PRIVATE SECTOR DEVELOPMENT

Policy Handbook

Promoting Investment in Kazakhstan's Agribusiness Value Chain

OECD

Co-funded by the European Union

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.
www.oecd.org

OECD EURASIA COMPETITIVENESS PROGRAMME

The OECD Eurasia Competitiveness Programme, launched in 2008, helps accelerate economic reforms and improve the business climate to achieve sustainable economic growth and employment in two regions: Central Asia (Afghanistan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan), and Eastern Europe and South Caucasus (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine).
www.oecd.org/daf/psd/eurasia

Key Contact:
Mr. Antonio Somma
Head of Programme
OECD Eurasia Competitiveness Programme

PRIVATE SECTOR DEVELOPMENT POLICY HANDBOOK

Promoting Investment in Kazakhstan's Agribusiness Value Chain

- KAZAKHSTAN SECTOR COMPETITIVENESS STRATEGY PHASE II -

JANUARY 2013

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The OECD Central Asia Initiative

Launched in November 2008, the OECD Central Asia Initiative is part of the OECD Eurasia Competitiveness Programme. It aims to contribute to economic growth in Afghanistan, Kazakhstan, the Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan and Uzbekistan. Its objective is to share with the governments of the region the knowledge, experience and good practices of OECD countries to create a sound business climate for investment, enhance productivity and support entrepreneurship, develop the private sector, and build knowledge-based economies to render its sectors more competitive and attractive to foreign investment. Its approach comprises both a regional policy dimension, which entails peer dialogue and capacity building, and a country-specific aspect supporting the implementation of a number of prioritised reforms. A sector analysis is also included, covering the formulation of targeted policies and strategies requested at the industry level. Within the framework of the programme, public authorities, the private sector and civil society within these countries have been engaged in a dialogue and collaborative process to support policy actions and identify key barriers to sector competitiveness.

FOREWORD

The OECD Eurasia Competitiveness Programme has been supporting the Government of Kazakhstan to diversify its economy through its Sector Competitiveness Strategy project since 2009. This handbook is the final deliverable of the second phase of the project and includes recommendations for a more effective approach towards investment promotion and enhancing the investment environment in Kazakhstan through investment policy measures. The recommendations developed initially for the Agribusiness value chain can potentially be successfully applied to other sectors of Kazakhstan's economy.

Since the inception of this project, the OECD has involved the Government of Kazakhstan, international and local private sector companies, business associations, international organisations and civil society organisations, to identify the main policy barriers, prioritise the most relevant policy options, and design recommendations and an implementation plan.

The project is conducted in collaboration with the Government of Kazakhstan, including the ministry of Industry and New Technologies, and is co-financed by the European Union.

ACKNOWLEDGEMENTS

This handbook is the outcome of work conducted by the OECD Eurasia Competitiveness Programme under the authority of the Central Asia Initiative Steering Committee, in consultation with the Government of Kazakhstan and with participation of the private sector in Kazakhstan.

Representatives from the Prime Minister's office, the Deputy Prime Minister's office, several ministries, government agencies, private sector associations and private sector companies in Kazakhstan contributed to this report. These include:

- His Excellency Asset Issekeshev, Deputy Prime Minister and Minister of Industry and New Technologies; Albert Rau, Vice-Minister of Industry and New Technologies; Asylkhan Serikov, former Chairman of the Committee of Investments; Erlan Khairov, Head of the Committee of Investments; Erlan Zeineshev, Acting Head of Division of the Committee of Investments.

- Kairat Karmanov, Deputy Chairman, KazNex Invest, Alen Iskakov, Former Deputy Chairman, KazNex Invest, Ardak Dossanov, Managing Director, KazNex Invest.

- Representatives of the National Analytical Centre: Aida Urazaliyeva.

- Representatives of the public sector participating in the Working Group on Investment Policy and Promotion: Albert Rau, Vice-minister, Ministry of Industry and New Technologies and Working Group Chairman; Oral Almukhambetov, Director of Department, Sauk-Kazyna Invest; Nuriddin Amankul, Manager for Europe, KazNex Invest; Khamit Amerguzhin, Former Head of Department, KIDI; Serik Amirov, Head of Department of International and Economic Relations, Ministry of Foreign Affairs; Altynai Arapova, Regional Director, KazNex Invest; Zh.

Ashimova, Chief Expert, Ministry of Economic Development and Trade; Dinara Assylbek, Expert of the Committee on Investments, Ministry of Industry and New Technologies; Erkebulan Atymtay, Specialist of Service of Coordination of Regional Subdivisions, KazNex Invest; Nurym Ayazbayev, Deputy Director, Department of Investment Policy, Ministry of Economic Development and Trade; Erlan Baidaulet, Regional Director, KazNex Invest; Markhabbat Balgabay, Regional Director, KazNex Invest; Aida Bapakhova, Manager of Sectoral Department, KazNex Invest; Alken Bisekov, First Secretary, Ministry of Foreign Affairs; Abilkair Bolatbayev, Former Manager for the Middle East, KazNex Invest; Bolat Boyaliev, Expert, Committee of Technical Regulation and Metrology, Ministry of Industry and New Technologies; Asiya Boyandinova, Acting Head of Centre, KIDI; Asem Dautova, Expert, Department of Investment Policy, Ministry of Economic Development and Trade; Ardak Dossanov, Managing Director, KazNex Invest; Galymzhan Dugalov, Deputy Chairman of the Committee of Technical Regulation and Metrology, Ministry of Industry and New Technologies; Ruslan Dzhumagaliyev, Leading Specialist for Sectoral Department, KazNex Invest; Alibek Isabekov, Head of Service of Coordination of Regional Subdivisions, KazNex Invest; Dias Iskakov, General Director, Sauk-Kazyna Invest; Alen Iskakova, Former Deputy Chairman of the Board, KazNex Invest; Aidarbek Kabulbekov, Head of Division, Ministry of Foreign Affairs; Kairat Karmanov, Deputy Chairman of the Board, KazNex Invest; Raushan Kaztayeva, Intern, Ministry of Industry and New Technologies; Shynar Kazybayeva, Deputy Chairman of Committee of Technical Regulation and Metrology, Ministry of Industry and New Technologies; Erlan Khairov, Acting Chairman of the Committee on Investments, Ministry of Industry and New Technologies; Azamat Khamiyev, Head of Division on Investment Policy and Financial Instruments, Ministry of Agriculture; Aizhan Kudikenova, Intern, KazNex Invest; Saltanat Kuzganova, Head of Division, Committee of Trade, Ministry of Economic Development and Trade; Assel Nurakhmetova, Leading Expert, Committee of Trade, Ministry of Economic Development and Trade; Asylkhan Serikov, Former Chairman of the Committee on Investments, Ministry of

Industry and New Technologies; Altynbek Shalandiyev, Specialist of Service of Coordination of Regional Subdivisions, KazNex Invest; Assel Sugurbayeva, Expert, Department of Investment Policy, Ministry of Economic Development and Trade; Bekzhan Tolybay, Former Manager for Europe, KazNex Invest; Kuat Tumabayev, Director of Department of Investment Policy, Ministry of Economic Development and Trade; Aida Urazaliyeva, Manager, National Analytical Centre JSC; Yerlan Zeineshev, Acting Head of Division, Committee on Investments, Ministry of Industry and New Technologies.

- Representatives of the private sector and international organisations participating in the Working Group on Investment Policy and Promotion: Leilya Absemetova, Economics/Energy Officer, Political Section, British Embassy; Nurgul Aidabulova, National Coordinator of GIZ in Kazakhstan; Jonathan Cook, Regional Energy Officer, British Embassy; Marney Crainey, British Embassy, OECD Delegation; Alexandre Darras, Project Manager, EU Delegation; Erlan Dosymbekov, Partner, Ernst and Young Kazakhstan; Michael Einik, Deputy Executive Director, International Science and Technology Centre; Dan Enachescu, Brand Assurance Manager, Diageo; Mushtaq Hussain, Head of Trade Section, EU Delegation; Abzhapar Isa, Executive Director, Meat and Dairy Union of Kazakhstan; Yerlan Iskakov, Deputy General Director, Metro Cash & Carry LLP; James Jubilee, Senior Coordinator, International Science and Technology Centre; Mikhail Korotkov, Programme Manager, International Science and Technology Centre; Natalya Kozlenkova, Associate Director of Marketing and Business Development, Ernst and Young; René Mally, Head of Operations Section, EU Delegation; Alla Nigay, Partner Audit, KPMG Audit LLC; Roy Perticucci, General Manager e-Commerce, Royal Ahold; Mihai Popa, Director of the Operations Department and Member of the Board of Directors, Metro METRO Cash & Carry Kazakhstan; Giuliano Quaroni, Assistant, Trade section, EU Delegation; Milan Wadher, Business Intelligence Director, Royal Ahold.

- Industry experts who provided input: Igor Ermolenko, Director, Kazexportastyk; Abzhappar Isa, Executive Director, Meat and Dairy Union of Kazakhstan; Erlan Iskakov, Deputy General Director, METRO Cash & Carry Kazakhstan; Alla Nigay, Partner, KPMG Audit; Łukasz Stępniak, Chief Editor, Rynek Spożywczy.

- The Delegation of the European Union to the Republic of Kazakhstan, which was donor to the project and provided important guidance and support: Her Excellency Aurélia Bouchez, Ambassador and Head of Delegation; René Mally, Head of Operations; Alexandre Darras, Project Manager; Mushtaq Hussain, former Head of the Trade section.

- The Co-Chairs of the OECD Central Asia Initiative: France (Her Excellency Pascale Andréani, Ambassador and Permanent Representative of France to the OECD) and the European Union (Her Excellency Maria Francesca Spatolisano, Ambassador and Permanent Representative of the European Union to the OECD).

The handbook was written under the guidance of Carolyn Ervin, Director of the Directorate for Financial and Enterprise Affairs (DAF); Anthony O'Sullivan, Head of the Private Sector Development Division within DAF; Elena Miteva, Counsellor, Private Sector Development Division within DAF; and Antonio Somma, Acting Head of the Eurasia Competitiveness Programme.

Hendrik Bosshammer, Policy Analyst, prepared the handbook. The publication benefited from the valuable input and exchanges provided by a panel of reviewers, including: Paolo Venturini, External Consultant to the OECD; Linda Fulponi, Senior Agricultural Policy Analyst, OECD; Anders Jonsson, Policy Analyst, OECD; Jean-François Lengellé, Project Manager, OECD; Alla Nigay, Partner, KPMG Audit; Lorenzo Pavone, Policy Analyst, OECD; Olga Olson, Trainee, OECD.

The handbook was edited and prepared for publication by Antonio Somma, Jean-François Lengellé, Hendrik Bosshammer, Michael Sykes, Vanessa Vallée and Georgia Hewitt.

Local support in Kazakhstan was provided by Dinara Iskakova, Local Consultant and Adviser to the Deputy Prime Minister.

Valuable administrative support was provided by Anna Chahtahtinsky, Jolanta Chmielik, Elisabetta Da Prati, Orla Halliday, Renata Helliot-Tavares, and Lynn Whitney, Directorate for Financial and Enterprise Affairs.

Table of Contents

Figures

Boxes

Acronyms and abbreviations

ASRK	Agency of Statistics Republic of Kazakhstan
BN	Billion
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
COGS	Cost of Goods Sold
EBITDA	Earnings Before Inerest, Taxes and Depreciation, Amortization
EIU	Economist Intelligence Unit
EUR	Euro
FIC	Foreign Investment Council
FDI	Foreign Direct Investment
FMCG	Fast-Moving Consumer Goods
GDP	Gross Domestic Product
HQ	Headquarters
IPP	Investment Promotion Programme
IRR	Internal Rate of Return
M	Million
MNE	Multinational Enterprise
NPV	Net Present Value
OECD	Organisation of Economic Co-operation and Development
ROW	Rest of World
RK	Republic of Kazakhstan
SCSR	Sector Competitiveness Strategy and Review

SQM	Square Meters
USD	United States Dollar
WG	Working Group

Executive summary

Kazakhstan could diversify its economy and attract more FDI into its non-extractive sectors by taking a sectoral approach to investment promotion

The strong GDP growth in Kazakhstan over the last decade has been driven largely by the performance of the country's natural resource sectors, with its economic activity and investment concentrated in the hydrocarbon and mining industries. While FDI inflows into Kazakhstan are significant (USD 19.9 billion in 2011) and growing (*e.g.* annual growth rate of 20% between 2004 and 2011), 75% of FDI is concentrated in the oil and gas and related sectors. To prevent long-term economic dependence on natural resources, one of the long-term strategic goals of the Kazakhstani government is to promote economic diversification as well as further GDP and employment growth by encouraging FDI.

Governments can attract more and better FDI both by improving the overall investment environment,[1] but also through targeted policies to promote specific sectors. These approaches are complementary. This handbook focuses on how to attract FDI at the sector level.

[1] A number of the overall investment environment issues have already been addressed by an OECD project summarised in the report *Investment Policy Review of Kazakhstan* (OECD, 2012). They include the rule of law, trade, infrastructure, skills and integrity in public administration.

Promoting investment at the sector level in five steps

The following five-step approach can support countries in promoting FDI at the sector level and in implementing necessary policy reforms:

Sequencing

1. **Select pilot sectors for investment promotion** based on their attractiveness for investors and benefits for the country.

2. **Identify the pilot sectors' key success factors** by analysing sector dynamics at the global and national level at different levels of the value chain.

3. **Assess the sectors' relative competitive strengths and weaknesses** against benchmark countries to guide policy reform. Regular consultations with companies – including investors present in the country, potential investors and investors that have left the country – are key in identifying areas for improvement.

4. **Identify potential investors** using criteria such as company turnover, proven capabilities on a global scale, activity in the pilot sectors and corporate social responsibility/long-term commitment in the markets. This will help narrow the investor interaction effort to fewer companies in step 5.

5. **Adjust the organisation of the investment promotion agency to include a sectoral focus and implement a sector-specific investment promotion effort**. The investment promotion agency needs sectoral know-how to ensure a more effective dialogue with potential investors. These efforts should be supported by policy reforms to address identified relative weaknesses and by ongoing impact measurement to continuously improve countries' investment promotion efforts.

Implications for Kazakhstan's investment promotion strategy

The five-step approach was applied to Kazakhstan, with the following results:

Step 1: Within the agribusiness value chain, food processing and food retailing were selected as pilots for designing and testing a sectoral approach to investment promotion

The Government of Kazakhstan has targeted agribusiness as a priority for increased investment. Agriculture alone employs over 30% of the labour force. Agribusiness has strong potential to develop further due to the country's considerable land resources (Kazakhstan has the world's 12th largest arable land area), growing demand in regional and domestic markets and the spill-over potential to adjacent sectors (*e.g.* chemicals/fertilisers, transportation and warehousing).

Within the global agribusiness sector, food processing and food retailing generally contribute the largest part of value creation. For instance, in most OECD countries, the ratio between farm and retail prices amounts to 220% to 340% for meat and dairy products and up to 720% for fresh vegetables. In Kazakhstan, food processing and food retailing contribute to more than 12% of GDP. Given the importance of these two sectors and their strong potential for further growth, the food processing and retailing sectors were selected as pilots for the development of a sectoral approach to investment promotion.

Step 2: Several success factors contribute to the strong expansion potential of the food processing and retailing sectors

The global processed food market is growing briskly at more than 6% per year, with sustained growth rates spread across all segments (*e.g.* 7.2% oils and fats, 6.5% dairy, 5.2% bakery products). The market is very fragmented. However, high concentration can be seen in regional markets and in products where global brands are prevalent (*e.g.* breakfast cereals, soups, confectionery). The food processing sector in Kazakhstan is also growing at a fast pace, with a turnover of USD 4.5 billion in 2010. It increased nominally by 73% from 2006 to 2011.

Global growth rates in the food retail industry are also strong (6% annually), with a number of trends indicating higher growth prospects (expected CAGR of 7%) and an increasing internationalisation of modern retailers. The sector in Kazakhstan has a similar development potential (expected CAGR of 7.5%).

Investors have identified similar success factors for investments into both the food processing and food retailing sectors: the characteristics of the end consumer and the labour market, the degree of competition, the macroeconomic environment, the supplier base and the logistical infrastructure.

Step 3: While Kazakhstan is attractive for food processing and food retailing investors, further measures could be taken to enhance its investment potential

Brazil, Chile, Poland and Thailand were used as benchmarks to evaluate the relative strengths and weaknesses of Kazakhstan in the pilot sectors. In comparison to these countries, Kazakhstan's food processing market displays relative strengths in the attractiveness of its end-consumer market, in the efficiency and the flexibility of its labour market and in its supportive macroeconomic environment. However, in order to compete more effectively, Kazakhstan would need to expand its supplier base and further improve its logistical infrastructure.

Kazakhstan's food retail market displays relative strengths from an investor perspective when compared to Poland and Thailand, which experienced strong growth in their food retail markets in the 1990s. Kazakhstan's strengths are its customer structure, low level of competition, efficient and flexible labour market and the country's fit into many food retailers' expansion strategies. However, to foster the investment climate further, the country would benefit from addressing relative weaknesses in its supplier base, logistical infrastructure, and construction permitting procedures. It should also re-examine its tax system and legislation concerning the repatriation of investor profits.

Interviews with investors have confirmed that these are indeed the key challenges facing both sectors.

Step 4: Investment promotion efforts should focus on those food processors and food retailers most likely to invest in Kazakhstan

By focusing the investment interaction effort on fewer potential investors, communication will be more targeted and could offer more extensive support and advice. The following criteria could be used to identify investors potentially interested in Kazakhstan's food processing and food retail market: company turnover, proven capabilities on a global scale (*e.g.* presence in region), activity in the pilot sectors and corporate social responsibility.

Step 5: The existing investment promotion organisation could be reinforced through sectoral task forces that promote investment and by identifying policy priorities to foster a more friendly investment environment

A first sectoral task force could be established in the areas of food processing and food retailing to build a sectoral dimension into investment promotion. The task forces should include an expert interface for investors, a coordination committee and back office support.

To improve the investment climate for investors in Kazakhstan's food processing and food retailing sectors, the project identified the following policy areas where the government should target reform efforts:

- Further improve road and railway infrastructure;
- Facilitate permitting procedures for construction;
- Facilitate access to finance for food processors;
- Facilitate the repatriation of profits;
- Provide increased incentives for investments in food processing co-operatives and technology;
- Establish higher quality standards for food processors.

Developing a sector database of local food processors to facilitate the attraction of food retail investors is also recommended.

By drawing on the experience and lessons learned from the sectoral pilots, the suggested methodology could be applied to other sectors in Kazakhstan

The application of the five-step methodology to the pilot projects in the food processing and food retailing sectors will yield valuable lessons for its potential implementation in other sectors.

Introduction

This handbook is part of the Kazakhstan Sector Competitiveness (SCS) project, which aims at supporting the Government of Kazakhstan to diversify its economy and improve competitiveness in different sectors of its economy. The project identified three sectors to support economic diversification, with a focus on priority policy areas: access to finance in agribusiness, skills development in the case of information technologies, and investment promotion and policy in the case of food processing and food retail. The project completed two phases over four years: Phase 1 (2009-10) analysed and identified three priority sectors, Phase 2 (2011-12) defined sector policy recommendations and implementation plans.

The current handbook is the final deliverable of the work on investment policy and promotion. It suggests a sectoral investment policy and promotion approach first applied to agribusiness and then to be rolled-out to other sectors of Kazakhstan's economy. It builds on the work during Phase 1 of the project, the identification of the sectors with the greatest economic potential in Kazakhstan and the main existing barriers to their development. The findings of Phase 1 are summarised in the *Kazakhstan Sector Competitiveness Strategy* report.

This handbook is structured as follows: Part 1, Chapter 1 provides the rationale for a sectoral approach to investment promotion while Chapter 2 outlines a suggested methodology. Part 2 applies the described methodology to the agribusiness value chain in Kazakhstan. Within this context, Chapter 3 provides a brief overview of the agribusiness value chain before Chapter 4 and Chapter 5 apply the sectoral approach to investment promotion on two sectors within the Agribusiness value chain, food processing and food retail. Finally, Chapter 6 provides a way forward by suggesting the main implementation steps.

PART I

Introduction to Investment Promotion at a Sectoral Level

Chapter 1

Rationale for a sectoral investment promotion approach

This chapter illustrates the benefits of FDI for a country's economic and employment growth and for national competitiveness. Within this context, it describes the current FDI structure in Kazakhstan, which remains primarily focused on extractive industries. Finally, it illustrates the potential benefit of a sectoral approach to promoting investment in Kazakhstan's non-extractive sectors.

FDI can significantly drive economic growth, employment and the economy's competitiveness

A large body of research highlights the benefits of FDI for economic and employment growth. FDI also helps to build long-term capabilities that could support the overall competitiveness of a country (Sjoholm, 2008; Haaker, 1999; Kaufmann, 1997; Rodriguez-Clare, 1996; Wang/Blomstrom, 1992; Rodriguez-Clare, 1996). Domestic firms benefit from the presence of FDI via a systematic, productivity spill-over. However, there is a general consensus that the quality of FDI is more important than its quantity. Investment quality comprises the industry's export orientation, technology level and marketing knowledge (Hayes, 2003; Basinger/Hallerberg, 2004).

Kazakhstan is already benefiting from FDI inflows, but mainly in the extractive industries

Kazakhstan is already an investment target for foreign companies. From 2001 to 2011 overall FDI inflows in Kazakhstan grew at a CAGR of 16% per year, reaching USD 20 billion in 2011. Since 1993, Kazakhstan has attracted cumulative FDI of over 152 billion USD, 60% of which has come from OECD countries. Arranged by volume, the biggest investments originate from the United States, the United Kingdom, France, Italy and the Netherlands (OECD, 2012).

However, roughly 75% of FDI is destined for the oil and natural gas sectors, as well as a broad range of activities supplying those sectors: namely infrastructure, services, transport, equipment and engineering (OECD, 2010).

A sectoral approach to investment promotion can support Kazakhstan in increasing FDI to its non-extractive sectors

The Government of Kazakhstan has already put in place a strategy aimed at attracting FDI into a broad range of priority sectors. By driving investment in non-extractive sectors, Kazakhstan aims to create a more diversified economy and increase economic and employment growth. The industries that are granted investment preference are agriculture; food processing; chemicals; pharmaceuticals and medicine; textiles; wood, paper and furniture; electrical and electronics; machinery and equipment; metallurgy; utilities; infrastructure and engineering; services; alternative energy; biotechnology; construction; and tourism.

In order to create a more targeted approach for investment promotion to non-extractive sectors, the OECD Eurasia Competitiveness Programme's Sector Competitiveness Strategy Project identified agribusiness – specifically the food processing and food retail sectors – as a strategic segment for which Kazakhstan could implement a sectoral approach to investment promotion.

Chapter 2

Methodology for a sectoral investment promotion approach

This chapter outlines the recommended methodology for an enhanced investment promotion strategy that can be applied to different sectors of Kazakhstan's economy. In doing so, it first illustrates the Investment Promotion and Facilitation Strategy Framework. Building on the framework, the chapter then suggests a common five-step methodology for investment promotion: Selecting pilot sectors for investment promotion, identifying the characteristics and success factors for the pilot sectors, assessing the country's relative strengths and weaknesses, identifying potential investors, as well as adjusting the investment promotion organisation and implementing the investment promotion effort.

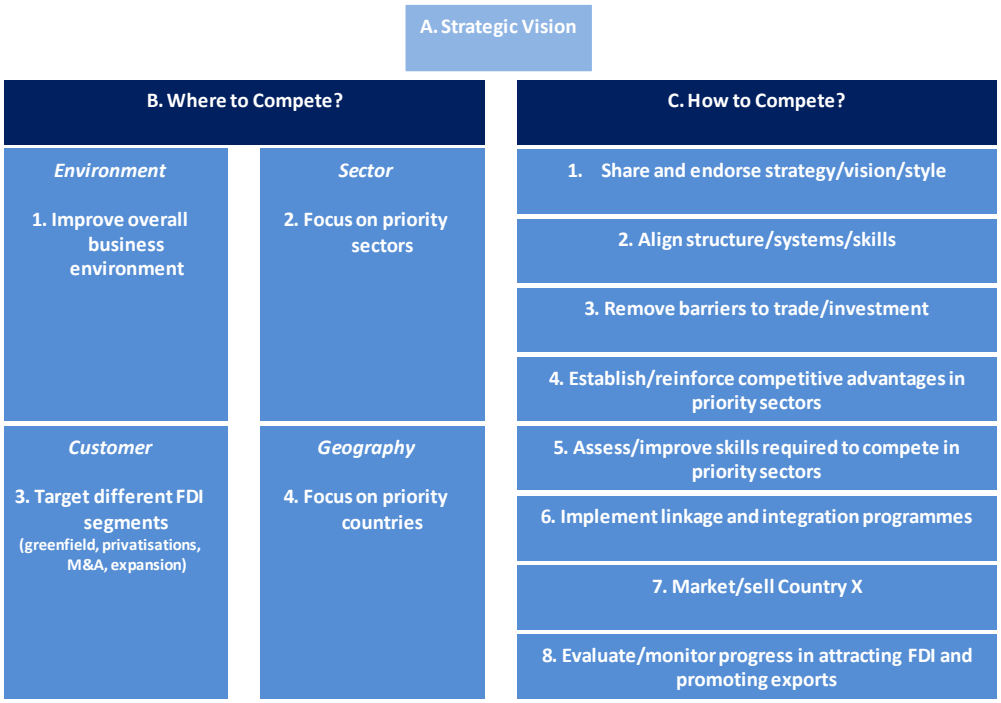
The Investment Promotion and Facilitation Strategy Framework encompasses all essential elements for fostering FDI

To attract FDI, the government needs to promote investment in a proactive and coordinated manner. Thus, the government should provide support to all three phases of a market entry by an investor:

- **The pre-establishment phase** typically consists of the expatriation of foreign employees for setting up operations abroad, the registration of the enterprise and the handling of intellectual property rights.
- **The establishment phase** involves the acquisition of land, the construction of the enterprise and the acquisition of permits, as well as the building of appropriate infrastructure. Alternatively, existing sites can be purchased and adapted.
- **The operating phase** occurs when the enterprise begins its business activities.

The country's investment legislation determines the ease of the various entry phases by investors. Given the role of the government in determining the ease of FDI over all three phases of an investment, an investment promotion strategy should have a clear strategic vision for FDI in the country, define the country's areas for competition ("Where to compete?") and use various tools for enabling successful competition ("How to compete?"). These three main components for investment promotion are outlined in the Investment Promotion and Facilitation Strategy Framework:

Figure 2.1 The Investment Promotion and Facilitation Strategy Framework



Source: OECD, 2006.

A country's strategic vision for engagement comprises the FDI objectives and the means for achieving them. For instance, a country can have the goal of establishing a competitive market economy through the means of increasing private investment and the integration of its domestic economy into the world market.

The definition of competition areas includes the choice of the sectors to compete in, the geographical scope of competition (*e.g.* regional or world market), the FDI segments to target and measures to improve the business environment.

The question of the geographical extent of competition may also be relevant in the context of special economic zones, which countries frequently use to promote investment (see Box 1).

Box 1. Special Economic Zones

Special Economic Zones (SEZs) are geographically delimited areas which offer incentives (*e.g.* duty-free importing or streamlined customs procedures) to enterprises that are physically located on their territory. SEZs are usually administered by a single administrative body (FIAS, 2008).

There are several reasons why governments may wish to establish SEZs. SEZs allow the testing of new industrial, regulation or investment strategies in a pilot region before extending them to the rest of the country. Successful SEZs can also encourage exports, contribute to the liberalisation of trade and facilitate technology transfer as well as integrating the region into the national economy. Finally, SEZs can support a broader economic reform and attract FDI. Traditionally, SEZs have been established in isolated areas or near transportation hubs to serve as a platform for regional development, but nowadays SEZs are also undertaken in other parts of the country (FIAS, 2008).

As of May 2012, Kazakhstan had nine SEZs. The Government of Kazakhstan created three new SEZs in 2011 (Zakon.kz, 2012) and has also amended the previously existing six. The existing SEZs can be broadly subdivided into three categories: industrial and manufacturing (Aktau city area, Mangystau Province since 2002; South Kazakhstan since 2005; Atyrau district since 2007; Astana city since 2001); service (Akmola district since 2008) and technical innovation (Almaty area since 2003). The three new zones created in 2011 target specific sectors: the development of metallurgy and metalworking in the Karagandy area, the development of transportation and logistical capacity in the Almaty region, and the development of the chemical and petrochemical industries in the Pavlodar region (Ministry of Industry and New Technologies of the Republic of Kazakhstan, 2012).

While SEZs have important potential benefits, experience shows that there are some pitfalls in the design and the management of SEZs that should be avoided. For example, while SEZ goals can be broadened with time, initially an SEZ has a higher chance of success if its goals are narrow, clearly defined and measurable. For instance, the Royal Commission for Jubail and Yanbu (RCJY), which was established to develop the Saudi manufacturing sector, had a clearly defined goal and outlined a method for its achievement, which contributed to the success of the SEZ.

Additionally, industries that are targeted for development should have high potential for international competitiveness and respond to the needs of the local economy. The potential can be calculated by considering factors such as the region's assets and location, factor advantages and infrastructure. Thus, knowledge of regional characteristics is important when making a decision about which industries to target. In order to be successful, an SEZ also needs broad support from and cooperation with the government and the private sector. To this end, consultations with the public and the private sector are beneficial. As an example, most private EPZs (Export Processing Zones) and industrial zones in

Vietnam in the 1990s stayed vacant because local and national authorities were unable to provide road and other infrastructure connections to the EPZs (FIAS, 2008).

An investor-friendly environment will help an SEZ to attract investment. This includes a permissive regulatory framework (*e.g.* one-stop shop for investors) and infrastructure. Implementation duties should be clearly defined and clearly delegated, and it is advisable to have an implementation agency. Fiscal incentives should be competitive (FIAS, 2008). Additionally, sites have to be chosen carefully. For example, the San Bartolo Free Zone in El Salvador had to be subsidised to make up for the high development costs incurred due to poor site conditions (FIAS, 2008).

Finally, SEZs must be properly designed to avoid labour and social issues. As an example, the Katunayake EPZ in Sri Lanka was poorly designed, resulting in congestion and social unrest (FIAS, 2008).

The levers for competition set out possible actions to be undertaken to improve the overall business environment and encouraging investment. These policies are crucial for enhancing the market's attractiveness for FDI. For instance, improving the skill set for competitiveness, removing sector-specific barriers, establishing linkage programmes and running marketing/sales campaigns all have the potential to increase the country's attractiveness for FDI. Box 2 outlines the requirements of such marketing/sales campaigns and provides an example.

Box 2. Checklist how to market a country

The design of a comprehensive marketing and sales campaign follows several steps (OECD, 2006):

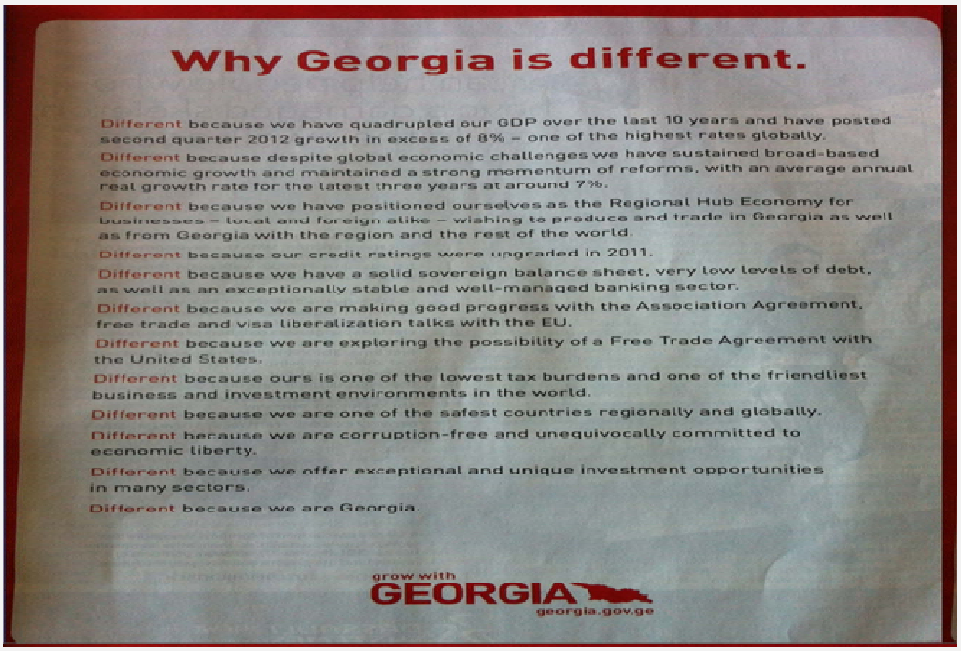
- Use professional surveys of investor perceptions of the country as the basis for an image-building and promotion programme;
- Develop an international image-building programme aimed at the foreign investment community and international business media;
- Where possible, include the existing foreign investor/importer community in all promotional activities;
- Use senior political figures and government officials, existing foreign investors/importers, and the overseas expatriate community as "ambassadors";
- Focus on selected target sectors, i.e. those sectors where the country can offer competitive advantage and where key competitive messages have been developed;
- Within these sectors, identify key investing companies and the decision makers within those companies;
- Implement an investment generation campaign aimed at key executives in potential investing companies and based on an appreciation of investors' investment/import priorities and on competitive advantages;
- Organise and conduct well-planned country visits by potential investors/importers, ensuring provision of all relevant information and advice necessary to assess the country's attractiveness as an investment location.

The investment promotion agency may also envisage keeping international and domestic media regularly informed through:

- Promotional events (*e.g.* lists of events such as investment forums and trade shows, within the country and outside it, could be circulated);
- Public relations and press releases concerning all new investment deals;
- Advertising and publicity material (*e.g.* a full range of general, sectoral and website material, such as brochures, newsletters, investment guides and types of presentations);
- Investor award schemes to promote annual awards to investors and exporters (*e.g.* largest investment/trade deal, largest employment creator, largest exporter) in order to highlight the benefits of new investment.

Source: OECD, 2006.

Example of an advertising campaign to promote investment in Georgia:



Source: The Economist, 2012.

A methodology for sectoral investment promotion can follow a five-step approach

In line with the Investment Promotion and Facilitation Strategy Framework, an effective methodology for promoting FDI in Kazakhstan should have a clear vision with regard to which sectors the country wants to compete in. Since the aim of the investment promotion and facilitation strategy is to attract all types of FDI, no specific FDI entry strategies will be promoted. However, the suitability of a potential investor to the context of Kazakhstan determines the likelihood of its entering the market and achieving long-term success. Therefore, the sectoral investment promotion approach to be developed will focus on investors with the greatest fit with the selected sectors in Kazakhstan's economy. Potential policy levers for enhancing the investment environment have been outlined. Building on this, the most relevant levers for competition will also be addressed in the sectoral investment approach.

Although it was originally developed to promote investment in the agribusiness value chain, this methodology remains for the most part unchanged when applied to different industries.

The recommended investment promotion methodology is structured in five sequential steps: Selecting pilot sectors for investment promotion, identifying the characteristics and success factors for the pilot sectors, assessing the country's relative strengths and weaknesses, identifying potential investors, and, lastly, adjusting the investment promotion organisation and implementing the investment promotion effort (Figure 2.2).

Figure 2.2 The suggested investment promotion methodology consists of five main steps

Step 1	Step 2	Step 3	Step 4	Step 5
Selecting pilot sectors for investment promotion	Identifying key success factors for the pilot sectors	Assessing Kazakhstan's comparative strengths and weaknesses	Identifying potential investors	Adjusting investment promotion organisation and implementing investment promotion effort
• Selection of one or two pilot sectors corresponding to country's priorities	• Analysis of sectors' global and national characteristics • Analysis of sector success factors	• Choice of benchmark countries • Assessment of country's relative strengths and weaknesses along success factors • Investigation of benchmark countries' sectoral investment policy measures • Company feedback on investment environment	• Definition of criteria to identify potential investors • Characterisation of sectors' largest multinationals along criteria • Establishment of shortlist of potential investors	• Establishment of sectoral investment promotion task-force • Elaboration of sectoral investment policy measures • Impact evaluation of investment promotion and adjustments

For an efficient use of resources, one to two sectors should be selected for developing, applying and adapting a sectoral investment approach. While eventually investment in all sectors with economic potential should be promoted, the initial sectors should be a priority. This ensures the necessary political support to make the design and implementation of a sectoral investment promotion strategy successful.

Identifying the characteristics and key success factors for the pilot sectors helps to develop an understanding of the levers for successful investment growth. This is the basis for analysing relative strengths and weaknesses in the next step of the

approach. Sector characteristics not only encompass the sectors' main indicators (*e.g.* revenue size, revenue breakdown by geography and segment, growth rates of the segments, degree of concentration, FDI inflows and outflows, import and export flows) but also the global trends affecting the industry (including overarching economic and societal trends, product and service trends and current industry challenges), the main multinational enterprises' (MNEs) international expansion strategies and key decision criteria for international expansion.

The third step involves a comparative analysis with benchmark countries. Its aim is to identify the country's strengths and weaknesses in the pilot sectors in order to assess the country's competitive position and address its relative weaknesses with policy measures (Step 5). The country should be compared with benchmarks for the success factors indentified. Good practice in investment policy in the benchmark countries should also be analysed. The benchmark countries should be chosen based on (a) their achievements in setting a fostering policy environment for the pilot sectors and (b) the similarity of macroeconomic conditions of the benchmark countries with those of the focus country (*e.g.* GDP per capita, degree of industrialisation, infrastructure). Further weaknesses should be identified through feedback from three categories of companies: investors present in the country, potential future investors and companies which have withdrawn. It is important to institutionalise the dialogue with at least the first category of companies, as they are the most easy to interact with.

In Step 4, investors with a suitable profile for investing in the pilot sectors should be identified. This allows the interaction effort to be focused on fewer potential investors in the final step of sectoral investment promotion. Identifying potential investors involves three sub-steps: selecting the criteria to determine those companies most likely to invest in the focus country, profiling the largest multinationals in the priority sectors according to the identified criteria and, finally, compiling a shortlist of potential investors, selected based on the criteria defined.

The fifth and final step of the approach is to adjust the investment promotion organisation and implement the investment promotion effort.

A more detailed description of the activities above will follow in chapters four and five where these are applied to the two selected pilot sectors.

Successful investment promotion can be facilitated by an adjustment of the organisational setup and sectoral specialisation

The fifth step is particularly critical for implementing and sustaining a sectoral investment promotion approach. Adjusting the investment promotion organisation to include a sectoral dimension allows for a more proficient interaction with potential investors and fewer interfaces. This should encompass the establishment of a sectoral investment promotion task force.

The current organisation of the investment promotion activities in Kazakhstan involves a large number of government bodies, making coordination and communication rather cumbersome.

For investment promotion in the agribusiness sector, for instance, coordination and communication between the various government bodies involved may be particularly challenging: responsibilities for developing the agribusiness sector are spread across the Ministry of Industry and New Technologies, the Ministry of Economic Development and Trade, and the Ministry of Agriculture. In addition, there are three government agencies concerned with attracting FDI into the agribusiness sector: Kazakhstan's Investment Promotion Agency (Kaznex Invest), KazagroInvest, and Samruk-Kazyna Invest. The latter is part of a joint-stock company called the "National Welfare Fund" (OECD, 2012).

The Ministry of Economic Development and Trade is responsible for developing the food retail sector. The food processing and agriculture sectors are under the responsibility of the Ministry of Agriculture. Furthermore, Kaznex Invest reports to the Ministry of Industry and New Technologies (OECD, 2012).

A key requirement of successful investment promotion is to ensure the active involvement of all ministries and agencies concerned. This includes setting up clear communication channels to encourage co-operation between all bodies or

reallocating the responsibilities within the involved government bodies to establish clearer procedures and reduce the number of interfaces for potential investors.

Kaznex Invest could have the role of the main national agency in charge of investment promotion in Kazakhstan by coordinating and leading the investment promotion effort across government ministries and agencies and interacting with international investors to promote investments in Kazakhstan.

A clear understanding of the priority sectors for FDI (*e.g.* technical requirements, required supplier base) and the investment criteria for international companies is key to a credible and successful interaction with multinational investors. While moving towards a sectoral investment promotion approach, Kaznex Invest would need to set up an associated organisation with sufficient personnel resources and sector-specific expertise to meet these requirements.

PART II

An Application to the Agribusiness Value Chain in Kazakhstan

Chapter 3

Agribusiness as a pilot for a sectoral investment

This chapter discusses the economic importance of agribusiness in Kazakhstan, as well as its potential for future growth and for encouraging development in adjacent sectors. In this context, the chapter describes the main characteristics of agribusiness, its structure and developments in its sub-sectors: agriculture, food processing and food retailing.

Kazakhstan's agribusiness segment shows strong growth potential despite several industry constraints

Kazakhstan's agribusiness segment features many characteristics that are attractive to both domestic and foreign investors. Kazakhstan's rapidly growing economy and increasing disposable incomes have translated into growing demand for higher value and quality food products (OECD, 2010). These consumption trends are likely to lead to the development of a market for packaged foods, branded products and retail private labels. Furthermore, Kazakhstan's agribusiness segment remains undercapitalised. It therefore offers attractive opportunities for new entrants and promising growth prospects (OECD, 2010). Agribusiness consists of three sectors: agriculture, food processing and food retailing.

Agriculture constitutes an important part of Kazakhstan's economy, and the sector is the country's most employment-intensive outside the extractive industry. In 2010, Kazakhstan's agricultural sector had a turnover of USD 11.1 billion (ASRK, 2010), accounting for about six percent of the country's GDP. Furthermore, agriculture employs 30% of the country's workforce (OECD, 2010). Agriculture's contribution to the country's GDP has been decreasing over the last decade as a result of Kazakhstan's fast-paced economic development from increased oil and mineral production. However, between 2006 and 2011,

the agricultural sector's manufacturing output grew rapidly, mainly due to productivity gains. For instance the manufacturing volume of the meat segment had a 12% CAGR, and cereals grew by 9% (ASRK, 2012).

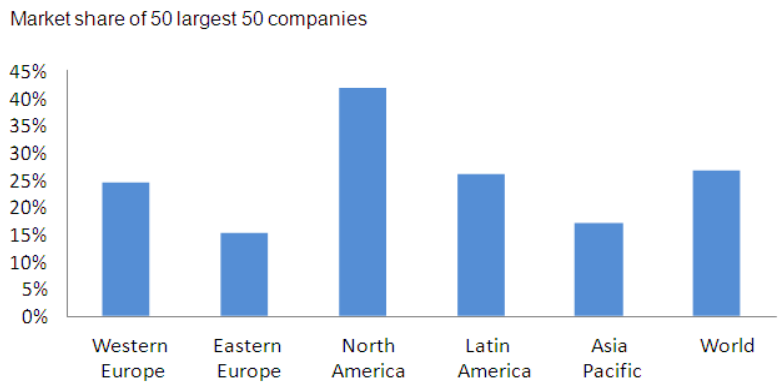
Like agricultural production, the food processing sector in Kazakhstan is growing quickly. The value of sector output increased by 73% from 2006 to 2011 (ASRK, 2012). In 2010, the food processing industry had a turnover of USD 4.5 billion (ASRK, 2011). The largest segments of the food processing sector, ranked by value, are flour, cereal products and starch (18.2% of sector turnover); drinks (16.2%); dairy products (13.8%); processed fruits and vegetables (9.5%); and processed meats (8.5%) (OECD, 2010).

In 2011, the food retailing industry in Kazakhstan had a total turnover of USD 8.2 billion (ASRK, 2012). The sector is also characterised by a strong growth rate. Between 2010 and 2011, total food retail sales increased by 9%, with growth spread across most of its segments: meat (12% growth); milk products (9%); confectionary (9%); fish (7%); and fruit and vegetables (6%) (ASRK, 2012).

Food retailing is rather concentrated: in 2008, the world's 15 largest modern food retailers accounted for more than 30% of global supermarket sales (Euromonitor, 2008).

In contrast, food processing is rather fragmented: the 50 largest global packaged food processors account for less than 30% of global sales (Figure 3.1).

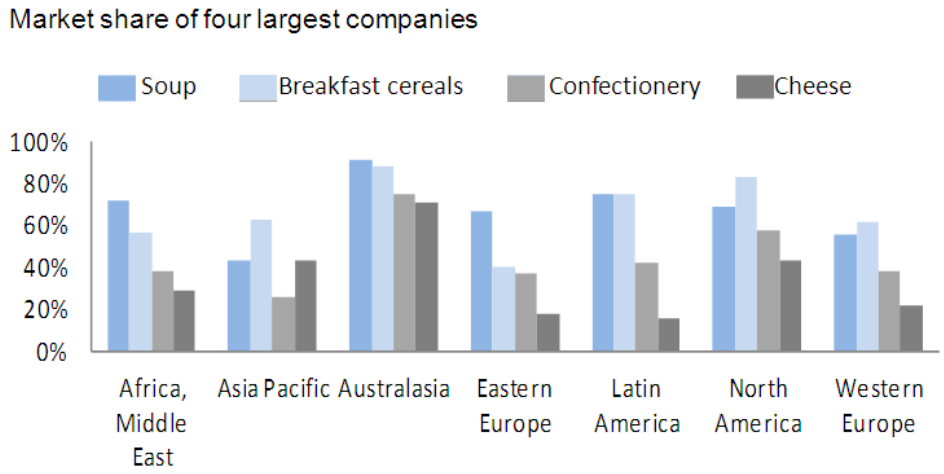
Figure 3.1 The largest 50 processors' marker share is comparatively low



Source: USDA, 2009.

However, the MNEs are rapidly expanding their market share, and the increasing concentrations can be seen in numerous regional markets and specific product categories, where global brands are increasingly prevalent (Figure 3.2).

Figure 3.2 The concentraion of food processors is ver high for selected product categories



Source: Euromonitor 2008; USDA, 2009.

Chapter 4

Promoting investment in the food processing sector

This chapter applies the methodology for investment promotion to the food processing industry in Kazakhstan. Since the initial step of the methodology, the selection of the pilot sectors is complete, the chapter below sets out the final four steps of the methodology: identifying the characteristics and success factors for the food processing sector, assessing the country's relative strengths and weaknesses, identifying potential investors, as well as adjusting the investment promotion organisation and implementing the investment promotion effort.

Sector characteristics and success factors: Multinationals are increasingly capturing market growth in emerging economies

The global retail sales value of the packaged food market is expected to exceed USD 2.1 trillion in 2015 and is growing at an annual rate of more than 6%. Growth is spread across all segments and the strongest market growth between now and 2015 is expected in Latin America and Asia-Pacific, which includes Kazakhstan (Euromonitor, 2010).

Growth stems from a number of factors. The most important are a growing global population; increasing per capita incomes; changes in consumer habits, including the willingness to pay more for value-added goods that provide convenience and nutrition benefit; increasing sales volumes and higher pricing in developing markets (Euromonitor, 2010).

Food processing is fragmented, with the 50 largest global packaged food processors accounting for less than 30% of global sales. However, food processing MNEs, traditionally among the most globalised companies, are rapidly increasing their market share. The rising concentration can be seen in numerous regional

markets and specific product categories, where global brands are increasingly dominant.

Food processing MNEs apply a variety of approaches to their international expansions, tailoring their strategy based on local opportunities and requirements of the country concerned. Expansion strategies include acquisitions, joint ventures with local companies, joint ventures with international partners and 'green-field' investments.

While expansion strategies differ, important commonalities can be observed in the approaches adopted. Most MNEs apply a tailored approach for each country, recognising the distinctive features and challenges of local markets whilst leveraging their global brands (*e.g.* global products with localised packaging, or local product ranges tailored to local consumers' tastes). Furthermore, while still applying centrally defined operating models to ensure brand homogeneity globally, food processing MNEs also increasingly delegate authority to regional managers and place emphasis on the development of local employees that understand the local culture and consumer needs (Food Processor Interview, 2012).

There are many criteria for a market entry decision; food processors prioritise eleven of them

Interviews conducted with several industry experts and executives from two of the largest food processing MNEs indicate a set of criteria used to define the expansion opportunities in a new country. These can be grouped into eleven categories, each comprising a number of standard indicators:

1. **Attractiveness of the end-consumer market**: GDP per capita, growth in GDP per capita, percentage of poverty headcount and urban population.
2. **Developed and competitive retail landscape**: Presence of incumbent retailers belonging to the largest global retailers.
3. **Favourable business environment**: Business environment rankings by international organisations (*e.g.* World Economic Forum Global Competitiveness Index, World Economic Forum Institutions Index).

4. **Quality of local supplier base**: Assessment of the local supplier base of food processors.
5. **Quality of infrastructure**: Infrastructure rankings by international organisations (*e.g.* World Economic Forum Infrastructure Index, World Economic Forum Quality of Roads Index).
6. **Quality and flexibility of labour market**: Labour market flexibility rankings by international organisations (*e.g.* World Economic Forum Labour Market Efficiency Ranking, WEF Flexibility of Wage Determination Index).
7. **Efficient construction permitting procedures**: Ease of permitting procedures rankings by international organisations (*e.g.* World Bank Construction Permits Index, World Bank ranking of number of procedures).
8. **Freedom of international trade**: Membership to the World Trade Organisation, international trade rankings (*e.g.* Economist Intelligence Unit Agricultural Import Tariffs Score, WSJ Index of Economic Freedom).
9. **Quality of food regulations**: Food quality rankings (*e.g.* Economist Intelligence Unit Food Quality and Safety Index).
10. **Favourable taxation system/legislation for profit repatriation**: Corporate tax rate; terms for profit repatriation.
11. **Developed financial markets**: Ranking of financial markets (*e.g.* Economist Intelligence Unit Access to Financing for Farmers score, World Economic Forum Financial Market Development Index).

Strengths and weaknesses: Five countries were selected as benchmarks to assess Kazakhstan's food processing FDI potential

Understanding the attractiveness of a country for foreign direct investments requires its comparison with alternative markets. For this analysis, five countries were selected: Brazil, Chile, Poland, Russia and Thailand. Poland, Thailand, Chile and Brazil were chosen due to their positive track record of developing a successful food processing industry. Russia was selected because of its geographical, commercial, historic and cultural proximity to Kazakhstan. Figure 4.1 provides an overview of the food processing market developments in the benchmark countries.

In addition to Kazakhstan's relative position against the benchmark countries, its place in international country rankings is taken into account.

Figure 4.1 Food processing is a fast-growing industry in all five benchmark countries (values in USD million)*

Country	2000	2001	2002	2003	2004	2005	2006	2007	CAGR
Poland	18,986	18,886	19,238	20,496	22,229	23,104	23,913	25,949	**4.6%**
Brazil	33,040	41,778	44,582	48,050	49,866	48,759	48,973	51,429	**6.5%**
Chile	3,659	3,811	3,878	3,955	4,223	4,527	4,686	4,793	**3.9%**
Russia	66,644	69,577	75,421	80,323	84,420	88,134	93,951	100,528	**6.0%**
Thailand	14,417	14,980	15,992	17,734	19,123	20,620	21,518	22,497	**6.6%**

Source: GUS, 2011, ABF, 2011, ODEPA, 2011.

Strengths: Kazakhstan scored well in three of the eleven market-expansion criteria

- **Attractiveness of the end-consumer market**: Kazakhstan represents a relatively large mid-income market. Its GDP per capita of USD 11 245 in 2011 corresponds to that of most of the benchmarks (13 089 for Russia, 14 394 for Chile, 12 594 for Brazil, 13 463 for Poland, 4 972 for Thailand). Kazakhstan's GDP growth rate in 2010 was 7.5% (World Bank, 2012) against lower values in the benchmark countries (0.05% for Thailand, 2.7% for Brazil, 5.9% for Chile, 4.4% for Poland, 4.3% for Russia). Kazakhstan's poverty headcount of 8.2% (World Bank, 2009) is lower than that of the benchmark countries (11.1% in Russia in 2006, 10.6% in Poland in 2008, 8.1% in Thailand, 15.1% in Chile, 21.4% in Brazil). Kazakhstan's population is comparatively low. However, Kazakhstan could be a springboard for expanding into the entire Central Asian region: Kazakhstan is the largest economy in Central Asia and borders on all other Central Asian countries. Furthermore, it lies close to the Caucasus region. Together, Central Asia and the Caucasus offer a combined GDP of over USD 230 billion (IMF, 2010a).

- **Quality and flexibility of the labour market**: Kazakhstan's labour market is regarded as comparatively efficient and flexible. According to the World Bank (2010), Kazakhstan ranks 38th worldwide in labour market flexibility, ahead of its regional peers such as Ukraine (83rd) and Russia (103rd). According to the World Economic Forum Labour Market Efficiency Index (2010), Kazakhstan ranks 21st in labour market efficiency, ahead of established market economies such as The Netherlands (23rd) and Taiwan (34th) as well as selected benchmark countries (Russia ranks 57th, Poland 53rd, Thailand 24th, Chile 44th, Brazil 96th). Also, Kazakhstan occupies the 30th position with respect to the World Economic Forum's Flexibility of Wage Determination index (Russia ranks 78th, Poland 47th, Thailand 90th, Chile 25th, Brazil 119th) (World Bank, 2011).

- **Favourable business environment**: Kazakhstan's macroeconomic environment is favourable with strong growth. GDP is expected to increase at a CAGR of 7.5% between 2010 and 2015, inflation is average and is projected to decrease over the next few years from 7% at present to 5.6% in 2014 (Economist Intelligence Unit, 2010). The tenge is projected to gradually appreciate over the same period against the major international currencies including the US dollar, the euro and the yen (Economist Intelligence Unit, 2010).

However, Kazakhstan ranks only 91st out of 139 countries in the 2011 World Economic Forum Institutions Index (vs. 64th position for Thailand and 54th for Poland) (World Economic Forum, 2010). Additionally, Kazakhstan occupies only the 72nd position (vs. 38th for Thailand and 39th for Poland) among the 139 countries in the 2011 World Economic Forum Competitiveness Index (World Economic Forum, 2010). Despite ranking above its regional peers, Kazakhstan nevertheless has a low ranking for physical property rights (94th out of 130) (International Property Rights Index, 2012a).

Areas for improvement: Kazakhstan can further improve its road and railway infrastructure, its supplier base and its financial markets

- **Infrastructure**: Kazakhstan ranks 124th out of 139 countries on the World Economic Forum Quality of Roads Index (World Economic Forum, 2011). Thailand is 36th, Chile 12th, Russia 125th, Poland 131st and Brazil 105th. Kazakhstan ranks 81st on the World Economic Forum Infrastructure Index, Russia 47th, Poland 72nd, Thailand 35th, Chile 40th and Brazil 62nd (World Economic Forum, 2011).

- **Retail landscape**: Only a few modern retailers (and only one of the largest 25 worldwide) are present in the market. Kazakhstan's retail sector is still largely dominated by traditional informal formats such as bazaars and open air markets (SRI, 2008). The few retailers present in Kazakhstan include Metro AG and Ramstore, a subsidiary of Migros Ticari AS. Metro AG opened its first store in Astana in 2009 and plans to open 10 to 15 wholesale

stores in Kazakhstan over the next few years. Ramstore entered the Kazakhstani market in 2000 and currently has 11 stores in Almaty, Astana, Karaganda and Shymkent. Vester, another retail chain, opened its first store in Karaganda in 2009 and had planned to add eight super- and hypermarkets in Astana, Almaty and in regional centres such as Pavlodar, Shymkent and Ust-Kamenogorsk (Deloitte, 2011). However, Vester decided in 2011 to exit the country (Kursiv, 2011).

- **Financial markets**: Kazakhstan's position in financial market rankings is relatively weak. It ranks 117th on The World Economic Forum Financial Market Development Index. Russia is positioned 125th, while the other benchmark countries score better: Poland 32nd, Thailand 51st, Chile 41st and Brazil 50th (World Economic Forum, 2011). Kazakhstan scores 50 out of 100 on the EIU Access to Financing for Farmers Index. Russia and Poland rank 100th, Thailand, Chile and Brazil 75th (EIU, 2011).

While these weaknesses should be addressed in order to foster a more favourable investment environment in the country, they are not impediments to a food processor's market entry, and they are less important than the factors making Kazakhstan an attractive destination for food processing FDI.

Identification of potential investors: the investment promotion effort targets those food processing companies most likely to expand into Kazakhstan

To ensure an efficient approach for investment promotion, it is important to identify correctly those investors most likely to expand into Kazakhstan. The identification follows a three-step process: (1) establishing the criteria for target company selection, (2) profiling the largest multinational retailers according to the identified criteria and (3) compiling a shortlist of potential investors.

Five priority food processing segments were selected by the Working Group on Investment Policy and Promotion based on their development potential and the segments' contribution to overall sector development in Kazakhstan: meat and poultry,

bakery products and cereals, processed sugar, milk and dairy, and snacks and desserts.

The approach to identifying food processors most likely to invest in Kazakhstan employed some key filter criteria (activity in the pre-selected priority segments, international presence, presence in Eurasia or in at least two continents and a focus on non-food industries). It also comprised additional filter criteria such as revenue size, presence in countries close to Kazakhstan and a track record of positive local impact. By applying the described process to an initial list of 200 food processors, Kaznex Invest identified 28 food processors as likely or very likely to invest in Kazakhstan and therefore to be approached.

Adjustment of the investment promotion organisation: setting up a task force for food processing investment promotion

Adjusting the investment promotion organisation to include a sectoral task force permits interaction with potential investors in a more efficient way and with fewer interfaces. Investors should be able to deal with expert interfaces able to provide them with the required information in a timely manner or able to approach them in investment promotion fairs. The governmental task force could consist of three levels with the following responsibilities:

- **Coordination level**: This level functions as the management body providing overall guidance. Coordination could occur, for example, under the direction of a vice minister.

- **Front-office level**: This should be the single point of contact for international investors. The front-office level could be staffed with appointed sector specialists (ideally with private sector experience) and be supported by regional managers offering region-specific advice.

- **Back-office level**: This level has the role of a support body providing technical expertise and operational support to the front-office level. The back office could be staffed with a number of appointed specialists working part time.

Adapting investment policies to improve the food processing business environment

Government policies should target the areas in Kazakhstan that have the greatest potential for improvement: for example road and rail infrastructure, construction permitting procedures and taxation and repatriation of profits.

Elaborating detailed suggestions for investment policy change would go beyond the scope of this handbook. However, the following investment improvement levers suggested by the OECD (2012), the WTO (2012) and the World Bank (2012) should be investigated:

- **Infrastructure**: Infrastructure construction (road and rail), support of infrastructure construction by public private partnerships and concession agreements.
- **Construction Permitting Procedures**: Streamlining of development and construction permitting procedures.
- **Taxation and Export of Profits**: Establishment of double tax treaties, streamlining of the tax system and facilitation of the repatriation of profits.

Chapter 5

Promoting investment in the food retail sector

This chapter applies the methodology for investment promotion to Kazakhstan's food retail industry. As the initial step of the methodology, the selection of the pilot sectors, is complete, the chapter below describes the final four steps of the methodology: identifying the characteristics and success factors for food retailing, assessing the country's relative strengths and weaknesses, identifying potential investors, adjusting the investment promotion organisation and implementing the investment promotion effort.

Sector characteristics and success factors: rapid expansion of global retailers into fast-growing emerging markets

Over the past few decades, the food retail industry has steadily grown in all geographical areas. Business models for those expansions, referred to as “modern retail formats”, included hypermarkets, supermarkets, discounters, and cash and carry chains. High merchandise volumes and increasingly efficient business procedures have permitted lower unit margins. This has enabled larger food retailers to set prices that are lower than those of smaller store formats generally referred to as “traditional retail” and to expand into low-income emerging markets (OECD 2010).

Since the 1960s, the modern food retail industry has steadily expanded globally, and its share in the total grocery distribution across all geographical areas has grown. In 2008 the top 15 global modern food retailers accounted for more than 30% of world modern retail sales (Euromonitor, 2008; OECD, 2010).

The growing international presence of the largest food retailers is illustrated in Figure 5.1. On average, an international retailer enters a new geographic market every 20 months. However, a

major share of turnover generally remains in the food retailer's region of origin.

Figure 5.1 The twenty-five largest food retailers are present in different world areas

Retailer	2009 sales ($bn)	# of stores	HQ	# of countries			
				Europe	Asia	Americas	ROW
Walmart	405	8,500	USA	2	4	12	1
Carrefour	120	14,300	France	12	19	4	4
Metro	92	2,200	Germany	26	6		1
Tesco	89	4,900	UK	8	6	1	
Schwartz Group	81	10,000	Germany	27			
Kroger	77	3,700	USA			1	
Rewe	71	13,200	Germany	13			
Costco	70	560	USA	1	3	4	1
Aldi	69	9,500	Germany	16		1	1
Target	64	1,800	USA			2	
Edeka	59	15,100	Germany	2			
Auchan	55	3,000	France	10	3		
Seven & I	55	26,400	Japan	3	9	3	1
AEON	54	15,800	Japan		5	2	
Woolworths	42	3,900	Australia	1		2	
Safeway	41	1,900	USA			3	
Supervalu	41	2,500	USA			1	
Ahold	39	5,300	Netherlands	10		1	
Casino Group	37	10,800	France	3	7	5	4
Coles Group	36	3,400	Australia				2
J Sainsbury	30	900	UK	2			
Leclerc	29	1,200	France	6			
Delhaize Group	28	2,800	Belgium	6	1	1	
Loblaw Cos.	27	1,500	Canada			1	
ITM	25	4,200	France	8			

Source: Companies' official websites, accessed between January 2011 and May 2012.

Nine criteria are fundamental to a market entry decision by food retailers

Food retail MNEs have several criteria for evaluating a potential market entry. Interviews conducted in 2011 with industry experts and executives from three of the largest European food retailers indicated nine criteria used to define the expansion opportunities in a country, each with a set of common indicators:

1. **Attractiveness of the end-consumer market**: population, GPD per capita, share of urban population, share and growth rate of the middle class, total retail sales.
2. **Limited degree of competition**: company concentration, degree of international competition.
3. **Quality of road and railway infrastructure**: Infrastructure rankings by international organisations (*e.g.* World Economic Forum Infrastructure Index, World Economic Forum Quality of Roads Index).
4. **Favourable business environment**: Business environment rankings by international organisations (*e.g.* World Economic Forum Global Competitiveness Index, World Economic Forum Institutions Index).
5. **Quality of local supplier base**: established presence of multinational FMCG suppliers, availability of local agribusiness suppliers of sufficient individual size or associated through cooperatives.
6. **Quality and flexibility of labour market**: Labour market flexibility rankings by international organisations (*e.g.* World Economic Forum Labour Market Efficiency Ranking, WEF Flexibility of Wage Determination Index).
7. **Efficient construction permitting procedures**: Ease of permitting procedures rankings by international organisations (*e.g.* World Bank Construction Permits Index, World Bank ranking of number of procedures).

8. **Favourable taxation system/legislation for profit repatriation**: Corporate tax rate; terms for profit repatriation.
9. **Good strategy fit**: fit of the target country with the overall international expansion strategy.

Box 3. Towards a more standard approach to international retailer expansions

In recent decades, international expansion strategies by international modern retailers have increasingly converged. This has resulted in approaches targeting country selection and market entry that have several common traits. The approach to international market entry usually encompasses the elements below:

Focus on developing economies: Focus on emerging countries, especially those with a rapidly growing broad-based middle class (GDP per capita in the range of USD 5 000 to10 000).

"Greenfield" approach: Acquisition of sites or assets from competitors in order to allow retailers to implement their established operating models. Long-term control or site ownership, or

Joint ventures with non-competitors: Setting up of temporary joint ventures with non-competing enterprises. A venture owned by local partners is usually bought out later in the expansion phase. For instance, Tesco Plc. formed a joint venture with agri-businesses such as Sime Darby Berhad in Malaysia and the Charoen Pokphand Group in Thailand (Studymode, 2008).

Local sourcing: Identification and build-up of local food processors able to supply products with high and consistent quality. World-leading FMCG suppliers for key brands should be established in the country. Small local suppliers should be organised in agricultural co-operatives in order to establish international quality standards. Merchandise should be tailored to local tastes.

"Ink-spot strategy": Selection of a country as a springboard for accessing an entire region. For instance, Carrefour used Brazil as a platform to expand further into South America, Wal-Mart used Mexico to move into Central America and Tesco Plc. used Hungary and Poland as a basis for its Central European expansion (Accenture, 2011).

Build-up of transportation infrastructure: Build-up and support of high-volume distribution networks, mostly owned and managed by the retailer's own staff.

Appreciation of local tastes: Merchandise adaptation to local tastes traded off against capturing of economies of scale in food production and logistics.

Strengths and weaknesses: Poland and Thailand are selected as benchmarks to assess Kazakhstan's food retail FDI potential

Two countries that have built up a large and thriving food retail sector were selected for this analysis: Poland and Thailand (Accenture, 2011). For Poland, 1998 was chosen as the base year of analysis, and 1996 for Thailand. These years were turning points in the development of their successful modern retail sectors. In addition to Kazakhstan's relative position against Poland and Thailand, its place in international country rankings is taken into account.

After its market entry in 1996, Tesco Plc. purchased 280 Savia stores all over Poland. At the time of entry, existing food retailers in Poland included Royal Ahold N.V., Allkauf-Metro AG and HIT GmbH. Following Tesco Plc., Auchan Group and Casino Group entered Poland in 1996 (company websites).

Similarly, Tesco Plc. entered Thailand in 1998. At that time, food retailers in Thailand included Carrefour Group, Makro-Metro AG, BIG-C/Casino Group. Today, Tesco Plc. owns 88 hypermarkets and over 500 smaller stores in the country (Tesco Lotus, 2012).

In addition to Kazakhstan's relative position against the benchmark countries, its place in international country rankings is taken into account.

Strengths: Kazakhstan scored well on four of the nine market-expansion criteria

Kazakhstan's relative strengths lie in its attractive customer base, its low level of retailer competition, its efficient and flexible labour market and its overall fit with food retailers' common expansion strategies. More specifically, the Kazakhstani market is characterised by the following strengths:

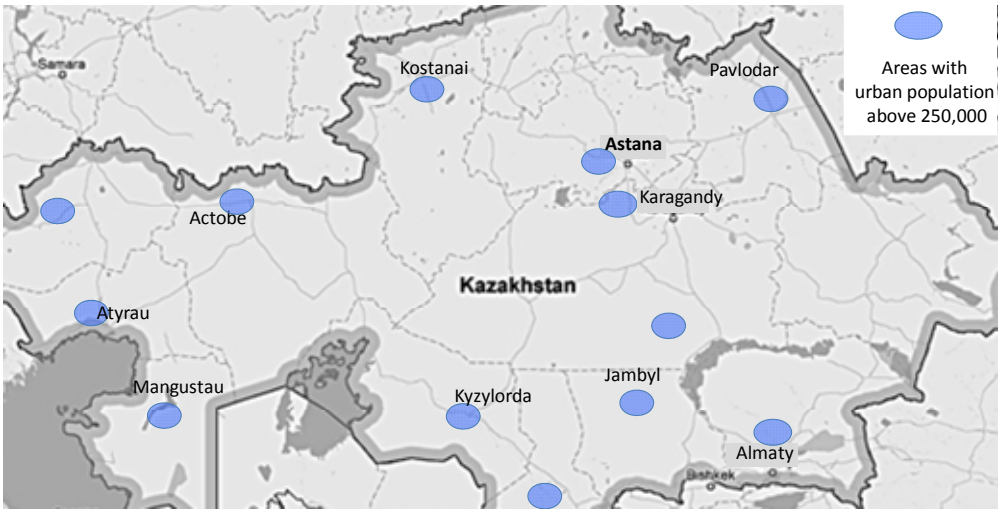
- **Attractiveness of the end-consumer market**: Kazakhstan's GDP per capita of USD 7 400 in 2009 (World Bank, 2012) is high in comparison to USD 1 800 in Thailand in 1998 (USD 2 367 expressed at 2009 prices) and USD 4 100 in Poland in 1996 (USD 5 581 expressed in

2009 values) (World Bank, 2012)[2]. Kazakhstan's GDP grew at a CAGR of 5.8% from 2004 to 2009 (EIU, 2009) against 4% in Thailand from 1993 to 1998 (World Bank, 2012) and 4.2% in Poland from 1991 to1996 (World Bank, 2012).

At 15.4% (Word Bank, 2009), Kazakhstan's poverty count is at a comparable level to Thailand's in 1998 (13.6%) (World Bank, 2009) and Poland's in 1996 (12-13%) (World Bank, 2009).

Kazakhstan's urban population is 9.2 million or 60% of the total population (UNDP, 2011). Thailand had an urban population of 17.0 million (30% of its total population) in 1998, and 23.7 million Poles lived in urban areas in 1996 (61% of the total population) (UN ESA, 2011). The main urban areas in Kazakhstan are indicated in Figure 5.2.

Figure 5.2 Nearly 60% of Kazakhstan's population lives in urban areas

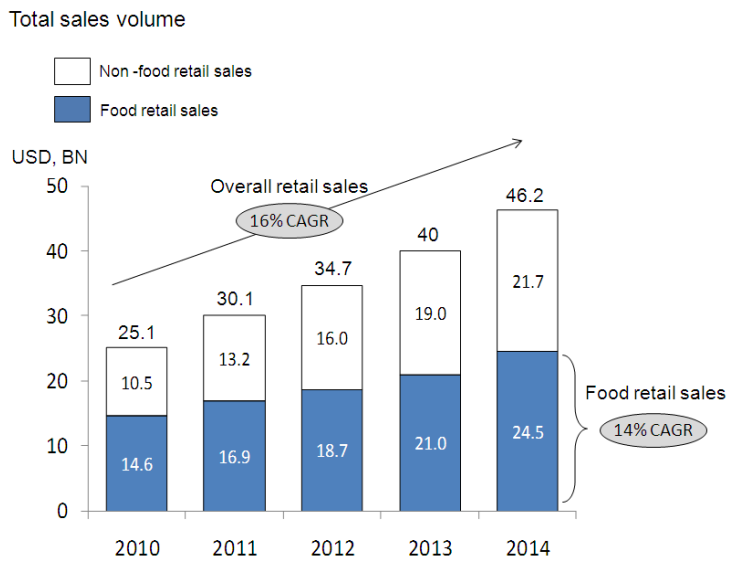


Source: ASRK, 2011.

As a consequence of customer demographics, Kazakhstan's Food Retail sales are expected to grow at an annual rate of 16% between 2010 and 2016 (Economist Intelligence Unit, 2010), see Figure 5.3.

[2] Expressed in current USD.

Figure 5.3 Kazakhstan's Food Retail market is expected to grow at a CAGR of 14% until 2014



Source: Economist Intelligence Unit, 2010.

Additionally, Kazakhstan could be a springboard for expanding into the entire Central Asian region. Kazakhstan is the largest economy in Central Asia and borders all of the other Central Asian countries. Furthermore, it lies close to the Caucasus region. Central Asia and the Caucasus offer a combined disposable income of over USD 260 billion (IMF 2010b).

- **Limited competition**: The competitive landscape in Kazakhstan provides an opportunity for international modern retailers. Only a few modern retailers are present in the market, and Kazakhstan's retail sector is still largely dominated by traditional informal formats such as bazaars and open air markets (SRI, 2008).

The retailers present in Kazakhstan are Metro AG and Ramstore, a subsidiary of Migros Ticari AS. Metro AG opened its first store in Astana in 2009 and plans to open 10 to 15 wholesale stores in Kazakhstan over the coming years. Ramstore entered the Kazakhstani market in 2000 and now has 11 stores in Almaty, Astana, Karaganda and Shymkent. Vester, another retail chain, opened its first store in Karaganda in 2009 and

planned to open eight super- and hypermarkets in Astana and Almaty and in regional centres such as Pavlodar, Shymkent and Ust-Kamenogorsk (Deloitte, 2011). However, Vester decided to exit the country in 2011 (Kursiv, 2011).

When Tesco Plc. entered Thailand in 1998, local competitors included Carrefour Group and Makro-Metro AG. Royal Ahold and Allkauf/Metro AG were present in the Polish market in 1998, while Auchan Group and Casino Group also entered the market in 1996.

- **Quality and flexibility of the labour market**: Kazakhstan's labour market is regarded as comparatively efficient and flexible. According to the World Bank (2010), Kazakhstan ranks 38th worldwide in labour market flexibility, ahead of its regional peers such as Ukraine (83rd position) and Russia (103rd position). According to the World Economic Forum Labour Market Efficiency Index (2010), Kazakhstan ranks 21st in labour market efficiency, ahead of established market economies such as The Netherlands (23rd), Thailand (24th) and Taiwan (34th).

- **Good strategy fit**: Kazakhstan shows several characteristics that correspond with the previously described common international expansion strategies. Kazakhstan is an emerging economy with a rapidly growing broad-based middle class, and it has the potential to become a springboard for a future market entry into other Central Asian countries.

Areas for improvement: Kazakhstan can further improve its road and railway infrastructure, its supplier base, its construction permitting procedures and its tax system

- **Infrastructure**: Kazakhstan's current transportation network includes 93 000 km of roads, 15 000 km of railways, numerous logistics centres as well as free-trade zones to facilitate production, warehousing and transportation. Roads and the railway network account for the transportation of nearly 90% of total cargo volume (OECD, 2010).

However, the quality and efficiency of the transportation infrastructure are still rather poor, and internal demand for high-quality logistics services is not met by supply. The volume of railway freight grew at a rate of 6.4% p.a. between 2000 and 2007, and the freight volume transported by road trucks increased at an annual rate of 8.3% during the same period (OECD, 2010).

Kazakhstan ranks 81st out of 139 countries in the World Economic Forum Infrastructure Index (2010). In comparison, Thailand ranks 35th and Poland 72nd.

- **Supplier base**: Kazakhstan's supplier base remains rather weak. However, FDI in the food processing industry is increasing steadily: it has grown from USD 37 million in 2004 to USD 125 million in 2008. This represents a CAGR of 35% (ASRK, 2009), and most multinational food processing companies already have a commercial presence in Kazakhstan. These include major suppliers of international retailers, such as The Coca-Cola Company, Procter & Gamble, Unilever Group and Nestlé SA. However, most food processing MNEs do not produce locally.

Interviews conducted with food retailers already present in Kazakhstan also highlight weaknesses in the supplier base: there are rather few large scale and reliable local suppliers, there are no greenhouses, and retail chains have to import meat supplies from Germany and Poland, because of the perceived lower quality of meat produced in Kazakhstan (Retailer Interview, 2012).

- **Construction permitting procedures**: Kazakhstan's law on real estate property entitles foreign entities to ownership rights: Foreign legal entities and foreign citizens may own land designated for industrial and residential use and may rent all other categories of land in Kazakhstan (Baker and McKenzie, 2012).

However, Kazakhstan needs to shorten the timeline and reduce the costs involved for retailers to obtain development and construction permits. Kazakhstan ranks 147th out of 183 countries in the World Bank Construction Permitting Index (World Bank, 2011). Kazakhstan's 34 procedural steps for obtaining a retail market construction permit exceed the 11 steps

required in Thailand and are still more numerous than the 32 required in Poland (World Bank, 2011).

- **Taxation system/repatriation of profits**: While food retailers can export profits from Kazakhstan, the relevant tax system is perceived as too complex (EIU, 2010). The repatriation of profits is generally regulated by double taxation treaties, exempting profits made in Kazakhstan from tax payments in the home market. Kazakhstan's corporate income tax of 20% is comparatively low. Kazakhstan has ratified double tax treaties with 45 countries, including the US, UK, France, Russia, Korea, Turkey and China (KaznexInvest, 2012).

Despite these features, Kazakhstan's tax system remains rather complex for investors. Kazakhstan scores the lowest among 16 countries in the region on the dimensions of fairness and complexity of the corporate tax system. This may make Kazakhstan less attractive in the eyes of potential investors (EIU, 2010).

While these weaknesses should be addressed in order to foster a more favourable investment environment in the country, they are not impediments to a retailer's market entry and they are less important than the factors making Kazakhstan an attractive destination for food retail FDI.

Identification of potential investors: the investment promotion effort targets those food processing companies most likely to expand into Kazakhstan

To ensure an efficient approach to investment promotion, it is important to correctly identify those investors most likely to expand into Kazakhstan. The identification follows a three-step process: (1) establishing the criteria for company selection, (2) profiling the largest multinational retailers, *e.g.* an extended company list based on Figure 5.1, according to the identified criteria and (3) compiling a shortlist of potential investors. This third step of the selection procedure involves, again, a three-step filtering process.

The process for identifying retailers most likely to invest in Kazakhstan involves crucial filter criteria (international presence,

presence in Eurasia or in at least two continents and a focus on non-food industries). It also comprises additional filter criteria such as revenue size, presence in countries in Central Asia and a track record of positive local impact. By applying this procedure, Kaznex Invest identified 21 international food retailers as likely to invest in Kazakhstan and to be approached.

Adjustment of the investment promotion organisation: setting up a task force for food processing investment promotion

Adjusting the investment promotion organisation to include a sectoral task force permits interaction with potential investors in a more proficient way and with fewer interfaces. Investors can deal with expert interfaces able to provide them with the required information in a timely manner or able to approach them in investment promotion fairs. The governmental task force could consist of three levels with the following responsibilities:

- **Coordination level**: This level functions as the management body providing overall guidance. Coordination could occur, for example, under the direction of a vice minister.
- **Front-office level**: This should be the single point of contact for international investors. The front-office level could be staffed with appointed sector specialists (ideally with private sector experience) and be supported by regional managers offering region-specific advice.
- **Back-office level**: This level has the role of a support body providing technical expertise and operational support to the front-office level. The back office could be staffed with a number of appointed specialists working part time.

Adapting investment policies to improve the food retail business environment

Government policies should target the areas in Kazakhstan that have the greatest potential for improvement: road and railway infrastructure, construction permitting procedures and taxation/repatriation of profits.

Elaborating detailed suggestions for investment policy change would go beyond the scope of this handbook. However, the following investment improvement levers suggested by the OECD (2012), the WTO (2012) and the World Bank (2012) should be investigated:

- **Infrastructure**: Infrastructure construction (road and railway), support of infrastructure construction by public private partnerships and concession agreements.
- **Construction Permitting Procedures**: Streamlining of development and construction permitting procedures.
- **Taxation and Export of Profits**: Establishment of double tax treaties, streamlining of the tax system and facilitation of repatriation of profits.

The availability and quality of food supplies have been identified as important challenges to food retail investors. The government should therefore adopt additional policies aimed at addressing this difficulty:

- **Definition of quality standards for suppliers**: Development of public standards to ensure the availability of high-quality merchandise for retailers.
- **Definition of incentives to support investments in new technologies for food processors**: Incentivising the adoption of new technologies (*e.g.* through regulations and fiscal policy).
- **Simplification of food processors' access to finance**: Improvement of access to finance (*e.g.* financing schemes, credit guarantee schemes or interest free loans).
- **Incentivising the formation of supplier co-operatives**: Incentivising the formation of supplier co-operatives with the aim of increasing high-quality supplies of processed foods (*e.g.* easier access to finance and fiscal benefits for co-operatives).

- **Development of a sector database of local suppliers**: Construction of a sector database of local food suppliers for modern retailers to provide transparency on the supply market. This database needs to be maintained and updated regularly.

Chapter 6

The way forward

This handbook illustrates Kazakhstan's economic potential for attracting incremental FDI through a sectoral investment promotion approach and, thus, allowing for a more balanced economy. While Kazakhstan is already experiencing significant FDI inflows, investment has been concentrated mainly in extractive industries, limiting the diversification of Kazakhstan's economy.

To tailor a sectoral approach to investment promotion, a five-step methodology was suggested and then applied to two pilot sectors:

- Identify pilot sectors for investment promotion;
- Identify the key success factors for the pilot sectors;
- Assess the country's relative strengths and weaknesses in the pilot sectors;
- Identify potential investors;
- Adjust the investment promotion organisation and implement the investment promotion effort.

Within the agribusiness value chain, a priority segment for Kazakhstan's economy, food processing and food retail were selected as pilot sectors to tailor and test the recommended approach for sectoral investment promotion.

When identifying the industry dynamics of the food processing and the food retail sector, the global industries showed attractive growth rates and sector trends facilitating further long-term

growth. Additionally, food processors and food retailers were characterised as increasingly international and constantly looking for international expansion opportunities. Kazakhstan also demonstrated significant development potential. Several determinants were identified as key for food processing and food retail investors when expanding internationally, most importantly the end consumer and the labour market, the degree of competition, the macroeconomic environment, the supplier base and the logistical infrastructure.

Kazakhstan's growth prospects in the food processing and food retail sectors were confirmed when comparing the economy's characteristics to those of the benchmark countries in the period before they successfully developed sizable food processing and food retail sectors. This analysis was done according to the international expansion criteria identified.

When compared to the benchmark countries, Kazakhstan's food processing market displayed relative strengths in the attractiveness of its end-consumer market, in the efficiency and flexibility of its labour market and an advantageous macroeconomic environment. However, in order to compete more effectively, Kazakhstan would need to expand its supplier base and to improve its logistical infrastructure further. These limitations are confirmed by investors in the market.

Kazakhstan's relative strengths for international modern retailers lie in its current and future customer base, its low level of competition, its efficient and flexible labour market and its fit to modern retailers' typical expansion strategies. While Kazakhstan's infrastructure, its supplier base, its permitting procedures and its tax system and the legislation for the repatriation of profits showed some weaknesses, they are not significant impediments for modern retailers entering Kazakhstan's market, which is attractive overall.

In order to approach international food processors and retailers in a targeted manner, criteria were defined to identify the most suitable candidates. In an identification process, Kaznex Invest prioritised 28 food processors and 21 modern retailers in Europe, Asia and North America for investment promotion.

To include a sectoral dimension in investment promotion and offer fewer, more proficient interfaces to potential investors, it is suggested that sectoral task forces for both food processing and food retailing are established. The task forces should comprise an expert interface with investors, a coordination committee and back-office support.

To facilitate investor attraction, the investment climate in food processing and food retailing should be improved by addressing the identified weaknesses. Recommended actions include:

- Further improve road and railway infrastructure;
- Facilitate permitting procedures for construction;
- Facilitate access to finance for food processors;
- Facilitate the repatriation of profits;
- Provide increased incentives for investments in food processing co-operatives and technology;
- Establish higher quality standards for food processors.

It was additionally suggested that a sector database of local food processors be developed to facilitate the attraction of food retail investors.

With a tested and adjusted sectoral investment policy approach in place, this methodology should be rolled out to other sectors in Kazakhstan's economy. By doing this, additional investments in non-extractive industries will allow the country to diversify its economy and increase economic growth and employment.

Bibliography

ABF (Brazil Franchising Association) (n. d), *www.portaldofranchising.com.br/arquivos/2012_Evolucao_dos_Segmentos_geral.pdf*, accessed October 2012.

Accenture (2011), "The Future of the Retail Industry: Retail in 2020", *www.accenture.com/us-en/Pages/insight-retail-2020.aspx*, accessed September 2012.

ASRK (Agency of Statistics of the Republic of Kazakhstan) (2009), *Kazakhstan 2009, Statistical Yearbook*, ASRK, Astana, *www.eng.stat.kz/Pages/default.aspx*, accessed August 2012.

ASRK (2011), *Kazakhstan 2011, Statistical Yearbook*, ASRK, Astana, www.eng.stat.kz/*Pages/default.aspx*, accessed August 2012.

ASRK (2010, 2011, 2012), *www.eng.stat.kz/Pages/default.aspx*, accessed August 2012.

Auchan Group (2012), "Auchan History", *www.fundinguniverse.com/company-histories/auchan-history/*, accessed October 2012.

Baker and McKenzie (2012), "Doing Business in Kazakhstan", *www.bakermckenzie.com/files/Uploads/Documents/Supporting%20Your%20Business*, accessed October 2012.

Basinger, S. and M. Hallerberg, (2004), "Remodelling the Competition for Capital: How Domestic Politics Erases the Race to the Bottom", *American Political Science Review*, Vol. 98, issue 2, pp. 261-291.

Blomstrom, M. and A. Kokko, (1997), "How Foreign Investment Affects Host Countries", *World Bank Policy Research Working Paper 1745*.

Casino Group (2012), "Casino Guichard-Perrachon S.A. History", *www.fundinguniverse.com/company-histories/casino-guichard-perrachon-s-a-history/*, accessed October 2012.

Deloitte (2011), "Hidden Heroes - The Next Generation of Retail Markets", Deloitte, Planet Retail, www.deloitte.com/assets/DcomKenya/Local%20Assets/Documents/Deloitte%20_Hidden%20Heroes_2011.pdf, accessed September 2012.

EIU (The Economist Intelligence Unit Limited) (2010), *Kazakhstan. Country Forecast September 2010*, The Economist Intelligence Unit Limited, 2010.

Euromonitor (2008), "Global Food Retail", Euromonitor International.

Euromonitor (2010), "Outlook of US Food Products Consumption and Export Trends" presented at 2010 Food Export Marketing Forum, http://fea.files.cms-plus.com/Presentations/Outlook%20for%20Global%20Food%20Trade.pdf, accessed October 2012.

FIAS (The Multi-donor Investment Climate Advisory Service of the World Bank Group) (2008), *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development*, The World Bank Group, Washington.

GUS (Central Statistical Office of Poland), "Annual Macroeconomic Indicators", www.stat.gov.pl/gus/index_ENG_HTML.htm, accessed October 2012.

Haaker, M. (1999), "Spillovers from Foreign Direct Investment through Labour Turnover: The Supply of Management Skills", Discussion Paper, London School of Economics, London.

Hayes, J. (2003), "Globalization and Capital Taxation in Consensus and Majoritarian Democracies", *World Politics,* Vol. 56, issue 1, pp.79-113.

IMF (International Monetary Fund) (2010a), *Regional economic outlook: Middle East and Central Asia*, http://www.imf.org/external/pubs/ft/reo/2010/mcd/eng/10/mreo1024.pdf, accessed November 2012.

IMF (2010b), *Regional Economic Outlook: Asia and Pacific*, *www.imf.org/external/pubs/ft/reo/2012/APD/eng/areo0412.htm*, accessed August 2012.

IndexMundi (2012): "Kazakhstan Land Use"; *http://www.indexmundi.com/kazakhstan/land_use.html*, accessed July 2012.

International Property Rights Index (2012a), "2012 Report", http://www.internationalpropertyrightsindex.org/data, accessed October 2012.

International Property Rights Index (2012b), "County Profile: Kazakhstan", *http://internationalpropertyrightsindex.org/profile?location=Kazakhstan*, accessed October 2012.

Kaufmann, L. (1997), "A Model of Spillovers through Labour Recruitment", *International Economic Journal*, Vol. 11, No. 3.

Kaznex Invest (2012), "Invest in Kazakhstan", *http://www.invest.gov.kz/?option=content&section=5&itemid=119*, accessed October 2012.

Kursiv (2011), Крепкий орешек "Вестера" (Tough Nut "Vester"), Kursiv Kazakhstan online magazine, www.kursiv.kz/1195214250-krepkij-oreshek-vestera.html, accessed October 2012.

Mattmueller R. and R. Tunder (2004), *Strategisches Handelsmarketing*, Vahlen.

Ministry of Industry and New Technologies of the Republic of Kazakhstan (2012), "Информация о ходе реализации Государственной программы по форсированному индустриально-инновационному развитию Республики Казахстан на 2010-2014 годы за 2011 год" (Information on the Implementation of the Governmental Program of Forced Industrial-Innovational Development of the Republic of Kazakhstan 2010-2014 for 2011), *www.mint.gov.kz/index.php?id=298&lang=ru&lang=en*, accessed September 2012.

ODEPA (Oficina de Estudios y Políticas Agrarias - Chile), www.odepa.gob.cl/util/Web.action;jsessionid=D1DECAC6A86EEB936DFF6DC6EC2A3EA3, accessed October 2012.

OECD (2006), "Investment Reform Index: Progress in Policy Reforms to Improve the Investment Climate in South East Europe", OECD, Paris.

OECD (2010), *Competitiveness and Private Sector Development: Kazakhstan 2010 – Sector Competitiveness Strategy*, OECD Publishing, *www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/competitiveness-and-private-sector-development-kazakhstan-2010_9789264089792-en*, accessed August 2012.

OECD (2012), *Investment Policy Reviews: Kazakhstan 2012,* OECD Publishing, *www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/oecd-investment-policy-reviews-kazakhstan-2012_9789264121812-en*, accessed August 2012.

Rodriguez-Clare, A. (1996), "Multinationals, Linkages, and Economic Development", *American Economic Review*, Vol. 86, No.4.

Sjoholm, F. (2008), "The Effect of FDI on Employment and Technology in China", Research Institute of Industrial Economics and Örebro University.

SRI (Silk Road Intelligencer) (2008), "Analysis: Kazakhstan stands on verge of a retail revolution", Silk Road Intelligencer - News and Analysis from Kazakhstan, *http://silkroadintelligencer.com/2008/06/25/kazakhstan-stands-on-verge-of-a-retail-revolution/*, accessed September 2012.

Studymode (2008), "Basic Info about Tesco Malaysia", *www.studymode.com/essays/Basic-Info-About-Tesco-Malaysia-176384.html*, accessed September 2012.

Tesco Lotus (Tesco in Thailand) (2012), "Key Facts", *http://tescolotus.com/left.php?lang=en&menu=corporate_en&data=profile*, accessed September 2012.

The Economist (2012), "Why Georgia is Different", *The Economist*, Vol. 405, No. 8807.

The World Bank (2010) "Doing business 2010. Comparing regulation in 183 economies", http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB10-FullReport.pdf, accessed November 2012.

The World Bank (2012), "Data, Kazakhstan ", http://data.worldbank.org/country/kazakhstan, accessed 26 October.

UN ESA (United Nations, Department of Economic and Social Affairs) (2011), "World Urbanization Prospects, the 2011 Revision", *http://esa.un.org/unup/*, accessed September 2012.

United States Department of Agriculture (USDA) (2009), "Food Processing", *www.usda.gov/wps/portal/usda/usdahome*, accessed August 2012.

Wang, J.Y. and M. Blomstrom (1992), "Foreign Investment and Technology Transfer: A Simple Model", *European Economic Review,* Vol. 26.

World Bank (2009), "Property Rights Index", World Bank Publishing.

World Bank (2012), "Business Environment Snapshot for Kazakhstan", *http://rru.worldbank.org/BESnapshots/Kazakhstan/default.aspx*, accessed August 2012.

World Economic Forum (2010), *The Global Competitiveness Report 2010-2011*, *www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf*, accessed September 2012.

World Economic Forum (2011), *The Global Competitiveness Report 2011-2012*, http://www.weforum.org/issues/global-competitiveness, accessed October 2012.

World Economic Forum Financial Market Development Index (2010), *Global Competitiveness Report 2010-2011*, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, accessed November 2012.

World Economic Forum Infrastructure Index (2010), *Global Competitiveness Report 2010-2011*, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, accessed September 2012.

World Economic Forum Institutions Index (2010), *Global Competitiveness Report 2010-2011*, www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf.

World Economic Forum Labour Market Efficiency Index (2010), *The Global Competitiveness Report 2010–2011*, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf, accessed October 2012.

WTO (World Trade Organisation) (2012), "WTO Rules Can Help Developing Countries Achieve Developmental Priorities, Says DDG Rugwabiza", *www.wto.org/english/news_e/news12_e/fac_11sep12_e.htm*, accessed September 2012.

Zakon.kz, 2012, "В Казахстане действуют 9 специальных экономических зон" (There are 9 special economic zones active in Kazakhstan), *www.zakon.kz/4469759-v-kazakhstane-dejjstvujut-9-specialnykh.html*, accessed September 2012.