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Agricultural business in Kazakhstan and opportunities for Islamic finance

Agriculture is one of the most attractive sectors of Kazakhstan's economy. Kazakhstan has approximately 24 million hectares of arable land and 188 million hectares of pasture. More than 74% of the country's territory is suitable for agricultural production. More than 42% of Kazakhstan's population live in the countryside and about 20% of all employed persons in Kazakhstan are employed in the agricultural industry. Kazakhstan is one of the top 10 grain exporters in the world and according to official estimates, its meat production is a particularly promising area that can generate up to US\$2.6 billion in annual export revenue. The biggest potential markets for Kazakh agricultural products are China, Iran, Saudi Arabia and Russia.

Given the importance of this sector to the state, there have been significant changes in legislation and government policy regulating economic activity in the agricultural industry in recent times. The Commercial Code adopted in 2015, in particular, creates a system of benefits and preferences which supports direct investments in certain areas, including agriculture, for example, exemptions of tax and customs duties and even compensation by the government of up to 30% of the costs relating to the construction, assembly and acquisition of equipment. On the international level, Kazakhstan's accession to the World Trade Organization (WTO) in 2015 imposed on the country certain obligations to perform under the WTO Agreement on Agriculture.

Finally, while addressing the nation on the 5th October 2018, the president of Kazakhstan specifically stressed the need to develop Kazakhstan's agricultural and industrial potential. One of the main objectives set by the president is to increase labor productivity in agribusiness and increase the export of processed agricultural products 2.5 times by 2022. For these purposes, the government of Kazakhstan allocated KZT100 billion (US\$270.7 million) annually for the next three years and promised to adopt relevant changes in legislation by the end of 2018 that will introduce a concept of agrarian receipts as well as improve the mechanism of agricultural insurance and also rural credit cooperatives.

It must be said that one of the key unresolved problems in the Kazakhstan agricultural industry is that the sector does not have sufficiently stable long-term financing in the local currency, due to local commercial banks' instability and fluctuations in the tenge which is the local currency. Because of foreign ownership restrictions on farmland, the scale of direct foreign investment is also clearly insufficient to meet the needs of Kazakhstan's agricultural sector, or to strengthen the country's position in the global agricultural production market. Currently, only local legal entities with a foreign ownership of 50% or less can lease farmland for up to 49 years, whereas foreign legal entities, foreign citizens and local legal entities with foreign ownership of 50% or more can neither own nor lease farmland.

The ability to finance agricultural projects on an Islamic finance basis allows one to access a considerably greater number of financing sources and attract long-term financing on the profit and loss-sharing principle. Kazakhstan, therefore, should try to tap global Islamic finance, the estimated market size of which in 2018 is exceeding US\$2 trillion, for the purposes of financing and the implementation of agricultural projects.

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