Kazakhstan investment attractiveness
Ernst & Young’s investor opinion survey
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Welcome

This survey is based on the perception of the investment attractiveness of Kazakhstan as seen by a representative panel of 204 existing and prospective investors. For these purposes, we define investment attractiveness as a combination of investors’ confidence in Kazakhstan as a location for their businesses and their perception of the country’s ability to compete for foreign direct investment (FDI).

In July and August 2010, we interviewed 41 foreign investors in Kazakhstan and a further 163 outside of the country. We also surveyed a panel of independent experts (non-investors) for their insights and opinions, which provided additional commentary around what our findings meant for businesses and investors. The actual statistics, however, are derived purely from the responses of existing or prospective investors.

We would like to thank the investors and independent experts who have taken the time to share their thoughts with us; without their cooperation, this report could not have been produced. We hope the report will make a positive contribution to the further development of Kazakhstan’s investment climate, building a vibrant and well-diversified economy.

Ernst & Young performed this survey as a part of our commitment to Investment Image Enhancement working group of the Foreign Investors’ Council (FIC) chaired by the President of the Republic of Kazakhstan. The mission of the FIC is to improve the investment climate in Kazakhstan for the benefit of foreign investors as well as local and national companies.
When choosing a location in which to invest, each country and region tends to offer certain advantages that make them more attractive to certain types of investors or investment projects. Over the last two decades, Kazakhstan has delivered a strong economic performance in a number of sectors; however, its full potential is yet to be achieved. The country is committed to regional and international cooperation and aims to become one of the top 50 most competitive economies in the world. It has a proven history as an attractive location for FDI, generating more than US$108 billion through FDI since 1993.1

Despite Kazakhstan’s economy experiencing a substantial slowdown in growth as a result of world economic and financial crises, it managed to reach positive GDP growth of 1.2% in 2009. The Government also managed to keep unemployment relatively low; in 2009, it announced large-scale support measures such as the recapitalization of banks, support for the real estate and agriculture sectors, as well as SMEs.

According to the World Bank’s Ease of Doing Business Index,2 Kazakhstan moved up 15 places in 2010, compared with 2009. It currently ranks 59th among 183 economies. The report noted that the most significant progress was achieved in such areas as improved conditions for starting a business (up 38 places), paying taxes (up 14 places), investor protection (up 13 places), and dealing with construction permits (up 9 places). Our survey highlighted the following areas that would benefit from further reform and enhance Kazakhstan’s attractiveness as a location for FDI:

- Improved transparency and more efficient administration of the legal and regulatory environment
- Adopting a consultative approach with stakeholders when developing new legislation
- Greater flexibility in the labor market
- Improved infrastructure, particularly, in transportation and internet access
- Better incentives to attract foreign investors and to encourage partnering of foreign and local investors to help them move up the value chain
- Stronger financial system and better corporate governance
- Reduced bureaucracy

The following points summarize the key findings of our survey:

- 81% of existing investors believe investing in Kazakhstan was the right decision, and 76% regard their investments as successful.
- Investors who believe the investment climate has improved in the last three years outnumbered those who think it has deteriorated by almost double (56% of respondents reported no change).
- 32% of respondents consider Kazakhstan to be among the top three most attractive destinations for FDI in the Commonwealth of Independent States (CIS).
- Respondents were divided equally in their views on the attractiveness of the corporate tax environment.
- 53% of respondents felt that Kazakhstan’s legal and regulatory systems were unattractive in terms of transparency and stability, while 14% thought they were attractive.
- Respondents reported specific obstacles to investment including: lack of infrastructure (19%); administrative complexity (16%); political outlook (8%); and corruption (7%).
- 31% of respondents believe that the investment attractiveness of Kazakhstan is likely to improve over the next three years.

1 According to the National Bank of Kazakhstan
The Government understands the importance of maintaining momentum in its reform of the business environment. It has initiated the Development strategy 2020 program, which focuses on building a diversified and sustainable economy, including a five-year Accelerated industrial and innovative development program 2010–14 and an industrialization map. These initiatives set out the Government's targets and key performance indicators for productivity and efficiency for every major industry, as well as attracting more FDI and increasing Kazakhstan’s national competitiveness. The key challenge for Kazakhstan is to deliver on these very positive policy aspirations in the day-to-day operations of investors with the various government agencies.

Table 1: World Bank’s Ease of Doing Business ranking:

<table>
<thead>
<tr>
<th>Kazakhstan's ranking</th>
<th>2011</th>
<th>2010</th>
<th>Change in rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing business rank</td>
<td>59</td>
<td>74</td>
<td>+15 ▲</td>
</tr>
<tr>
<td>Starting a business</td>
<td>47</td>
<td>85</td>
<td>+38 ▲</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>147</td>
<td>156</td>
<td>+9 ▲</td>
</tr>
<tr>
<td>Registering property</td>
<td>28</td>
<td>29</td>
<td>+1 ▲</td>
</tr>
<tr>
<td>Getting credit</td>
<td>72</td>
<td>69</td>
<td>−3 ▼</td>
</tr>
<tr>
<td>Protecting investors</td>
<td>44</td>
<td>57</td>
<td>+13 ▲</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>39</td>
<td>53</td>
<td>+14 ▲</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>181</td>
<td>182</td>
<td>+1 ▲</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>36</td>
<td>36</td>
<td>no change</td>
</tr>
<tr>
<td>Closing a business</td>
<td>48</td>
<td>54</td>
<td>+6 ▲</td>
</tr>
</tbody>
</table>

Source: the World Bank, Ease of Doing Business ranking 2011 vs. 2010
International competition

The global downturn that followed the financial crisis of 2008 provoked a worldwide decline in FDI, which fell by 39% in 2009. In 2009, global FDI was recorded at US$1.114 trillion, of which Kazakhstan accounted for 1.14%.

The following table sets out FDI in selected transition economy countries.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>239.4</td>
<td>453.2</td>
<td>660.7</td>
<td>1,132.4</td>
<td>71%</td>
<td>837.6</td>
<td>-26%</td>
<td>3,323.2</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>1,679.9</td>
<td>-584.0</td>
<td>-4,748.9</td>
<td>14.1</td>
<td>100%</td>
<td>473.3</td>
<td>3,257%</td>
<td>-3,165.6</td>
</tr>
<tr>
<td>Belarus</td>
<td>304.6</td>
<td>353.7</td>
<td>1,785.2</td>
<td>2,158.0</td>
<td>21%</td>
<td>1,862.5</td>
<td>-14%</td>
<td>6,464.0</td>
</tr>
<tr>
<td>Georgia</td>
<td>452.8</td>
<td>1,170.1</td>
<td>1,750.2</td>
<td>1,564.0</td>
<td>-11%</td>
<td>763.7</td>
<td>-51%</td>
<td>5,700.8</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1,982.0</td>
<td>6,360.0</td>
<td>11,096.0</td>
<td>15,775.0</td>
<td>42%</td>
<td>12,649.0</td>
<td>-20%</td>
<td>47,862.0</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>42.6</td>
<td>182.0</td>
<td>208.1</td>
<td>265.2</td>
<td>27%</td>
<td>59.7</td>
<td>-77%</td>
<td>757.6</td>
</tr>
<tr>
<td>Moldova</td>
<td>190.7</td>
<td>233.2</td>
<td>539.3</td>
<td>707.6</td>
<td>31%</td>
<td>86.4</td>
<td>-88%</td>
<td>1,757.2</td>
</tr>
<tr>
<td>Russia</td>
<td>12,885.8</td>
<td>29,701.4</td>
<td>55,073.2</td>
<td>75,461.4</td>
<td>37%</td>
<td>38,722.4</td>
<td>-49%</td>
<td>211,844.3</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>54.5</td>
<td>338.6</td>
<td>360.0</td>
<td>375.8</td>
<td>4%</td>
<td>7.6</td>
<td>-98%</td>
<td>1,136.5</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>418.2</td>
<td>730.9</td>
<td>804.0</td>
<td>820.0</td>
<td>2%</td>
<td>1,355.0</td>
<td>65%</td>
<td>4,128.1</td>
</tr>
<tr>
<td>Ukraine</td>
<td>7,808.0</td>
<td>5,604.0</td>
<td>9,891.0</td>
<td>10,913.0</td>
<td>10%</td>
<td>4,816.0</td>
<td>-56%</td>
<td>39,032.0</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>191.6</td>
<td>173.8</td>
<td>705.2</td>
<td>711.3</td>
<td>1%</td>
<td>750.0</td>
<td>5%</td>
<td>2,531.9</td>
</tr>
</tbody>
</table>

Source: UNCTAD, January 2010

Kazakhstan was rated in the top three most attractive CIS investment locations by 32% of respondents (both in and outside of Kazakhstan) and the most attractive CIS investment location for 88% of investors surveyed in Kazakhstan.

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4 UNCTAD FDI data for Kazakhstan differs from the National Bank of Kazakhstan’s FDI data due to a difference in FDI calculation methodology.
Regional attractiveness

Kazakhstan was rated in the top three most attractive CIS investment locations by 32% of respondents (both in and outside of Kazakhstan) and the most attractive CIS investment location for 88% of investors surveyed in Kazakhstan.

Kazakhstan has demonstrated strong performance in attracting FDI, particularly, in extractive industries. But if the Government is to achieve its ambitious plans to diversify the economy, it will need to attract FDI that brings with it not only financial transfers, but also transfers of knowledge, high-tech equipment and opportunities for human capital development.

For internationally mobile investors, location decisions depend primarily on the stability, transparency and predictability of the business environment, proximity to markets, efficient access to infrastructure and labor skills. Industry-specific policies are becoming increasingly important in responding to these key requirements of the business community.

The assessment of country-specific investment attractiveness depends largely on the industry sector. For industries that rely on the consumer market, Russia is frequently the first choice given the size of its consumer base. However, compared with Russia, Kazakhstan is regarded as being more advanced in its adoption of best international practices. Also, despite the larger consumer base of some of its neighbors like the Ukraine, Kazakhstan is perceived as more attractive for new entrants in some sectors, e.g., the services sector, because it offers significant untapped opportunities.

Its border with China offers prospective investors an opportunity to supply natural resources to China. For other investors in manufacturing, for example, China’s proximity may be more of a threat than an opportunity, given China’s current levels of productivity and cost-efficiency. However, for many investors, not only in manufacturing and natural resources, but also in financial services, the proximity to fast growing markets of Russia, China and other parts of Asia are viewed as a real opportunity. In order for Kazakhstan to fully realize its potential outside of the extractive industries, its geographical advantages need to be complemented by ongoing efforts to enhance the investment climate.
Kazakhstan attractiveness profile

Is Kazakhstan the right investment destination?

Investors success

Existing investors in Kazakhstan are, to a large extent, satisfied with their investment decisions; many of them find the business environment “challenging but rewarding.” Some respondents indicated that Kazakhstan is identified as a strategic growth market on their global corporate planning map.

When asked, “if you had a chance to reconsider your investment in Kazakhstan, would you still decide to invest in Kazakhstan,” 81% of investors responded positively.

Graph 2: Kazakhstan – the right decision for existing investors?

Existing investors assess their success in achieving business objectives in Kazakhstan as follows:

Graph 3: Success of existing investors in Kazakhstan

When asked, “if you had a chance to reconsider your investment in Kazakhstan, would you still decide to invest in Kazakhstan,” 81% of investors responded positively.

The majority of respondents who assessed their investments in Kazakhstan as unsuccessful or neutral attributed this to the global downturn.

Some of those who responded positively indicated that, although they would invest in Kazakhstan again, they would do certain things differently. For instance, they would choose a different location for their production plant, or they would consider a different local partner, or would have done more thorough due diligence before entering the market.

Source: Ernst & Young’s 2010 Kazakhstan investment attractiveness survey. Total respondents: 41 (existing investors only).
Current and prospective investors assessed their investment plans over the next year in Kazakhstan as follows:

**Graph 4:** Investment plans over the next three years

- **72%** New investment
- **<1 consortia** No new investment plan/keep the same level of operations
- **1%** Close operations in Kazakhstan
- **1% consortia** Relocate operations to another country
- **1% consortia** Cannot assess

Twenty-one percent of respondents said they are planning new investments. Most of this relates to the expansion of existing facilities, but 17% of existing investors are planning greenfield investments. Some investors felt that, given the stage of regulatory development in Kazakhstan, they had sufficient exposure to the country relative to their other emerging market investments. However, they would be willing to reassess their priorities if further reforms were introduced.

Existing foreign investors were divided over the perceived fairness of their treatment compared with local investors working in the same industry – 39% of foreign investors felt they were not disadvantaged, 34% felt they were disadvantaged and 19% believed they were treated equally.

**Graph 5:** Treatment of existing investors

- **15%** At major advantage
- **5%** At advantage
- **27%** At disadvantage
- **19%** At major disadvantage
- **19%** Treated equally
- **2%** Cannot assess

**Reasons investors felt they were treated at a disadvantage:**
- Lack of knowledge of Kazakh business culture
- Preferential treatment of local vendors versus foreign investors in the state procurement system

**Reasons investors were unable to assess the fairness of their treatment:**
Some investors had offsetting advantages and disadvantages; for example, they may have the advantage of higher quality of products (when compared with local vendors) and a higher degree of compliance with international standards. However, they may be at a disadvantage in understanding the specifics of the local market and assessing the actual costs of operating in the country.

A number of mid-sized investors indicated they did not feel their contribution to the local economy was given due recognition from the authorities. These investors believe they provide an employee-friendly environment, invest in people development, comply with corporate rules in terms of transparency, accountability and ecological requirements, to standards which may be higher than those required by Kazakhstan legislation and those applied by local businesses. Yet they felt this was not given due recognition by their Kazakh hosts. Nevertheless, the same respondents acknowledged that the quality of their products, knowledge and expertise, financing capacities and sustainability were given due recognition.
Business environment

Graph 6: Business environment factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Attractive, 1+2</th>
<th>Not attractive, 3+4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor cost</td>
<td>18%</td>
<td>52%</td>
</tr>
<tr>
<td>Potential productivity increase for your company</td>
<td>12%</td>
<td>48%</td>
</tr>
<tr>
<td>Political and social stability in the country</td>
<td>13%</td>
<td>41%</td>
</tr>
<tr>
<td>Size of the domestic market</td>
<td>8%</td>
<td>92%</td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>6%</td>
<td>94%</td>
</tr>
<tr>
<td>Quality of life</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Local labor skills level</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>International trade regulations</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Transport and logistic infrastructure</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>Telecommunication infrastructure</td>
<td>7%</td>
<td>93%</td>
</tr>
<tr>
<td>Environmental laws and regulations</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>Flexibility of labor regulations</td>
<td>5%</td>
<td>95%</td>
</tr>
<tr>
<td>R&amp;D availability and quality</td>
<td>3%</td>
<td>97%</td>
</tr>
<tr>
<td>Transparency and stability of legal and regulatory environment</td>
<td>4%</td>
<td>96%</td>
</tr>
<tr>
<td>Intellectual property regulation</td>
<td>3%</td>
<td>97%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2010 Kazakhstan investment attractiveness survey. Total respondents: 204.

Transparency and stability of the legal and regulatory environment: significant progress has been made, but more reforms expected.

Kazakhstan’s progress in recent years in reforming its legal and regulatory environment is evident, though the investor community expects further reforms. In particular, 53% of respondents felt that the level of legal and regulatory transparency and stability remains unattractive. Reasons given included:

- Insufficient assessment of the future impact, when introducing new laws and regulations. The introduction of new laws and regulations often results in unrealistic expectations of the ability of the business community to comply, and uncertainties in applying the law.
- Inconsistency of application of the law. The rapid pace of legislative change leads to ambiguity in the interpretation and application of certain laws and regulations. The resulting uncertainty undermines investor confidence.

For example, a change of Akim (the Governor of the region) may result in a change in application of laws and regulations in the area concerned.

- Lack of business-like approach in some of the law enforcement agencies’ operations. Foreign investors fully understand that the work of the law enforcement agencies constitutes a necessary part of civil administration. However, investors have, in some instances, voiced concerns about the way in which inspections have been conducted.
Fifty-two percent of respondents indicated that the labor costs in Kazakhstan are attractive, while 28% of respondents felt it was not.
Thirty-seven percent of surveyed investors (83% surveyed in Kazakhstan; 26% surveyed outside of the country) indicated the level of political and social stability as high.

(including flexible dismissal procedures for incompetent workers) to ensure regulations comply with market trends among Kazakhstan’s competitors and meet the requirement of employers to increase productivity:

- Labor regulations are perceived as overly protective of employees, lacking a balance between employees’ and employers’ rights.
- The system of classification of labor resources does not meet market needs. However, the job classification system is currently being updated to meet the requirements of the market.

The issue of work permits is critical to ensuring human capital development and sufficient qualified foreign labor flows into the economy. Particular challenges include:

- Local candidates often appear to have the qualifications for a particular position, but, in reality, such candidates lack the actual skills and experience that the employer requires.
- The assessment of technical competencies for work permits is often performed by officials who lack the skills required for assessment of such competencies.
- The secondment concept is not recognized in labor legislation, but exists in tax legislation.

While the state’s strategy to reduce foreign personnel is understood, a gradual transition plan is needed as not every industry sector can find relevant qualified personnel readily available in the local market.

**Productivity: every third investor believes there is a potential to increase productivity**

The respondents to our survey were divided in their opinion on the potential for productivity increases for their company, with 37% believing there are opportunities to realize this potential.

In some sectors, the Kazakhstan economy still suffers from problems inherited from Soviet times; in particular, obsolescent technologies and equipment, and low productivity. Investment in modernizing such areas may be particularly productive. However, modernization of processes is likely to reduce the amount of labor required in existing production. In an expanding economy it should be possible to redeploy such labor to areas in which it can be used more productively, but this can only happen if the labor laws are flexible and the market for labor is efficient. Therefore, it is important to implement labor market reform. Priority should be given to developing a friendly environment for entrepreneurship and job creation, and investing in a skilled, adaptable and motivated labor force.

**Taxation: investors need sustainable tax planning**

Thirty-one percent of all respondents assess the corporate taxation system as attractive (68% of respondents surveyed in Kazakhstan; 21% of respondents outside of the country).

While tax rates are attractive, compliance costs are unreasonably high. Surveyed investors indicated tax audits are frequent and burdensome, and the resulting claims can be excessive. High compliance costs undermine the positive effect of low tax rates, as the real tax burden should be measured by the combination of tax rates and the cost of the tax administration system. Some investors felt the tax administration system to be unpredictable and lacking in technical objectivity; some felt that regulatory authorities gave disproportionate attention to certain companies when imposing fines and penalties. Form often prevails over substance, and the size of fines and penalties may be disproportionate to the amount of unpaid tax, or the nature of the error.

Transfer pricing raises particular concern. Kazakhstan holds a unique position compared with other countries with respect to transfer pricing: transfer pricing control applies to all cross-border transactions, regardless of whether the parties are related or not, and even to some domestic transactions.

**Political stability: a key factor in investor confidence**

Thirty-seven percent of surveyed investors (83% surveyed in Kazakhstan; 26% surveyed outside of the country) indicated the level of political and social stability as high.

The current political and social stability in the country is attributed primarily to President Nazarbayev who has built strong international relations, raised the country’s profile and gained international respect. Concerns were raised as to whether the country can ensure systemic political stability in the future.
The current Government is seen as strong, proactive and willing to exchange opinions with investors. Investors appreciate the Government's initiatives and efforts in building an investor-friendly environment. However, implementing these initiatives and transferring them into tangible results requires further work. There are numerous large-scale initiatives and it is essential to ensure that the benefits envisaged to ensue from these are delivered in practice. Reducing staff turnover at all levels of the Government would be particularly beneficial as it would allow time for individuals to take full ownership of their responsibilities both to develop initiatives and see them through to implementation.

Research and development (R&D): incentives needed

Only 14% of respondents find R&D availability and quality attractive. Investors indicated a demand for R&D, though some respondents stated that they do not use engineering and technical R&D in Kazakhstan due to lack of availability, the location, or lack of required quality. Therefore, they tend to use the services of R&D centers from neighboring Russia or other world-recognized providers.

Kazakhstan inherited a strong scientific base for sector-specific R&D, e.g., nuclear technology and biotechnology. For other industry sectors, scientific research needs to respond more directly to the practical needs of business, e.g., oil spills prevention, oil production technologies and non-ferrous smelting.

It is important to establish partnerships between private business, research centers and educational institutions, and to provide necessary state incentives in support of development of local R&D and R&D intensive FDI.

Size of the domestic market: more opportunities with the Customs Union

Thirty-two percent of the investors surveyed believe the size of the domestic market is attractive (46% of investors surveyed in Kazakhstan; 28% of investors surveyed outside of the country).

Following the Customs Union introduction in July 2010, the single market of Kazakhstan, Russia and Belarus contains 168 million people. Respondents are divided in their opinion as to whether the Customs Union is a threat or an opportunity for Kazakhstan. Some believe that the Customs Union does not favor Kazakhstan, as it will not be able to compete with Russian products in terms of quality. Others believe the Customs Union will open up more opportunities for local businesses and will positively affect the customs clearance system, making it more transparent and eliminating “grey” import schemes.

Moreover, some felt that the Customs Union would positively affect competition – the largest companies in Kazakhstan that are currently producing for the domestic market may now feel that they need to invest to improve quality and efficiency in order to compete both locally and abroad with the best producers in the other countries in the Union.

Infrastructure: further reforms expected

Twenty-five percent of respondents are satisfied with Kazakhstan's telecommunication infrastructure, while 46% are not satisfied with its level of development. Findings are similar for the transportation and logistics infrastructure: only 25% of respondents believe it is satisfactory while 48% believe it still needs significant improvement. The opinion of those respondents who are not satisfied with the current level of infrastructure is based on the following perceptions:

- Poor infrastructure in remote areas where production facilities are operating or planned to be launched
- The rail and road transportation network does not meet the needs of business
- Internet access throughout the country is not sufficient and internet speed is low
- High cost of internet use compared with quality

Quality of life: gap between two main cities and the rest of the country

Twenty-seven percent of respondents find the quality of life attractive while 45% believe significant improvement is still needed. Living standards in the largest cities in Kazakhstan (Astan and Almaty) have been steadily improving. However, there is a substantial gap between these two cities and the rest of Kazakhstan in terms of quality of life and access to social infrastructure.

The main challenges identified by respondents include:

- Access to qualified medical care and education
- Ecology and pollution
- Culture and entertainment
- Low consumer sophistication: consumer awareness in the Kazakhstan market is low. The service sector remains underdeveloped, and customer service standards need to be raised to match those of mature economies
- Lack of value for money: consumer education and consumer culture need to be enhanced to meet the demand for quality service from the general population
A stable environment is fundamental to investor confidence. At the same time, the Government needs predictability of tax revenue and compliance with obligations by investors. Over the past few years, the Government has focused more of its energies on its investment policies. However, respondents felt that there was still room for improvement in the balance between state interests and the economic interests of investors.

Graph 7:
Evolution of investment climate over the past three years

Perceived strengths and weaknesses

Perceived improvement

Twenty-seven percent of the investors surveyed believe that the investment climate has improved over recent years (39% surveyed in Kazakhstan and 23% surveyed outside the country). Their comments revolved around a number of topics:

Consistent reforms and willingness of the country’s leadership to engage in open dialogue with foreign investors:
- Government is committed to welcoming new FDIs and the policy of open communication with investors to establish constructive dialogue
- Large-scale programs are developing specific industries
- Government understands that Kazakhstan is competing for investment with other peer economies and that it needs to build a transparent and competitive market environment
- Efforts are being made to enhance the investment, business and regulatory environments to comply with the best international practices and country-specific needs
- The legislative base has become more structured
- Specific regulations (e.g., currency, customs) are being enhanced
- Structure and responsibilities of certain governmental bodies are more clearly defined
- The execution and compliance with regulatory deadlines has improved by government authorities
- Reduction in tax rates

Improved market environment:
- The Government is able to ensure macroeconomic stability during times of global economic and financial crises
- Government supports the export of products developed and produced locally by foreign investors
- The Customs Union brings extended market opportunities
- Standards of living are improving
- Access to vast natural resources
Perceived deterioration

Sixteen percent of respondents feel that the investment climate has deteriorated over recent years (44% of surveyed investors in Kazakhstan; 9% of surveyed investors outside of the country). Areas where there has been decline include:

**Legal, regulatory and business environment:**

- Administrative bureaucratic burden has increased, as has the level of government intervention in business processes and signs of growing nationalization.
- The inspections system is inconsistent with a market economy; the application of penalties for non-compliance with tax laws is disproportionate to the infringements.
- The rapid pace of legislative change does not allow the business community sufficient time to consider the impact of proposed changes on their interests and the interests of other stakeholders. As a result, both the state and the business community face challenges in the implementation and efficient application of new legislation.
- The removal of fiscal stability from petroleum contracts has sent a negative signal to investors.
- Some investors reported that they still had concerns about corruption (assessing whether such concerns are justified is beyond the scope of this survey. The point is that, justified or not, the answers to our survey showed that the concerns exist).
- Concerns about apparent tensions among influential groups and individuals.

**Labor regulations:**

- The lack of flexibility in the labor market makes it difficult for investors to bring in qualified foreign labor to support investment projects.
- Education and professional skills are a significant issue, with a critical lack of relevant skills.

**Macroeconomic environment:**

- The global downturn has affected Kazakhstan.
- The Tenge has been devalued.
- Restructuring of the banking sector has had a negative impact on potential new investors. Kazakhstan took a unique position in restructuring the banks and did not fully follow the “western” bailout model. Some investors expected that, if the Government intervenes in the equity of the banks, their debts should have been repaid in full rather than the lenders taking a “haircut”. However, the Kazakh approach is now being seen as having greater merit than the unlimited bank bail-outs by many western states that have ultimately degraded some sovereign credit ratings.

Fifty-six percent of respondents felt that Kazakhstan’s investment attractiveness did not change over recent years (15% of those surveyed in Kazakhstan; 66% surveyed outside of the country), with the main comment being that a number of large-scale investor friendly initiatives have been announced but the results are yet to be seen.
Graph 8: Obstacles perceived by investors

The investors we surveyed expect the Government to implement a solution to these obstacles, which it has already acknowledged exist and is working to address.

Perceived opportunities
- Kazakhstan’s rising geopolitical status, maintaining balanced international relations with West and East, as well as with key neighboring economies Russia and China.
- Geographic location: at the crossroads between Europe and Asia, proximity to Russia, China, Middle East, India and other Asian countries.
- Openness to best international practices.
- Large-scale reforms aimed at development of a balanced and sustainable economy that needs FDI to succeed.
- Investment policy is focused on value-added products and processes.

Perceived risks
- Perceived lack of execution of strategies: the results of the efforts to develop better business environment yet to be fully delivered.
- Lack of targeted marketing to FDI and lack of sector marketing activity.
- Government intervention: concern over security of investments.

Source: Ernst & Young’s 2010 Kazakhstan investment attractiveness survey. Total respondents: 204. Respondents selected three possible answers.
International awareness

The investor community regularly monitors developments in both industry sectors and in the country overall; therefore, it has relevant and up-to-date information on recent trends and initiatives that may affect investment decisions. However, investors admit that, to the international business population (not investors specializing in emerging markets) Kazakhstan remains largely unknown and is often confused with other former Soviet satellites. This is regrettable given the fact that Kazakhstan is a prominent regional leader, with a vibrant dynamic environment and educated and talented people. Existing investors expressed a concern about the misperception among business circles outside of Kazakhstan, of the country and investment opportunities it offers.

Kazakhstan’s international reputation is closely associated with the President Nazarbayev, who has built strong international relations and gained international respect.

International awareness of Kazakhstan has substantially increased over the recent years. Kazakhstan chaired the Organization for Security and Cooperation in Europe (OSCE) during 2010. Kazakhstan is the first CIS state to hold this respected position, which has contributed to larger international awareness and recognition. The country has built a strong association with non-proliferation of nuclear weapons and ethnic diversity. Government initiatives to host cultural and sport events are recognized by investor community as valuable (e.g., Asian Winter Games) in bringing greater awareness to the country and its capital, Astana.

The country needs to identify the factors that differentiate Kazakhstan as an investment destination compared with other emerging markets. While its international marketing efforts are recognized, further country promotion is needed though a variety of communication channels and events such as focused road shows, as well as international showcasing of unique and competitive products of local entrepreneurs.

Information sources for investors

Investors in Kazakhstan to date use a range of information sources as well as their own judgments.

Official information, specifically data posted by the National Bank and other state bodies, is considered useful. However, the data is formed of largely historical statistics and analytical reports and, as a result, is published with a substantial lag following the reporting period.

Kazakhstan’s official government sources are considered to be reliable up to 2008, but during the times of economic downturn, it was difficult to obtain comparable and reliable information, for example, on expected currency devaluation and the state of the banking system. Unbiased, reliable and timely information is essential to maintain investor confidence.

Graph 9: Credibility of investor information sources

<table>
<thead>
<tr>
<th>Information sources</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>1+2</th>
<th>3+4</th>
</tr>
</thead>
<tbody>
<tr>
<td>International development institutions and organizations</td>
<td>27%</td>
<td>42%</td>
<td>9%</td>
<td>5%</td>
<td>69%</td>
<td>14%</td>
</tr>
<tr>
<td>International business associations</td>
<td>19%</td>
<td>44%</td>
<td>12%</td>
<td>5%</td>
<td>63%</td>
<td>17%</td>
</tr>
<tr>
<td>Embassies and trade councils</td>
<td>21%</td>
<td>41%</td>
<td>15%</td>
<td>5%</td>
<td>62%</td>
<td>20%</td>
</tr>
<tr>
<td>International audit and advisory firms</td>
<td>20%</td>
<td>40%</td>
<td>17%</td>
<td>5%</td>
<td>60%</td>
<td>21%</td>
</tr>
<tr>
<td>Existing foreign investors</td>
<td>16%</td>
<td>43%</td>
<td>13%</td>
<td>4%</td>
<td>59%</td>
<td>17%</td>
</tr>
<tr>
<td>International media</td>
<td>10%</td>
<td>41%</td>
<td>24%</td>
<td>8%</td>
<td>51%</td>
<td>22%</td>
</tr>
<tr>
<td>Law firms</td>
<td>12%</td>
<td>39%</td>
<td>18%</td>
<td>7%</td>
<td>51%</td>
<td>25%</td>
</tr>
<tr>
<td>Investment banks</td>
<td>16%</td>
<td>31%</td>
<td>21%</td>
<td>8%</td>
<td>47%</td>
<td>29%</td>
</tr>
<tr>
<td>Kazakhstan business partners</td>
<td>17%</td>
<td>30%</td>
<td>19%</td>
<td>5%</td>
<td>47%</td>
<td>24%</td>
</tr>
<tr>
<td>Kazakhstan Government</td>
<td>9%</td>
<td>33%</td>
<td>28%</td>
<td>10%</td>
<td>42%</td>
<td>38%</td>
</tr>
<tr>
<td>Rating agencies</td>
<td>6%</td>
<td>32%</td>
<td>22%</td>
<td>8%</td>
<td>38%</td>
<td>30%</td>
</tr>
<tr>
<td>Kazakhstan media</td>
<td>3%</td>
<td>21%</td>
<td>33%</td>
<td>17%</td>
<td>24%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Ernst & Young’s 2010 Kazakhstan investment attractiveness survey. Total respondents: 204.
The future attractiveness of Kazakhstan

Perception of future investment climate

Thirty-one percent of investors (54% surveyed in Kazakhstan; 25% surveyed outside the country) expect its investment attractiveness to improve over the next three years.

Even optimistic investors believe that the realization of Kazakhstan’s ambitious plans to diversify its economy and become one of the top 50 competitive nations will not be possible without reliable partners, namely foreign investors who have knowledge, expertise and financial resources to invest in the country over a long period. Moreover, they believe there is stronger growth potential in Kazakhstan than in Russia, although Russia is a major consumer market and will remain the most attractive country for investment in the CIS due to its size.

Investors who believe that the investment climate will deteriorate over the next three years (6% of total surveyed investors: 20% surveyed in Kazakhstan; 4% outside of the country) have concerns over future political predictability and lack of a guarantee of legal stability.

However, the majority of investors surveyed (53% in total) felt that the investment environment would stay the same, with 9% unable to assess the trend.

The future direction of the evolving investment environment will depend on a number of factors, the main one being the position of the Government. As commented by respondents, on the one hand, the country welcomes prospective investors, acknowledging their technical and industry expertise and their financial capabilities. On the other hand, however, there are concerns among some that Kazakhstan may not fully honor the legitimate rights of existing investors. The country policy toward foreign investment has also become more selective, for example, by focusing investment incentives on manufacturing, to diversify the economy, rather than extractive industries.

The overall majority of investors surveyed in Kazakhstan expressed confidence about the strong potential of the country and the long-term vision of its leadership. Foreign investment is seen as essential in the realization of large-scale national initiatives to achieve further economic development.
The Government has a brief window of opportunity to implement strategic reforms and lay the foundation for diversification into non-extractive sectors of economy.

### Expected measures and reforms

Investors feel that reform is needed to improve Kazakhstan’s investment attractiveness. As such, the Government needs to reassure investors that it offers an attractive and competitive environment through long-term comprehensive institutional reforms.

The Government has a brief window of opportunity to implement strategic reforms and lay the foundation for diversification into non-extractive sectors of economy. This will require particular attention in the following areas:

1. Transparent legal and regulatory environment
2. Human capital development
3. Infrastructure
4. Sustainable financial system
5. Investor incentives
6. Support of entrepreneurship

The task is time-sensitive because the states with which Kazakhstan is competing to attract mobile investment are also in the process of regulatory reform. Kazakhstan has given itself a head start, but it is vital to maintain momentum to avoid being overtaken by competitors.

**Graph 11: Expected measures and reforms**

<table>
<thead>
<tr>
<th>Measure</th>
<th>First</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop the international level infrastructure</td>
<td>2%</td>
<td>16%</td>
</tr>
<tr>
<td>Improve education and training in new technologies</td>
<td>7%</td>
<td>36%</td>
</tr>
<tr>
<td>Direct secondary and post-secondary education to focus on economic needs and innovation</td>
<td>11%</td>
<td>26%</td>
</tr>
<tr>
<td>Establish tax incentives for innovative companies</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>Develop venture capital and other financial tools dedicated to entrepreneurship</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>Develop entrepreneurship</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>Promote corporate accountability</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Reduce corruption</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>Promote clustering of private and public research</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Improve the business environment</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Improve the political environment</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Total respondents: 204. Respondents selected three possible answers.**

**Transparent legal and regulatory environment**

The key areas that need to be addressed include:

**Fair treatment of investor rights**

Protection of investor rights to ensure fair treatment of investors’ economic interests and fair rules of play.

**Independent court system**

Independence of the court system should be guaranteed to prevent charges of financial, political or other undue influence, whether actual or perceived. An independent judiciary will help to separate business from politics and, at the same time, mitigate any perception of corruption. Access to international arbitration is an important tool to ensure confidence.

**Evolving legislation and assessment of its impact**

Responsible investors who plan long-term sustainable business need a predictable and stable environment. Frequently-changing legislation coupled with inadequate assessment of its impact will demotivate long-term strategic investors.

New laws and regulations need to be fair in order to be effective. Therefore, all stakeholders should be included in the drafting process with reasonable time for consultations. Notable progress in this area has been achieved in recent years. However, there are cases when only a fraction of stakeholders are invited to participate in the public discussion, or draft law or regulation is provided to stakeholders for input and comments just before it is sent to the parliament. As a result, there is insufficient time for review and feedback.
Inspections and controls
The current system of inspection and control over business is not appropriate for a modern economic environment. Government officials have a duty to control and validate compliance. However, the way some inspections are conducted raises concerns. Some investors reported their perception that inspections may be influenced by a “top down” focus on the revenue that might be raised for the state budget, rather than a “bottom up” approach focusing on actual non-compliance.

Regulation and control of business should be focused on prevention. Penalties should be more proportionate to the offences, and officials need to receive better technical education in the laws they are enforcing so that they have the confidence to accept the technical arguments of investors.

Administration
In many cases, the legislative framework is based on best international practices. However, the administration and application of law is a problematic issue, specifically interpretation, which often depends on local authorities or specific individuals.

Tax compliance
The Government introduced a tax system that is favorable to business. However, this has been undermined by the high cost of compliance. Areas of particular concern include: the “form over substance” approach with respect to supporting documentation; compliance with respect to international taxation (application of double tax treaties, withholding tax); and the administration cost of compliance.

State procurement system
The size of the state’s share in the economy makes it one of the most important customers for certain industries. Nevertheless, state procurement rules and Samruk-Kazyna procurement rules are perceived as onerous and not business driven as they do not take into account all of the dimensions of the quality of the product or service to be purchased.

Single point of contact for investors
It is not always easy for investors to understand the operation of government departments. There may be a number of ministries or agencies involved in a decision-making process and, as practice shows, the process is often lengthy, inefficient and even unproductive. A single official contact point for an investor with a designated decision-maker within the Government, who would take ownership of the investor’s request and coordinate between various ministries and agencies, would be a possible solution to this issue.

Combating corruption
Corruption often arises where administrative barriers are high. The Government has been working steadily to reduce the administrative barriers to the smooth and efficient conduct of business. However, some investors continue to feel that the problem has not been addressed sufficiently. Further reform of administrative processes, in particular to eliminate bottlenecks and control the authority of junior officials, is needed.

Reduced state intervention to the economy
State intervention is a necessary step at the time of economic crisis to ensure macroeconomic stability. Despite the economy recovering from the global downturn, the development of a supportive environment for investors and entrepreneurs is still on the Government’s agenda. However, in the long-term if a free market economy is to flourish, the role of the state should be limited.

Keeping the balance between the responsibilities of the state and the investor community
Certain investors believe the state is shifting some of its responsibilities onto investors. The training and development of the workforce is one such example. Commitment to employee development and professional qualification improvements form many investors’ community responsibility programs. However, employer responsibility to train and develop personnel is not the only solution.

Human capital development
Human capital remains the key challenge, given the limited population of working age and growing demand for qualified labor, amid ambitious plans for the country’s economic development.

• Ensure the supply of a highly qualified workforce
• Accept qualified foreign workers who can contribute to the development of the economy and transfer skills to local personnel
A more proactive and less defensive approach is needed to ensure the sustainability of a financial system that includes improved corporate governance in banking and in business.

Shortage of a trained workforce
Survey participants indicated the workforce in Kazakhstan gets a basic technical education that has been inherited from Soviet times. However, graduates lack practical skills and knowledge of modern technologies and equipment, and this is usually only gained during post-graduate technical training schemes.

Investors also note a real shortage of trained labor in technical and engineering areas. Bolashak, a state-funded scholarship program, is an example of the long-term vision of the state to ensure a supply of proficient labor to the market. One suggestion is to revisit the list of disciplines under Bolashak and ensure an appropriate proportion of technical and engineering professions are included. A new large scale initiative of the state—led by Nazarbayev University—is expected to help to address the problem of the shortage of highly-skilled engineering and technical specialists.

Transfer of knowledge and free access to highly qualified foreign labor
To ensure easy access to work permits for highly qualified foreign labor, the country needs to open its doors to highly qualified foreign workers who will contribute to the development of the economy.

General skills
Suggested priorities are computer literacy and proficiency in languages. These are in addition to Kazakh—Russian and other foreign language that will be useful in the course of business. Secondary education needs to improve and teachers’ compensation needs to be reformed as their salaries remain low compared with the market. Investors raised concerns over a perception of a deteriorating education system and the absence of sufficient numbers of qualified teachers.

Educational reform
The increasing number of educational institutions raises concerns about lowering the quality of education. The curriculum needs to be linked to the market to ensure it delivers the required set of knowledge and skills for future employment of students and their successful professional growth.

Infrastructure
Further development of transport infrastructure is vital, given the size of the country and remoteness of certain areas. A particular concern is the lack of development of the road and rail infrastructure (for example, railcars for cargo, logistics centers).

Enhancement of internet accessibility is critical: the current estimated rate of internet users is 32%. In overall terms, there has been a notable improvement in telecommunication infrastructure over recent years, but further steps are expected (for example, development of broadband communication, improvement in internet service speeds and cost of connection).

Tariff reform is expected in the power sector; current tariffs have kept artificially low, thus making the market unattractive for prospective investors.

Sustainable financial system
A more proactive and less defensive approach is needed to ensure the sustainability of a financial system that includes improved corporate governance in banking and in business. This is required to ensure that capital markets continue to function effectively when the economy recovers.

Currently, Kazakhstan’s financial system is facing a problem with non-performing loans (estimated 18–27% of GDP), which is restricting the ability of the banks to finance new investment projects. The economic crisis triggered large-scale loan defaults and, as a result, the banks have non-performing loans (NPL) in their accounts and are reluctant to lend to businesses. Businesses, in turn, are struggling to restructure their loans, and finance future projects and working capital needs. In order to kick-start the financial system into lending again, encouraging businesses to grow, there needs to be a solution to the NPL problem.

The bank restructuring program to date has been instrumental in positioning Kazakhstan’s financial system for development and future growth. However, the actions so far have concentrated on restoring capital adequacy and liquidity to specific banks and to the system at large. The next step should be to deal with the underlying business issues so that the banking sector is in a much stronger position going forward, is prepared and able to deal with any future economic down cycles, and can resume lending consistently to the real economy.

Investor incentives
Given Kazakhstan’s disadvantages, such as its landlocked location, underdeveloped infrastructure and low consumer base, investors in the sectors that promise greatest potential growth should be offered sufficient incentives to invest in the country. The experiences of some emerging markets in South Asia, the Middle East, Central and Southern Europe that manage to attract investment successfully make interesting case studies for Kazakhstan to observe.
In the development of the non-extractive industry sectors, investors surveyed expressed the hope that the country will approach this task using investor incentives, without penalizing the backbone of the economy – the resource sector.

The Government is believed to be disappointed with some investment projects that have not developed in line with its original plans. However, disappointment with specific investment projects should not be a reason to exercise pressure on the entire investment community. Investors expect a consistent policy of open dialogue and mutual commitment.

**Industry sectors perceived as most attractive:**
- Construction materials
- Agriculture and agro processing
- Metals processing
- Chemicals
- Recycling industry and green technologies
- IT/Telecom
- Pharmaceuticals, medical services
- Infrastructure, hospitality and business support services

The consumer market in Kazakhstan has only a small share of the global business of transnational companies, although investors believe that the level of consumer awareness and education in Kazakhstan will grow, thus increasing consumption of high-quality and environmentally friendly products. In general, investors in non-extractive industries believe in the growth potential of the market and in sustainable returns on investments.

**Single point of contact for prospective investors**
The one-stop-shop approach for prospective investors is important, especially for small and mid-sized investors, as large multinational companies may use their own resources to undertake intelligence gathering on the country’s business and investment environment. It is worth noting that in 2010 the Government introduced the KAZNEX INVEST agency as a point of contact for prospective investors.

**Knowledge sharing with existing investors in the market**
The Government can better utilize the knowledge and expertise of existing foreign investors working in Kazakhstan. Long-term investors who are not looking for an immediate return but, rather, for a sustainable business are willing to contribute their knowledge and expertise to enhance the investment environment through ongoing and constructive dialogue with the Government.

**Promotion of foreign investors**
There needs to be greater public awareness within Kazakhstan of the benefits FDI brings: technology, knowledge transfer, financial capacities, job creation, increased tax revenue, and high-quality products and services. This contributes to increasing the country’s competitiveness and brings tangible benefits to the people in terms of revenues, jobs, increased skills base, social projects and partnership with local communities. Currently, the potential role of foreign investors in the country is not always given due recognition.

**Support of entrepreneurship**
Though the Government recognizes the importance of entrepreneurship, there is insufficient economic and social infrastructure to support entrepreneurs.

Entrepreneurship is vital for a sustainable economy and, at the same time, it is needed for investors to ensure there are local entrepreneurs with whom they can partner and help to move up the value chain.

It is felt that the current environment does not reward initiative and penalizes mistakes. This is discouraging both for the investors and entrepreneurs.

Reforms to support entrepreneurship are mainly similar to those in support to investors: a positive entrepreneurial business policy, reduction of bureaucracy, transparent and consistent tax administration policies, competitive human capital base, robust infrastructure (transport, communications, banking system, technologies, etc.).
Marketing Kazakhstan as an investment destination

Marketing Kazakhstan as an investment destination needs a differentiated approach to its target groups, activities and sectors. Most successful FDI models have been built on aggressive marketing programs or focused industry sector approaches (e.g., Denmark’s Medicon and the UK’s financial services).

The FDI strategy must be connected to the wider economic development plan. Moreover, the country needs to identify its differentiators from other emerging markets of similar size and prominence competing for investments (peer group).

From the FDI perspective, the plan should have the following key elements:

- Industry (sector) approach
- An infrastructure development plan to ensure the country’s integration at the regional level, improving existing infrastructure and overcoming current strategic weaknesses (for example, railroad and car road transportation network)
- An investment platform that shapes a clear package to foreign investors, including the cost of doing business, protection of investors’ rights and development of labor skills in line with economic needs
- An internal and external marketing plan across various layers:
  - Focused government communication to target investors from specific industries and countries
  - Development of a communication platform between existing and prospective investors
  - Links with events (both business and non-business), tourism and culture
  - Comprehensive PR strategy in support of strategic goals
- Support of entrepreneurship – FDI requires the local businesses to be involved, prepared, and ready to move up the value chain
- Investment in human capital – universities and technical schools to provide the right skills to businesses' needs and adapted infrastructures

The country needs an investment platform composed of the following elements to ensure successful FDI attraction:

1. Transparent and reliable regulatory environment
2. Independent court system
3. Focused and committed government
4. Enhanced infrastructure
5. Regained confidence in financial sector
6. Human capital development – investing in people and modernizing labor markets
7. Unlocking the business potential (especially of SMEs) by reducing the administrative and regulatory burden and providing transparent environment for fair competition.

Kazakhstan is well aware of the obstacles facing the investment community and is working consistently to reduce them. The Government has a clear vision for unlocking the country’s economic potential and, as such, has adopted strategic development programs that cover the approach to industry, the development of the country’s infrastructure, human capital and support for entrepreneurs.

Foreign investors look for clarity, consistency and commitment: clarity in identifying the terms of investment, consistency in fair treatment of investor rights and commitment in improving the institutional environment for investors and entrepreneurs.

The Government is working with investors to improve Kazakhstan’s investment climate through a program of international business events and professional networking sessions. International public relations activities need to be linked with key development priorities and the strategic plan for FDI attraction.

Target investor countries may include those who already invest in emerging markets and may be looking to diversify their investments in terms of geography and industry sector. At the same time, there is an obvious trend for companies, whose success depends on the size of the consumer base, to invest in Russia and then use this as a launch pad to enter Kazakhstan and other Central Asian states. When marketing a country as an investment destination, it is important to remember that current investors are also stakeholders and they may bring additional FDI inflow, not only from expansion of existing facilities but also through possible new greenfield investments.
Foreign investors look for clarity, consistency and commitment: clarity in identifying the terms of investment, consistency in fair treatment of investor rights and commitment in improving the institutional environment for investors and entrepreneurs.
Methodology

Participants’ profile

We interviewed 204 international decision-makers from various industry sectors in 21 countries.

Of those 204 interviews, 163 were conducted outside of Kazakhstan (with 6% of respondents having company presence in Kazakhstan) and 41 were conducted in Kazakhstan. For the purpose of this survey, the quantified opinion of the 204 investors has been calculated as the weighted average of the two surveyed groups (163 surveyed outside of Kazakhstan and 41 surveyed in the country). The field research was conducted by Institut CSA and Ernst & Young via telephone interviews and direct one-to-one meetings.
Table 4: Respondents

<table>
<thead>
<tr>
<th>Business segment</th>
<th>Total</th>
<th>In Kazakhstan</th>
<th>Outside of Kazakhstan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>204</td>
<td>41</td>
<td>163</td>
</tr>
<tr>
<td>Heavy industry (raw material, machine tools, equipment)</td>
<td>15%</td>
<td>–</td>
<td>18%</td>
</tr>
<tr>
<td>Mass consumption goods (food, health care and home maintenance products), food industry and textile industry</td>
<td>14%</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Banking, finance, insurance</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Energy and environment (water, gas, electricity, waste)</td>
<td>6%</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>6%</td>
<td>32%</td>
<td>–</td>
</tr>
<tr>
<td>Car industry (manufacturing and equipment)</td>
<td>5%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Chemical industries</td>
<td>5%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Retail distribution</td>
<td>5%</td>
<td>–</td>
<td>7%</td>
</tr>
<tr>
<td>Transport (trains, aircraft and space)</td>
<td>5%</td>
<td>–</td>
<td>6%</td>
</tr>
<tr>
<td>Real estate and construction</td>
<td>5%</td>
<td>–</td>
<td>6%</td>
</tr>
<tr>
<td>Metals and mining</td>
<td>4%</td>
<td>22%</td>
<td>–</td>
</tr>
<tr>
<td>Telecommunication infrastructure and equipment (manufacturing)</td>
<td>4%</td>
<td>10%</td>
<td>2%</td>
</tr>
<tr>
<td>High-technology equipment (IT and electronic products)</td>
<td>4%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>B-to-B services (research, consulting, advertising and communication)</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>High-technology services (computer services, software development)</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Private services (e.g., training, health)</td>
<td>2%</td>
<td>–</td>
<td>3%</td>
</tr>
<tr>
<td>Tourism and leisure</td>
<td>2%</td>
<td>–</td>
<td>2%</td>
</tr>
</tbody>
</table>

Graph 15: Company’s size (by global revenue)

Graph 16: Interviewee job title

May not sum to total (100%) due to rounding.
Kazakhstan in numbers

FDI in Kazakhstan

At the end of 2009, Kazakhstan's cumulative volume of FDI for the period of last 10 years amounted to US$99.4 billion. In 2009, Kazakhstan received US$19.5 billion in FDI, almost seven times greater than in 2000.

Table 5: Kazakhstan's FDI inflows 2000–09 (US$b)

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2.8</td>
<td>4.6</td>
<td>4.1</td>
<td>4.6</td>
<td>8.3</td>
<td>6.6</td>
<td>10.6</td>
<td>18.5</td>
<td>19.8</td>
<td>19.5</td>
</tr>
</tbody>
</table>

Source: National Bank of Kazakhstan

Table 6: Kazakhstan's FDI by country of origin 2006–09 (US$b)

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Total 2000–09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>2.89</td>
<td>3.15</td>
<td>4.35</td>
<td>6.63</td>
<td>21.7</td>
</tr>
<tr>
<td>United States</td>
<td>1.71</td>
<td>2.45</td>
<td>2.08</td>
<td>1.95</td>
<td>16.8</td>
</tr>
<tr>
<td>UK</td>
<td>0.86</td>
<td>0.92</td>
<td>1.91</td>
<td>1.27</td>
<td>8.1</td>
</tr>
<tr>
<td>Virgin Islands</td>
<td>0.50</td>
<td>2.47</td>
<td>1.04</td>
<td>1.02</td>
<td>5.7</td>
</tr>
<tr>
<td>France</td>
<td>0.80</td>
<td>1.02</td>
<td>1.20</td>
<td>1.35</td>
<td>5.8</td>
</tr>
<tr>
<td>Italy</td>
<td>0.38</td>
<td>0.52</td>
<td>0.69</td>
<td>0.65</td>
<td>4.5</td>
</tr>
<tr>
<td>Russia</td>
<td>0.50</td>
<td>0.79</td>
<td>0.89</td>
<td>0.62</td>
<td>4.0</td>
</tr>
<tr>
<td>Canada</td>
<td>0.44</td>
<td>0.31</td>
<td>1.05</td>
<td>0.65</td>
<td>3.7</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.23</td>
<td>0.63</td>
<td>0.18</td>
<td>0.45</td>
<td>3.4</td>
</tr>
<tr>
<td>China</td>
<td>0.36</td>
<td>0.36</td>
<td>0.69</td>
<td>0.71</td>
<td>3.3</td>
</tr>
<tr>
<td>Others</td>
<td>10.62</td>
<td>18.45</td>
<td>19.76</td>
<td>19.52</td>
<td>99.4</td>
</tr>
</tbody>
</table>

Source: National Bank of Kazakhstan

One-fifth of all foreign investment for the period of 2000–09 comes from one country – the Netherlands, suggesting this may represent not the ultimate home country of investor.

Graph 17: Kazakhstan's FDI by industries 2000–09

6

According to the National Bank of Kazakhstan
Table 7: Kazakhstan macroeconomic indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (US$b)</td>
<td>24.6</td>
<td>30.8</td>
<td>43.2</td>
<td>57.1</td>
<td>81.0</td>
<td>104.9</td>
<td>133.4</td>
<td>115.3</td>
</tr>
<tr>
<td>GDP growth&lt;sup&gt;6&lt;/sup&gt;</td>
<td>9.8%</td>
<td>9.3%</td>
<td>9.6%</td>
<td>9.7%</td>
<td>10.7%</td>
<td>8.9%</td>
<td>3.3%</td>
<td>1.2%</td>
</tr>
<tr>
<td>GDP per capita (US$)</td>
<td>1,658.0</td>
<td>2,068.1</td>
<td>2,874.2</td>
<td>3,771.3</td>
<td>5,291.6</td>
<td>6,771.6</td>
<td>8,499.4</td>
<td>7,257.1</td>
</tr>
<tr>
<td>KZT/US$ annual average exchange rate</td>
<td>153.28</td>
<td>149.58</td>
<td>136.04</td>
<td>132.88</td>
<td>126.09</td>
<td>122.55</td>
<td>120.30</td>
<td>147.50</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>6.6%</td>
<td>6.8%</td>
<td>6.7%</td>
<td>7.5%</td>
<td>8.4%</td>
<td>18.8%</td>
<td>9.5%</td>
<td>6.2%</td>
</tr>
<tr>
<td>FDI (US$b)</td>
<td>4.1</td>
<td>4.6</td>
<td>8.3</td>
<td>6.6</td>
<td>10.6</td>
<td>18.5</td>
<td>19.8</td>
<td>19.5</td>
</tr>
<tr>
<td>Share of FDI in GDP</td>
<td>17%</td>
<td>15%</td>
<td>19%</td>
<td>12%</td>
<td>13%</td>
<td>18%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Share of oil and gas industry in GDP</td>
<td>12.1%</td>
<td>12.7%</td>
<td>13.9%</td>
<td>17.5%</td>
<td>19.3%</td>
<td>20.5%</td>
<td>21.8%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Share of mining industry in GDP</td>
<td>12.1%</td>
<td>12.1%</td>
<td>13.6%</td>
<td>15.8%</td>
<td>16.1%</td>
<td>14.8%</td>
<td>18.8%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Export (US$b)</td>
<td>9.7</td>
<td>12.9</td>
<td>20</td>
<td>27.8</td>
<td>38.2</td>
<td>47.7</td>
<td>71.1</td>
<td>43.2</td>
</tr>
<tr>
<td>Export (y-o-y change)</td>
<td>12%</td>
<td>33%</td>
<td>55%</td>
<td>39%</td>
<td>37%</td>
<td>25%</td>
<td>49%</td>
<td>-39%</td>
</tr>
<tr>
<td>Import (US$b)</td>
<td>6.6</td>
<td>8.4</td>
<td>12.8</td>
<td>17.3</td>
<td>23.6</td>
<td>32.7</td>
<td>37.9</td>
<td>28.4</td>
</tr>
<tr>
<td>Import (y-o-y change)</td>
<td>2%</td>
<td>28%</td>
<td>52%</td>
<td>35%</td>
<td>36%</td>
<td>36%</td>
<td>39%</td>
<td>16%</td>
</tr>
<tr>
<td>Total foreign debt, share of GDP</td>
<td>74%</td>
<td>74%</td>
<td>76%</td>
<td>76%</td>
<td>91%</td>
<td>92%</td>
<td>81%</td>
<td>98%</td>
</tr>
<tr>
<td>National Fund assets, share of GDP</td>
<td>8%</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
<td>17%</td>
<td>20%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>International reserves (US$b end of period)</td>
<td>3.1</td>
<td>5.0</td>
<td>9.3</td>
<td>7.1</td>
<td>19.1</td>
<td>17.6</td>
<td>19.9</td>
<td>23.1</td>
</tr>
<tr>
<td>Current account, share of GDP</td>
<td>-4%</td>
<td>-1%</td>
<td>1%</td>
<td>-2%</td>
<td>-2%</td>
<td>-8%</td>
<td>5%</td>
<td>-4%</td>
</tr>
<tr>
<td>Unemployment (end of period)</td>
<td>9.3%</td>
<td>8.8%</td>
<td>8.4%</td>
<td>8.1%</td>
<td>7.8%</td>
<td>7.3%</td>
<td>6.6%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: Agency on Statistics of Kazakhstan, National Bank of Kazakhstan

<sup>6</sup> GDP growth rate calculation is based on the change of GDP volume in monetary terms denominated in Kazakhstani tenge.
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