNERS

Muratov Partners

CORPORATE B

Almurat Muratov
Managing Partner

17/1 Al -Farabi Avenue
Block 5B, 12th Floor, Office 17
Almaty, Kazakhstan

Telephone: 7 (727) 277 76 00
Email: info@muratov.kz
Website: www.muratov.kz

Muratov Partners is a law firm with considerable experience and well-established principles of legal practice operating since 2014. Today Muratov Partners provides a wide range of legal services and is skillful in supporting business activities.

Qualified lawyers advise on domestic and cross-border corporate, capital markets, finance, M&A, bankruptcy and rehabilitation procedures, licensing, tax matters, and commercial mediation as well as litigation and arbitration.

Muratov Partners has a deep knowledge of Kazakhstan's investment environment and investment issues across all industry sectors. The firm successfully advises on complex transactions and high-profile matters involving major local and international companies.

Excellent qualifications and responsibility are the key principles guiding the work of Muratov Partners.



Close to your business.

Quehenberger
logistics ■■■■■■■■■■



Good vibes for you.
Simply because logistics is our passion.

Cumulative spend 2004-2019

718 MILLION US\$

Social programs

14.8 BILLION US\$

Local Content



COVID-19

STAY AT HOME
STAY SAFE