

**BASIC MECHANISMS OF STATE REGULATION OF INVESTMENT ACTIVITIES
OF THE REPUBLIC OF KAZAKHSTAN**

By

Dossanova Amina

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY

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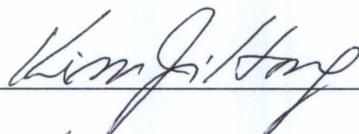
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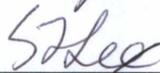
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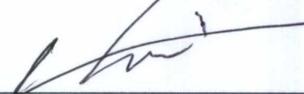
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ABSTRACT

BASIC MECHANISMS OF STATE REGULATION OF INVESTMENT ACTIVITIES OF THE REPUBLIC OF KAZAKHSTAN

by

Dossanova Amina

There are 8 thousand companies with foreign capital already exist in Kazakhstan, including the companies of the list Fortune-500. Our country ranks first among the Central Asian countries and second among CIS countries in terms of accumulated foreign direct investments over the past 10 years.

As a result from 1993 Kazakhstan has attracted more than U.S. \$ 126 billion. However, it should be noted that about 74% of all FDI in Kazakhstan for 2000-2009 provided investors who focused on the raw materials sector and only 26% - targeted markets.

So far the state has a major tasks to achieve rapid industrialization and diversification of Kazakhstan economy.

In this direction the government has a clear strategic objectives, which are reflected in launched in 2010 the State program of accelerated industrial-innovative development. The main objectives of the program are to create new export-oriented high-tech industries, infrastructure development, strengthening the national innovation system, training of local personnel.

Priority sectors are identified within the state program.

The first year of the state program has proved the correctness of the chosen strategy, which also confirms the positive tendency of the involved investments in the manufacturing industry - 2.1 billion U.S. dollars in 2010, almost 17% higher compared to the same period in 2009. Among these investments are projects with German, French, Russian, Chinese, Austrian, American, Korean and Arab companies.

For all these projects extensive financial resources will require. In this regard, creating a comfortable environment for business, including for investors is a priority for the Government. It should be noted that Kazakh President Nursultan Nazarbayev has repeatedly emphasized the special role of investment in sustainable economic development of Kazakhstan.

Objective external assessment of the Government improvement the business climate in the country is formed by the World Bank rating «Doing Business». The Republic of Kazakhstan for several years takes fairly high position in the overall ranking of business.

Actively work started in 2008 to improve Kazakhstan's position in the ranking of World Bank «Doing Business», under the chairmanship of the Deputy Prime Minister of the Republic of Kazakhstan. All the reforms and activities reflected in the Comprehensive Plan of measures to improve the ranking of indicators «Doing Business» World Bank. As a result, in 2010, the Government of the Republic of Kazakhstan held a number of legislative and administrative reforms, adoption of which is largely influenced by improving the business climate, and as a consequence - to further promote the rating of Kazakhstan.

This year, the reforms will continue.

Thus, Kazakhstan since its independence follows policy of maximum openness and stability.

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2012

Dedicated to my family

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First of all I would like to say thanks to KOICA for giving me an opportunity to graduate from KDI School of Public Policy and get my Master's Degree in Public Policy. Hopefully such as programs like KOICA's program will continue and will give more opportunities to Kazakh officials receive knowledge from the prestigious country – Korea.

Next I would like to express my gratitude to staff of KDI School of Public Policy for their work during my education period.

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I would like to say my words of love to my lovely husband, Ardak Dossanov and my daughters Dariga Yermagambet and Aiganym Yermagambet who have always been with me during my studying and now helped me to complete my thesis.

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Introduction

In the annual address to the people of Kazakhstan concerning basic trends in domestic and foreign policy, "Kazakhstan's strategy of joining the world's 50 most competitive countries. Kazakhstan is on the threshold of a major breakthrough in its development"¹, the President of the Republic of Kazakhstan N.A. Nazarbayev identified a major priority for the further modernization and diversification of Kazakhstan's economy as the foundation for sustainable economic growth.

At the present stage of the development for Kazakhstan is expedient to hold a focused and effective investment policy of the state.

State investment policy - an integral part of socio-economic policy that reflects the sound economic and financial measures of state regulation of investment processes in the interests of the entire national economy. The main targets of the strategy are the welfare of the nation (yield), saving national security (risks) in case of limited resources (budget, indirect interventions) and absence of time.

Currently, in order to improve the system-management approaches internal and external resources to maximize the effectiveness of the implementation of priority projects need further improvement of investment policy. In addition, it is relevant, by the following factors: favorable price situation on global markets continues to maintain a high rate of growth of primary industries, to address the strategic objectives of diversifying the economy requires the mobilization of investment resources, including the implementation of major "breakthrough" projects aimed at accelerating the development of manufacturing industry and infrastructure, the acute economic problem is the high level of moral and physical wear and tear of fixed assets, particularly in manufacturing industries and infrastructure, in the face of increasing international competition, increasing demands on the country's investment climate, as with foreign and international investors, and from the domestic business, including small businesses, investment activity varies significantly in different regions of the country, leading to imbalances in socio-economic development of regions.

Since independence of Kazakhstan there are favorable conditions for attracting local and foreign investment to domestic economy. From yy. 1993-2011 foreign direct investment (FDI) worth over U.S. \$125 billion attracted. By the volume of FDI per capita Kazakhstan is one of the leaders not only in CIS countries, but among all countries with transit economy.

The role of the state in the sphere of investment activity remains paramount in the present national economy. The state can regulate and direct investment flows to the main basis for the further use of the medium-term budgetary planning and programming.

¹ Address by the President of the Republic of Kazakhstan, February 2008 H.E. Mr. Nursultan Nazarbayev Kazakhstan's strategy of joining the world's 50 most competitive countries Kazakhstan is on the threshold of a major breakthrough in its development

The aim of the thesis is to study the basic mechanisms of state regulation of investment activities of the Republic of Kazakhstan.

According to the aim there are following objectives created:

- to consider the theoretical issues of state regulation of investment activities;
- to explore the world of investment experience, its applicability in the context of Kazakhstan;
- to consider mechanisms for the implementation of investment activity in Kazakhstan in a present-day conditions;
- to analyze the dynamics of development of investment activity;
- to evaluate the prospects and directions of development of investment activity of the Republic of Kazakhstan.

The subject of study is the investment activities and mechanisms for its implementation.

As the basis of the study were selected institutional framework to support the initiatives of private and public sectors, national institutions and development companies, local development institutions, Eurasian Development Bank, commercial banks, pension funds , National Fund of the Republic of Kazakhstan, chambers of commerce, associations and other business associations.

The first chapter is devoted to the work of the theoretical foundations, global experience and mechanisms for implementing the investment policy in the modern world.

The second chapter contains an analysis of the mechanisms of state regulation of investment activity in Kazakhstan.

The third chapter describes the basic directions of improvement of mechanisms of state regulation of investment activities of the Republic of Kazakhstan

Methodological basis for the implementation of the thesis were the scientific works of local and foreign scientists - economists, materials, periodicals, and statistics.

PART 1 THEORETICAL FOUNDATIONS OF STATE REGULATION OF INVESTMENT IN THE CURRENT CONDITIONS

1.1 The essence, the forms and the methods of investment activities

The studies showed that the concept of "investment" in domestic practice, very narrowly interpreted, and the transition to a market economy has caused the appearance in the national practice of his many interpretations of foreign investment. Specification of investment activities' components are important for building its regional model most adequately reflects the current investment process, which will be presented in subsequent chapters.

The most complex nature of investments is disclosed by L.P. Kurakov. He gives the following definition of this category. First, the investment is a concept that covers so-called real investment, similar to the term "capital expenditure", "financial" (portfolio) investment, i.e. investments in stocks, bonds and other securities, directly related to the title of the property, entitling them to receive income from it. They can be as an additional source of capital investment and stock market game on the subject of the securities market. But part of portfolio investments is an investments in shares of the companies of various branches of material production - by its nature is no different from direct investments in production. Direct investment is understood capital investments in real assets (manufacturing), which participates in the management of the investor, and a real - investments in land, real estate, cars. Second, the investment is that "savings" for the next day which cab be able to consume more in the future. One part of the investments is a consumer goods that are not used in the current period, and set aside for the future (investing in stock enhancement), the other part is the resources that are directed to increase production (investment in buildings, machinery, equipment). Third, an investment can understand as economic resources that are directed to increase the real capital of the company, i.e., expansion or modernization of the productive apparatus. The concept of "new" or "net" investment means that the share fixed capital increased. "Investment in to modernization" is the funds allocated for compensation of wear and tear of capital. The summary of "net investment" and "investment in compensation" is called "gross investment".

The investments are all kinds of property and intellectual property invested in to the objects of business to get profit, including:

- Movable and immovable property and property rights, liens, and other except goods which imported and intended to be sold without processing;
- Shares and other forms of participation in commercial companies;
- Bonds and other debt obligations;
- Requirements of money, goods, services, and any other performance on contracts related to investments;

- The right of intellectual property rights, including copyrights, patents, trademarks, industrial designs, processes, know-how, normative - technical, architectural, design and technological design documentation;

- Any right to operate based on the license or other form provided by the public agency.

For today there are a lot of developments in case of dividing investment for classification.

B. Shein said that the classical understanding of the term "investments" consist of the following types:

- consumer investment - the purchases of consumer durables and various real estate, which helps protect investment against inflation and even get an income in the commercial use of things (for example, renting, leasing);

- business investment (economic investment) - the creation of production to get profit, which means that any investment in real assets associated with the production of goods or services for profit in a "normal" risk;

- financial investments (investment securities) - the acquisition of assets in securities for a profit at the "portal" for this type of investment risk, in other words, investors transfer their rights to money instead of right to future income.

Investment process is participants' diversified activity in the reproduction process to build the real capital of the company. It is directly related to the dynamics of the economic system.

The Investment Law² was adopted by the Government of the Republic of Kazakhstan to give government support of direct investments. This legislation is based on the Constitution of RK, and consists of rules and regulations.

Government support for direct investments consists from:

- the legislative safeguards to ensure investment activity;
- the establishment of system of incentives and preferences;
- the presence of a single state agency which is authorized to represent government to investors;
- to provide security for the political and regulatory risks in accordance with agreements concluded by the Government of the RK with international organizations and relevant regulations of the RK.

The purpose of the government support of direct investments is to create a favorable investment climate to accelerate development of goods and services production in priority sectors, which list is approved by the President of RK.

The government has the following tasks in the process of achieving the goal:

1. The introduction of new technologies, advanced technology and know – how;
2. The saturation of the domestic market with high quality goods and services;

² Law of the Republic of Kazakhstan «On Investment» of 8 May 2003, number 373, bordereau Parliament of the Republic of Kazakhstan, 2003, N 1-2, art. 4; «Kazakhstan Pravda» of 11 January 2003 N 9-11; «Legal newspaper» of 29 January 2003 N 5.

3. Government support and promotion of domestic producers;
4. Development of export-and import-substituting industries;
5. Rational and comprehensive utilization of raw materials;
6. Introduction of modern methods of management and marketing;
7. Creating a new jobs;
8. The introduction of a system of continuous training of local staff by improving their skills;
9. Provision of intensification of production;
10. Improving the environment;

Investment as an economic category has a number of important functions. There is no any development of the economy in any state without them. Investment at the macro level are the basis to:

- implement the policy of expanded reproduction;
- accelerate scientific and technical progress, improving the quality and competitiveness of domestic products;
- restructuring of social production and the balanced development of all sectors of the economy;
- create the required raw materials industries;
- construction of civil engineering, development, health, culture, higher and secondary schools, as well as for solving other social problems;
- mitigate or solve the problems of unemployment;
- protect the environment;
- conversion of the military - industrial complex;
- ensure national defense and solve many other problems.

Government regulation of investment activity from manufacture prospective made in the form of capital investment and maintained by state authorities of RK, it specifically - the cost of construction - assembly work in the construction of buildings, purchase, installation commissioning of machinery and equipment design survey work, the content management under construction enterprise; training and retraining; costs allotment of land and resettlement due to construction, etc.

The statistical accounting and economic analysis of real investment is also called capital making. Capital making investments include the following elements:

- Investments in fixed assets;
- The cost of major repairs;
- Investments for the acquisition of land and natural resources;
- Investments in intangible assets (patents, licenses, software research - research and development - design development, etc.);
- Investments in replenishment of inventories.

Investment in fixed assets takes the main place in the structure of capital making investments in the amount of which includes the cost of new construction, reconstruction, expansion and modernization of existing industrial, agricultural, transport, trade and other businesses, the cost of housing and cultural - residential buildings.

Thus, the as a subjects of investment activity can be:

- Government;
- Natural and legal persons (domestic and foreign);
- Firms, joint stock companies, corporations, factories, etc.;
- Banks (domestic and commercial);
- Insurance companies;
- Pension funds (private and public);
- Investment funds;
- International organizations;
- Other non-budgetary funds, etc.

The objects of investment activity are:

- Fixed and circulating capital in all sectors of the economy;
- Securities (stocks, bonds, certificates, etc.);
- Target cash deposits;
- Scientific and technical products;
- Training and retraining;
- Property rights and intellectual property rights.

Wide range of objects and subjects of investment activities, which have different interests and carry out diverse activities in various spheres of social production. They cause an objective dependence to regulate their actions in the national economy. At the same time it makes the process of state regulation an extremely complex process. State has to create an enabling environment for investors, using a variety of forms, methods and tools for regulatory action is necessary to ensure the subordination of all subjects of investment overall goal of the state. It expresses the general thrust of the socio-economic development, promote the combination of the economic interests of all stakeholders of the investment process, increase their investment activity (see Figure 1).

The variety of subjects and objects of investment activity is also reflected in the variety of investment sources. It depends on who acts as an investor - the subject of investment - and the direction of investment programs. In connection with this investment sources can be:

- Investment allocations from the state budget, regional and local budgets;
- Own funds and reserves of farm investors. This profit, depreciation, cash accumulation and savings, proceeds from sale of surplus property, etc.;

- Borrowed funds investors. They are: banking, budget loans, bond loans and other means;
- Borrowed funds investors. They are: funds received from the sale of stocks, mutual and other contributions of members of labor collectives, from citizens, legal persons;
- Cash centralized by associations, unions, businesses;
- Relevant nonbudget funds - pension, insurance, investment and others;
- Foreign investment in various forms (Figure 2).

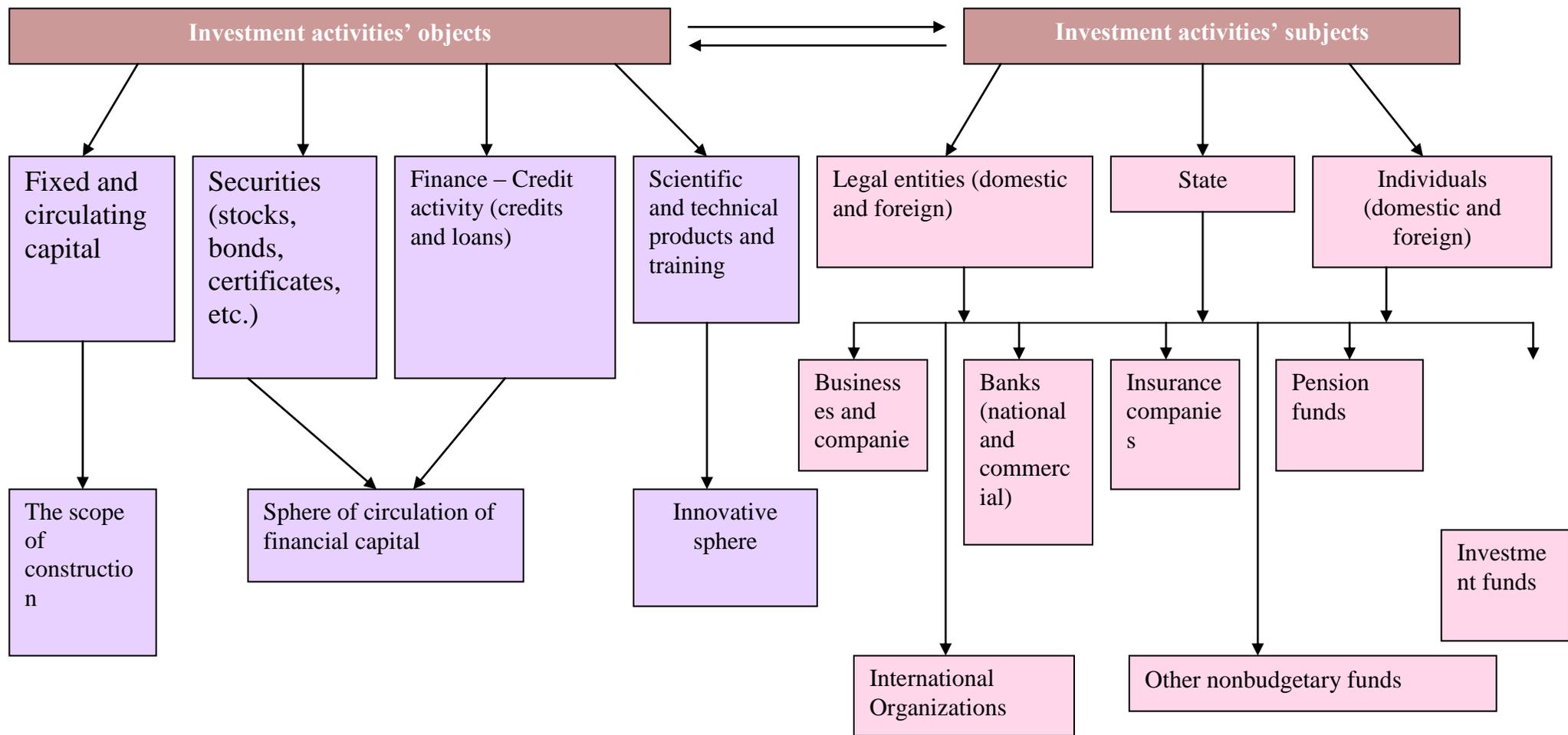


Figure 1 - subjects and objects of investment activity

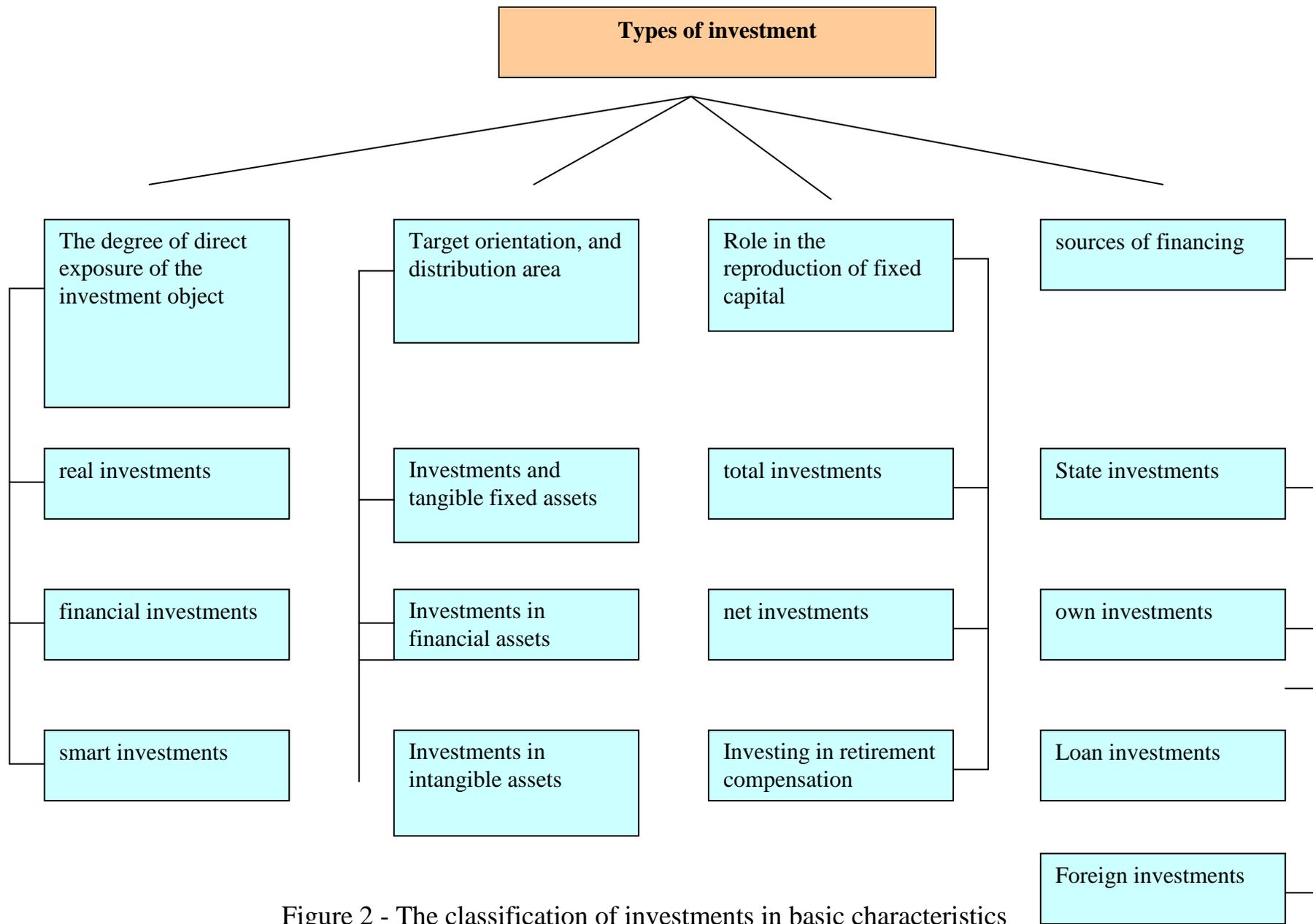


Figure 2 - The classification of investments in basic characteristics

In the development of a national investment strategy, the key role played by the establishment of rational relations between the state and the business. The state should create conditions for effective work of entrepreneurs to establish and maintain uniform rules for all economic activity. Legal, financial, credit, tax, depreciation, foreign policy and other activities of the state should be directed in to single channel. All of them need to improve the investment climate in the country, create conditions for investment in the economy, enhance the investment process at the national level.

Investment activity is presented in the appropriate public policy, which is carried out in accordance with certain principles. They are not permanent and depend on one or another stage in the development of national economy and the planned changes. The basic principles are the following:

- Economic security;
- Implementation of investment objectives of the state;
- Phasing and prioritization of investment resources;
- Non-interference of public authorities, social organizations, legal entities and individuals in the investment activity that does not contradict the legislation;
- Voluntary investment;
- Equality of all investors, regardless of ownership and activities;
- Protection of investments;
- Freedom of choice criteria in investment activities.

There is a large and diverse set of legal norms and instruments which are regulated key aspects of investment activity: foreign investment, taxation, bankruptcy deployment of investment resources, budget development, the relationship between the parties to the investment programs, etc. They clearly defined property rights, contract compliance, legal framework to protect investors' rights and other important issues related to investment activities.

State investment in the country is characterized by the dynamics of the following indicators:

- The total investment;
- The share of investment in gross domestic product (GDP);
- The share of real investment in total investment;
- The total value of real investment;
- The share of real investment in the fixed capital, etc.

Indirectly, but rather to objectively characterize the status of investment growth rates of key macroeconomic indicators:

1. national income;
2. GDP and GNP;
3. industrial production;
4. release some major industrial products;

5. agricultural production;
6. labor productivity;
7. and others.

The objectivity of those indicators in the evaluation of investment activity due to the fact that their growth is not conceivable without the investment. Those figures characterize the efficiency of investment. If the growth rates of those indicators are ahead of the pace of investment growth, it is a clear sign of efficiency investments and vice versa.

One of the source of investment are savings. But the problem is that savings are made among economic entities, and investments may be quite different groups of persons or entities. Saving the general population are a source of investment (e.g. savings worker, teacher, doctor, police, etc.). But these people do not carry out capital formation or investment associated with the real growth of capital goods company. Of course a source of investment and savings are functioning in society, industrial, agricultural and other enterprises. Here the "saver" and "investor" are the same. However, the role of savings of employees who are not at the same time, and entrepreneurs is very high, and the mismatch between savings and investment processes, In consequence of these differences may lead the economy into a state deviates from equilibrium.

The process of investment depends on such important factors as the expected rate of return, or profitability of prospective investment. If this return, according to an investor, too low, then the investment will not be realized.

In addition, the investor in making decisions always take into account alternative investment opportunities and there will be a critical level of interest rates. An investor can invest in new plant or factory (any company), and can place their money and resources in the bank. If the interest rate is higher than expected rate of return, then the investment will not be realized, and, conversely, if the interest rate below the expected rate of return, employers will carry out capital projects.

Inflation the most significant impact on investment, which in turn depends on the state of the economy - in the stabilization and economic recovery - it is reduced. It should be borne in mind that the process of inflation is closely linked rate of bank credit.

It is known that investment is accompanied by the potential benefits and potential risks, so the country's investment climate is determined, on the one hand its investment potential, and another hand - the investment risk. And the investment potential and investment risk are composed of many elements. Thus, the investment potential is defined as a weighted sum of partial potentials, including the potential:

- The resource-that is characterized by security of mineral reserves of natural resources;
- Labor, including labor and education and qualification level;
- Production, determined by the results of macro-economic activity in key sectors of the economy;
- Innovative, expressing the level of R&D to introduce the achievements;
- Infrastructure, defined the state of transportation and communication sector and investment

institutions;

- Financial, giving an idea about the volume of budget revenues, profitability of enterprises, the population's income;
- Consumer, expressed in purchasing power.

The risk of unexpected losses expected profits, assets, cash flows due to random changes in the conditions of economic activity, adverse circumstances characterizes the investment risk. As its main components are the following types of risk:

- Economic;
- Finance;
- Political;
- Social;
- Criminal;
- Legislative;

And environmental.

Reducing these risks is a one of the main directions of improving the investment climate.

In a survey conducted by the International Center for Tax and Investment, foreign investors among the attractive factors that influence the decision to invest, first called the natural-resource potential in Kazakhstan. However, not all components of investment potential and have a decent level for the state has a wide "field" activities to maintain and improve their various forms to improve the investment climate of Kazakhstan.

Investment activity is always directed at a profit or achieving social effect through investment. It can be implemented in all sectors of the economy. The principles of implementation are as follows:

- Non-interference of public authorities, social organizations, legal entities and individuals in the investment activity that does not contradict the legislation;
- Voluntary investment;
- Equality of all participants, investors, regardless of the ownership and activities;
- Protection of investments;
- Freedom of choice criteria in investment activities.

The relationship between the subjects of investment activity is determined by agreement between them. The contract is the primary legal document governing the production and economic activities and other relationships of investment activity and is their exclusive responsibility. Disputes arising from investment activities are treated in the manner prescribed by applicable law.

The main objectives of the investment policy are the direct state involvement in investment and create a favorable environment for the growth of investment activity, supporting the "life supporting" industries, infrastructure and social services, promote and attract private and foreign investment in priority sectors of

manufacturing, as well as increase the efficiency of capital investments.

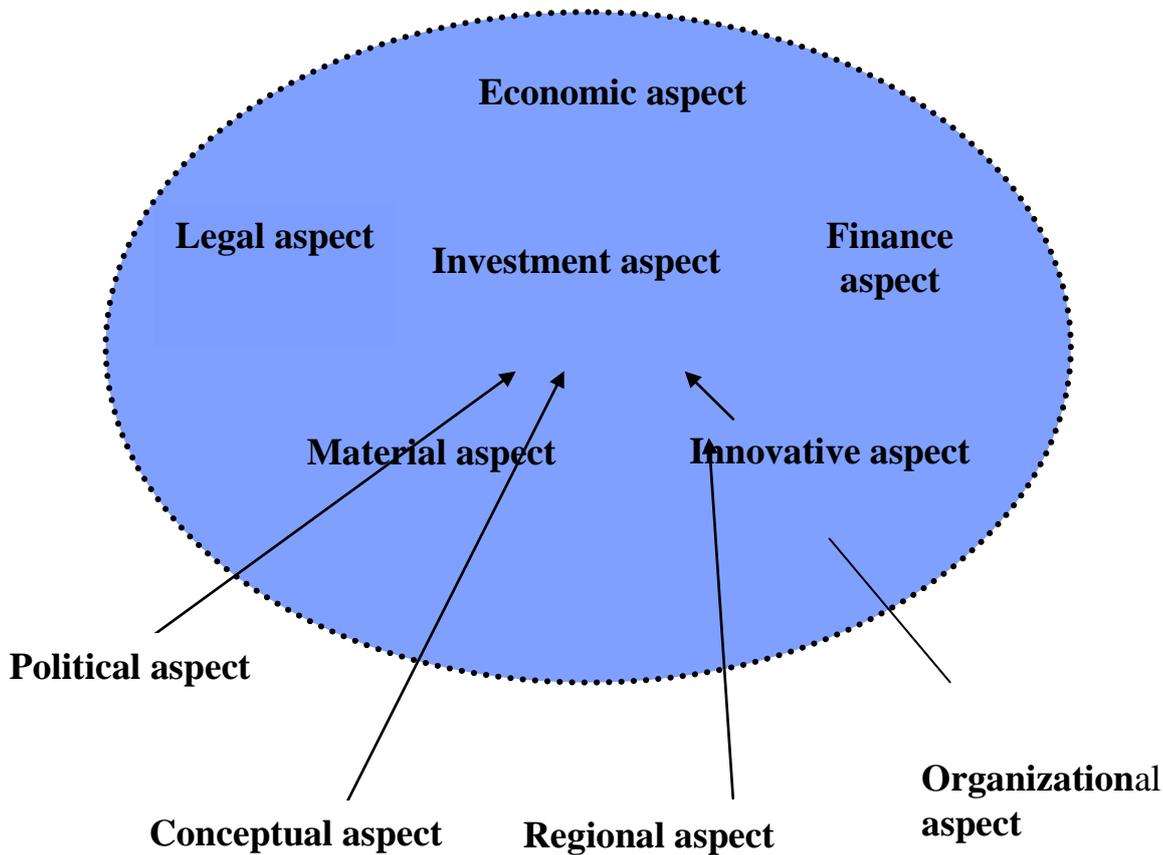
A list of working tools of investment policy is rather limited, so you need to know which tools in particular circumstances would work, what would be ineffective, and what kind will be the final result. In this situation, valuable historical experience of state regulatory policy, investment, which indicates the existence of models that combine several tools to elect the basic principle of this or that aspect of investment promotion.

1.2 Creation and implementation of investment policy in the system of state regulation of the economy

State investment policy is the authorities' activities to determine the most effective ways and objects to invest economic resources as well as actions taken by the government to attract investors and the efficient use of investment to solve the problems in the socio-economic development. In this case, effectiveness as a profit or achieving social effect as saving jobs, improving the environment, quality of life.

At each stage of development of society it is important to determine what type of economic growth was elected - extensive or intensive. Depending on what type of investment prevails in this case, we can identify different types of investment policy - the raw materials, industrial, financial, innovation, social.

When considering the current state of public investment policy (see Figure 3) is usually taken into account or a purely financial aspect, or even three dimensions: the macroeconomic, legal, logistical. That is not enough to develop an effective and feasible policies and public investment to achieve significant growth in investment, as many problems still remain unreached in this analysis.



Source: JSC “Center for Marketing and analytical research”

Figure 3 – Government investment policies aspects formation

The figure shows that the investment policy is on the intertwining of many large areas of state activity, in particularly regional, political, organizational aspects were added and the material, technical and economic aspects were expanded.

The economic aspect. From 1992 until mid-1996 the existing rate of inflation, high discount bank rate did not have to engage in investment activity, the price of capital was too high, new investment, "bitted" by inflation much earlier than the begin their return. But even with a fairly low investment for inflation (0.8-1.2% per month), established in late 1997 and early 1998 the growth of investment is not happening. And this, despite the decline in production and capital surplus. There are many explanations for this. First of all, the low efficiency of public investment, lack of reasonable and quality their utilization and possibility of making technology investment decisions.

In addition, the imperfection of the tax system makes it almost any production process unprofitable, therefore, unprofitable to invest to it. Additionally to this high refinancing rate established by the National Bank of RK, commercial banks and the rate of inflation. Very low level of currency in circulation and press nonpayment of business entities to each other, and it becomes clear that the economic conditions for

investment in real sector of the economy still look extremely risky.

The financial aspect. There are some imbalances as a result of the reforms in the economy and some of them becomes an obstacle to the continuation and completion of economy's transition period. Among them is a profound deformation of the structure of social capital was disrupted relationship between the production, trade, monetary and loan capital. The crisis caused major funds were unloaded more than half. As a result of price liberalization, current assets are impaired. A similar situation exists in the sphere of population's savings.

Public investment funds declined sharply, the bulk of capital is concentrated in the private and foreign sources. This involves the accumulation of investment potential, rather than the investment itself. The devaluation of the deposits has deprived the economy of the investment base, and lack of control of the financial market has led to an outflow of funds from a population. The real value of cash loan capital has declined sharply. Meanwhile, in the economically developed Western countries, the value of the assets of commercial banks significantly exceeds the GDP.

The researches show that in Kazakhstan there are a sufficient number of resources for investment and priorities of economic problems. And if they do not work in the right direction, it means that general economic laws and political conditions prevent this. Focusing only on financial, macroeconomic and legal aspects (reduction of loan interest yield on the securities market), it is impossible to achieve growth in investment in the real economy. Of course, it has to be return on investment higher than the return from operations in the financial market. Now it is 2-3 times lower, and in the next few years, this situation will not change even if an immediate change in economic policy, as there is a time lag between these changes in all the above areas. Some of the areas at a given point is almost inadequate to the task of investment growth.

Legal aspect. Though there are many regulations and legislation, major changes in the tax system has not yet happened. The Tax Code is still not conducive to the development of production and investment activity. "It is necessary to bring the tax system in a line with the objectives of this new phase of development of Kazakhstan. The current Tax Code has played a positive role in economic growth, but at present its capacity is almost exhausted. The Code includes over 170 exemptions and preferences which continuously grow"- Message from the President of the Republic of Kazakhstan to the people of Kazakhstan, Astana, 6 February 2008³. In general, in the country their no system of government, including legal which supports economic development.

The material-technical aspect. By the beginning of market reforms capital of Kazakhstan's economy had an average age of 10 years, while the share of equipment in the 5 years of age accounted for about 20% of functioning equipment. Now the average age of production equipment is more than 15 years, and the share of equipment at the age of 5 years declined to 5%. If these trends are not overcome, the operating

³ Address by the President of the Republic of Kazakhstan, February 2008 H.E. Mr. Nursultan Nazarbayev Growth of Welfare of Kazakhstan's Citizens is the Primary Goal of State Policy

equipment park will be cut 2 times. Along with the mentioned issues that affect the growth of investment, there is a problem the state of the production base of industries "working" on investment: building materials, construction industry, mechanical engineering. Their current status is not satisfactory. Thus, if the intended increase in investment will become a reality with the financial and macroeconomic position, it casually will be stopped by absence of material-technical supplying. If financial resources exist it is necessary to investment them in to construction industry and the production or procurement of construction equipment as first step. The task is complicated by the growth of investment decision at the same time the task of economic restructuring.

The innovative aspect. This aspect has deep roots and is linked to the explanation of economic development, as a result of innovations. For example, the theory of business cycles based on Shumpter's researches self-propelled process, where the original power generating cycles, serves the entrepreneur-innovator. Innovation is the embodiment of the channel in the life achievements of human intelligence, intellectualization of helping society. The quality of goods and services are improving with using innovation. Innovations make it possible to engage in the production of new productive forces, to produce goods and services at lower costs. Finally, the concentration of innovation in this particular sphere helps to bring the structure of production in line with the changing needs of the structure and the structure of the environment. Based on the functions of innovation in social development can be concluded about the crucial importance of transitions in the economy, especially in the crisis stage. This is because of crisis transitions, such as those characteristics that have been established at the moment in Kazakhstan, so there are considerable strain in the economy that can not be overcome even with significant investment without qualitative changes in almost all spheres. When considering the factors of innovation as having "the greatest transformative functions that change the production apparatus, products and organization to ensure economic sustainability and profitability of the firm in the strategic plan," the leading role of innovation in the investment policy becomes apparent.

The conceptual aspect. At the regional level is still lacking investment priorities. Investors do not know what they should build, develop and reconstruct on the basis of social policy. But in general at the state level there is no development strategy, the main tool which acts as the state investment policy. Therefore, without being tied to their primordial - the overall development strategy, or at least to the principal components of socio-economic policies, investment policies can not be not only effective, but generally realized.

In recent years among the main components of the economic policy of Kazakhstan's government not only the investment can be identified but also budget reform, overcoming the debt crisis, state regulation of natural monopolies, industrial policy, agricultural policy, innovation and science and technology policy, foreign policy, integration policy within the CIS and EU credit monetary policy, the policy in the field of entrepreneurship.

Among the components of social policy reforms can be identified in the system of housing and

communal services, housing policies, policies to protect the poor, reform of health systems, education, law and order.

Pursued economic policy focused on the rapid integration of Kazakhstan into the global economy. But for this there must be some outgoing conditions of economic transformation. In addition, reforms and development programs, including investment, should contain some concept, for example, with regard to restructuring, pricing policy, monetary policy, regional policy, which is especially important, linked to each other. So today is not clearly defined the role of place of investment policy in relation to these components of economic policy. Hence, the ineffectiveness of actions at all levels of government to attract investment and expenditure of resources. There is a problem of "vicious circle", which is to be activated the investment process necessary to implement the above-mentioned components of economic policy and to implement them to increase their investment. The output can be found by developing a new methodology for the formation of investment policy under the circumstances.

The organizational aspect. To develop and implement an investment policy requires institutional prerequisites, which include extensive infrastructure. Infrastructure development of the investment process is generally regarded in the narrow version, on the one hand, as a set of communication tools such as roads, communications, transport system. It is traditionally considered the main components of the necessary conditions for development, of course, subject to funding. On the other hand, for the development of the investment process requires special organization to integrate and promote the tools of the investment market: banks and banking information systems, stock exchanges, depositories, auditing and consulting companies, clearing centers, real estate, etc. The better-developed network of such firms the easier it is for investors to work in the region, the faster the movement of capital, the more efficient its use. This classification is not one of the major components - the state agency, including in the composition of the executive and legislative branches, is responsible for shaping and implementing the investment policy of the state. In addition, the presence of all necessary components are a major factor people willing and able to work in new ways. If within a certain territorial unit has accumulated a critical mass of people, many economic processes are activated, even in spite of all the other underdeveloped factors.

Based on the state system there are several levels of implementation of public investment policy: international, national, sectoral, regional, municipal. Figure 4 shows the basic structure of the authorities directly involved in the development and implementation of public investment policies at different levels.

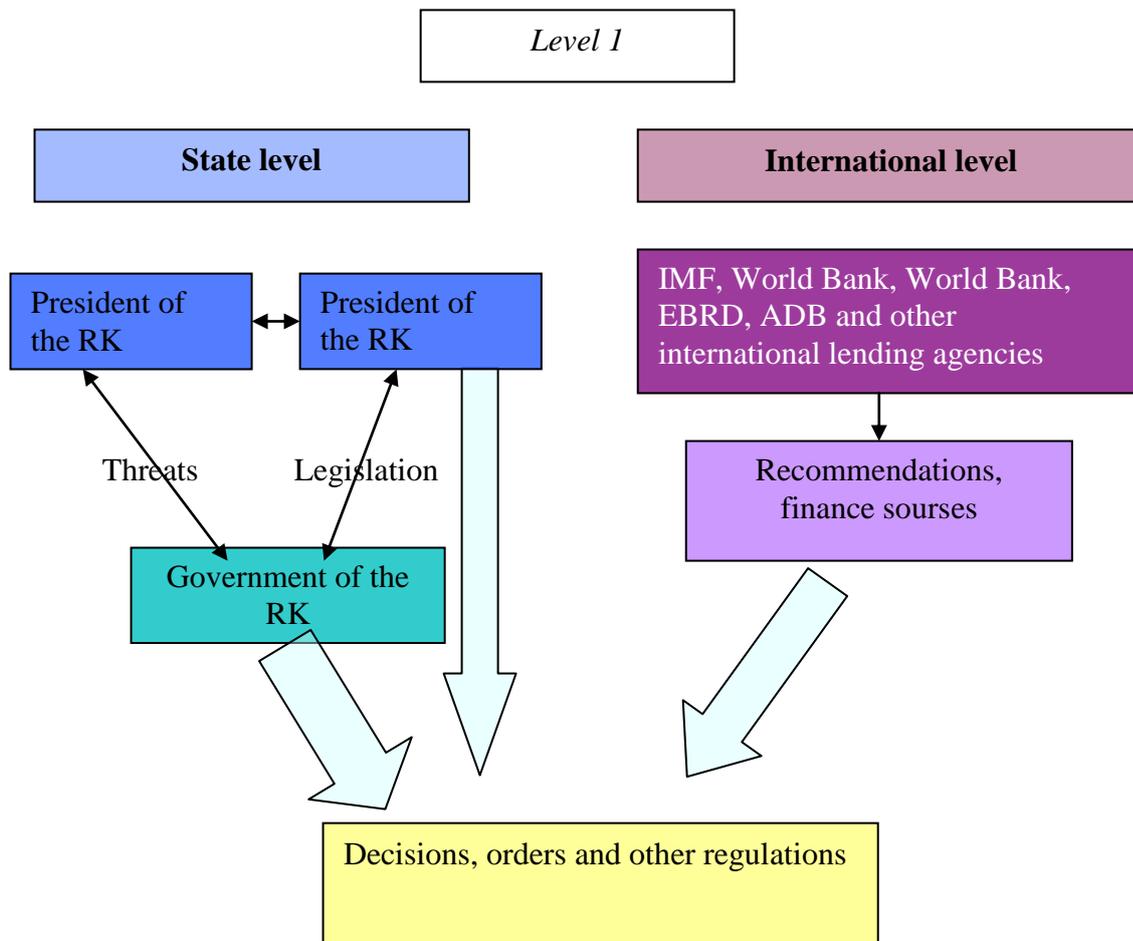


Figure 4 - The first level of public investment policy (international level)

The means of economic regulation are located in macro levels 1 and 2 when a market economy condition and transition. Higher public authorities make decisions, erecting into law, the proposals in various areas of public policy. At the same time as they take into account the proposals of the Government of the RK and the recommendations of international organizations.

To perform its regulatory functions the Ministry of Economic Development and Trade, Ministry of Finance and National Bank of the RK produce proposals for mechanisms, tools and means to enable the state to enforce economic, including investment, and politics. These suggestions as to the basic parameters of the monetary and financial policy and investment policy, reflected in the content of the Republican investment program. Has great influence monetary policy, the National Bank of the RK, which is often not related to the overall public investment policy and is independent.

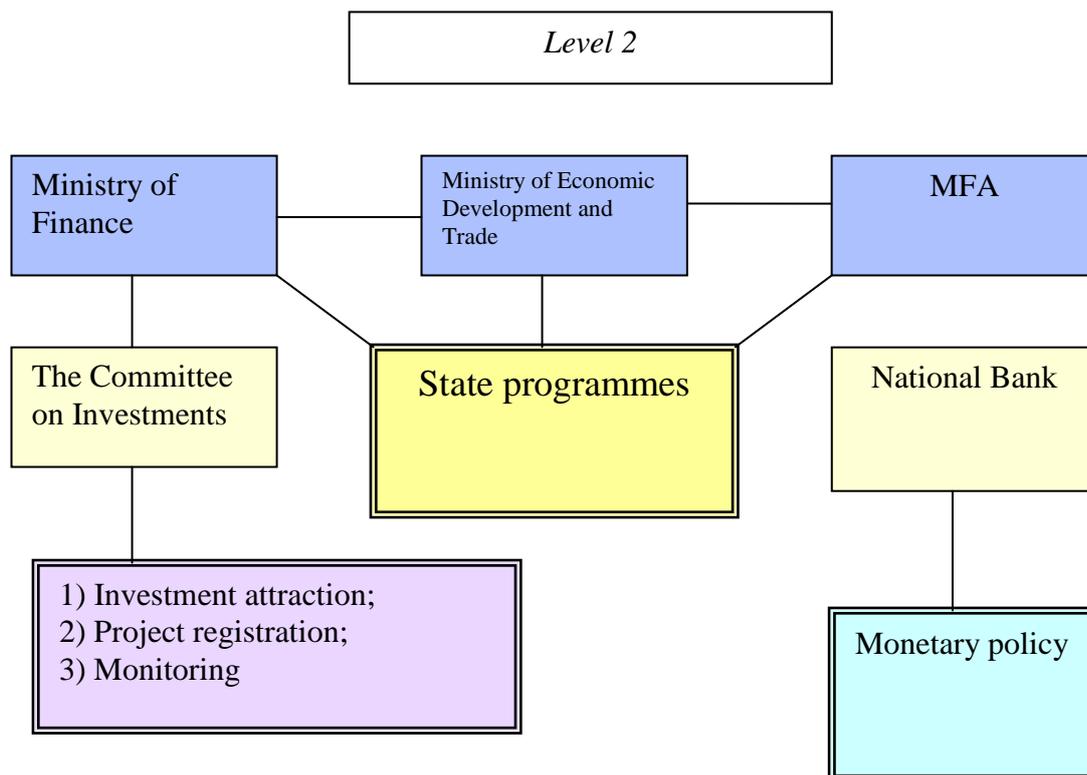


Figure 5 - The second level of public investment policies

Figure 5 shows the level of line ministries and agencies, which complements the previous level, but depends on the parameters set at levels 1 and 2. In particular, line ministries set limits on funding are developed and monitored by various investment programs of the national level. The total amounts on them are defined by the Ministry of Finance.

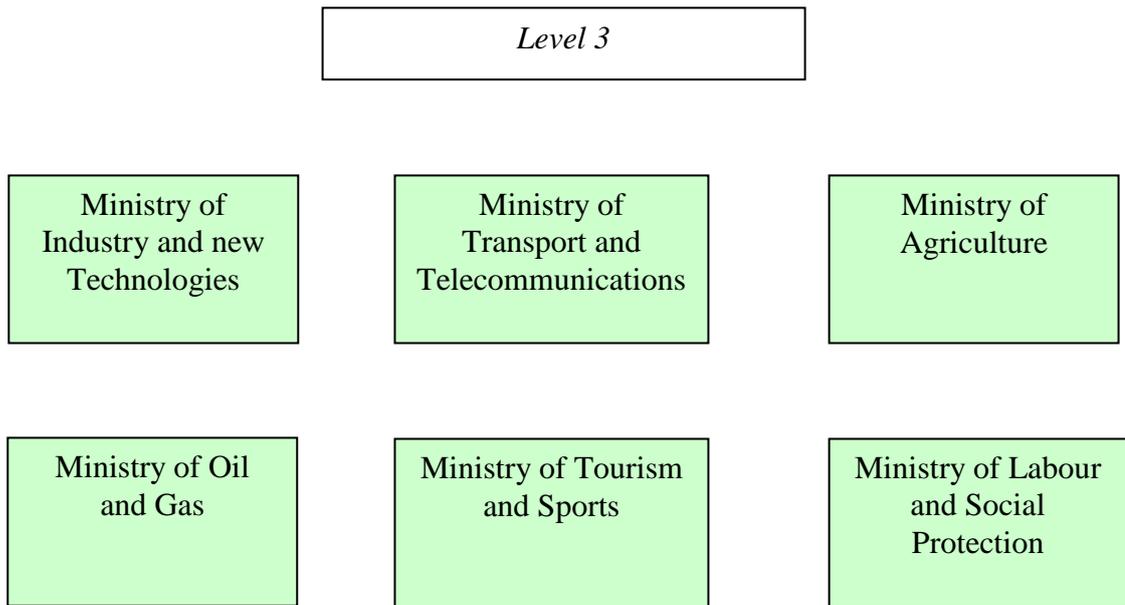


Figure 6 - The third level of government investment policy

As can be seen from Figure 6, the regional level is in fourth place in the overall system of state regulation of investment policy. It should be noted an important point, which is one of the factors attracting investors to the region - cooperation in formulating and implementing state of the regional investment policy in all branches of the regional government - the executive and legislative.

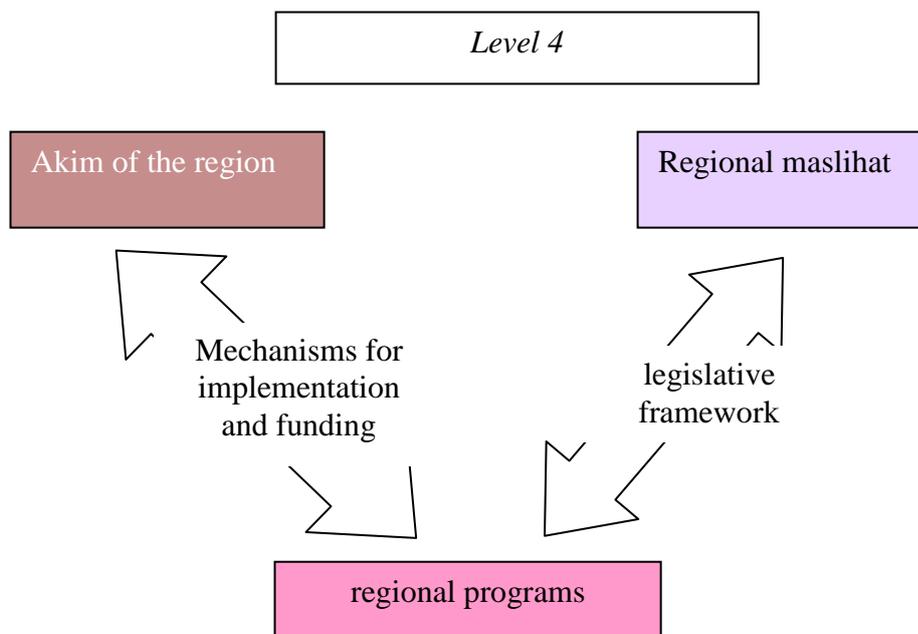


Figure 7 - The fourth level of government investment policy

Figure 7 shows that the development processes of local government in developing and implementing investment decisions there is another level - municipal. In practice, more common are municipal programs, loans, strategies for sustainable development. However, this level is facing the greatest difficulties, because if there is sufficient legal basis has the least theoretical, human, organizational and logistical readiness to implement the above-mentioned instruments of investment policy.

The regional aspect. Prior to the start of economic reforms in Kazakhstan, the process of developing an investment policy occurred at level 1, the implementation of public investment policies for all other levels. But with the development of local government, the regionalization process inevitably arises not only implementation but also the formation of economic, including investment, policies on other levels. And this process goes down lower and lower on the scheme. This became especially noticeable today at the regional level. Dedicated in levels due to the boundaries that outline the purview of the decisions on investment policy. So, between the first and the second levels the crucial difference is that one has the ability to set legal decisions, on the other - no. Differences between the second and the third by the degree of generalization of action: a national scale or the scale of individual industries. The fourth level is due to the delimitation of powers between the republic and its regions. With changes in economic relations between the territories of the country there is need for a more holistic approach to regional policy.

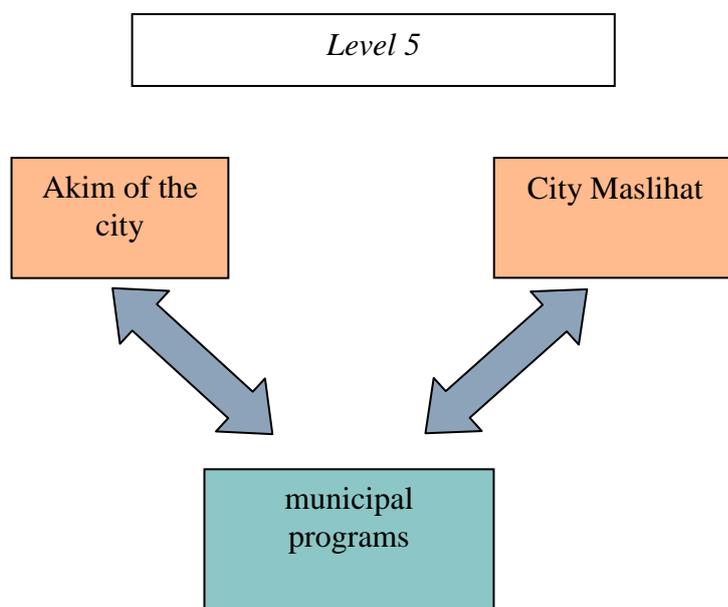


Figure 8 - The fifth level of public investment policies

Analysis of the structure of the levels of public investment policy, as shown in Figure 8, suggests that the responsibility for results lies with the investment of many ministries and departments, depending on the specific aspects of investment policy: global, sectoral, regional, short-term or long-term. In these diagrams show that each level are concrete structures. Thus, the investment management function is blurred, and the

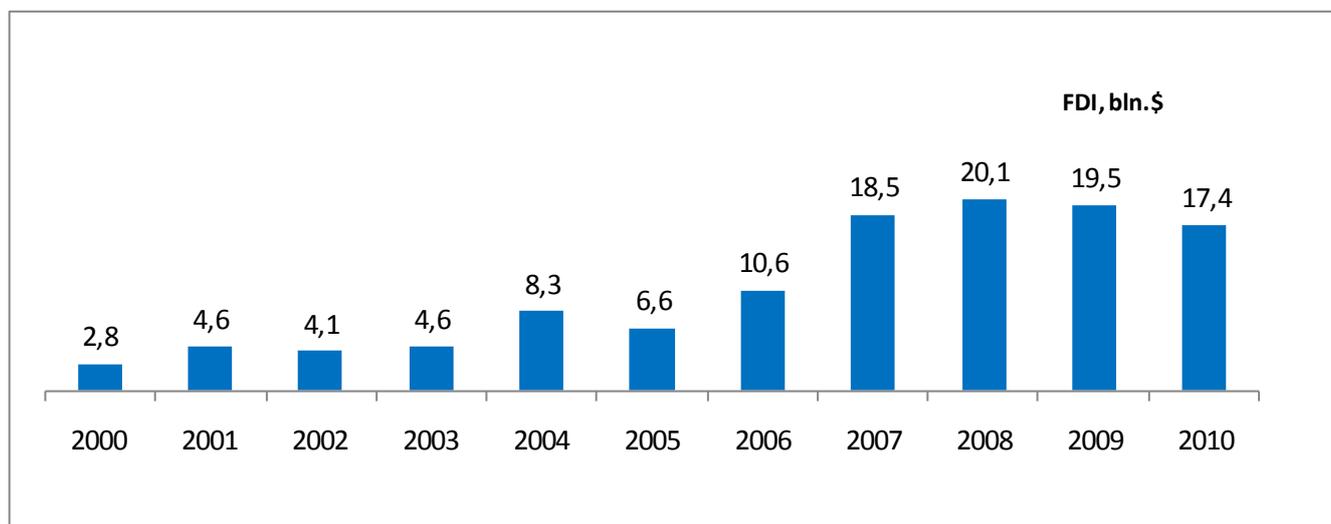
task of those implementing the investment policy is the task of connecting and integrating various levels of investment policy.

In summary, one can reasonably conclude that the investment process took place more effectively and rapidly, if the regions had their own investment policy, optimal combination with the state investment policy. It is impossible to develop a unified model of investment policy for all regions, but we can develop approaches to the formation of public investment policies at the regional level during the transition period, using the international experience of developing countries.

1.3 Foreign experience of organization of investment activities

An important condition for improving economic competitiveness is the availability of capital. Transition economies are experiencing strong investment famine in the first place, because of the lack of domestic savings, whose base is eroded by economic recession and inflation, which is characteristic for all countries in the transformation process, and secondly, because of the underdevelopment of the financial system, which prevents the formation and mobilization capital in the third, often due to lack of free access to debt capital because of low credit rating.

According to the data from Statistics Agency foreign capital in Kazakhstan in the year of independence till 2011 amounted to more than 125 billion U.S. dollars, or 80% of all investments directed to the Central Asian region (Figure 9).



Source: National Bank of the Republic of Kazakhstan

Figure 9 – FDI inflow to Kazakhstan

For developed countries, the West is characterized by an extremely active regional investment policy aimed at eliminating regional imbalances and alignment of economic development and social standards throughout the country. National measures to address regional issues, have much in common in various Western countries. Positive measures are intended to attract to these areas of functioning capital, the development of their social and economic infrastructure. Stimulating factors for the current here - private business sector, including banking, acts relative risk reduction of capital investment, including through subsidized loans and loan interest, increased profits by providing tax incentives. Practiced well as financial assistance to the creation in depressed urban areas and settlements in Germany and Norway, to attract foreign capital through the provision of mortgage and other benefits in France, Belgium and Ireland.

Common to Western countries has practically become a development program for regional development of problematic areas of their investment by providing state and local sources and stimulate private investment, including bank loans. The best known of the regional capital of southern Italy, northern Sweden, etc. Implementation of regional programs take on territorial authorities, in cooperation with the private sector plays a key role in a market economy with an active connection of investment banks.

Extremely large role of territorial authorities in the programming of investments in Japan, where these bodies are responsible not only regional but also sectoral development. For this country is characterized by active involvement in a network of commercial investment banks to participate in regional projects and programs. Important role in the implementation of regional investment programs belongs to the municipal banks, which in contrast to European countries actively involved in lending to large and private industry involved in international financial activities. The share of city banks in Japan accounts for about 36% of bank capital and 38% of all loans granted by banks. These banks tend to have headquarters in the largest cities in Japan and an extensive network of offices across the country. Regional banks in Japan are smaller in volume than in urban operations, and their activities are concentrated within the boundaries of prefectures in which they have established an extensive network of branches. Regional Banks focus on attracting deposits of individuals and entities, lending to small and medium-sized enterprises, secured transactions. Thus, it is extremely extensive and highly developed banking infrastructure in Japan creates the necessary preconditions for an active connection with the loan capital to long-term lending to regional projects and programs.

Unlike the United States and other countries, where very significant role of non-bank institutional investors - pension and insurance funds, investment companies, etc., superior to the financial strength of the banking sector in most Western countries it is this sector has a key role in credit investments. That bank loans are the main external source of finance for Western investors. It largely determines the leading role of commercial banks in the implementation of regional projects and programs in Western Europe.

In many Western European countries have a system of multiple state investment programs, including a regional focus. These programs are for a period of 2 to 10 years, in most cases - for 5 years. Investment

programs at the regional level, the system of local budgets are prepared in almost all Western European countries. In this five-year program based on the principle of a sliding scale, with each year of the program are reviewed, the numbers specified and move the next year. The use of program-target method allows you to implement the priorities of investment policy, including regional, understood as a complex of measures on investment for socio-economic development of regions and territories. Under the investment program should be understood as a set of specific projects, united by a common purpose and scope of capital investment (industry, region), supported by financial and other resources and organizational measures that ensure its application. At the same time be regarded as regional programs or projects which have a significant impact on the socio-economic situation and state of the market in the region.

Western European countries have made significant progress towards economic integration within the EU, took to the stage of an economic and monetary union. At the level of integration came and regional investment policy of the EU, facilitated by the existence of necessary for the international banking infrastructure. Its essential element is the European Investment Bank (EIB), established in accordance with the Treaty of Rome and began to operate in 1959 According to the charter the bank provides long-term loans of up to 20-25 years, as well as guarantees for private and public loans: loans granted by the same percentage provide a balance between management of loans, including debt repayment, the implementation of investment projects by providing guarantees and loans to public and private borrowers.

For a quarter century of the EIB has provided loans to almost 46 billion crowns, of which over 75% of the member countries mostly in developing energy, transport, telecommunications and other industries in line with EU objectives. Usually, this loan covers 50% of the investment project, in addition to equity of the borrower, including the involvement of other sources.

In recent years, a new area of credit activities EIB became post-communist countries of Central and Eastern Europe, especially those who have been associated with the EU: Poland, Hungary, Czech Republic, Slovakia, others. EIB activities began to spread in the post-Soviet space, which determines the prospects for cooperation with investment banks.

This practice is in the developed market economies, mostly in relation to foreign investors, which is enshrined in the document of the International Chamber of Commerce, entitled "Guidelines for International Investment" (1972) and the OECD in such documents as the "Code of liberalization of capital movements" (1961) and "Declaration on international investment and multinational enterprises" (1976).

In particular, the Declaration recommends that countries - members of the OECD to "provide companies operating in their territories and owned or controlled directly or indirectly by citizens of another member country, the regime in accordance with their laws, regulations and administrative practices, taking into account international law, and not less favorable than that accorded in similar circumstances to local businesses. "Simultaneously, the declaration recommends that OECD countries extend national treatment to investments of third countries.

The activity of foreign investors in the West is governed primarily by national laws, regulations and administrative procedures for all local entrepreneurs, both domestic and foreign. On most aspects of business national legislation makes no distinction between domestic and foreign companies applying to them the provisions of its extensive civil and commercial law, company law in particular.

National treatment offers many advantages to foreign investors: foreign businesses can establish their own company and manage the same conditions as domestic producers of goods and services, entering into competition with them, they can elect any particular country adopted in the corporate form of business; enjoy most of the local benefits, access to local financial, labor, scientific, technical, less natural resources, etc. The presence in the Kazakhstan national treatment to foreign investors, fixed by the Law "On Investment"⁴ opens up a potentially great opportunity in our country.

In the developed market economies, the state guarantees the rights and interests of foreign investors are decorated on three levels: a) based on the constitutions of these countries, b) through bilateral interstate relations on mutual protection and encouragement of foreign investment, and c) through participation in the Convention on the Settlement of Investment Disputes between States and Nationals of other countries.

The constitutions of Western countries is guaranteed by the immediacy of the property and usually stipulates that expropriation can only be carried out strictly in the public interest and guarantee fast and fair compensation and dispute resolution in case of disagreement with the fact that the owner of the expropriation of the size and timing of compensation. These rights have traditionally extended to foreign owners. In countries where there are laws and codes for foreign investment, and these rights are outlined in these laws and codes.

Western countries have an agreement on mutual protection of investments from foreign countries, mainly developing and post-socialist. Typically, they include the following main responsibilities: each contracting party undertakes to create favorable regime to investments of investors of the other hand, as well as related activities, to ensure the protection of foreign property, to provide a seamless transfer of income from investments; hear disputes on matters of mutual investments. The preamble states that the parties sign the agreement, wishing to create an enabling environment for increased investments by investors of one State in another.

The agreements on mutual protection and encouragement of foreign investment are usually set for regulating investment disputes between host States and foreign investors. This procedure is also regulated by the World Bank, signed in 1969 in Washington DC Convention on the Settlement of Investment Disputes between States and Nationals of other countries. In case of disagreement between them and operating on their territory by investors of the past may not have recourse to the protection of their State of origin, and contact the International Centre for Settlement of Investment Disputes (ICSID), established on the basis of

⁴ Law of the Republic of Kazakhstan «On Investment» of 8 May 2003, number 373, bordereau Parliament of the Republic of Kazakhstan, 2003, N 1-2, art. 4; «Kazakhstan Pravda» of 11 January 2003 N 9-11; «Legal newspaper» of 29 January 2003 N 5.

the convention.

In developed countries with market economies have national laws that protect the rights of holders of intellectual property (industrial property rights and copyrights), including foreign companies. At the same time, most of these countries are actively participating in international agreements to protect intellectual property rights and national legislation Street subject to the provisions of these agreements.

For foreign businesses operating in the West, protection of intellectual property owners is very urgent. After all, they have marketed overseas products must be protected from the "copy". Needs to be protected and transmitted them to his foreign business technology (by the way, it is often the technology of shares in these companies). Some mixed society in general are engaged in mainly trade licenses and "know-how," as for example, "Listek" in Finland, "Tehnounion" in Germany and "Technique" in Italy. The main agreements on the protection of scientific, technical and artistic developments are the Paris Convention for the Protection of Industrial Property of 1883, the European Patent Convention 1973 and the Patent Cooperation Treaty in 1970, the Strasbourg Patent Convention, and others in the EU receive patent rights in one of the participating countries provides an opportunity to provide protection in other EU countries. It is also possible and getting into a supranational organization - the European Patent Office - a single EU-wide patent. The latter - the so-called "European patent" - is considered more "powerful" than the national patents.

Legislation on trademark registration is based largely in view of the Madrid Agreement Concerning the International Registration of Trademarks in 1891 As a result, registered in the former Soviet Union's trade mark has legal protection in other countries - participants of the agreement without registration in each country separately, if it is registered with the International Bureau of Trademarks in Geneva. Trademarks are protected for 5-20 years, and usually provides for the possibility of renewal. In some countries introduced legal protection of industrial designs and utility models.

It is useful to consider the experience gained in the process of attracting and utilizing foreign investment in developing countries, especially in the Asian newly industrialized countries, rapid economic development which was largely due to the successful use of foreign investment.

Generally speaking, the comprehensive investment climate in these countries is favorable. In the area of attracting and utilizing foreign investment as the principal accepts the principle of "combining the promotion of the restriction." On the one hand, worked out many preferential policies of the event and to encourage foreign investment, protects the lawful rights and interests of foreign investors, on the other - made the necessary multilateral limit foreign investment through legislation and other measures to defend national industry and economic resources of the country. The effectiveness of policies on foreign investment is to optimize the combination of these two factors.

Preferential tax policies is to encourage foreign investment in line with the strategy of economic development and sectoral policies.

In Singapore, an enterprise with foreign investment, investing in new industrial and export-oriented

industries are exempted from income tax for 5-10 years from start of production, as well as from tax on dividends on shares. Losses at these facilities during the period offset part of the profit received after this period.

In Thailand, legal persons are exempt from tax and from the tax on bonus enterprises with foreign investment, investing in sectors where they are encouraged by the state, within 5-8 years from the beginning of management. Companies with foreign investments in areas specifically established by the state are exempt from income tax for 3-8 years from start of production.

In Malaysia, enterprises are exempt from income tax of with foreign investment, investing in new industries or increase employment within 2-5 years of management first, enterprises with foreign investment, investing in established areas and in state projects, development of which the state encourages shall be exempt from income tax for 5-8 years into the economy, depending on the amount invested or the number of people employed in these enterprises. Companies with foreign investments, whose products are focused primarily on exports, enjoy great benefits.

In Singapore, the new export-oriented enterprises with foreign investment are exempted from export duty for 8 years from the date of export, for other export-oriented enterprises with foreign investment - 5 years. Export-oriented enterprises with foreign investments with total investment of over one billion Singapore dollars, where the percentage of share contribution Singaporean side exceeds 50%, or export-oriented enterprises with foreign investment, promote economic and technological development of Singapore shall be exempt from export duties for a period of 15 years. In addition, for export-oriented enterprises with foreign investment reduced the income tax and tax of 90%.

In Malaysia export-oriented enterprises with foreign investment issued three types of benefits: 1) the income tax is charged only with a certain portion of profit, and 2) is a special concessionary (40%), depreciation, and 3) part of the income tax on export profits is used to stimulate exports.

In Thailand, export-oriented enterprises with foreign investment are exempted from import duties on raw materials, from export tax and trade tax. In the Philippines shall be exempt for a longer period of tax export oriented enterprises with foreign investment in certain areas. Yet permitted independent economic management of foreign enterprises and enterprises with foreign investment can earn credits. Enterprises with foreign investment with advanced technology, export-oriented manufacturing enterprises with foreign investment are exempted from import duties on raw materials, supplies, equipment, etc. for its use.

In Thailand, a foreign investment enterprise, investing in areas established to attract foreign investment are exempted from import duties on raw materials for production enterprises of export products for 5 years.

In China, compared to these developing countries more preferential tax policies in China for foreign capital is manifested in many ways. Companies with foreign investments are exempt from income tax since the beginning of a profit for 1-5 years and then decreases in tax for 2-5 years depending on the location of the enterprise. In particular, enterprises with foreign investment set up in SEZ and corporate income tax is

reduced and is 15%.

It is of interest management system of foreign investment in developing countries.

In South Korea by the centralized management of foreign investment, i.e. unified administration of all matters concerning foreign investments undertaken by the Committee for the Review of Foreign Investment under the Ministry of Finance. The biggest advantage of this method is that it is possible to carry out the planned management of foreign investment, having them on a comprehensive and detailed presentation of the whole country. At the same time the Ministry of Finance was established the Office of Review and approval of foreign investment projects in order to simplify the formalities and improve efficiency. In this office involving representatives from trade and industry, scientific and technical sphere, the tax inspectorate, customs, justice, etc. It is established that the timing of review and approval of foreign investment preferential foreign investment projects should not exceed 10 and 20 days respectively. In Singapore, the Office of Economic Development is a single body to review and approval of projects with foreign investment and foreign investment applications. In Indonesia, the period of review and approval of projects with foreign investment is one month, while there are no fees for registration formalities. In Taiwan and South Korea made a "system of self-approval of foreign investment." Thus, if the amount invested in projects with foreign investment shall not exceed U.S. \$1 million and the project was not rejected by the authorities within 10 days after its official registration, it is automatically approved.

In the Asian newly industrializing countries are normally allowed to freely export abroad of foreign investment, profits, interest and dividends. The State encourages the accelerated pace of depreciation of real estate and expansion of production efforts in the preparation of national technical staff. In Singapore, the government not only requires technical training of the workers of enterprises with foreign investment, but also provides a subsidy to students, interns. The state restricts or prohibits foreign investment in some important industries. Developing countries and regions tend to restrict foreign investment in industries where there is a definite basis for further development and their need special protection, and prohibit foreign investment in the defense industry and the vital sectors of the economy. In Thailand, foreign investment is prohibited in State monopoly sectors, such as the tobacco industry, railways, civil aviation. The Philippines prohibits foreign investment in agriculture and forestry, banks, agencies, media, industry sales of grain and retailers. In Brazil, prohibited foreign investment in telecommunications, printing, oil production, radio, television, as well as in commercial banks. In Mexico prohibited foreign investment in resource extraction of ores, forest development, transport, electricity, communication, etc. In China, foreign investment is permitted in any industry, except those relating to national security or have a negative impact on the traditional export products of the country, or make products exports is limited by the fact that other governments control the importation of these products.

In most developing countries there is a limit percentage share contribution of foreign entrepreneurs in order to prevent control over foreign capital enterprises. Usually it is established that the proportion of

foreign investment should not exceed 49%. In the Philippines, the share of foreign investments shall not exceed 30% in the banking business, 40% in the sectors of natural resource development and in new industries the share of foreign investment can reach 100% initially, but then it should gradually decrease to 40% in 30 years . In Mexico, the share of foreign investment projects should not exceed 49%, and mining industries 40%, whereas in the export-oriented labor-intensive industrial projects in some areas, the proportion of foreign investment should not exceed 49%. In China, the share of foreign capital in joint ventures on shares are usually not limited to, permitted foreign investment in the form of assets (machinery and technology, trademarks, etc.).

The state controls over public enterprises through holding companies. In Singapore, set up three large state-owned enterprises to control the shares and 100% of the shares of these companies belong to the government. The main function of these companies - control over the shares of other state enterprises. Typically, the state owns over 50% of the shares of these enterprises. Becomes more rigorous procedure for dealing with technology and equipment invested by restricting or prohibiting wasteful technology investments, transfer of obsolete and outdated equipment, are not allowed technical monopoly of foreign investors. In Singapore, when considering an investment application usually is not approved by the outdated technology. However, enterprises with foreign investment shall undertake to bring workers and management personnel production equipment, as well as technical and managerial knowledge. In Mexico, the situation on the transfer of technology revealed that prohibited trade or technical investment technique, if a country already available. In this case, the conditions for the transfer restrictions and equipment assigned to too high a fee. In Indonesia and some other developing countries, training of local workers is a necessary condition for obtaining a permit for TNC investment or sale of equipment and technology.

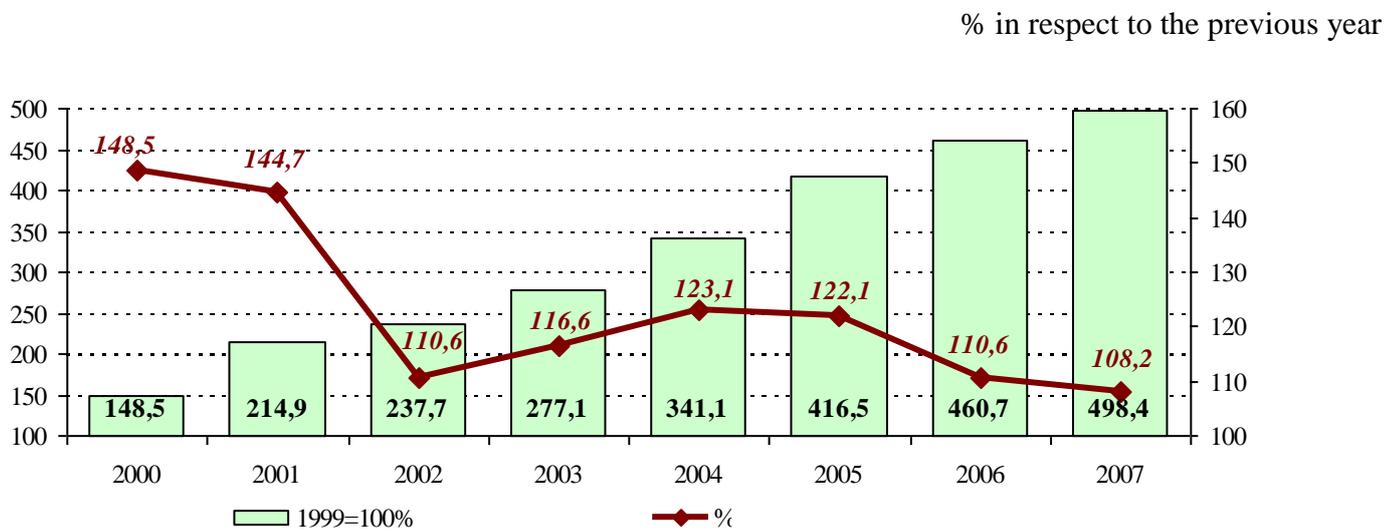
Summing up, it should be noted that the international experience of the organization offers a variety of techniques and methods for attracting, motivating and investment management at both the state and within the region and businesses that are tested and can be used in domestic practice. Clearly, the state represented by the legislative and executive branches exercise regulatory functions in relation to investment activities on the basis of national or regional interests.

Study international experience of regulation of investment activity showed that the developed countries of Europe to promote the investment process are mainly used indirect methods of regulation, whereas in Asia and Latin America in an attempt to attract investors to use direct methods of economic impact.

2 ANALYSIS OF MECHANISMS OF STATE REGULATION OF INVESTMENT IN KAZAKHSTAN

2.1 Evaluation of the investment climate in Kazakhstan

The Index is reflecting the picture of improving the investment climate, is a steady increase in investment in fixed capital (IFC). For 2010 the figure was 4.6 trillion. KZT and increased by 1.5% compared with 2009 (4.6 trillion. tenge). This is largely due to the achieved in the country for the past 7-8 years of macroeconomic stability. But in 2007, a decline in investment growth in fixed assets from 10.6% in 2006 to 8.2% in 2007. However, for the period from 2000 to 2007, investment in fixed capital increased by 5 times (Figure 9).



Source: Agency on Statistics of the Republic of Kazakhstan

Figure 9 - Growth rate of fixed capital investments for 2000-2007.

The main sources of investment in fixed capital were own funds of economic entities and foreign investment, whose share was 54.4% and 18% respectively. Share of the budget - 15.7%, loans - 11.9%. Priority sectors for investment are oil and natural gas (27.9% of the total investment in fixed capital), real estate (25.4%), transport and communications (13.4%) and manufacturing (10.5%).

Currently, there is growing interest in the Kazakh market from foreign investors. So, if in 1999 the number of active companies with foreign capital amounted to 1865, then in 2003 the figure was 6579 in 2004 - 7070, and in 2005 - 7185.

Table 1 - Gross inflow of foreign direct investment in the Republic of Kazakhstan on Economic Activities

during the same period, mln USD

Name of activity	2003	2004	2005	2006	2007	2008	2009	2010
MINING	2 188,3	5 247,8	1 796,6	2 396,1	5 390,5	3 236,7	4 740,7	3 602,1
MANUFACTURING	1 000,7	520,6	303,6	642,4	1 061,2	1 918,3	1 799,1	2 051,2
PRODUCTION AND DISTRIBUTION OF ELECTRICITY, GAS AND WATER	82,4	11,4	119,5	26,7	36,6	124,1	-418,2	101,5
CONSTRUCTION	50,6	160,3	94,0	367,8	478,8	448,3	580,8	621,1
TRANSPORT AND COMMUNICATION	75,2	101,1	98,1	300,6	182,4	178,4	242,1	444,8
FINANCIAL ACTIVITIES	52,3	71,0	107,9	452,7	2 962,5	1 933,6	626,4	287,7
EDUCATION, HEALTH AND SOCIAL SERVICES	11,5	23,4	11,5	6,3	-0,9	66,3	4,0	63,0
ACTIVITIES WHICH IS NOT OTHERWISE PROVIDED	1 163,00	2 181,40	4 087,80	6 431,40	8 341,90	11 854,30	12 094,10	10 181,60
TOTAL	4 624	8 317	6 619	10 624	18 453	19 760	19 669	17 353

Source: Agency on Statistics of the Republic of Kazakhstan

As of 2010 the gross inflow of foreign investments in Kazakhstan amounted to 126.6 billion U.S. dollars, whereas in 2010 - 17.4 billion U.S. dollars. The main investor countries are the Netherlands (21.8%), United States (16.1%), Britain (8.2%), France (8.9%), Italy (4.2%), and China (4 %).

Kazakhstan was the first among the CIS countries who has received an investment grade rating from three leading international rating agencies. International rating agencies Moody's Investors Service in 2002, the first of the CIS countries, Standard & Poor's and Fitch Rating's Ltd. in 2004 assigned investment grade rating.

According to World Bank rankings "Doing business 2011" from 183 countries Kazakhstan took 59th place in rating the ease of doing business. In the future, Kazakhstan intends to continue in this direction and to achieve even higher levels.

The financial system of Kazakhstan is recognized as one of the most progressive, and this is confirmed by leading international experts. Kazakhstan was the first among the CIS countries has created a national fund to ensure stable social and economic development, reduce dependence on negative external factors and provide an adequate level of macroeconomic stability.

Markedly diversified geography of foreign trade.

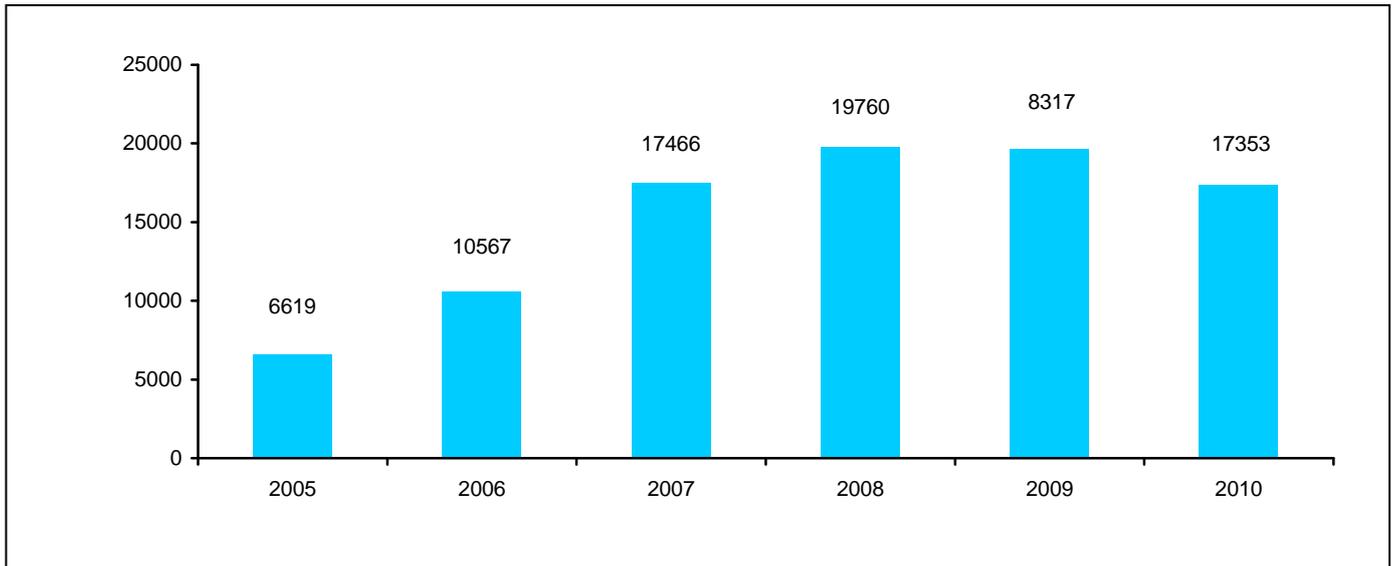
According to World Bank classification currently Kazakhstan belongs to a group of middle-income countries. If you compare the key indicators of quality of life for the past 10 years, the average cash income of Kazakhstan grew by 5 times, 6 times the average monthly salary has increased, in 25 times the minimum wage, the average pension increased by 4.6 times, deposits of persons in the banks and the deposits per capita increased by 35 and 37 times respectively. Government spending on a guaranteed volume of medical assistance this year alone grew by more than 2-fold compared with 2003.

As the economic levers of stimulating private investment using investment tax incentives, state natural grants in kind and a number of guarantees provided in accordance with the Law of the Republic of Kazakhstan "On Investments" investors carrying out investment in fixed assets of enterprises in priority sectors. This law defines the legal and economic framework for investment incentives, guarantees the protection of investors for investments in the Republic of Kazakhstan, define measures of state support of investment, arbitration of disputes with investors.

Since the entry into force of the Law of the Republic of Kazakhstan "On Investments" signed 305 contracts worth U.S. \$ 3.7 billion. The total volume of investment projects using the preferential currently exceeds U.S. \$ 4.8 billion on 302 contracts.

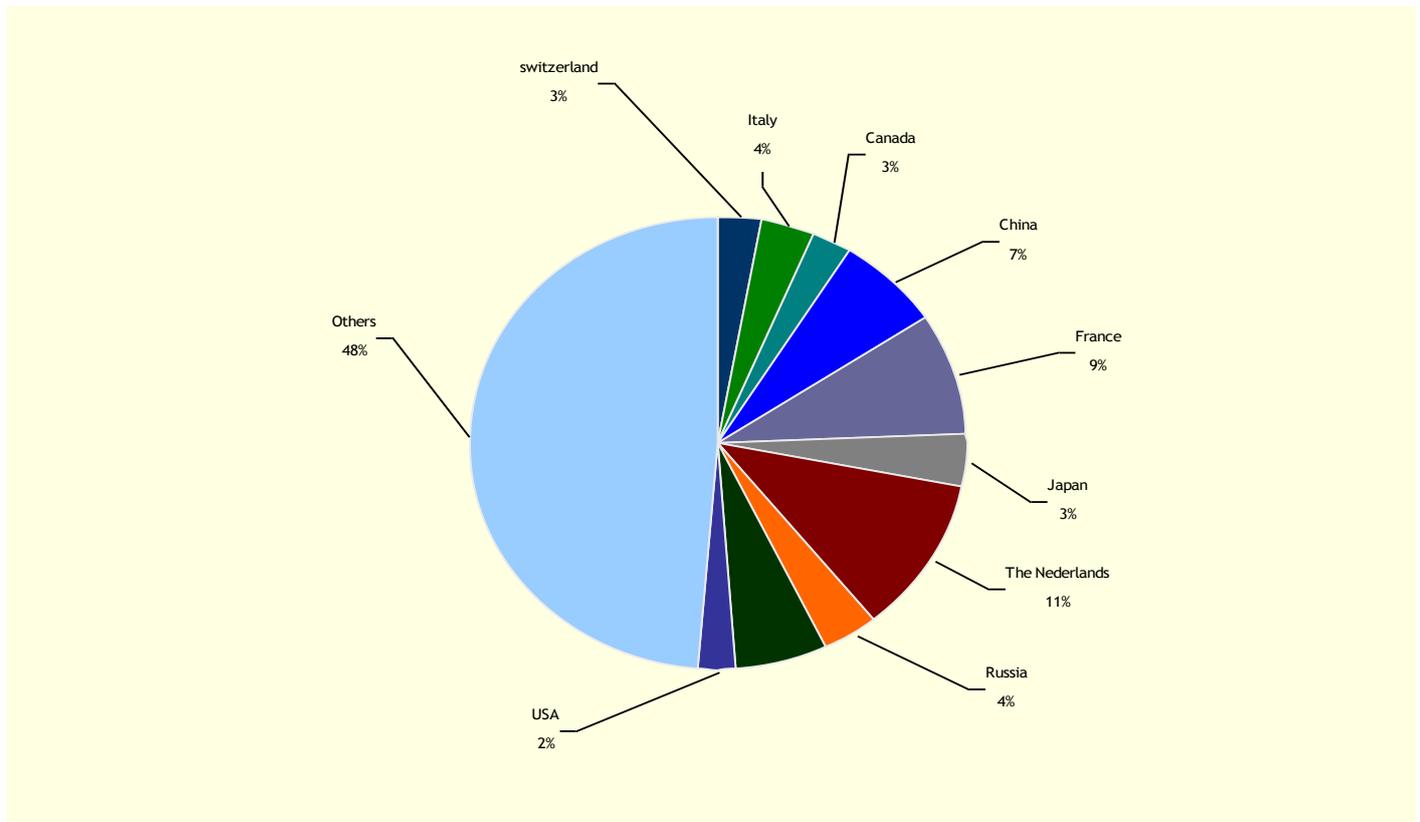
Over the years of reform, investment policy to attract and use foreign investment has changed in a positive way. This is due to active work of the Government of the Republic of Kazakhstan in creating and maintaining a favorable macroeconomic environment, structural reforms in the economy and the continuous improvement of legislation.

With the policy of openness and liberalization of foreign economic relations, create favorable investment climate in Kazakhstan in 1993 attracted nearly 80% of the investments of foreign capital in the Central Asian states.



Source: Agency on Statistics of the Republic of Kazakhstan

Chart 1 - Volume of foreign direct investment and the ongoing dynamics of their growth



Source: Investments Committee of the Ministry of Industry and New technologies of the Republic of Kazakhstan

Chart 2 - Foreign direct investment in the Republic of Kazakhstan for 2010 by countries

A favorable business climate and political stability have led to sustained inflow of FDI.

From earlier 2000, the trend growth in investment in fixed assets was appeared. Over the past six years, the growth rate of fixed capital investments is considerably faster than GDP growth.

Investment Coefficient			
	2007	2008	2009
Capital investments (investments to the primary capital) in millions, tenge	3 392 122	4 210 878	4 585 298
GDP in millions, tenge	12 726 000	16 052 919	17 007 647
Investment coefficient %	26%	26%	27%

Source: Agency of Statistics of the Republic of Kazakhstan

Here, the investment coefficient represents the portion of the resources devoted to the capital investments. As the table shows, the amount of capital investments rose gradually as GDP did. The investment coefficient rose to 1% in 2009 equaling to 27% compared to 26% in the previous year.

According to the National Bank of the Republic of Kazakhstan domestic (loans) and foreign (FDI) savings in the economy of Kazakhstan during 2008-2011 are as follows:

Name	31.12.2008	31.12.2009	31.12.2010	31.12.2011
Net FDI to Kazakhstan in millions USD as of	58 752	71 352	81 352	93 624
<i>Average exchange rate</i>	<i>120,3⁵</i>	<i>147,5</i>	<i>147,35</i>	<i>146,62</i>
Net FDI to Kazakhstan in millions tenge as of	7 067 866	10 524 420	11 987 217	13 727 151
Loans of banks to the economy of Kazakhstan millions tenge as of	7 460 281	7 644 036	7 591 593	8 781 369
Total	14 528 147	18 168 456	19 578 810	22 508 520

⁵ Devaluation

As for the savings ratio which represents the ratio of savings to the disposable income after the payment of tax, we have the following data:

Savings Ratio			
	2008	2009	2010
Household cash income per a household, in millions tenge	800 087	911 851	1 108 203
Consumer expenses per a household, in millions tenge	666 794	739 516	924 398
Taxes and other payments per a household, in millions tenge	1 162	1 462	1 409
Household savings per a household , in millions tenge	132 131	170 873	182 396
After-tax household income , in millions tenge	798 925	910 389	1 106 794
Households savings ratio in %	<u>17%</u>	<u>19%</u>	<u>16%</u>

Source: Agency of Statistics of the Republic of Kazakhstan

The savings ratio grew gradually with the time. As for the 2008, the savings ratio amounted to 800 087 millions tenge, whereas in 2009 it was 911 851 millions tenge, and in 2010 it equaled to 1 108 203 millions tenge.

Information work actively pursues on the presentation of investment opportunities of the Republic of Kazakhstan, in which the Kazakh side develops proposals to promote new investments in to Kazakhstan to foreign corporations. Underway to establish relations with foreign potential investors, the formation of the legislative process with an improved perception of the comments of foreign investors. In key international centers regularly hosts international conferences, presentations, seminars and round tables. Ministry of Foreign Affairs increases the work on the diplomatic corps of the country to create a high image of the country and attract foreign investors.

If in the early 90s the main task for Kazakhstan was to stabilize the economy through targeted investment attraction in the oil and gas and mining sectors of the economy, today economic policy priorities have changed. This is due to the fact that building a sustainable and balanced development model requires addressing Kazakhstan to diversify its economy.

Significant results have brought policies to attract investment in fixed assets of the manufacturing industry through the provision of investment tax preferences.

In order to further improve the investment climate stronger regional dimension of investment policy. Investment policy in the regions is carried out in conjunction with medium-term programs and varies depending on the specific economic and geographic region.

Currently, public investments are made through the implementation of budgetary investment projects and programs, as well as through participation in the authorized capital of legal entities.

The level of importance of tasks budgetary investment projects and programs are divided into central

and local.

The Republican budget investment projects (programs) implemented by central government and financed by public funds. Local budget investment projects (programs) implemented by the local executive authorities and funded from local budgets.

Harmonization of lists of priority local budgetary investment projects (programs) implemented by central and local authorized bodies for economic planning in the medium-term plans for socio-economic development in the manner determined by the Government of the Republic of Kazakhstan.

At the expense of state budget investment projects implemented in the main, existing socially valued and less interesting for private investment.

In recent years, public investment as the economy grows and the state budget increased dramatically. For example, in 2005 the cost of financing development programs from the state budget amounted to 420 billion KZT in 2006 - 525 billion, or growth of 25%. Target development budget for 2007 is - 404.601 billion, more than in that of 32% compared with 2006.

In 2010, major capital-intensive industries investing public investment were: the development of road sector (9%), housing program (12%), construction of infrastructure of the city Astana (14%), construction of infrastructure of the city Almaty (7%), training (9%) financing activities under the strategy of industrial-innovative development (6%).

The sources of public investment undertaken in the field of industrial-innovative development, but the republican and local budgets, as funds are state-controlled enterprises (government financial organization of development, national companies, state enterprises).

2.2 Analysis of legal and software investment in the country

Since the independence of the Republic of Kazakhstan Government works towards improving the investment climate for both foreign and domestic investors, streamlining public investment to meet the needs of the economy and create a system of state support measures to strengthen private sector role in economic development.

In the 1990 state budget had difficulties with financial security. Investors confidence was not high to Kazakhstan and the investment opportunities required more study and publicity.

In particular, Law of the Republic of Kazakhstan "On Investments"⁶ was adopted in 2003 which regulates the legal and economic framework for investment incentives, guarantees the protection of investors for investments in the country, defines the measures of state support of investment dispute resolution.

The Act provides support and encouragement in equal measure, both for domestic and for foreign

⁶ Law of the Republic of Kazakhstan «On Investment» of 8 May 2003, number 373, bordereau Parliament of the Republic of Kazakhstan, 2003, N 1-2, art. 4; «Kazakhstan Pravda» of 11 January 2003 N 9-11; «Legal newspaper» of 29 January 2003 N 5.

investors.

In accordance with the Law of 3 types of investment preferences provide. Those are:

- Investment tax preferences;
- Exemption from customs duties;
- State natural grants in kind.

Investment tax preferences include preferences for corporate income tax, property tax and land tax.

Provides two forms of preferential corporate income tax:

1. Existing enterprises implementing investment projects to expand and upgrade existing facilities, - the right to deduct from the gross annual revenue cost of commissioned fixed assets for the period from 1 to 5 years at the discretion of the investor with total investments of at least \$ 181 million this time is exceeded granting preferences may take up to 10 years depending on the amount of investment.

2. New enterprises implementing investment projects within the one (single) type of activity - exemption on income derived from investments of up to 10 years, also depending on the level of investment. In this new enterprises recognized the taxpayers, have passed state registration in the 12 months before the date of application for investment preferences.

Preference by the property tax and land tax granted for a period of 3 to 5 years depending on the level of investment.

Start date of investment tax preferences defined in the contract between the investor and the Committee on Investment.

Exemption from customs duty may be granted for import of equipment and its components imported for the investment project. Exemption from customs duties is granted for one year with possible extension period not exceeding five years from the date of registration of the contract.

Notification of the decision to release a legal entity from customs duties to the Committee on Investments to the authorized body on customs issues within 5 working days from the date of the contract between the investor and the Committee on Investment.

State natural grants in kind are given to investors if agreement with relevant government agencies in the management of state property and land for temporary free use or land use with the subsequent transfer of in-kind grants to property subject to the fulfillment of investment obligations under the contract. This measure involves the transmission of the state natural grant after the execution of investor commitments under the investment project.

As a state natural grants in kind can be transferred land, buildings, structures, machinery and equipment, and computer technology, measuring and control devices and equipment (except cars), industrial and household equipment.

Assessment of the state natural grants in kind made by their market value in accordance with the laws of the Republic of Kazakhstan.

Maximum size of grants in-kind may not exceed 30% of the volume of investment in fixed assets of legal entities of the Republic of Kazakhstan (the size of the investment project).

If the assessed value of the requested state natural grant exceeds the specified maximum size, the entity of the Republic of Kazakhstan shall be entitled to receive the requested property to the payment of the difference between its estimated value and the maximum size of the state natural grant in kind.

To make a decision on granting the investor the state natural grant (of land) requires a written consent of the local akimat.

In addition to the harmonization of akimat willingness to provide land and indicated its cadastral number, area, the assessed value.

In respect of fixed assets provided by investors in the form of the state natural grant investment tax preferences are not available.

In general, when receiving the investment preferences of any limits on the amount of investment there. That is, the preference may be given to any investor, regardless of project size.

Since the early 2000s, when an intensive growth of the mining sector, including through foreign investment, began to steadily grow revenues in the national budget, the opportunity to more constructive approach to the use of the resources available for investment.

State created a number of development institutions to streamline the provision of investment preferences, improved budgetary legislation, the transition to medium-term budgetary planning, investment and development plans of national companies and legal entities with state participation.

In May 2005, there were some changes and additions to the Law On Investments.

A new mechanism for providing state support to investments has a number of important advantages:

- Support and encouragement in equal measure, both domestic and foreign investors;
- Significantly reduced time of the application (up to thirty days) for investment preferences, simplified procedure for their submission;
- Aligned with the Tax Code validity of the tax preferences in the form of exemption from corporate income tax to 10 years;
- Simplified mechanism for providing to investors exemption from customs duties when importing equipment and components imported for the implementation of the project;
- Established a transparent and clear procedures for monitoring the fulfillment of investment obligations by investors under the contract;
- Changed the provision of state natural grants in kind.

Also, the Act does not set a minimum limit of investment volumes, which expands its scope, including small and medium-sized businesses, investing in priority sectors.

In the modern state of the national economy, the role of the state in the sphere of investment activity remains paramount. Governments can regulate and direct investment flows are the main basis for the further

use of the medium-term budgetary planning and programming.

The prerequisites for improving the investment policy are:

1. political stability and relative predictability of events in Kazakhstan;
2. macroeconomic stability;
3. there is consistent economic policies aimed at developing a market economy in the Republic of Kazakhstan;
4. essence of legal framework regulating the main issues of investment activity in the country: the Tax Code, Customs Code, Land Code, Law of the Republic of Kazakhstan "On Investments" and others;
5. essence of institutional framework to support the initiatives of private and public sectors.

Great role in promoting and improving the investment image of Kazakhstan played by the Foreign Investors' Council (FIC), which created in 1998, and in 2007 - National Investors' Council (NIC). Both Councils are an advisory bodies which are headed by the President of the Republic of Kazakhstan.

The members of the FIC from Kazakhstan are the Prime Minister, the Chairman of the National Bank, Deputy Prime Minister - Minister of Industry and New Technologies, the Ministers of Foreign Affairs, Economic Development and Trade, Finance, Chairman of the Committee on Investment of the Ministry of Industry and New technologies of the Republic of Kazakhstan. On the foreign side top managers of the largest multinational companies operating in Kazakhstan - the European Bank for Reconstruction and Development, Deutsche Bank (Germany), Mitsubishi International (Japan), Chevron Texaco (USA), Arcelor Mittal (UK), Lukoil (Russia), Conoco Phillips (USA), Asian Development Bank and others.

The main objectives of the FIC are:

- Introduction to the President of the Republic of Kazakhstan proposals how to improve legislation regulating investment activities, as well as suggestions on issues related to the implementation of major investment programs and projects of the Republic of Kazakhstan international significance;
- Development of recommendations for improving the investment climate, as well as strategies to attract foreign investment in the Republic of Kazakhstan;
- Proposals to integrate the economy into world economic processes.

The working body and the main coordinator of the Council is the Committee on Investment. On the foreign side is the coordinator is the Association "Kazakhstan Foreign Investors' Council. Committee, as appropriate, may submit to the President of the Republic of Kazakhstan offers to change to one-third of the foreign members of the Council, taking into account the recommendations of industry and business associations, foreign investors, embassies, accredited in the Republic of Kazakhstan in agreement with the Association " Kazakhstan Foreign investors' Council ".

The Investments Committee has the following functions:

1. prepare and submit to the President of the Republic of Kazakhstan the proposals of the Council and its joint working groups;

2. organization and holding of plenary and interim meetings of the Board;
3. coordination of joint working groups;
4. monitoring of the execution protocol decisions of the Council and its joint working groups;
5. development of draft regulations relating to the Council and its joint working groups;
6. analysis of the Council and its joint working groups;
7. review, develop and implement proposals to improve the Council's activities and its joint working groups.

Decree of the President of the Republic of Kazakhstan of May 8, 2007 № 325 created establishment of the Commission for Regulation of the Council of Foreign part (hereinafter - Commission), which shall be approved by the plenary of the Council.

The main task of the Commission is to maintain the Council's aims.

The Commission consists of four representatives from Kazakhstan, and three representatives from the foreign side.

Commission members from Kazakhstan are: Assistant to the President of the Republic of Kazakhstan (Chair), Deputy Minister of Foreign, Vice Minister of Industry and New Technologies, Chairman of the Committee on Investment (Secretary of the Commission).

The Commission shall meet at least once a year. The Commission's decisions are taken by majority vote. In considering whether to remove or replace the foreign members of the Council will take into account:

1. personal participation of foreign members in the plenary sessions of the Council;
2. personal and active participation of the permanent representatives of foreign members in joint working groups of the Council;
3. compliance with the foreign members of the law of the Republic of Kazakhstan;
4. participation of foreign members in the economic development of Kazakhstan.

When new Board member apply preference will be given to international organizations and foreign companies operating in sectors corresponding to the priorities of industrial-innovative development of Kazakhstan.

The Council meetings are held under the chairmanship of President Nursultan Nazarbayev and President of the EBRD at least once a year, attended the first leaders of companies, investors and local companies. Key issues associated with the investment climate in the country, are discussed at these closed sessions of the Council.

The composition of NIC are: Prime Minister, Assistant to the President of the Republic of Kazakhstan, Deputy Prime Minister - Minister of Industry and New Technologies, Minister of Finance, Minister for Economic Development and Trade, Chairman of the Committee on Investment, chairman of a JSC "National Welfare Fund "SamrukKazyna".

From the private sector NIC consists of representatives of business circles from Kazakhstan.

The main objectives of NIC are:

1. develop recommendations for:

- Assistance in implementation of investment projects related to the modernization and restructuring of the economy, contributing to the effective development of the industry or the formation of new branches and sub-sectors, which will provide a significant multiplier effect;

- Improving the investment climate in Kazakhstan;

2. consideration and discussion of important issues in the field of investment policy.

Ministry of Economic Development and Trade of the Republic of Kazakhstan develops proposals on formation of investment policies, creates a list of priority budget investment projects (programs), monitors and evaluates the effectiveness of public investment and related grants, generates a list of priority applications for grants related to attracting and submits it for approval to the Government Republic of Kazakhstan, forms and submit annually to the Parliament of the Republic of Kazakhstan and the Kazakhstan Government information to evaluate the effectiveness of related grants, conducts economic examination of the budget of the investment project (the program).

In 2007, as part of the message of the Head of State "New Kazakhstan in the new world", which is a logical continuation of the message 2006 "Strategy of Kazakhstan's 50 most competitive countries in the world" began work on modernizing the economy. In the process of modernization and the implementation of "breakthrough" macro projects involving all regions of the country and the business community.

For decision making on improving the competitiveness of Kazakhstan's economy specially created State Commission on modernizing the economy of the Republic of Kazakhstan under the chairmanship of the Prime Minister of the Republic of Kazakhstan. Memorandum of Understanding was signed between the Government and the business community.

The transition to the formation of an investment policy based on close cooperation with the Government by private entities, will be implemented through the implementation of the Program "30 Corporate Leaders of Kazakhstan", so that will be identified dozens of corporate leaders who will carry out breakthrough projects. According to the program prepared by the Ministry of Economic Development and Trade, the expected two lines of action:

The first direction of the Program is implemented in the period 2007 -2010 and provides for state support of investment projects proposed for implementation of the business. The role of government in this case is to evaluate the projects, as well as identify and provide specific measures and amounts of state support.

Particular attention will be focused on building an effective mechanism for cooperation between the state and business in a large-scale investment projects. One result of this interaction will bring the regulatory framework of the Republic of Kazakhstan to the needs of a new stage of economic development.

The second direction is calculated for the period 2008 - 2030 years, based on joint work of the private

sector and the state, by definition competitive, export of goods (services). The private sector together with the state identify and implement projects will be to create integrated, cohesive and co-productions in the non-oil export of priority sectors of Kazakhstan, which will provide a breakthrough for the concentrated effect out of Kazakhstani goods to international markets.

This program requires the active participation of the state in the simulation of industries by providing investors with a package of state support for large-scale breakthrough projects.

The basic idea and a direct result of the implementation of the Program is that by promoting the creation of the state in Kazakhstan competitive, export-oriented industries and manufactures non-oil sector will be nurtured domestic corporate leaders of regional and global scale.

The benefits that the state expects from its implementation, the change in economic structure towards increasing the share of manufacturing in GDP and export share of non-oil sector. As well as the emergence of local companies that can compete in world markets and the formation of Kazakhstan brands in global markets.

In the course of this problem in terms of investment management should be guided by the key factors to consider when assessing the competitiveness of the World Economic Forum (WEF). To estimate the investment policy must focus on the efficiency of public investment, the development of security, infrastructure development, health, education, agriculture, small and medium-sized businesses, innovation and technology. In this case, the emphasis should be placed not on investments in these sectors, and on their quality and efficiency.

Overall objectives of the investment policy of the state's medium-term will be:

- Introduction of modern methods of planning and corporate mechanisms in business processes;
- Improvement of the legislative, institutional, infrastructural and informational support for investment activities in the domestic market and foreign markets;
- Attracting the attention of Kazakhstan and foreign investors to the region of the country, a demonstration of the attractive characteristics of the regions for potential investors;
- To assist enterprises in the regions in attracting private investment;
- The mobilization of investment resources of the regions, ensuring their effective use;
- Raising awareness of the business with the prospects of industries;
- Identify target niches - "growth points" and "breakthrough" in developing master plans for major industries;
- Increase investment competitiveness in the regional aspect;
- investment utilization to achieve real social and economic growth (job creation, increasing productivity, improving the environment, etc.), as well as improving corporate social responsibility.

Besides same priorities of investment policy are following:

- The development of export-oriented industries with high added value;

- Intensifying the implementation of new technologies, techniques and know - how;
- Dissemination of modern management practices and corporate governance;
- Development of strategic infrastructure (transportation, information, communication and energy);
- Government support and promotion of domestic producers;
- Increase of innovation activity of enterprises and organizations;
- Development of technology-intensive industries;
- Development of human resources and scientific potential;
- Saturation of the domestic market with high quality goods and services.

The implementation of investment policy in the first place, will be development institutions.

2.3 Evaluation of the formation and operation of infrastructure in investment

According to the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 № 669 "On some measures on competitiveness and sustainability of the national economy" and the Government of the Republic of Kazakhstan dated October 17, 2008 № 962 "On measures for implementation of the Decree of the President of the Republic of Kazakhstan dated 13 October 2008 , № 669 "by the merger of corporations" Sustainable Development Fund "Kazyna" and "Kazakhstan Holding for Management of State Assets "Samruk" joint-stock company created the "Nationak Welfare Fund "Samruk-Kazyna."

JSC "SamrukKazyna" brought together more than 500 subsidiaries and affiliated organizations in different sectors of the economy. This are the "Kazakhstan Temir Joly", "Airastana", "KMG" "KEGOC", "Kazakhtelecom", etc.

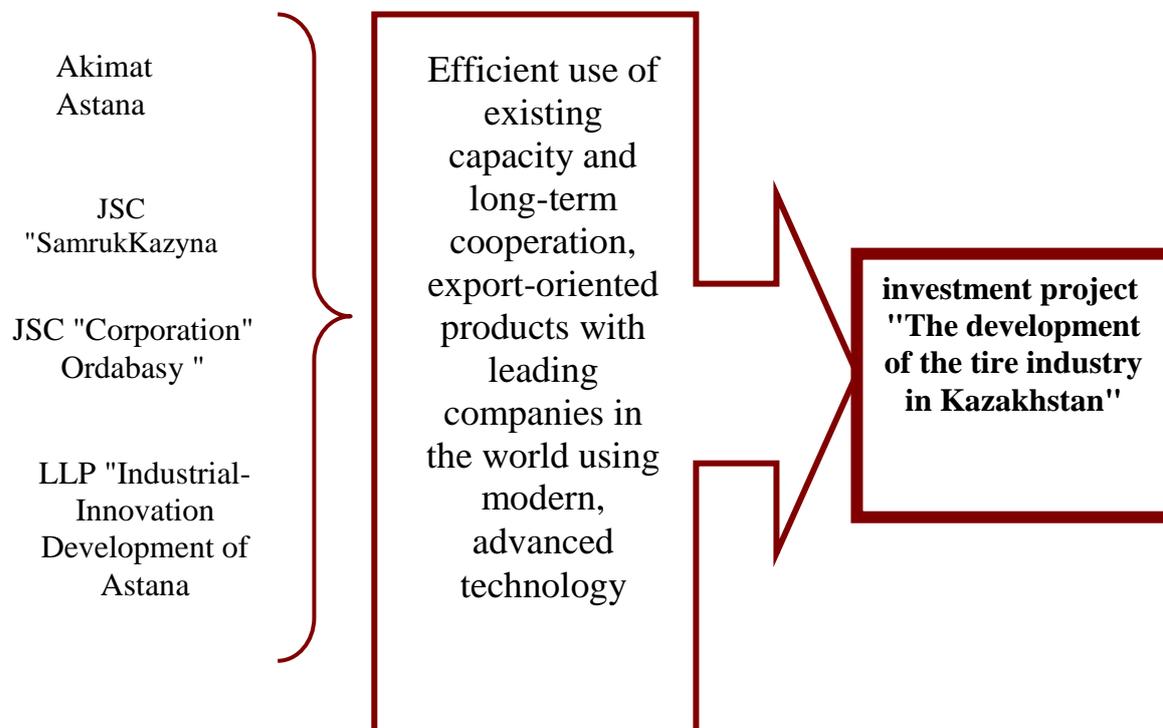
JSC "SamrukKazyna" provides financial and service support to private sector initiatives and co-financing of investment projects proposed business in non-oil sectors of the economy. Activities of subsidiaries is not aimed at competing with private business, but rather to facilitate the implementation of their investment projects, risk sharing, the provision of insurance, marketing, consulting and other services to support business initiatives, problem solving, involving, where appropriate, the Government, ministries and other central and local executive bodies.

Investment activities of the group of companies JSC "SamrukKazyna" aimed at creating high-quality portfolio of projects due to the synergy of the subsidiaries. The main effort in the early years of focused on finding, structuring and supporting the implementation of the "breakthrough" projects in non-oil sectors of the economy of Kazakhstan. Particular attention has focused on attracting multinational companies in Kazakhstan.

JSC "SamrukKazyna" in negotiations on developing cooperation with multi-national companies, United

Counsel Eurasia BV, a Malaysian company «Pharmaniaga» - assessment of the situation of individual regions of the health system and transport infrastructure in Kazakhstan and development of proposals for program distribution and logistics of medicines for public hospitals and clinics.

Source: JSC "National Welfare Fund "SamrukKazyna"



Scheme 1 - Implementation of the investment project

In just the past year 2010: to the development institutions (KDB, IFK, NIF) has received 194 applications for funding of investment projects worth about \$1628.8 billion, with an estimated stake of development institutions in the amount of 854.9 billion KZT;

development institutes approved 48 investment projects totaling \$ 493.5 billion, with stakes of development institutions in the amount of 126.5 billion KZT;

development institutions declined by 69 investment projects totaling \$ 431.2 bln in shares in the proposed development institutions in the amount of 313.6 billion KZT.

Since the beginning of the Kazakhstan Development Bank (KDB) approved for funding 69 investment loans totaling 4516.6 million, with the participation of KDB in the amount of 1703.4 million during this period, borrowers fully repaid 11 loans amounting to 94.3 million and a guarantee of \$ 6.5 million recalled by them six projects worth 88.6 million dollars, with shares in BRC in excess of 61.2 million in Q4 2007 by the Council KDB Directors approved 11 investment projects worth 1659.9 million, with the participation of KDB in the amount of 337.4 million dollars since the beginning of 2007 signed 15 loan agreements for previously approved projects KDB.

In accordance with the plan of priority actions to ensure the stability of socio-economic development of

Kazakhstan KDB must provide refinancing loan debt of borrowers to the banks of the second level of the previously issued investment loans.

On the sectoral structure of investment projects approved by the KDB to finance the largest share projects in the manufacturing of other non-metallic mineral products (26%), transport and communications (17%), metallurgy (12%), production and distribution of electricity, gas and water (10%) and chemicals (9%).

The share of medium-term (10 years) loans for investment projects of more than 32% of the total number of projects, long-term (10 years and over) - about 68%.

The weighted average rate under the approved investment projects amounted to 11.0% per annum, the average term of the loan - more than 15 years.

Since the beginning of the KDB in the course of banking expertise rejected 323 applications for funding projects worth 11.1 billion dollars, with the participation of KDB in the amount of \$ 8.2 billion main reasons for rejection of their application: mismatch investment priorities established by the Memorandum of credit policies, low levels of a feasibility study of projects, lack of collateral, low capitalization of potential borrowers, poor financial status of applicants.

Investment Fund of Kazakhstan (IFK) in conjunction with the initiators identifies the most cost-effective investment projects, conducts market research in identifying potential suppliers of equipment and modern technology.

During the period from inception until January 1, 2011 for consideration in the IFK has received 424 projects worth \$ 11.8 billion, including the 2009 - 34 projects totaling \$ 1.1 billion of these projects are related with the development of many manufacturing industries and industrial infrastructure. The structure of the project received coverage shows all over the country. The highest number of submitted projects are in Almaty region (67 projects worth 776.8 million dollars), while the smallest number - in Kyzylorda and Atyrau region.

Since the establishment of IFK financed 33 projects worth 128.5 billion, IFK participation in them is 30.3 billion KZT.

Regionally funded investment projects with IFK distributed as follows: 6 projects outside of Kazakhstan, on 5 projects in Almaty and Pavlodar regions 4 of the project in the East Kazakhstan region, and 3 of the project in the Karaganda region, on 2 projects in Mangistau region and the city Almaty, on a project in Aktobe, Kyzylorda, Zhambyl, West Kazakhstan region, South Kazakhstan region, North-Kazakhstan oblasts.

Meanwhile, on the other businesses in Kazakhstan, for example, the construction of processing facilities, investment in machinery or in the industry hi-tech, have incomparably smaller proportion of loans. Many companies operating in these areas, and do not tend to costly bank finance. They are looking for other ways to raise funds. In particular, put their securities on the stock exchange KASE or raise capital partner co-investors in joint ventures.

Thus, the quality of borrowers who need money the banks in Kazakhstan is not so much. Therefore, the bank continues to seek capital in speculative or commercial sphere, or in retail (with the final output or consumption, or all on the same speculative capital). Both objectively will not be long-term stability.

The economy is showing opposite tendencies of motion reproduction processes and structure of the monetary and financial flows.

A significant proportion of private equity investments in the subsoil, which have a multiplier effect on the development of other sectors of the economy. In order to obtain such an effect is necessary for the conclusion of contracts with mining companies to negotiate liability of investors to invest the revenue side, the creation and development of associated processing industries, for placing orders for equipment and spare parts from domestic manufacturers.

Manufacturing industries, and the more innovative sectors themselves remain unattractive to private investors.

Despite some growth in the manufacturing sector goes about 9-10% of the total investment in fixed assets in recent years.

Along with the sectoral differentiation of direct investment, an important feature of the situation is pronounced differentiation of regions in terms of inward investment.

The main causes of low investment activity in the manufacturing sector are:

- Shortage of quality investment and innovation projects in country for a number of systemic causes;
- Lack of a clear vision for the development and prospects of industries at the national level;
- The virtual absence of long-term capital to finance an affordable rate;
- A weak binding of the investment policy with the development of priority sectors;
- Relatively low level of profitability in the manufacturing sector in the short term, given the need for a more rapid return projects;
- The continuing imbalance of information;
- The lack of domestic business for new approaches to business and medium-term strategies;
- Low ambitions for the majority of business;
- And others.

Also, in general, at the current stage of development, despite the large amounts of liquid funds available for investment, there are still problems of uneven development in different regions of the country.

There is no specific mechanism to promote the Kazakh investments abroad, as well as domestic exporters of goods. Also remains the position of Kazakhstan on cooperation with international financial institutions and other creditors in funding large international projects with regard to the interests of domestic business is not active.

The country has not yet put in place the necessary mechanisms are adequate to counter the threat of unscrupulous foreign investors, as well as providing a high level of national economic security.

PART 3 MAIN AREAS OF IMPROVEMENT MECHANISMS OF STATE REGULATION OF INVESTMENT IN KAZAKHSTAN

3.1 Diversification and modernization of national economy

The State program of accelerated industrial-innovative development of Kazakhstan for 2010-2014 was adopted to diversify Kazakhstani economy. According to that program investment policy's targets are the identification of sources of funding, support mechanisms and investment in those niches that the private sector is unable to utilize without government intervention. For this implementation the state investment policy combines a list of measures to stimulate private and public investment to develop non-oil industries.

The purpose of the State investment policy is to mobilize domestic and external resources to ensure sustainable economic growth. Improving the competitiveness of national economies by attracting investment into efficient and competitive production and activities. They are able to ensure the establishment of its own investment potential and contribute to the orientation of industries and enterprises to market conditions.

The goal could be achieved through a consistent policy aimed at supporting investment in the country, working out mechanisms to mobilize private and public funds for the implementation of investment programs to attract foreign investment and increasing efficiency.

A key goal is to attract large scale investments in the manufacturing industry and innovation.

The main objective of the investment policy is to create a favorable institutional and economic conditions for the accession of Kazakhstan in the near future in the top 50 most competitive countries in the world and improve the quality of life for citizens of Kazakhstan.

In the course of this problem in terms of investment management should be guided by the key factors to consider when assessing the competitiveness of the World Economic Forum (WEF). The evaluation of investment policy must focus on the efficiency of public investment, the development of security, infrastructure development, health, education, agriculture, small and medium-sized businesses, innovation and technology. In this case, the emphasis should be placed not on investments in these sectors, and on their quality and efficiency.

Also a priority is to provide a new qualitative level of economic development, capable of producing competitive products in non-oil sectors of the economy. Conducted by the state economic policy is aimed at promoting industrial development and diversification of the economy, moving the source of its growth in non-oil sector.

Overall investment policy objectives will be:

- introduction of modern methods of planning and corporate mechanisms in business processes;
- Improving the legal, institutional, infrastructural and informational support for investment activities

in the domestic market and foreign markets;

- Attract attention of Kazakhstan and foreign investors to the country's regions, demonstrating the attractive characteristics of the regions for potential investors;

- Promoting the region's enterprises to attract private investment;

- mobilizing investment resources of the regions, ensuring their effective use;

- raising awareness of business development prospects industries;

- identifying target niches - "growth points" and "breakthrough" in developing master plans for major industries;

- increase of investment competitiveness in the regional aspect;

- utilization of investment to achieve real social and economic growth (job creation, increasing productivity, improving the environment, etc.) as well as increasing social responsibility of business;

Priorities of investment policy would be:

- development of export-oriented industries with high added value;

- accelerating the introduction of new technologies, techniques and know - how;

- dissemination of modern management practices and corporate governance;

- development of strategic infrastructure (transportation, information, communication and energy);

- Public support and encourage domestic producers;

- Increase innovation activity of enterprises and organizations;

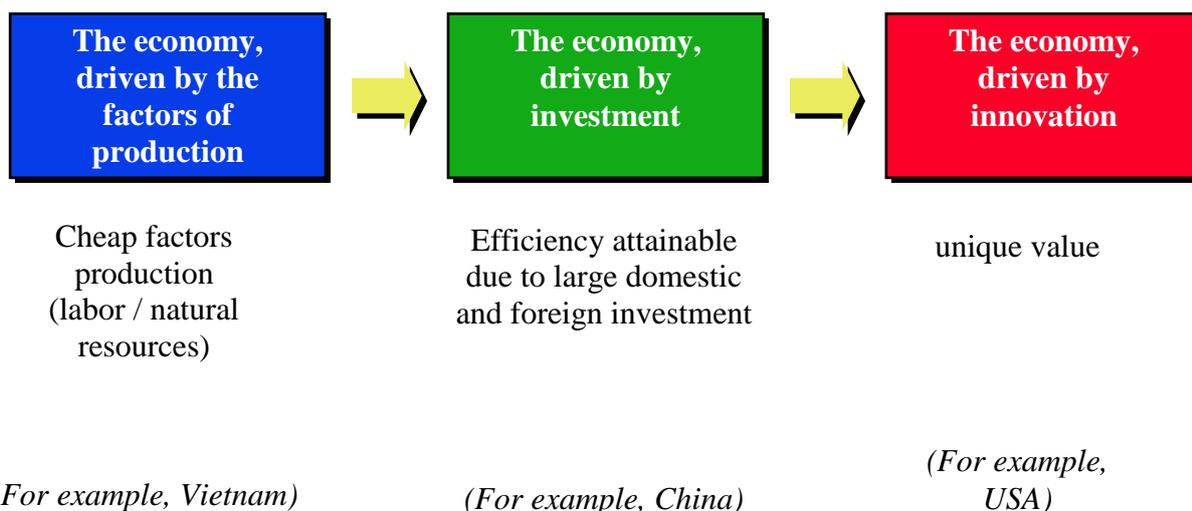
- development of technology-intensive industries;

- human resource development and scientific potential;

- saturation of the domestic market with high quality goods and services.

In accordance with international practice, an important means of implementing the priorities would be to create specific incentives for direct investment.

Exemptions should be granted only in a transparent basis, within the law. Policy on FDI should be focused on the elimination of formal restrictions and administrative barriers to foreign capital, to use the safeguards system, aimed at the specifics of foreign investment and to offset the negative effects of the existing investment climate, the parallel development of industrial and social infrastructure, adequate information provision.



Source: JSC "Center for Marketing and analytical research"

Scheme 2 Stages of the competitive development

In order to attract substantial foreign investment, it is important to establish a system of efficient mechanisms at all levels.

The development of export-oriented industries with high added value, as well as technology-intensive enterprises.

Development and promotion of exports of goods with high value added is the main tool for international competitiveness. Ability to compete in the developed world markets provides a more stable economic growth, reduces the risk of potential imbalances and dependence on external shocks.

Implementation of policies for the development of export-oriented industries with high value added, as well as technology-intensive enterprises, especially, will be development institutions.

In accordance with industry SPAIID priority areas are⁷:

1. Diversification of production in "traditional industries"

Oil and Gas Sector

⁷ State program for accelerated industrial-innovative development of Kazakhstan for 2010-2014 President of the Republic of Kazakhstan dated March 19, 2010 № 958 "Kazakhstan Pravda" dated 31.03.2010, № 74 (26 135), "Egemen Kazakstan" 2010, 31 march № 115-116 (25 962)

- Petrochemistry
- Mining and smelting industry
- Chemical industry
- Atomic industry
- 2. Development of industries based on domestic demand
 - Engineering
 - Pharmaceutical industry
 - The construction industry and building materials
- 3. Support industries with export potential
 - Agro-industrial complex
 - Light industry
 - Tourism Industry
- 4. Development sectors "of the future economy"
 - Information and Communication Technologies
 - Biotechnology
 - Space activity
 - Alternative Energy
 - Nuclear Energy

On each selected branch towards sectoral programs developed master plans for development (master plan), which monitored both by the implementer, and by the Government.

A key role in the development of export-oriented industries with high value added production intended to perform JSC "National Agency for Export and Investment« KaznexInvest ». The purpose of this Agency is to minimize export restrictions. Agency will determine the main areas of focus of efforts to promote exports and investment.

One of the main tasks of the Agency is to implement a national export strategy, which is a concentrated and coordinated between state and private sector action on a national scale for the construction of the institutional system of export-oriented through improving national competitiveness. National Export Council plays important formation of the equal representation of public and private sectors. The corporation must be a working body of the National Export Council.

National Export Council to implement a national export strategy based on public-private partnership should serve as:

- 1) harmonization of sectoral, regional and inter-sectoral strategies into the national export strategy for setting priorities and objectives;
- 2) identification of resources and funding to private and public sectors;

- 3) provide recommendations for legislative and legal frameworks;
- 4) promotion of services and specialized assistance to exporters;
- 5) evaluate the effectiveness and impact of national export strategy.

New export-oriented production with high value added, as well as high-tech and knowledge-intensive production provides place in the first place in the territory of special economic zones, industrial zones, the park and information technology parks in the cities of Karaganda, Uralsk and Almaty.

In the creation of technology-intensive enterprises active role will continue to perform the JSC "National Innovation Fund", JSC "Center for Engineering and Technology Transfer", involving domestic and foreign venture capital funds. National Innovation System of the Republic of Kazakhstan will ensure the creation of a competitive final product based on utilization of domestic and foreign scientific capabilities and technologies.

Activation of the introduction of new technologies, techniques and know-how.

The growing role of technological progress makes it necessary to increase investment in technological capital in the form of R & D funding.

It also should clear focusing of domestic research institutes, laboratories and universities to industrial needs. For this purpose by the competent authorities for education and science, economic planning, industry and development institutions should be institutional, in the first place, the marketing support.

In this case the lack of development of its own scientific and technological capacity poses an acute need for policies to promote technology transfer and bring technological expertise.

In the short term it is important to focus on attracting investments to the most advanced available in the country industrial and technological base.

Technology begins to seriously affect performance only when it reaches at least 50% spread in the industry. The main task - not only to develop technologies and their rapid spread in the industry.

Wide dissemination of modern management practices and corporate governance.

For the growth of investment activity in the country the great importance plays widely utilization of modern management methods and corporate governance in both public and private sectors. This will be used in various forms of training, including distance education methods, involving leading experts and specialists. Also becoming an important exchange of best practices between the Kazakh companies and organizations with the participation of scientific and educational institutions.

The utilization of modern management methods and development of the principles of good corporate

governance will enhance the competitiveness of national business, both domestic and foreign markets.

The transition to new management methods and corporate governance principles requires taking into account the ongoing administrative reform in the country need a radical revision of the current practice of relations between public authorities, on the one hand, and national companies, development institutions, private enterprises and organizations on the other side.

In addition, to improve the quality of management and corporate governance should be involved in highly skilled foreign specialists in the management team of Kazakh companies. This measure is one of the most effective in accelerating the transformation of human resource management technology. This practice should primarily be supported by organizations with state participation.

The development of strategic infrastructure (transportation, information, communication and energy).

Currently, the total turnover of Europe and Asia is about \$ 1 trillion, almost half of them in China. The objectives of the state are promoting the export potential, as well as handling geographical features of the country in its competitive advantage through the development and implementation of transit potential.

Enhance the prospects of transport systems of Central Asia and the development of transit cargo through the territory of Kazakhstan is only possible while maintaining a high level of technical equipment of transport infrastructure in accordance with international standards.

To increase the inflow of investment should be further liberalized the sector of the economy.

In addition, it is necessary to conduct active marketing in the international arena in order to enhance the interest of partners in the transit infrastructure, creating a favorable image, reducing risk, increasing the interest of potential investors to participate in these projects.

In the development of strategic infrastructure, which has a significant impact on improving the competitiveness of the investment, the state should play a major role. For infrastructure development, especially transport, information, communication and energy, the Government of the Republic of Kazakhstan will mobilize domestic and foreign investments, to actively cooperate with the private sector through Public-Private Partnerships and the policy for the integration of these systems in the relevant regional and international networks.

Government support and promotion of domestic producers. Increased innovation activity of enterprises.

The high economic activity of domestic producers will boost the number of investment projects to build new or expand existing production of goods and services. Therefore, great importance is the improvement of

the public support and incentives for domestic producers.

Necessary to establish and update annually a ranked list of the key problems hindering business and investment activity of domestic producers, both locally and at national level of government. This list will identify the necessary operational, medium-and long-term measures to address problems involving the public and private sectors.

The results of these measures is appropriate to consider on a regular basis at meetings of the Government and local executive bodies with the participation of business representatives. Thus a constant monitoring of high-level state support for their effectiveness. Also have to install the appropriate mobile dialogue between the government and the private sector to ensure timely and effective resolution of questions of domestic enterprises and increase their investment activity, both domestic and foreign markets.

To enhance investment competitiveness in the region need to further improving the mechanisms of state support and investment incentives, based on international best practices.

Development of human resources and scientific potential.

To achieve good results in the future should be, above all, increased investment in education and science. As part of the financing of education should focus on technology training management (staff development), development expertise, improving skills, etc.

An important role to play domestic research and development carried out with the involvement of foreign scientists.

In general, the development of human resources requires the utility of the opportunities for international cooperation in order to attract additional expertise and capital.

An important role should be given training in internationally recognized educational institutions. In this regard, it is important to continue training in priority areas of knowledge, and improve mechanisms for the return and the effective use of personnel in the country.

Organizational measures to attract foreign investment.

Involvement, support and encourage direct investment involves the following activities:

- information and analytical support;
- assistance in finding strategic partners;
- assist foreign companies in entering to the Kazakh market;
- to provide a package of investment preferences.

This economic instruments should be complemented by organizational measures. The volume and quality of providing information about investment opportunities in Kazakhstan and its regions have a

significant impact on decision-making on the part of investors about investing capital in the economy. In this regard, the ongoing work on the presentation of investment opportunities should be focuses on the development of the sectors of industrial-innovation sector. Have to establish resource centers in the regions directly providing services to both potential investors to search for promising projects, and directly to businesses to identify and develop investment projects that could interest private investors.

In addition to the implementation of information and presentation of activities necessary to move to a more active dialogue with investors, especially multinational companies, in terms of the joint implementation of large investment projects of industrial-innovative development.

Necessary to carry out systematic work on the publication of the possible export niches, develop detailed master plans, dissemination of good practices of domestic and foreign companies.

In general, the investment capacity is a necessary development, expansion and effective dissemination of a database containing detailed description of industries, market research, internal and external markets, worked on business plans, etc.

Export promotion of domestic capital abroad.

The export of capital abroad - is the possibility of integrating the domestic business segments in the developed world economy, it must be based on economic and industrial might of the country, the achievements of national science and intellectual potential of society.

Promotion of Kazakh investments abroad should be done in two ways:

- 1) by preparing domestic enterprises to invest abroad processes;
- 2) by providing support to domestic enterprises investing abroad.

In both directions become important:

- 1) to study the opportunities and niches in foreign markets;
- 2) analysis of the benefits and risks of Kazakh investments abroad;
- 3) information support to exporters of capital;
- 4) consultation in terms of access to foreign markets;
- 5) assistance in finding strategic partners;
- 6) assistance in optimizing the location of the business, as well as organizational issues;
- 7) assistance in participating in international tenders;
- 8) to ensure investment protection of Kazakh enterprises by all available means and capabilities at a high national level;
- 9) for continuous monitoring of business environment for domestic manufacturers and prompt response from the government in the event of adverse situations in their business;
- 10) organizing regular training seminars and workshops on these issues;

11) investing in strategic assets in developing countries in the region and abroad, which could potentially sell such objects

Special importance plays cooperation with Central Asian countries that are experiencing a shortage of investment, both foreign and domestic. Investment in the region will contribute idea of creating a Union of Central Asian states.

First and foremost, it concerns trade. At present the Government of Kyrgyzstan established an International boarder cooperation Centre "Auhatty - Kenbulun" and "Aisha Bibi - Chon Kapka" is supposed to create a similar center in Uzbekistan. The establishment of such centers with the involvement of private investors to neighboring countries and foreign investors will spur increased trade between neighboring countries, improve the quality of the organization of trade and will promote the development of border regions.

One of the steps to successful integration into the international trading community is the creation of regional trading (Commodity) exchanges, which will be organized by trade among economic actors in the region (e.g. Russia, China, Central Asia, Caspian region). This measure will be one of the mechanisms of development of Kazakhstan's export products.

Existing of Kazakh investments in foreign markets is a priority for improving the competitiveness of the country and the state should play a major role in realizing this objective.

Currently established and already functioning Customs Union between Kazakhstan, Russia and Belarus, which primarily increases the consumer market of Kazakhstan taking into account the Union's up to 170 million people.

Improving the business environment and increasing social responsibility of business.

Typically, the main directions of improving the business environment are:

- 1) elimination of administrative barriers, and further administrative reforms;
- 2) improving the infrastructure to support business initiatives;
- 3) introduction of international business experience and international quality standards.

The authorized state body for the implementation of investment policy should focus on performing the most basic of the three functional tasks: (1) - an initiative to improve the legislation, based on continuous monitoring and research of domestic and international investment processes, (2) - to coordinate policies and activities of state bodies, with faced by foreign investors, and (3) - provide investors with information, legal and advisory support.

Realization of these objectives should contribute to improving the business environment in the country.

However, when the effectiveness of the legal, organizational and institutional framework of the investment climate are the main factors of a purely economic components: the capacity market and the level

of development of productive resources.

In order to expand the capacity of market, business growth, resource mobility an important long term investment strategy, priority is regional economic integration.

At the same partners for economic integration should be developed to howl single economic development strategy, within which to develop and consolidate the concept of investment incentives, both external and intra-regional.

In this regard, it is necessary to consider the establishment of industrial consortia with their neighbors, the opening of specific sectoral and regional markets, joint development of other markets. It is expedient to carry out the selective liberalization of trade regime.

One form of such an approach typically export-manufacturing zone and a zone of free trade.

However, in order to protect domestic producers, should be adequate anti-dumping policy.

Rise of business' social responsibility

Social responsibility of business is vitally important and widely recognized factor in the conduct of civilized activities of any large company.

In the international understanding of the definition is treated as a voluntary contribution of business to society in social, economic, environmental and other areas directly related to the core business of the company and beyond a certain legal minimum. At the same time abroad is not perceived as a charity.

In world practice, corporate social responsibility is one of the tools that can improve the business reputation of the business and company as a whole.

In general, increasing corporate social responsibility is also having a beneficial effect on the state.

In order to enhance corporate social responsibility and create the necessary level of etiquette in the business environment, the state should pursue a proactive policy to encourage and support actions the business community.

As one of the possible stimulus to consider the possibility of establishing criteria for public-private partnerships (public procurement, privatization, etc.) the level of social responsibility.

3.2 Mobilisation of country's investment opportunities

For the realization of basic directions of investment policy will be mobilized internal and external investments. The state will continue to play a major role in improving the efficient use of available resources and involved.

Public sector investment and public-private partnership.

Management of budget investments.

In the short term it is supposed to preserve the allocation of funds from the state budget to deal with social problems. The main priorities remain: building schools, hospitals, water facilities, roads and basic infrastructure.

From the state budget continues funding for the sectors where private capital does not show enough initiative, in particular, basic research, education and agriculture,

It is also proposed to increase investment to create the starting conditions in the industries and recognized as the most promising for cluster development.

Given the annual increase in development budget, you need to gain control of the effective and targeted use of budgetary funds. This requires further improvement of monitoring and evaluation of public investment in the investment sector of the economy.

The basic principles of public investment will be:

- ensuring the necessary level in the investment policy of the country, taking into account the opportunities and priorities of the state;
- obtaining the maximum social and economic benefits from investments.

It is advisable to make the transition from the management of public expenditure management for results. This will facilitate the introduction of performance-based budgeting for results.

Budget planning of public investment should include:

- A direct link with the strategic budget programs (software) instruments;
- Improving the efficiency of budget expenditures through improving the quality of planning.

Public-private partnerships.

Given the limited budget, capital-intensive projects, as well as the requirements for the determination of individual objects of state property, equipment and facilities possible with the use of public-private partnership. This is, first of all concerns of energy supply and transport infrastructure.

At the same time investing in the economy through the use of public-private partnership should provide not only the creation of infrastructure, but also increase their productivity and operational efficiency to obtain the maximum socio-economic impact.

In general, today in Kazakhstan are possible all forms of public-private partnership, where one side is the state of contractual relations, on the other - individual:

Privatization;

implementation of public procurement activities of private sector;

transmission facilities owned by the state, in trust;

concession;

State participation in the authorized capital of legal entities, including through the various development institutions;

providing support in the form of guarantees from the state.

The creation and development of infrastructure is most appropriate part of the state through the application of concessions, the provision of government guarantees and warranties on non-government loans as part of the investment projects.

In accordance with the Republic of Kazakhstan Law "On Concessions"⁸ under the concession means a concession agreement for the transfer of state property in the temporary possession and use in order to improve the efficient operation, as well as the rights to the creation (construction) of new facilities at the expense of the concessionaire with the provision of last ownership, use and disposal with or without a mandatory funding at the expense of the concessionaire and the transfer of the state.

Activities related to the provision of concession objects based on the following principles:

openness and transparency of the grantor and the concessionaire;

balancing the interests and risks of the grantor and the concessionaire;

the rights and lawful interests of consumers of goods (works, services) provided by a concessionaire under a concession agreement.

In this application of the concession will be for the implementation of major investment projects of strategic importance for economic development.

The main mechanism that will be used for implementation of concession projects is project financing, where the state is not only a party to the concession agreement, but also a direct participant in the project.

Current Projects must be viable, that is to have a certain level of profitability. In this state involvement in ensuring the return should be minimal.

In international practice, the projects implemented under a concession, as a rule, are long-term, which also stipulated in the Law of the Republic of Kazakhstan "On concessions". Under the Act concession contract is for up to thirty years. Thus, a significant role should be given to the preparatory procedures for large-scale and comprehensive financial, economic and technical evaluation, which may be more than a year.

Also, the implementation of concession projects, may contribute to the development of securities markets, in particular, the design of securities.

Raising funds and institutional capacity of national companies and development institutions.

National companies' and development institutions' investment activity should be based on the following principles:

- Ensuring the promotion of public development objectives;

⁸ Law of the Republic of Kazakhstan dated July 7, 2006 "On concessions";

- promoting regional development;

With the implementation of investment projects should be ensured maximum participation of small and medium-sized businesses in the region, creation of service, related, complementary industries and services, the maximum inflow into the local budget, the increase in employment in the region.

- providing Kazakh participation in the strategic investment projects.

We need to strengthen economic expansion outside of Kazakhstan, the acquisition of the neighboring countries of Kazakhstan necessary for industrial projects and infrastructure, including strategic importance. This expansion should be carried out by the resident companies, national companies, the government (in the form of granting government loans to foreign governments).

- Ensuring environmental focus of investment;

Investment organizations with state participation should ensure maximum environmental safety in projects, as well as the introduction of resource-modern technology.

- Providing added value.

Thus, the investment policy of the national companies and organizations with state participation should be aimed at the introduction and application of new technologies to improve their performance and the industries in which they operate.

Tools of the national companies have to be focused on the investment portfolio by buying shares in the high-tech multinationals, which should facilitate the creation and implementation of advanced technologies in production, as well as enabling higher value-added post in Kazakhstan. These actions should also facilitate the transfer of international experiences and latest achievements in the field of corporate governance, organization and implementation of investment projects, as well as the creation of innovative enterprises.

In addition, the investment of national companies are committed to increasing demand for professional staff, providing a corresponding increase in the level of preparation and training which will be funded by public investment in education and science.

Private sector investment. Mobilization of investment opportunities in the financial sector.

Implementation of investment programs (projects), as a rule, is supported by the participants in the financial sector (commercial banks, insurance companies, pension funds). In implementing the investment policy should be modern competitive financial sector is fundamental. Investment activity of residents of the country much hang on the level of financial sector development.

Currently, Kazakhstan's financial sector has a high enough level of development in the region.

Development concept for the financial sector of Kazakhstan for 2007 - 2011 provides for the following years, further directions of development of the banking sector, which is the largest and most basic segment of the sector:

increase access to banking products and better protection of consumers of financial services;
increasing transparency of domestic banks in order to increase public confidence in the banking sector;
development of competition and liberalization of foreign banks access to domestic financial market;
improvement of banking supervision, based on international best practices and better management of external borrowing of the banking sector.

However, should a deliberate policy of the state of concentration of banking sector assets in the implementation of public investment policy.

It is now also one of the largest institutional investors in the domestic financial market became the pension funds. In recent years the stock market of the country due to a downward trend yield securities, which may be invested pension assets, amid shortage of attractive, and at the same time reliable and liquid securities, there is a need to expand investment opportunities for the industry.

It should improve the competitiveness of the financial sector. Pension funds need to create partnerships investor relations with the corporate sector as a whole to increase its role in the market not just as saving the structure, but also as an active investing and investee. The pension system accumulates substantial funds that may be of interest to local companies. Develop the pension system as appropriate, including by strengthening the corporate sector, which should be encouraged to raise more funds in the domestic market.

Currently, the actual investment in shares of companies of the country is around 12%. We believe it possible to take measures to increase it to 20-25%.

Need to invest more in deposits of resident banks in the second level from 20 to 30% on favorable conditions for both sides. This measure is intended not only to improve the structure of the investment portfolio, but also to increase investment by pension funds, thereby encouraging reduction in foreign borrowing by banks in the amount of increase in deposits.

Naturally, the efficient use of investment resources is unthinkable without the securities market. Normally functioning stock market, as the experience of developed countries, stimulates the flow of capital in the market, expanding the resource base for investment, contributes to the development of additional networks of financial institutions, secondary and tertiary markets securities.

In this regard, one of the objectives is to form a liquid stock market and its components and, consequently, the expected development of alternative financial instruments.

One of the elements of debt instruments in Kazakhstan defined the initial public offering (IPO) of national banking companies and organizations.

In general, the medium term will be strengthened position of the government to create favorable institutional and economic conditions for the implementation of the basic directions noted the investment policy of the country.

Conclusion

Based on theoretical analysis of issues relating to the mechanisms of state regulation of investment of the Republic of Kazakhstan, as part of the socio-economic policies that reflect sound economic and financial measures of state regulation of investment processes in the interests of the entire national economy, it is necessary to draw the following conclusions and suggestions.

State created a number of development institutions to streamline the provision of investment preferences, improved budgetary legislation, the transition to medium-term budgetary planning, investment and development plans of national companies and legal entities with state participation.

As the economic mechanisms of stimulating private investment can be investment tax incentives, state natural grants in kind and a number of guarantees provided in accordance with the Law of the Republic of Kazakhstan "On Investments" investors carrying out investment in fixed assets of enterprises in priority sectors. This law defines the legal and economic framework for investment incentives, guarantees the protection of investors for investments in the Republic of Kazakhstan, defines measures of state support of investment, arbitration of disputes with investors.

Currently, in terms of asset growth for investment in the country, it needs to improve the systematic approach to the utilization of resources to maximize the country's competitiveness in order to accomplish the strategic objective of the head of state - joining in the near future in the top 50 most competitive countries in the world.

It is essential that the economic, financial and human factors are integrated into a single innovative process to the expanded reproduction of the economy, including the regions, diversification and competitiveness of the national economy, and ultimately - to increase the level and quality of people's life.

The prerequisites for improving the investment policy are:

- Political stability and relative predictability of events in Kazakhstan;
- Macroeconomic stability;
- A coherent economic policy aimed at developing a market economy in the Republic of Kazakhstan;
- A legal framework regulating the main issues of investment activity in the country: the Tax Code, Customs Code, Land Code, Law of the Republic of Kazakhstan "On Investments" and others;
- The presence of an institutional framework to support the initiatives of private and public sectors of the economy in the face:

Foreign Investors' Council under the President of the Republic of Kazakhstan, Ministry of Economic Development and Trade of the Republic of Kazakhstan, the Committee on Investment of the Ministry of Industry and New technologies of the Republic of Kazakhstan and other public bodies;

national development institutions and companies included in the composition of the JSC "National Welfare Fund" SamrukKazyna ";

Eurasian Development Bank, commercial banks, pension funds, the National Fund of the Republic of Kazakhstan;

chambers of commerce, associations and other business associations.

Analyzing the investment climate in Kazakhstan, we note that a decline in investment growth in fixed capital, however, for the period from 2005 to 2010, investment in fixed capital increased by 5 times. The main sources of investment in fixed capital were own funds of economic entities and foreign investment.

Priority sectors for investment are oil and gas, real estate, transport and communications and manufacturing.

In order to further improve the investment climate stronger regional dimension of investment policy.

There is an increase of the gross inflow of foreign investments in Kazakhstan.

The main investor countries are, Netherlands, USA, UK, France, Italy and Germany.

Overall objectives of the investment policy of the state's medium-term will be:

- Introduction of modern methods of planning and corporate mechanisms in business processes;
- Improvement of the legislative, institutional, infrastructural and informational support for investment activities in the domestic market and foreign markets;
- Attracting the attention of Kazakhstan and foreign investors to the region of the country, a demonstration of the attractive characteristics of the regions for potential investors;
- To assist enterprises in the regions in attracting private investment;
- The mobilization of investment resources of the regions, ensuring their effective use;
- Raising awareness of the business with the prospects of industries;
- Identify target niches - "growth points" and "breakthrough" in developing master plans for major industries;
- Increase investment competitiveness in the regional aspect;
- investment utilization achieve real social and economic growth (job creation, increasing productivity, improving the environment, etc.), as well as improving corporate social responsibility.

Investment policy's priorities are:

- The development of export-oriented industries with high added value;
- Intensifying the implementation of new technologies, techniques and know - how;
- Dissemination of modern management practices and corporate governance;
- Development of strategic infrastructure (transportation, information, communication and energy);
- Government support and promotion of domestic producers;
- Increase of innovation activity of enterprises and organizations;
- Development of technology-intensive industries;
- Development of human resources and scientific potential;

- Strengthening of National Agency for Export and Investment “KaznexInvest”, which provides a wide range of services for foreign investors free of charge. These assistances include finding a local partner, visiting land plot for the project and assistance in obtaining incentives and preferences. In other words, all the services beginning from meeting at the airport, organizing high-level meetings, a joint trip to the regions to get acquainted with the place, etc. all available by KaznexInvest.

- Saturation of the domestic market with high quality goods and services.

Over the years of reform, investment policy to attract and use foreign investment has changed in a positive way. This is due to active work of the Government of the Republic of Kazakhstan in creating and maintaining a favorable macroeconomic environment, structural reforms in the economy and the continuous improvement of legislation.

The Government will continue systemic reforms in the economy, to improve the investment climate in the country and the modernization of public administration. Particular attention will be paid to the development of competition and improving infrastructure: electricity, rail and road transport, telecommunications and communication. These measures will enhance the performance of the economy and its diversification in general.

In preparing the forecasts used in the analytical and statistical data.

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