

Agricultural business in Kazakhstan and opportunities for Islamic finance



KAZAKHSTAN

By Shaimerden Chikanayev

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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Islamic finance and blockchain in Malta



MALTA

By Reuben Buttigieg

During the Delta Summit organized in Malta from the 3rd-5th October 2018, various organizations showcased Islamic finance projects that are to be launched in Malta. Among these was the Islamic microfinance project launched by the Malta Islamic Finance Association and ASSAIF Italy.

Other projects launched and/or discussed include two Islamic virtual financial asset exchanges that are expected to initiate the application process shortly after the 1st November 2018, the day when the Malta Financial Services Authority will start to accept applications.

There were other projects mentioned that seek Shariah compliance including

a project for the generation of funds for the building of schools in Africa. There was also a project that looks at other healthcare matters as well as humanitarian issues, including blood donation and the avoidance of human organ trafficking. All projects presented were in principle laudable projects. Now one will need to see whether these will pass the stringent process of the Malta Financial Services Authority.

The days following the Delta Summit resulted in an inundation of queries for Islamic finance projects which, at the time of writing, are still being analyzed. I seriously encourage Islamic fintech companies to look to Malta in order to register their initial coin offerings or tokens and to benefit from this unique opportunity in the world.

During the summit, important aspects of Waqf were also discussed and how this can be managed on blockchain as well as Zakat. The Virtual Financial Assets Act combined with the Trust and Trustees Act in Malta are unique instruments that can assist all Islamic finance practitioners to achieve certain goals which would otherwise be prohibitive in terms of costs.

Malta will also launch tax guidelines which will assist even more in ensuring cost-efficient structures. It is expected that these guidelines will clarify certain interpretative matters of what is capital and what is income in terms of Maltese law when it comes to digital assets. ☺

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