

The agriculture sector's key role

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The agro-industrial complex of the Republic of Kazakhstan is a key sector of the economy of the country in terms of production, as well as the consumer market and for its investment potential. It is very closely linked to the overall economic and socio-political situation in the country.

The main priorities of the agricultural sector are reflected in the *Agrobusiness-2020 Programme*. Its purpose is to create conditions for improving the competitiveness of agricultural enterprises. The implementation of this programme is linked to four areas: financial recovery, enhancement of the availability of goods, works and services for the agricultural sector enterprises, improvement of phytosanitary and veterinary safety of the country, as well as advancement of the effectiveness of state regulation system of the agro-industrial complex.

The financial recovery of agricultural enterprises began in 2013 and involves one-off measures to restructure and refinance loans and projects, subsidise interest rates on loans, and finance agricultural producers to help them pay off existing debts. These initiatives will help ease credit load and prevent bankruptcy for a lot of agricultural enterprises.

To enhance the economic availability of goods, work and services, the domestic agricultural producers are subsidised with delivering of livestock, crops and refinement products. In addition, to increase agricultural production and improve the attractiveness and profitability of investment projects in AIC, the state partially subsidises entrepreneurs' expenses.

Furthermore, the *Agrobusiness-2020 Programme* acts as a guarantor for when AIC members take out a loan from financial institutions. This means more farmers have the opportunity to obtain loans. In turn, subsidizing of the interest rates is provided for leasing and loans lent to producers in order to deal with the reduction of the financial burden.

To enhance the effectiveness of state regulation of AIC, much has been done to improve the agrochemical services of agriculture, develop the information management system for the AIC members, provide public services for the AIC, ensure technical regulation in agriculture, develop agricultural co-operatives, as well as create conditions for the development of production and turnover of organic agricultural products.

The *Agrobusiness-2020 Programme* was adopted as part of President Nursultan Nazarbayev's *Kazakhstan-2050 Strategy*. It is expected that the *Agrobusiness-2020 Programme* will lead to a substantial increase in state funding for AIC by 2020. Overall, the programme will create favourable conditions for business development in rural areas, help to attract private investments into the sector and increase the efficiency of allocated budget funds.

Kazakhstan's main agricultural export commodity is grain and the end product from its refinement. Despite harsh weather conditions, in 2014, 18.9 million tonnes of grain was harvested at the yield of 12.7 t/ha. The expected gross grain harvest after refinement is 17.0 mln. tonnes. The specified amount of grain, with carryover amounting to 4.1 million tonnes as of 1 July 2015 and exclusion of 9.5 million tonnes of grain used for the domestic consumption, would allow to increase the export capacity up to 7.0 million tonnes, including 4.5 million tonnes in the form of grain.

Traditional importers of Kazakhstani grain are other Central Asian countries (Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan), as well as Afghanistan, Azerbaijan, Iran. Between 2009 and 2013 they imported on average 6.2 million tonnes of grain, including flour, which amounts to 76 per cent of the total exports of Kazakhstani grain. Since Kazakhstan intends to enter the Southeast Asia market in the near future, measures are being taken to develop the infrastructure and transport logistics to increase the export of wheat. Currently grain terminals operate in the ports of Aktau, Baku (Azerbaijan) and Amirabad (Iran). To increase the export of grain to other of Central Asian countries, Afghanistan and Iran, an elevator complex with a mill was built at the Beyneu station in the Mangistau region.

The new railway line linking Kazakhstan (through Turkmenistan) with Iran has already been constructed. The construction of the grain terminal on the border with Iran and China is currently under consideration.

As for the development of animal husbandry, the main goal is to increase the export of beef. To achieve this a comprehensive action plan for 2011-2015 was approved with the aim of implementing an initiative The development of the export potential of cattle meat. A lot of progress has already been made. Kazakhstan has imported about 56,000 foreign cattle. During the

three years of the programme “Sybagha”, farms have purchased 279.2 thousand cattle stock.

One of the main objectives of this project was to create industrial feed lots. In total, feedlots for over 134,000 feeding places requiring one-time maintenance were created. On certain feed lots animals are fed intensively for 3-6 months, before the commercial batch of cattle is prepared for slaughter.

In 2014 a tolling scheme of feeding was introduced in order to achieve continuous and timely financing of supply of cattle to the feed lots for eventual meat export. This programme allows owners of cattle to place their own herd (steers) on feed lots that satisfy modern requirements and standards of feeding, and to produce meat of high-quality at competitive prices. At the same time, animal owners pay for the services of feedlots and have the opportunity to sell beef under existing contracts, thus receiving a subsidy. They can also sell well-fed cattle to the feedlot at a cheaper price. Farms, which have sold steers in feedlots, will be partially reimbursed with the cost of sold fed contingent by means of additional subsidies. Such mutually beneficial cooperation between investors, feedlots and farms enables an increase in the production and export of beef.

By the end of 2014, the export of meat and meat products amounted to over 12,000 tonnes, including the export of “red meat” that amounted to 7500 tonnes, and of beef, which amounted to 6300.

Today, the agricultural sector is becoming more attractive for investors. The investment volume to the fixed capital of agriculture in 2014 increased by 14.4 per cent to US\$166.4 billion tenge compared to 2013. The industry has great potential for further increases in production. The vast territory of Kazakhstan, with

virtually all types of weather conditions and soil, makes the country a suitable place for the development of agriculture, forestry, hunting, and fisheries.

Processing of agricultural raw materials is one of the most promising areas for investment. For now this sector remains underdeveloped. Every year Kazakhstan imports many products of advanced refining, such as milk and meat products, canned vegetables and baby food. Therefore the state encourages businesses to actively engage in the processing of agricultural products.

The *Agrobusiness-2020 Programme* contains a set of state support tools, including investment subsidies. To stimulate the flow of investments (including foreign) and to reduce the capital intensity and the payback period of investment projects, one billion dollars will be allocated for investment subsidies. This means investor can count on the partial reimbursement of expenses from the state during construction and assembly works, as well as for the purchase of agricultural equipment and technology.

In addition, a new initiative was introduced in 2014 - subsidising while insuring and guaranteeing loans for producers. This enables a significant increase in agricultural producers' access to finance through the issuance of loans guaranteed by the surety or the assurance of insurance companies, which deals with the potential risk of non-repayment of the loan if collaterals are insufficient. In order to reduce the cost of the guarantee or insurance, the AIC entities will be subsidized with its share.

To address the issue of high raw material costs, a new mechanism has been put in place for subsidizing the expenses of processing the procurement of raw materials for the production of sugar (sugar beet), cheese,

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A key resource:
wheat farming
in Tamagaly Das,
Kazakhstan

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butter and milk powder. This pilot scheme is being implemented in six regions. Priority areas are selected on the basis of the availability of a sufficient resource base and the potential for its development, as well as the presence of spare capacity for milk processing and the necessary number of processing plants.

For the implementation of the *Agrobusiness-2020 Programme*, the Government will allocate 3.1 trillion tenge, or almost US\$17 billion, in the next eight years, which would attract at least 10 trillion tenge, or US\$66.6 billion, of private funds to the industry during the period of implementation.

In addition the Kazakh law on taxation deals with the so-called “first VAT” issue on processing enterprises and procurement organisations provides assistance. Currently, the value-added tax for procurement organisations is calculated in the normal manner. However, the amount of VAT paid would be returned to surveyors in the form of subsidies, provided that at least 90 per cent of the total annual income of such organisation is the profit earned from the sale of agricultural products on the established list.

The legislature in place plays a significant role in attracting investment into the country. In terms of agricultural lands, in accordance with the Land Code, these are either on a long-term lease or are privately owned. Foreign citizens can lease the land for the period of up to 10 years. At the end of this period, the lease term can be renewed continuously at the request of the tenant. In addition, the legislation allows the creation of a private forest fund. Currently progress is being made to increase the land lease term for foreign investors.

Therefore, the favourable tax climate plays a significant role in helping promote business

development in Kazakhstan. It is worth noting that, compared to other post-Soviet countries, Kazakhstan is considered to be the most attractive in terms of investment opportunities. Under the current legislation, the producers of agricultural goods in Kazakhstan enjoy a VAT of 12 per cent, whereas in Russia it's 18 per cent, while in Belarus it reaches 20 per cent.

Kazakhstan's law on investment guarantees full protection of the rights of investors and the stability of concluded contracts. The work of state bodies in relation to investors is also strictly regulated (free movement of capital, repatriation of capital, freedom of the use of profits, including for foreign investors as well). Investments in fixed assets of Kazakhstan enjoy state grants (land, buildings, equipment, etc.) and exemption from customs duties.

Overall Kazakhstan is making a lot of progress in improving its business environment. In particular, the country has implemented high standards for public services, reduced both the number of permits and the time required to obtain these and simplified state registration procedures.

It is also worth noting that in 2014 President Nazarbayev announced a unilateral visa free travel regime for investors from ten countries. This will undoubtedly improve the investment climate in the country and will encourage more investors to consider Kazakhstan.

The measures taken by the government will reduce any potential risks of agricultural production and therefore improve the investment attractiveness of the country's agricultural sector. Investors can enjoy stability, while producers can confidently carry out their work. **F**



Wheat being harvested near the town of Akkol, 70 miles north of the Kazakh capital, Astana