

## **Strategy for the development of Astana International Financial Centre**

### **I. Introduction**

Kazakhstan enters a new phase of the development after a period of high economic growth. The crisis of 2007-2009 was successfully overcome through the use of accumulated resources. Sovereign wealth funds, established in the previous years, played a major role in the economic development. With the falling prices for the country's main export commodities, new approaches to public policy are necessary. In particular, diversification of economy, better management of the accumulated funds and assets, as well as the development of a financial services market have become important. At the same time, the country's integration into regional cooperation organisations and the Eurasian Economic Union creates conditions for accelerating the integration of Kazakhstan into the global financial system.

Five institutional reforms of the Head of State and Hundred Concrete Steps Program to implement these reforms (hereinafter – Plan of the Nation) have become a new starting point in the development of Kazakhstan. As part of the Plan of the Nation, Astana International Financial Centre (hereinafter – AIFC) was established at the order of the President of Republic of Kazakhstan with a special legal status to be based on the EXPO-2017 International Specialized Exhibition (hereinafter – EXPO-2017) infrastructure. A Constitutional Law providing favourable environment for the AIFC participants was passed for a successful launch of the AIFC.

The main goal of AIFC, like of any other state reform, is to improve welfare of Kazakhstan residents. Various aspects of the AIFC shall allow improving the approaches to managing sovereign wealth funds and facilitating the transfer of foreign knowledge and technology to the country, thus, ensuring an increase and the development of human capital. The slowdown of business cycles in the country due to the deteriorating conditions in foreign markets and unfavourable geopolitical situation in the region, only justifies the need for a financial centre - it is important now more than ever to attract new investments in the financial capital, as well as in technology and human capital. The initiative to establish an international financial centre with a high-tech infrastructure and a new institutional framework is one of the reforms aimed at the long-term development.

In order to establish AIFC as a local centre of expertise with a

developed capital market and later to develop it into a regional platform for financial intermediation, the strategy for the development of AIFC has been developed until 2021, inclusive. Implementing the initial phase of the development of the AIFC shall serve as a solid foundation for the realisation of the subsequent phases, namely, development into a regional financial centre, and eventually, into an international financial centre. The strategy for the development of AIFC shall be reviewed upon the implementation of each phase of the development due to a change of goals and objectives.

## **II. Success Components**

AIFC shall become an important financial platform, interacting with major regional and international financial centres, therefore, coordination and cooperation of all government bodies are necessary in the first phase during the establishment of local centre of expertise and participation in the development of local capital markets and financial system. Furthermore, priorities of the first phase of the development of AIFC have been determined as components of the successful project implementation:

**Priority 1: Establishment of a transparent and clear legal regime based on world best practices is vital for ensuring global community's confidence in AIFC.** Within AIFC, it is necessary to form a special jurisdiction under the Constitution of Republic of Kazakhstan with its own commercial and civil laws in English, based on English Common Law, and, in case of uncertainty, referenced to an original source in Common Law. AIFC Independent Court, separate from judicial system of Republic of Kazakhstan and consisting of qualified judges with practical experience in countries with English Law jurisdiction, shall be the main institution resolving disputes between the AIFC participants. Additionally, it is necessary to create an institution that would resolve potential disputes under arbitration agreements.

**Priority 2: It is necessary to create a regulatory regime consistent with recognised international standards to ensure fairness, transparency and efficiency of the financial market, protect interests of investors and financial services customers, and to minimise systemic risk.** Regulatory body, and legal and regulatory framework are the main elements of regulatory regime. Legal and regulatory framework shall be clear and consistent, and shall cover all strategic directions for the AIFC development. Regulatory body shall have clear and objective responsibilities, sufficient authority, resources and capabilities for proper performance of its duties and functions. The regulatory body shall be independent in its daily activities, but shall report to a governing body on the exercise of its rights and powers. Moreover, the regulatory body shall have universal powers to conduct inspections and investigations, as well as to carry a supervisory action on meeting and an enforcement of regulatory requirements, while

ensuring effective and proper exercise of such powers and implementation of an effective compliance system.

**Priority 3: AIFC exchange shall comply with the world best practices for the development of the local capital market.** AIFC exchange shall provide an environment for listing, organisation of trading, registration of securities, and clearing and settlement procedures. Moreover, the exchange shall serve as a mechanism for diversification of the economy by providing the real sector an access to capital and allowing Kazakhstan investors to benefit from economic growth of the country by investing in flagship companies of Kazakhstan economy. AIFC exchange shall also ensure transparency of the stock market and ease access of foreign capital to Kazakhstan and regional companies. Thereby, AIFC exchange, complying with the world best practices, shall become a platform for the privatisation of national companies.

**Priority 4: In order to attract domestic and foreign capital for investment management it is necessary to create a favourable environment facilitating the arrival of recognised professional managers to AIFC platform.** Localisation of foreign asset management companies on AIFC territory shall give an effective boost to the development of local asset management and capital markets, and subsequently shall facilitate the inflow of funds from other sovereign wealth funds, institutional and large private investors to the market.

Large asset management companies regard the depth of potential investment capital, alongside with legal and tax privileges, as an important factor in choosing a new region. Thus, localisation of foreign asset management companies on the territory of the AIFC can subsequently become an additional competitive advantage for foreign asset management companies for participation in the tender for management of National Fund of Republic of Kazakhstan and Integrated Accumulative Pension Fund assets.

**Priority 5: Considerable attention must be paid to supporting a sustainable economic growth and the development of green finance on AIFC platform.** Sustainable economic growth implies a growth of economy taking into account the environmental and social components. Environmental component is very important for the development of Kazakhstan, whose economy depends on mining, a traditional energy source. Technologies of renewable power generation will be the main theme of the EXPO-2017. On the AIFC platform, using unique infrastructure of EXPO-2017, a separate attention shall be paid to supporting the technologies of renewable power generation; the AIFC shall become a platform for investments in environmental projects. AIFC shall be open for implementation of green financing programs, particularly, issuance of green bonds.

**Priority 6: AIFC shall become the centre of local expertise and facilitate increase and development of the country's human capital by creating a favourable environment to attract the world's best experts.** This includes reducing the barriers to registration and participation, as well as establishing the AIFC as a platform for interaction between foreign experts and local financial market representatives. Thus, it is necessary to increase the attractiveness of AIFC by introducing tax exemption for participants during the first 50 years, simplified visa and employment regime, and connect Astana with key financial centres around the world via direct flights. The development of training programs and certification, paying attention to research programs in relevant segments shall be supported as part of AIFC development.

### **III. Infrastructure Building**

Following the example of successful global financial centres, AIFC shall have all the components of its own developed infrastructure. A set of enterprises and buildings, high-tech engineering, and developed institutions are prerequisites for success of the international centre.

The territory on which the EXPO-2017 will be held, along with the existing transport, urban, and engineering infrastructure, shall be the main territory of AIFC, and thus, provide an opportunity to create around 18,000 workplaces in all relevant services sectors.

AIFC shall become the main project of a rapidly growing Astana by stimulating the improvement of transport connection in the city and the quality of social infrastructure, comprising quality housing for residents and guests, social and cultural amenities, healthcare and education/pre-school education systems, as well as leisure and recreation related organisations.

AIFC shall use the best technology for providing information and market infrastructure. Registration and data storage systems for market participants, necessary procedures for conducting financial transactions and ensuring information security shall be supported by the AIFC. Along with the institutions created on the AIFC territory, the vital activities of developed market infrastructure shall be provided as well by local and foreign participants of the AIFC: investment banks, reinsurance companies, various funds, consulting and information-marketing companies.

Advanced training institutions, technical laboratories, and financial services development centres shall constitute an innovative infrastructure. This shall have a great impact to the education development, particularly to the improvement of professional skills in provision of finance services. The development of the AIFC as an international financial platform shall provide an opportunity to create more than 2,000 workplaces in international financial services sector. Thus, the creation of AIFC shall facilitate reaching the full potential of such government programs as Bolashak International Scholarship of President of the Republic of Kazakhstan and Nazarbayev University.

## IV. Pillars for the Development

Positioning Astana as a main financial centre in the region shall be achieved through the implementation of the following five core pillars:

**Pillar 1: Capital Markets** – a formation of liquid Kazakhstan capital markets shall attract more foreign investments and accelerate the growth of the national economy. Capital market development shall create a significant alternative to the banking system and allow mobilising free financial resources of the country and the region, taking into account the interests of market players and needs of national economy.

**Pillar 2: Asset Management** – development of a local market and an expertise in asset management shall lay a foundation for the development of Kazakhstan capital markets by attracting world's leading asset management companies to AIFC platform.

**Pillar 3: Financial Technology** – development of a new class of high-tech financial services on the platform of the financial centre shall allow reducing the cost of traditional financial services, facilitating the integration with global markets and accelerating the development of the local financial market.

**Pillar 4: Islamic finance** – development of Islamic banking and non-banking financial services, as well as Islamic capital market instruments. The development of this area shall require a special legal regulation and control in accordance with the principles of Islamic finance.

**Pillar 5: Private banking** – Private banking shall be developed in conjunction with the strategic direction Asset Management both in terms of services provided to rich and affluent persons, and the management of repatriated funds and funds of wealthy citizens of neighboring states.

## V. Institutions and Bodies

Establishment of AIFC is part of the Plan of the Nation. EXPO-2017 will be hosted in anticipation of the launch of the AIFC. An independent legal framework shall be implemented in the territory of the AIFC, and English shall be the language of business correspondence.

AIFC Authority shall facilitate the advancement of the AIFC in the global markets, the development of services in the territory of the AIFC and the attraction of potential participants, as well as provide the infrastructure management of the AIFC. Financial support of the AIFC shall be provided from the funds of the Government of the Republic of Kazakhstan, National Bank of the Republic of Kazakhstan and other sources.

Appropriate legal and regulatory institutions (AIFC Courts, financial controller and the arbitration centre) shall be established in the territory of AIFC. For the purposes of introducing new financial services and increasing human capital, AIFC shall provide a platform for the development of the financial technology and shall support institutions for the professional development. AIFC Management Council and AIFC Governor shall oversee the activities of the institutions and bodies of AIFC.

## **VI. Conclusion**

Over the last twenty-five years of independence, Kazakhstan has had experience in implementation of successful projects within the framework of institutional reforms. To name a few, Bolashak International Scholarship allowed growing several generations of highly qualified specialists that contributed to the country's development. Establishment of National Fund helped to create right fiscal policies, also considering oil and gas sector dependence of country's economy helped to accumulate essential financial capital for long run investments and to create cushion to overcome the periods of crisis. Following the example of these and other initiatives, AIFC shall be a new step in realisation of reforms aimed at the long-term socio-economic development of Kazakhstan. AIFC shall be the main governmental institution of full-fledged Kazakhstan financial system formation. AIFC shall allow identifying Astana as an important international financial centre, providing a platform for the provision of financial services to customers in the Eurasian region and around the world. Considering globalisation and rapidly changing world economy, establishment of successfully functioning AIFC in Astana shall significantly facilitate integration of Kazakhstan to global financial system, by attracting foreign investments to economy and enhancing technology and human potential of the country. Inheritance of the EXPO-2017 infrastructure and prioritisation of sustainable economic growth support encourage long run economic growth by taking into account economic, social, and environmental components.