TERMS OF REFERENCE (TOR) FOR HIRING A PROJECT SPECIALIST

STUDY ON PREPARATION OF THE ROAD MAP TO INSTITUTIONALIZE A COMPREHENSIVE JOINT ACTION PLAN AMONG THE SOVEREIGN WEALTH AND NATIONAL DEVELOPMENT FUNDS (SW/NDFS) OF THE ECO MEMBER STATES

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Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 1

Output 1.1

Phase-I: Output 1.

Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Output 1.1

Development/dissemination/collection of Questionnaires

1.1.1. Introduction

All researches are based on data and field information from the target audience and the statistical community. In this research, at the very beginning, a comprehensive questionnaire was designed based on the statistical community, which was the national funds or the wealth of the member countries, which was coordinated by the ECO secretariat for the target audience, emailed and sent.

But unfortunately, except the National Development Fund of Iran, <u>none of the other funds responded</u>. A new email has been sent in different periods of time, but no response has been received.

In this section, the output of 1.1, the research questionnaire and only the received answers are presented.

1.1.2. Questionnaires

COVER LETTER

To:

Dear

You are invited to participate in a research project being conducted by Economic Cooperation Organization (ECO) in corporation with NDFI under supervision of Dr. Amir Mostafavi (specialist/ researcher).

The purpose of this research is to find out how *"Prepare of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States"*.

If you decide to participate, you will be asked to complete an official survey. Your completion of the survey will serve as your consent. Please keep this cover letter for future reference. If you have any questions about this study, you may call me at +989122264215 (WhatsApp) or email: mostafavi_am@yahoo.com.

Please return the survey via email: mostafavi_am@yahoo.com . Thank you for your participation.

Best Regards

Mehdi Ghazanfari
CEO Of NDFI

Ambassador Khusrav NOZIRI
Secretary General, Economic Cooperation Organization

Amir Mostafavi
Specialist/Researcher

Research Summary

Research Title

"Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States"

The research designed for mobilizing liquid funds for the purposes of stabilization of economies during unforeseen economic downturns (particularly for social strata), the SW/NDFs are looking out for investment opportunities outside sovereign territories of countries. To that effect, the ECO region may offer ample opportunities to SW/NDFs of reasonable benefits for ECO societal community via regional projects.

Research Objective

Obtaining the financing by ECO countries' SW/NDFs and by other interested public and private investment agencies of mega projects in the ECO region through a diverse range of financial instruments

As a tool of obtaining the much required investment financing, a special purpose vehicle (SPV) like the "Mutual Fund of SW/NDFs of ECO" that is **J.I.S.**[1] will be established for the purposes of the subject project. The project, for which the small sized study will be carried out as a pre-feasibility justification, will then directly focus on J.I.S.

The conceptual backbone of Research

- Attracting multiple-type investment flows, including via traditional foreign direct investments (FDIs) and market-oriented innovative financial instruments.

- Exploring ways to mobilize the available in Member Countries funding sources, notably, the Social Welfare Funds by using the platform of the ECO SW/NDFs to be facilitated by Joint Venturing (JV) between with the investors and investees ; Joint Ventures–to be the effective handy tool of public-and-private forms of investing in the ECO region.

- Employing gains/losses analyses of stakeholder-identified selected areas in the ECO region for potentially mass investments; the analyses results to be then embedded in the **Comprehensive Plan of ECO SW/NDFs** with the most feasible investment areas determined and adequate measures commensurate to future influx of investments evidence-proven as the result of the study.

**Abbreviations:*

ECO: Economic Cooperation Organization

SW/NDFs: Sovereign Welfare and National Development Funds

JIS: Joint Investment Schemes

[1] J.I.S. – Joint Investment Scheme stands in the concept proposal for "Mutual Fund of SWFs of ECO".

Questionnaire to study on;

"Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States"

*Part One: Basic Information

Please describe the following statements about your fund in detail.

a) Type and mission of the fund:

b) Assets under management:

c) Investment Sectors(portfolio):

d) Investment Priorities:

e) Investment volume and share in Foreign Projects (non-domestic):

**Part Two: The level of readiness

f) According to the research summary, what is your regional interest/tendency to participate in a joint investment scheme? (please describe the reasons)

g) Has your SW/NDFs participated in investment projects in other ECO members? (Please mention your successful or failure experiences)

h) Do your SW/NDFs have projects that would like to share with other ECO members regarding to finance? (If there was a case, please state)

i) How a joint investment scheme (ECO-SW/NDFs) can attract participation, please state your favorite model to do how?

j) What is your suggestion for participate and invest, if the investment opportunities between ECO members are feasible or your research indicates that there are opportunities?

k) As Considering, mutual potentials and capacities of ECO members, do you have solutions for financing the joint investment projects? (Please explain about it)

***Part Three: How to participate in the joint investment scheme

l) What do you suggest to institutionalize the J.I.S (ECO-SW/NDFs)?
- Mutual investment fund
- Investment bank
- A multinational investment company
- A multinational project-oriented company
- A subsidiary structure of ECO organization

m) What are your proposed investment priorities, if your fund wants to participate in J.I.S due to potentials and capacities of ECO members?

n) What are your criteria's for evaluating projects in J.I.S, due to national and economic interests of projects? (Please explain about it)

o) Which projects do you have to submit in J.I.S (ECO-SW/NDFs)?
- Project Title:
- Capital Required:
- Suggested Financing Method:

p) How will your participation, if there is interest to participate in J.I.S (ECO-SW/NDFs)?
- Direct Investment
- Sharing Running Projects
- Domestic Fundraising
- Assets (Non-cash)

q) How will you participate in J.I.S; directly or by an institution/subsidiary company？

r) What the minimum capital will you contribute in JIS to start?

s) Describe the proposed financing methods for investing in the projects of J.I.S?

****Part Four: Suggested solutions for institutionalizing J.I.S of ECO-SW/NDFs

According to your experiences and proposed summary of JIS, it is pleasure to describe proposed solutions about the structure, operation model, organization, how to evaluate projects, investment process and participate members in JIS.

(If similar documentation and research has been done in your country or by yourself, please attach to questionnaire.)

1.1.2. Collection of Questionnaires

Questionnaire responded by: National Development Fund of Iran

*Part One: Basic Information

a) Type and mission of the fund:

NDFI, as a non-government public entity, enjoys independent decisions making and transparent and accountable governance, as well as observing Sovereign wealth funds' ethics in its investments, in line with Santiago Principles. The main pillars of NDFI ethics are as follows:

The NDFI activities are within the clear and defined legal and governance structure, consistent with its Articles of Association, without pursuing any political interest.

The investment policy of NDFI is "optimum return on investments", "moderate risk", and "diversified investment portfolio strategy", founded on optimal resilient portfolio management.

NDFI activities in the internal or external markets shall be clear, transparent and in line with domestic and international laws.

NDFI assets are inter-generational and shall be invested for development objectives, taking the share of the current generation, ecosystem, optimum return and moderate risk into account to achieve sustainable development (as an inter-generational issue).

The strategies, policies, rules and laws, procedures, return, provision of funds, withdrawals and expenses shall be transparent and straightforward and will be disclosed to the public. The statistical data is released publicly on a quarterly and annual basis.

Any deal between NDFI and natural or legal persons shall be on a financial and economic basis in a transparent way, abiding by clear laws and procedures.

NDFI activities in the receiving country shall observe all the rules and laws and disclose the receiving country's requirements. NDFI activities in other countries are purely economic without following any political interest.

The firms from which NDFI buys shares or provides facilities must observe the fundamental rights, environmental concerns, human life, hygiene and public health.

The investors, domestic or foreign, who make investments in Iran, shall enjoy equal rights, provided that they abide by the NDFI regulations and by-laws. Being economically feasible and in line with NDFI priorities are the project assessment criteria.

Observing international rules in all of the commercial, financial and economic practices of NDFI, as well as staying away from corruption, money laundry, and other non-transparent commercial activities, is a must.

NDFI does not benefit from information rents or other unauthorized rents for economic competition.

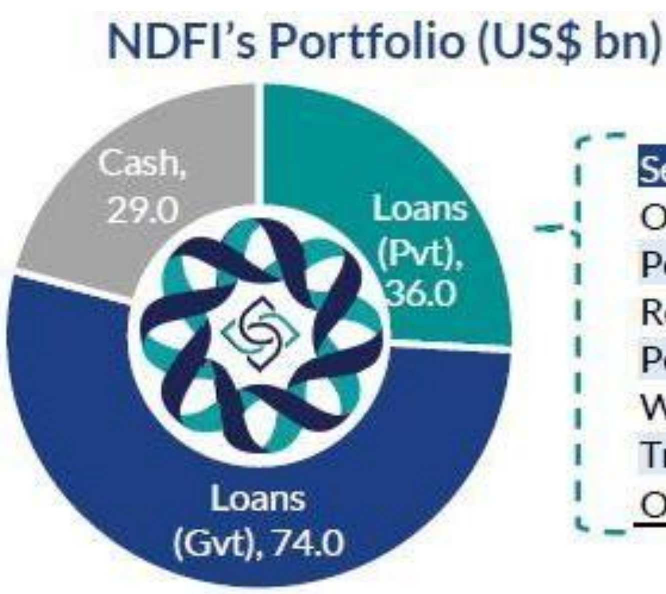
b) Assets under management:

The Global Sovereign wealth fund site shows that NDFI Assets under Management (Aum)is 139 billion US$.

c) Investment Sectors(portfolio):

The fund can form its foreign investment portfolio in all international monetary and financial markets through various tools, strategies and methods common in these markets, including stocks, bonds, bank deposits, treasury bonds, and certificates. Investing in investment funds, securities, shares or units, instruments and methods of commercial financing, participation in companies with specific purposes, Special Purpose Vehicles (SPV) and Joint Ventures (JV), TRADE FINANCE, Foreign Direct Investment in all areaswhere it is allowed and unhindered to invest, following the relevant guidelines and regulations.

d) Investment Priorities:



Sector	US$ bn	%
O&G	13.8	39%
Power	4.6	13%
Refineries	4.2	12%
Petrochem	2.7	8%
Water	0.6	2%
Transportation	0.5	1%
Others	9.4	26%

e) Investment volume and share in Foreign Projects (non-domestic):

According to its policies and regulations, NDFI can allocate part of its Funds to foreign investments.

**Part Two: The level of readiness

f) According to the research summary, what is your regional interest/tendency to participate in a joint investment scheme? (Please describe the reasons)

NDFI is keen to increase economic chain value and develop regional trade finances.

g) Has your SW/NDFs participated in investment projects with other ECO members? (Please mention your success or failure experiences)

No, NDFI hasn't participated in investment projects with other ECO members.

h) Do your SW/NDFs have projects that they would like to share with other ECO members regarding finance? (If there was a case, please state)

NDFI has bilaterally negotiated with some of the ECO member country SWFs to create a joint investment to have domestic or foreign investment cooperation or use project financing.

i) How a joint investment scheme (ECO-SW/NDFs) can attract participation? Please state your favorite model to do how?

The NDFI will be flexible on the joint investment model, although we will comment on the finalized version.

j) What is your suggestion for participate and invest if the investment opportunities between ECO members are feasible or your research indicates that there are opportunities?

The NDFI proposes to create a joint investment among ECO members.

k) As Considering, mutual potentials and capacities of ECO members, do you have solutions for financing the joint investment projects? (Please explain about it)

Preference of NDFI is to enter into collective investments under Consortium or Iranian company's alliances' format or structure finances such as Sukuk.

***Part Three: How to participate in the joint investment scheme

l) What do you suggest to institutionalize the J.I.S (ECO-SW/NDFs)?

NDFI is interested in mutual investment funds and multinational investment companies to institutionalize the J.I.S.

m) What are your proposed investment priorities, if your fund wants to participate in J.I.S due to potential and capacities of ECO members?

NDFI will invest in projects mostly in transport, infrastructure, petroleum and energy, and free zones.

n) What are your criteria's for evaluating projects in J.I.S, due to national and economic interests of projects? (Please explain about it)

We are primarily interested in projects with a high return on investments and a short-term investment horizon. For reducing risk management, these projects need sovereign guarantees and can leverage with other assets as well as being socio-economic.

o) **Which projects do you have to submit in J.I.S (ECO-SW/NDFs)?**

According to the structure of NDFI, this matter will be determined by NDFI in the future.

p) **How will your participation, if there is interest to participate in J.I.S (ECO-SW/NDFs)?**

Direct Investment

q) **How will you participate in J.I.S.; directly or by an institution/subsidiary company?**

By the decision made by other members, NDFI will be adaptable and will decide later.

r) **What the minimum capital will you contribute in JIS to start?**

NDFI will bring at least 500 million US$ and will improve this number if other members getsimilar income.

s) **Describe the proposed financing methods for investing in the projects of J.I.S?**

The preference of NDFI is to enter into joint investments under Consortium or Iranian company's alliances' format or structure finances such as Sukuk.

****Part Four: Suggested solutions for institutionalizing J.I.S of ECO-SW/NDFs

According to your experiences and proposed summary of JIS, it is pleasure to describe proposed solutions about the structure, operation model, organization, how to evaluate projects, investment process and participate members in JIS.

(If similar documentation and research has been done in your country or by yourself, please attach to questionnaire.)

All the issues are mentioned in the concept paper prepared by the National Development Fund.

Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 1

Output 1.2

Researcher: Amir Mostafavi PhD

Phase-I: Output 1

Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Output 1.2

Analyses of country-level financial set ups of the ten Member States to determine capabilities of each in investing in the ECO region

Section 1: Azerbaijan investment & financial Overview

One of the main sources for ensuring the economic development of each country is investment flows. A favorable business environment has already been created in Azerbaijan, and serious measures have been taken recently to improve the business environment, develop the non-oil sector, and stimulate opportunities to attract investments. Thereby, Azerbaijan has twice taken the leading positions in the Doing Business 2009 and Doing Business 2019 reports, and was named one of the 20 most reforming countries in the Doing Business 2020 report.

As a result of implementing a record number of reforms mainly involving institutional changes among the 10 top improvers, to do business in Azerbaijan became easier, such as time and cost to get construction permit reduced significantly (time by 80 days and cost by 12.563 AZN), process of connecting electricity grid rationalized, as well as getting credit simplified.

Today, Azerbaijan has improved its own quality new economic model, expanding political and trade relations between Europe and Asia, and playing an important role in the implementation of huge projects along with the development of the Caucasus transportation corridor. As a result of the implementation of international projects, Azerbaijan has become an international transportation hub and transportation corridor in the last few years. A large shipyard has been built in our country. The use of the Alat International Sea Trade Port which is the largest in the Caspian Sea and Baku-Tbilisi-Kars railways is a historic event.

The President of the Republic of Azerbaijan signed the Decree on the large-scale promotion of local non-oil products in foreign markets as “Made in Azerbaijan” on 5 October 2016.

In recent years, one of the most significant achievements of the Azerbaijan energy sector has been the delivery of the TANAP project to the European border. The TANAP and TAP projects, a key part of 3,500-kilometer-long Southern Gas Corridor connecting several countries, have been successfully completed.

Another important event in the field of energy in 2021 was the signing of the memorandum of understanding on joint exploration, and development of hydrocarbon resources of the Dostluq field in the Caspian Sea between the government of Turkmenistan and the Government of the Republic of Azerbaijan. With this historical event, Azerbaijan will be a transit country.

Also, this agreement will contribute to the realization of the Trans-Caspian energy pipeline. In terms of the development of our country's oil and gas strategy, the memorandum of understanding has great importance. This historic event will have a positive impact on the growth of the role of our country as a transit country and contribute to the realization of the Trans-Caspian energy pipeline.

On the 23rd anniversary of the Contract of the Century, the agreement signed on amendments on the production sharing and development of the Azeri-Chirag-Guneshli block in Baku in September 2017. According to this regulated agreement, the duration of the `Contract of the Century` extended until 2050.

New Oil Strategy`s achievements have become a dynamic economic development of the Azerbaijani state over time. In other words, the new oil strategy achieved its main goal by ensuring the country's energy security and proportional economic development.

General Investment Environment

Innovation and investment policy play a crucial role in terms of achieving many successes in the state economy. One of the important conditions for ensuring macroeconomic stability, economic growth, economic security, the competitiveness of the national economy, improving the living standards of the population and solving many socio-economic problems is the investment climate in the country. Azerbaijan became an attractive country in the world for investment. The creation of political and economic stability, favorable business and investment environment ensure the realization of any project. As a result of an improved business environment, equal rights and opportunities have been created for all investors. Also, strong protection policy and legislation in this area are attractive factors for investors. There is no discrimination against foreign and local investors. There are some favorable conditions for investors to create a favorable business environment.

As a result of works done in our country for the improvement of the investment climate, along with the number of companies investing in Azerbaijan, their geography is expanding. It is obvious that investors are only interested in investing in a stable country. So, the volume of investments in the Azerbaijani economy has now reached US$ 280 billion.

Azerbaijan acts as an investor country in a number of regional and global projects. It led Azerbaijan to become a geopolitical actor, as well as a country with a growing international image.

Azerbaijan is one of the main initiators of billion invested in projects and the projects have been successfully completed. These projects include “East-West”, “North-South” transport corridors, Baku-Tbilisi-Ceyhan oil, Baku-Tbilisi- Erzurum gas pipeline, one of the priority energy projects for the European Union (Shah Deniz-2, the expansion of the South Caucasus pipeline), Southern Gas Corridor.

The regional projects initiated by Azerbaijan such as the Baku-Tbilisi-Kars railway, the New Baku International Sea Trade Port, and the construction of a railway between Azerbaijan and Iran, show new achievements in the development of trans-regional infrastructure.

Azerbaijan strengthened its position as a major investor and become one of the leading countries in the CIS in terms of the volume of investments in foreign economies in the region. According to the reports of the world's leading economic research centers, our country is characterized as a country that has become a geographical center of investment in the region.

Currently, work is underway to attract foreign investors to the liberated territories, and a number of countries are closely involved in the restoration of territories and the implementation of infrastructure projects.

Investment Climate

Azerbaijan’s average annual economic growth rate was about 10% over the past few years. In 2009, despite the global financial crisis, Azerbaijan’s rapidly developing economy grew by 9.4% and has continued its rapid expansion.

As of 2014, almost 80% of the economy had been privatized. In 2015, the stock of foreign direct investment (FDI) in the Azerbaijani economy amounted from US$7-7.5 billion with investment in the oil and natural gas sector constituting 88.5% of the total amount. The World Bank reports on per capita FDI inflows rank Azerbaijan near the top among CIS and Eastern European countries. According to the WB, in 2004, private sector investments were accounting for 90.7% of total investments, and foreign investment accounted for 73.1%. However, since 2005 domestic public investments have gained pace, while private and foreign investments have been decreasing.

Foreign Investment

Definition of a foreign investor

According to the Law on Protection of Foreign Investment, the following entities and individuals are considered as foreign investors in Azerbaijan:

- Foreign legal persons;

- Foreign citizens, stateless persons, and citizens of Azerbaijan with a permanent residence abroad subject to registration in their country engaging in economic activity;
- Foreign states;
- International organizations.

The General Regime for Foreign Investments

Foreign investments are generally defined as all types of tangible and intangible rights, including intellectual property rights, contributed by foreign investors to entrepreneurial and other types of activities for the purpose of making a profit. They include, among other things, participation interest and shareholding in Azerbaijani companies, acquisition of immovable property (except land plot), acquisition of securities and other assets liable for purchase by foreign investors under Azerbaijani law, and contractual agreements with Azerbaijani individuals and legal entities that provide for other forms of foreign investments.

Azerbaijani law is evolving in accordance with the government’s strategic goal of creating a welcoming environment for foreign businesses. Foreign investments are thus protected by guarantees provided under law. These include:

- Guarantee against deterioration of legislation: a foreign investor is assured that the laws governing its investment will remain in force for a period of 10 years from the initial investment.
- Guarantee against nationalization and requisition: foreign investors are guaranteed immediate, adequate and effective compensation in a case of nationalization and requisition. Compensation should be commensurate to the amount of the investment at the time of nationalization or requisition, payable in foreign currency and freely transferable abroad.
- Guarantee of compensation of damages: foreign investors are entitled to compensation for damages, including compensations for lost profits resulting illegal acts of state authorities;
- Guarantee of profit repatriation: foreign investors are entitled to repatriate profits derived from foreign investments subject to applicable taxes and duties.

In the light of above, the President signed an order dated 18.01.2018 on promoting investment activities and protection of rights of foreign investors in Azerbaijan.

The very point of the order is to pass a new law on investment activity covering state guarantee to investor's rights, rules on alternative dispute resolution and indemnifying damage.

The government is expected to continue its policy of supporting privately held enterprises, including those with foreign capital and owned or operated by foreign nationals.

There are no general trade barriers or embargos for the import of goods to Azerbaijan. Exports are not subject to customs duties or restrictions. Regulations exist only for the export of strategic commodities such as electricity, petrol, cotton and non-ferrous metals.

Registration of Foreign Investors in Azerbaijan

All companies operating in Azerbaijan are required to be registered. Without formal registration, a company may not do business in Azerbaijan (e.g., maintain a bank account, clear goods through customs, etc.). As a part of the ongoing business law reforms, a "One Stop Shop" principle was introduced effective 1 January 2008. The registration procedures involving several governmental bodies (Ministry of Justice, Ministry of Taxes, Social Insurance Fund and Statistics Committee) have been eliminated, obligating businesses to register only with the Ministry of Taxes. The established period for state registration with the Ministry is officially set at not later than two days for commercial legal entities. Registration of non-commercial legal organizations (e.g public associations) is conducted by the Ministry of Justice.

Legal Forms of Doing Business by Foreign Investors

The law stipulates that any company with foreign investment operating in Azerbaijan must be organized as a joint-stock company, limited or additional liability company, partnership, or any other structure that is consistent with Azerbaijani law.

MAJOR MACRO ECONOMIC INDICATORS

	2019	2020	2021 (e)	2022 (f)
GDP-million US$	48174.2	**42607.2**	-	-
GDP growth (%)	2.2	-4.3	3.0	2.3
Inflation (yearly average, %)	2.7	2.8	4.5	3.3

(e): Estimate (f): Forecast *SOFAZ transfers included

Country Strengths

The country's key strong points include:

- Competitive production costs;
  Low-cost and qualified labor;
- Significant gas potential in the Caspian Sea;
- Perspective of gas exports to Türkiye and Europe;
- Connecting link between China and Europe through development of rail corridors with Iran, Türkiye and Georgia;
- Substantial foreign currency assets in the State Oil Fund of Azerbaijan (SOFAZ); Favorable general business climate (25th position in the World Bank's Doing Business ranking 2019)
- Well-endowed sovereign wealth fund thanks to hydrocarbon production and the state's position as a net external creditor
- Significant gas potential in the Caspian Sea
- Launch of gas exports to Europe via Türkiye and Greece in late 2020
- Strategic position between Europe, Russia and China
- Some institutional improvements (legal certainty, reduction of petty corruption)

Growth Supported by Private Consumption & Energy

After entering a recession in 2020, Azerbaijan’s economy rebounded in 2021 and growth is set to continue in 2022. This more robust growth stems firstly from surging private consumption (55% of GDP) thanks to an easing of restrictions related to the health crisis and progress in the vaccination campaign, with a health passport coming into effect in September 2021. Secondly, higher global prices and hydrocarbon production will drive an increase in exports (44% of GDP) in both value and volume terms in 2022. In July 2021, the OPEC+ countries reached an agreement to increase production by 400,000 barrels per day each month, starting in August 2021. Gas exports will be supported by the Trans-Adriatic Pipeline (TAP), which came on stream in 2020. In total, the country's oil and gas production is expected to reach 746,000 barrels per day in 2022, up from 565,000 barrels in 2020. Consequently, the trade balance will contribute positively to growth. Overall investment (20% of GDP), which is mostly in hydrocarbons, is expected to continue and net FDI is set to recover to an average of 1.7% of GDP in 2021-2022.

The recovery in domestic demand, as well as the surge in global food and oil prices, affected inflation, which accelerated in 2021. Although slightly above the Central Bank of Azerbaijan's 4% target, inflation was within the ±2% inflation corridor. On December 2021, the central bank increased its main policy rate by 25 basis points to 7,25% in response to rising inflation. In 2022, inflation is expected to ease as the terms of trade improve, reducing pressure on imported prices.

Investment Promotion Document in Azerbaijan

Additional measures are being taken to improve the investment promotion mechanism in Azerbaijan. As part of these measures, on December 20, 2022, the Decree of the President of the Republic of Azerbaijan on the improvement of the investment promotion mechanism was adopted. Thus, according to this Decree, new rules related to investment were defined, changes were made to the existing legislative acts and a new list was approved, reflecting the minimum amount of economic activities, areas, and zones where the investment is carried out, as well as the size of the investment project.

1) Firstly, it was determined by this Decree that the investment promotion certificate is issued to legal entities and individual entrepreneurs who present the following projects within 3 years from January 1, 2023:

- Projects to be implemented in industrial districts and agricultural parks;
- Projects to be implemented in tourism and recreation zones;
- Projects to be implemented in other cities and regions, except Baku, Sumgayit, Ganja cities, Absheron region, and territories freed from occupation;
- Strategic investment projects to be implemented in the directions determined by the President of the Republic of Azerbaijan;

However, legal entities and public legal entities created by the state in which 30 (thirty) percent or more of their shares (shares) directly or indirectly owned by the state are not issued investment promotion documents for the above-mentioned projects.

It should also be noted that the investment document is an incentive (also known as Investment Promotion Certificate) which provides the basis for obtaining the concessions and exemptions specified in the Tax Code of the Republic of Azerbaijan and the Law of the Republic of Azerbaijan "On Customs Tariff". Entrepreneurs who obtain this document pay profit and income tax with a 50% discount for 7 years and are exempted from property tax for the respective property, and land tax for the land for a period of 7 years, and the import of machinery, technological equipment, and devices are exempt from VAT based on the relevant confirmation document. and are exempted from customs duties for 7 years.

2) Secondly, by this Decree, the following changes were made in the "Rule of Issuance of Investment Promotion Document".

By adding part 3-1 to those Rules, additional criteria for receiving the investment promotion document were determined. First, according to those criteria, the minimum investment amount is Baku (except Rasulzade settlement of Binagadi district, Narimanov, Nasimi districts, Keshla settlement of Nizami district, Badamdar and Bibiheybat settlements of Sabail district, Ahmadli settlement of Khatai district and Yasamal district), Sumgait, Ganja cities and Absheron district. 5 (five) million manats for the projects to be implemented, and 3 (three) million manats for the projects to be implemented in other areas, and the second one should be by the directions determined by the President of the Republic of Azerbaijan.

In addition, part 5-1 of the mentioned Regulations was given a new edition, and the concept of "economic activity area for the construction of tourism service facilities included in the Master Development Plans within the limits of tourism and recreation zones" mentioned in the previous edition was further clarified and "On the organization of recreation and entertainment" activity", "Providing services in hotels and other means of accommodation", "Providing services in small cottages and other places for short stay", as well as "Providing services in camping sites, motorhomes, and motorhome parking lots" are defined as areas of economic activity. At the same time, in the previous edition, it was noted that the opinion of the State Tourism Agency of the Republic of Azerbaijan was received about the compliance of the zones with the General development plans, the classification of tourism services, and the proportional distribution of tourism services (variety of products) at the regional level by Articles 13.2.2 and 19.7 of the Law of the Republic of Azerbaijan "On Licenses and Permits" by the Ministry of Economy in these areas based on the "one-stop shop" principle. However, the new edition does not envisage regulation based on the one-stop-shop principle.

Finally, adding to the 7th part of the Rules, it is noted that, in addition to meeting the required criteria and correctly submitting the documents, the entrepreneur should not have overdue obligations for taxes and other state payments when considering the application for obtaining an investment incentive document.

3) Another amendment was made to paragraph 2.6 of the "Regulation on Issuance of a Confirmation Document for the Import of Machinery, Technological Equipment and Devices to Legal Entities and Individual Entrepreneurs Having Received an Investment Incentive". So, previously, when considering the application for the issuance of a confirmation document, the fact that the equipment, technological equipment, and devices intended to be imported were directly related to the organization of production, work and service, and the investment project (business plan) submitted to receive the investment promotion document, but according to the amendment, their compliance with the list of goods positions for which the certification document is examined.

4) Finally, Decree No. 878 dated April 20, 2016 "On the approval of the areas of economic activity in which the investment is carried out, the minimum amount related to the volume of the investment project and the administrative-territorial units in which it will be implemented" was terminated and the Decree of the President of the Republic of Azerbaijan on December 20, 2022, was adopted. By the above-mentioned Decree, the list of economic activity areas, territories, and zones in which investment is carried out and the minimum amount of the investment project volume was approved.

According to the previous list, the administrative-territorial units where the investment activity was carried out were defined as 5 regions. Each of these regions included cities and regions located in the Republic of Azerbaijan. In the new list, the places where the investment activity will be carried out are divided into 4 parts. These parts include industrial districts, agricultural parks, tourism and recreation areas, and relevant areas (Baku, Sumgait, Ganja cities, Absheron region, and other cities and regions except the liberated territories).

In addition, in the new list, relevant changes have been made in a minimal amount regarding the areas of economic activity in which the investment is carried out and the volume of the investment project.

Section 2: Republic of Türkiye investment & financial Overview

With a GDP of roughly USUS$720 billion, Türkiye is the 19th-largest economy in the world. It is a member of the OECD and the G20, and an increasingly important donor of Official Development Assistance.

Türkiye pursued ambitious reforms and enjoyed high growth rates between 2002 and 2017 that propelled the country to the higher reaches of upper-middle-income status and reduced poverty. The share of people below the USUS$5.50 per day poverty line fell by three quarters to 8.5 percent between 2002 and 2018.

Economic Indices, 2021

Population, million	84.1
GDP, current USUS$ billion	720.0
GDP per capita, current USUS$	9,626.1

Economic Outlook

After expanding 11 percent in 2021, the economy is expected to grow 4.7 percent in 2022 and 2.7 percent in 2023. Economic activity is expected to weaken in the second half of 2022, as macroeconomic volatility intensifies, inflation erodes the purchasing power of households that can no longer frontload consumption, and external demand weakens.

Despite labor market and economic recovery in 2021, the poverty rate is projected to remain above pre-2019 levels due to persistently high inflation that affects the lowest-income households the most as they spend a higher share of income on items like food that face higher than average inflation.

External risks remain elevated given Türkiye's growing current account deficit, high FX-share of public debt, low FX reserves, and high external financing requirements amid tightening global liquidity. There is a risk investor confidence may falter, intensifying pressure on the Lira, external balances, and corporate and bank balance sheets. Any additional monetary policy loosening could exacerbate external and domestic imbalances.

The 10 best investment sectors in Türkiye

The best investment option for Foreigners in Türkiye that offers high returns and are known as the most profitable investments are:

1. Real Estate Sector

2. IT and Technology
3. Istanbul Stock Exchange (BİST)
4. Forex
5. Textile and clothing
6. Energy and Natural Resources
7. Environment and Recycling
8. Health Sector
9. Tourism
10. Gold or Silver Investment

Real Estate Investment – The most profitable investment Offering High Returns in Short-time

If you want to invest smartly and receive a return on your money, it is very significant to invest in the right real estate. The first aim of making a smart investment is to save your assets and assess them to make a profit. Also, you may want to make purchases, finance your other investments, or supply your unexpected requirements. In summary, you may aim both to gain profit and maintain its value as well as convert it into cash when it is required.

Türkiye offers the right to citizenship by buying real estate in Istanbul for over US$ 400,000 to foreigners, which has raised the sales of real estate and housing in the country. Not just in Istanbul, in any part of Türkiye by purchasing any type of real estate such as apartments, detached houses, villas, commercial units, shops, offices and land worth US$400,000 you will obtain the right to Turkish citizenship. Also by buying property below this price you can obtain a Türkiye residence permit and come to Türkiye without a visa requirement.

You can buy three or two apartments worth US$400,000 in total and give them to rent. Especially in the cities such as Istanbul, Bodrum, Mugla (Fethiye), and Antalya the rents are high so you will have high returns on investment.

IT and Technology

Türkiye attaches great importance to research and technology development in recent years. Many Turkish universities have a technology department and these departments facilitate the investment process for investors to enter this sector.

Türkiye is in a very advantageous position for investment, especially for investors who want to invest in software development, biotechnology, nanotechnology and electronics. Although there are many domestic and foreign companies operating in the IT and Technology sector, there are still lots of market gaps and opportunities offered by this sector.

Istanbul Stock Exchange (BİST) – Do the Right Move, Gain High Returns

The Istanbul stock exchange market is a market where the transactions proceed through a broker. To become successful in this market, patience, experience, knowledge and some significant strategies are required. It is significant to invest and collect information in numerous fields and several companies in the fluctuating stock market. The Istanbul stock exchange market, which is at higher risk than the real estate sector, fluctuates frequently. But, with the right moves, the Istanbul stock exchange market offers high returns to investors.

Forex - Foreign Exchange Market

Forex is one of the other best options for investment in Türkiye based on foreign currencies. To trade in the Forex market, you can open an account with a brokerage house of your choice. Then, with your deposit, you can make transactions from your computer, tablet, or mobile phone wherever there is the internet.

The biggest difference of the Forex market from markets such as the stock market is that it can be traded in two directions. For instance; to make a profit in the stock market, the investor must first purchase that product. In Forex, you can both buy and sell the product you want with your collateral.

It can generate high profits by providing good market analysis skills and accurate information to investors. The amount of money invested and leverage are the most important factors for Forex.

Turkish Textile and Garment Industry – Best Turkish Brands

The Turkish textile and garment industry has lots of advantages; the advantage of the quality offered the richness of raw materials, the fulfillment of special requirements, flexibility and Türkiye's position in connection with the great demand of Europe and the Middle East. That is why the textile market will always be lively and attractive for investors.

Besides the existing incentives, a new incentive program is expected to come into effect for those who want to invest in the textile sector. In addition, more incentives will be given to investors who invest in textiles, especially in the eastern provinces.

Energy and Natural Resources

The energy sector is very important in terms of endless execution for almost all economic activities and investments in Türkiye. In this context, the sector shows Türkiye's interest in this field, with extensive incentives given to investors in energy and natural resources. About US$2 billion is invested in the energy sector in 2020.

Those who are aiming a great investment in Türkiye in Hydroelectric energy, wind energy, solar energy, natural gas, bioenergy and geothermal energy can benefit from the following incentives;

- VAT Exemption

- Customs Exemption
- 40% Tax Discount
- Employer's Social Security Contribution (7 Years)
- Interest Support (Max. 700.000Turkish Liras)

Environment and Recycling – Investment in Türkiye

Important steps are taken to resolve the destruction caused by industrialization and to prevent environmental pollution and global warming make the Environment and Recycling sector more significant and interesting.

The fact that Türkiye is still in the negotiation phase on EU accession and that it has signed the Kyoto agreement shows how important this issue is for the country. Since the issue is important for all of us, the Government has announced that it will invest between 7-9 Billion Euros in this sector.

In this context, Türkiye will support domestic and foreign investors in recycling by reducing value-added tax, customs duty, allocation investment, interest support, tax reduction and many other supports. To have a smart Investment in Türkiye, this sector is also a good option for investors.

Health Sector - Türkiye's important sources of income

As significant developments are seen in the health sector in the last ten years, Türkiye has become the focus of attention of foreign investors. The rapid growth of the population as a result of the developing economy has led to high expenditures in the health sector. For this reason, the attentiveness in health centers, polyclinics and hospitals has increased and this situation has drawn the attention of potential investors to have a great investment in Türkiye. In particular, foreign investors are closely interested in the Turkish health sector, as they can access high-quality services at reasonable prices. Investment in the health sector is very profitable; it is one of Türkiye's important sources of income.

Tourism- Most Important Sectors for Investment in Türkiye

Tourism in Türkiye is an important sector of the country's economy. Türkiye is a world-famous tourism region with its historical and natural areas protected by UNESCO and its numerous blue flag beaches. Hundreds of thousands of tourists coming to the country every year are satisfied foreigners who come for investment in Türkiye. The tourism sector, one of the significant sectors in Türkiye, is getting stronger with the support of foreign investors.

The most important beaches start from the Aegean coast and end near Antalya in the Mediterranean. Bodrum, Cesme, Fethiye, Marmaris, Kusadasi, Alanya are important holiday destinations for truism. In Türkiye, which is surrounded by sea on three sides, numerous touristic areas are visited by thousands of foreigners each year.

Gold or Silver Investment in Türkiye

Precious metals are well-known as jewelry with a high-quality standard. Those why are investing in these mines usually relying on their solid and reliable structures. Precious metal investments with low risk show steady performance in the global economy. Just like in the Istanbul stock market, having experience and knowledge in the sector is an important issue when investing. Gold always takes the leading position in investment rankings.

Section 3: Republic of Kazakhstan investment & financial Overview

Since the 2000s, Kazakhstan has seen impressive economic growth driven by the first generation of market-oriented reforms, abundant mineral resources extraction, and strong FDI. Sustained economic growth has transformed the country into an upper middle-income economy, commensurately raising living standards and reducing poverty.

This progress, however, masks vulnerabilities and unevenness in the country's development model. Slowing economic growth, growing inequality and elite capture, and weak institutions reflect the flaws of the resource-based and state-led growth model and raise the risk that Kazakhstan could become stuck in the "middle-income trap."

Kazakhstan needs to strengthen competition and human capital, and improve public sector and SOEs performances. The country should also initiate reforms in carbon and energy pricing, strengthen social protection, and invest in climate adaptation.

Index	**2021**
Population, million	19
GDP, current USUS$ billion	197.1
GDP per capita, current USUS$	10,387.9

Highlights

- The economy is recovering, albeit gradually. Real gross domestic product (GDP) grew by 3.0 per cent year-on-year in the first three-quarters of 2021, driven by the recovery of domestic demand thanks to government stimulus policies and rising commodity prices. However, growth continues to be negatively affected by recurring
- Domestic restrictions to contain the spread of Covid-19, and rising inflation and real estate prices are a growing concern.
- The Comprehensive Plan for Economic Recovery has been extended until the end of 2021. It includes more than 160 measures related to, among other things, investment promotion, support for small and medium-sized enterprises (SMEs), labor market, digitalization, efficiency of fiscal revenues and the financial sector.
- A National Development Plan through to 2025 has been adopted. The plan rests on three main pillars: citizen welfare, quality of institutions and a strong economy. The

government seeks, among other things, to strengthen the healthcare system, reduce the state's footprint in the economy, put in place an effective industrial policy framework, and promotes digitalization and the transition to a green economy.

The Country Partnership Framework for 2020–25

The partnership between Kazakhstan and the World Bank Group (WBG) is outlined in the Country Partnership Framework (CPF), developed in consultation with counterparts and civil society to guide a new investment program and quality technical assistance to the Government for 2020–25.

The CPF is fully aligned with the Government's reform program and Kazakhstan's 2050 development strategy to accelerate the country's transformation into a modern society with a knowledge-based, diversified, and private sector–driven economy.

The CPF focuses on the following priority areas:

- **Promoting inclusive growth** by strengthening the environment for private sector development, promoting the market-led transformation of the agriculture sector, and bolstering the connectivity infrastructure
- **Strengthening human capital** by closing the gap along regional and rural-urban divides in the delivery of education, health, and social protection services
- **Securing sustainable, resilient, and low carbon growth** by managing natural capital, including land and water resources, promoting less energy intensity, and strengthening institutions and service delivery

Underlying these focus areas is the cross-cutting theme of more effective governance and strengthened market and social institutions.

Economic Outlook

There are several downside risks to the growth outlook. The war in Ukraine could result in the shutdown of the Caspian Pipeline Consortium (which carries about 80% of Kazakhstan's oil exports) leading to large economic and fiscal revenue losses. Inflationary pressure may further erode incomes and exacerbate social tensions. Tightening global financial conditions could increase risk aversion, reduce inflows of FDI, and put pressure on the tenge exchange rate.

Economic growth is expected to decelerate to 3 % in 2022, as economic activity has been affected by lower-than-expected production of oil, high inflation and monetary policy tightening that is constraining consumer spending and private sector borrowing. Inflation is expected to moderate through 2023, but remain above the target range, which may warrant tighter monetary policy.

In 2023-24, GDP growth is expected to accelerate to 3.5 and 4.0% (below expectations prior to the war in Ukraine), aided by additional oil coming on stream from the Tengiz expansion project. The outlook is conditional on the assumption that crude oil shipment through the CPC pipeline will not be disrupted. Consumer spending is expected to gather steam as inflation subsides, whereas exports are projected to remain subdued, due to weakening demand from China and the Eurozone.

Recent Economic Developments

Growth slowed in 2022, mainly due to the negative spillovers from the war in Ukraine. It reached 3.4% yoy in H1, from 4.1% in 2021. Retail sales growth slowed to 1.2% yoy in the same period. Investment grew by 3.6% yoy in H1 as FDI rebounded in the oil and gas sector after two years of decline. On the supply side, manufacturing, and services both contributed to growth.

A sharp increase in international oil, gas and metal prices were a boon to exports, driving a trade balance improvement and flipping the current account into surplus in H1 2022 (of USUS$6.6 billion, compared to a deficit of USUS$2.8 billionn in H1 2021).

Consumer price inflation reached 16.1% yoy in August, almost double the rate a year earlier, driven by rising costs of food. The authorities tightened monetary policy and imposed price caps on staple products and limited fuel and utility price increases. Since January, the tenge exchange rate against U.S. dollar depreciated 10%.

Official unemployment rate remained unchanged at 4.9% and real wages rose by 8.9% in Q2, despite high inflation. The poverty rate is expected to decline further to 15.5% in 2022 from a high of 25.6% observed in the midst of the pandemic. The poverty line for Kazakhstan was updated from the previous US$5.5 in 2011 PPP to a new US$6.85 level based on 2017 PPP.

Improving Investment Climate

Kazakhstan leads Central Asia in economic growth and FDI, and generates roughly 60 percent of the region’s GDP. After modest growth of 1.2 percent between 2013—15 (following contractions in neighboring Russia and China) Kazakhstan’s economy rebounded to achieve a 3.9 percent lift in 2017.

Since Kazakhstan joined the World Trade Organization (WTO) in 2015, sweeping trade, tariff and FDI regulatory reforms have significantly increased GDP and improved the nation’s score on the Organization for Economic Cooperation and Development's FDI Restrictiveness Index.

”Over the past few years, Kazakhstan has made significant progress in improving its investment regime and business environment,” notes OECD. It’s a view shared by the U.S. State Department’s 2018 Investment Climate Statement, which called Kazakhstan the “best investment climate in the region,” and highlighted its “significant progress” toward creating a market economy.

Today, 9,000 foreign companies are reported to be operating in Kazakhstan. Corporation tax stands at 20 percent, the value-added tax (VAT) has been reduced to 12 percent and a flat 11 percent social tax is applied to employers based on employees' earnings. Personal income tax rate stands at 10 percent for nationals and between 5 percent and 20 percent for non-nationals.

Why Invest in Kazakhstan?

- New Silk Road connectivity, tax incentives and comprehensive structural and regulatory reform make Kazakhstan an attractive Central Asian powerhouse.
- Over the last few years, Kazakhstan has made significant strides to attract more international business and investment, overhauling virtually every facet of doing business in the country in an attempt to facilitate and increase foreign direct investment (FDI). The nation's strategic location as the main land corridor linking China with Russia and Europe, via newly expanded rail and highway networks, makes Kazakhstan the so-called "Buckle" in China's new Belt and Road Initiative (BRI).
- Kazakhstan's regional and global trade potential have been vastly improved. A country built on oil revenues is now diversifying into agriculture, technology, financial services and beyond.

Section 4: Kyrgyz Republic investment & financial Overview

Country Report: Kyrgyz Republic

The Kyrgyz Republic has rich endowments, including minerals, forests, arable land, pastures, and has significant potential for the expansion of its agriculture sector, hydroelectricity production, and tourism industry.

The Kyrgyz economy is heavily dependent on remittances, gold production and foreign aid and as a result has been vulnerable to external shocks. Strong and sustainable economic growth requires institutional strengthening and policies to develop the private sector, spur international trade, and encourage fiscally sustainable energy production.

Economic indices	2021
Population, million	6.7
GDP, current US$ billion	8.5
GDP per capita, current US$	1,275.9

Highlights

- The economy is recovering but gold production has dropped. Real gross domestic product (GDP) expanded by 0.1 per cent year-on-year in the first three-quarters of 2021. However, gold production and exports declined significantly. Remittances are surging, supporting domestic demand. Services are recovering, while labor-intensive agriculture contracted in January-September 2021 due to drought.
- A new tariff policy for heat and electricity has been proposed. Once implemented, the policy would see a gradual increase in tariffs to achieve cost recovery by 2025. Substantial tariff reforms have been adopted in the past few years but have not been implemented consistently because of concerns about affordability and potential political repercussions.
- Construction of the CASA-1000 electricity transmission line in the Batken region has started. The project, with a total cost of USUS$ 1 billion, will help unlock the hydropower potential of Central Asia and significantly reduce carbon emissions in the region.

Key Priorities for 2022

- The immediate priority is to continue supporting sectors affected by the Covid-19 pandemic and sustain private-sector employment. Beyond this immediate need, the country should improve the conditions for investment in the labor-intensive sectors of the economy, such as hospitality, modern agriculture, and the garment and food processing industries. At present, the economy is dependent on aid and remittances (about 30 per cent of GDP), with Russia's economy serving as a safety valve for pressures building up in the Kyrgyz labor market.

- Fiscal consolidation is urgently needed. Public debt rose from 51.6 per cent to 68.0 per cent of GDP in 2020, of which external public debt (58.3 per cent of GDP) is on concessional terms. To reduce the debt burden to manageable levels, the government should downsize non-priority spending. The authorities should streamline the tax and customs administration, optimize the public sector wage bill (at 13 per cent of GDP, it is one of the highest in the region, about 30 per cent of government expenditure) and reduce energy subsidies (as part of the recently announced tariff reform).
- Issues surrounding the Kumtor gold mine should be resolved. It is critical that the government restores the country's access to global gold markets and addresses foreign investors' concerns resulting from the appointment of external management in the Kumtor Gold Company in May 2021.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021
GDP growth	4.7	3.5	4.5	-8.6	2.5
Inflation (average)	3.2	1.5	1.1	6.3	12.0
Net FDI/GDP [neg. sign = inflows]	1.4	-1.7	-2.5	4.0	2.0

Recent Economic Developments

The Kyrgyz economy has proved more resilient than expected to the spillovers of the war in Ukraine and sanctions on Russia. Real GDP grew 7.7 percent during January-July, yoy, supported by industry, agriculture, construction and services. Growth was driven by domestic demand which in turn was supported by solid remittance inflows (7.5 percent growth in USUS$ terms) from Russia, aided by a strong Russian ruble.

Inflation increased to 13.8 percent in July from 11.2 percent in December 2021, driven by food and fuel prices following the global trends. In the first 7 months of 2022, the fiscal position was solid with a surplus of 1.4 percent of GDP. Total revenues increased to 45.9 percent of GDP from 38.6 percent a year ago, driven by higher tax revenues.

Spending increased to 44.5 percent of GDP from 37.2 percent a year ago driven mainly by capital outlays. The surplus, along with the appreciation of the national currency helped reduce the public debt burden to an estimated 49 percent of GDP by end July 2022. The current account deficit significantly increased to an estimated 15.2 percent of GDP in H1, 2022 because of a sharp reduction in gold export and a surge in imports.

Economic Outlook

GDP growth is expected at 4 percent in 2022. Consumption will be supported by remittances and investment spurred by high public outlays, while net exports are expected to contribute negatively to growth. Inflation is expected at about 15 percent by end-2022. The fiscal deficit is expected to widen in 2022 due to the decision of the Cabinet of Ministers to increase social transfers and public sector salaries in 2022. The current account deficit is projected to remain high at about 13 percent of GDP in 2022, reflecting the fall in gold exports.

The poverty rate is expected to increase to 25.5 percent in 2022 (at the USUS$3.65 a day, 2017 PPP poverty line) from 21.8 percent in 2021, and 18.7 percent in 2020. High inflation remains the most immediate concern for the welfare of the population. Increases in public sector salaries and in pensions, and the enhancement of the social protection program have softened the negative impact of the food price increase on the population. The intention of the authorities to further scale up and extend the social protection program will help protect the most vulnerable part of the population.

Economic Developments and Prospects

The Kyrgyz economy has grown at a robust pace between 2000 and 2016 - but there are signs that the current economic paradigm may be insufficiently dynamic to sustainably address poverty and generate inclusive growth in the medium- to longer-term. Since the turn of the century, the main drivers of economic growth have been gold extraction on the one hand, and worker remittance-fueled consumption on the other. This growth model has enabled the economy to grow at an average rate of 4.5 percent over the 2000-2016 period – albeit with significant year- over-year volatility in growth due to bouts of political instability, geological factors affecting gold output, and business cycle developments in Kazakhstan and Russia. Gold exports and remittances provide a critical source of foreign exchange, allowing the country to accommodate a significant trade deficit, but they also drive Dutch Disease effects, undermining production of export-oriented tradable goods/services and exacerbating the inherent limitations of a small and poorly connected domestic market. Exports in relation to GDP have stagnated around 45 percent. This reflects a long process of de-industrialization as evidenced by declining traditional manufacturing activity and a failure to diversify into products or services embodying higher technological content. Services have been expanding, but they remain low-productive in nature and show small (if any) gains in total factor productivity. Outside of extractives, the country has been unable to attract private investment at the scale required to produce quality jobs for the Kyrgyz Republic's growing labor force.

Why Invest in Kyrgyz Republic

- Trade Hub

Kyrgyz Republic is the most important transit country in Central Asia region, as the main freight transportation routes are located along its territory – both towards north-east (from Kazakhstan to Russia towards Tajikistan and Afghanistan), as well as towards southeast (connection of Central Asia with China).

- Bilateral Agreements

Presently, the Kyrgyz Republic is a party to bilateral agreements on mutual support, encouragement and protection of investment (capital expenditure) with more than 20 countries, including countries such as USA, Germany, Switzerland, Kazakhstan, Russia, China, India, South Korea, the United Kingdom and others.

- Free economic zones

Free economic zones provide special customs privileges to exporting and importing companies. Companies operating in these zones may import, store, produce or sell goods in the territory of the zone without paying taxes or customs duties

- Visa free regime

Kyrgyz Republic creates favorable conditions for the development of tourism and business entries into the country.

- Skilled and cheap labor

One of the important characteristics of the Kyrgyz labor market is the fast-growing working population, which is underpinned by the country's high birth rate.

- Island of democracy

The Kyrgyz Republic is seen as the most democratic and open society in Central Asia, and one of the world's most open economies. Its transition from a centrally planned to a market economy was one of the most remarkable in the region.

Investment Incentives

The Kyrgyz Government has reduced the tax burden on repatriation of profits by foreign investors to conform to the tax rate for domestic investors. The Ministry of Economy and IPPA often express the government's willingness to discuss potential incentives, including access to land, with specific foreign investors. To attract investment in the IT sector, the Kyrgyz government has created a "zero-tax zone" at the High Technology Park of the Kyrgyz Republic, which waives tax burden for companies in which 80 percent of total products and services are exported.

Foreign Trade Zones/Free Ports/Trade Facilitation

There are five Free Economic Zones (FEZs) in the Kyrgyz Republic: Bishkek, Naryn, Karakol (Issyk-Kul province), Leylek (Batken province) and Maimak (Talas province). Each is situated to make use of transportation infrastructure and/or customs posts along the Kyrgyz borders. Government incentives for investment in the zones include exemption from several taxes, duties and payments, simplified customs procedures, and direct access to utility suppliers. The production and sale of petroleum, liquor, and tobacco products in FEZs are banned.

Section 5: Turkmenistan investment & financial Overview

Turkmenistan is an upper-middle income country with the second highest GDP per capita in Central Asia. 91% of Turkmenistan's export are mineral products (primarily gas), and 83% of its exports go to the People's Republic of China.

Key indicators on Turkmenistan's economy

Population (2018)	5 850 908
GDP (US$, current price, 2018)	40 761 million
GDP per capita (US$, current price, 2018)	6 967
Real GDP growth (year-on-year change, 2019)	6.3%
Inflation (average consumer price, y-o-y change, 2017)	N/A
Exports of goods and services (% of GDP, 2018)	22.7%
Imports of goods and services (% of GDP, 2018)	12.5%
FDI, net inflows (% of GDP, 2017)	6.1%

Highlights

- Turkmenistan's economy continues to grow rapidly in 2021. Real gross domestic product (GDP) growth was reported at 6.2 per cent year-on-year in the first three-quarters of 2021 after decelerating to 5.9 per cent year-on-year in 2020. Exports (primarily gas exports to China) rose by 36 per cent year-on-year in the first half of 2021 but are still below 2020 levels.
- The digitalization agenda is promoted through a government program Signed in August 2021, a new government program seeks to promote the development of information technology products by the country's small and medium-sized enterprises (SMEs). The program includes such instruments as subsidized loans to SMEs as well as measures to support the demand for domestically produced software products and equipment.
- Talks are under way to advance the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline project. Progress on this important project will depend on, among other things, discussions with the new regime in Afghanistan.

Key priorities for 2022

- The government needs to deal with the healthcare implications of Covid-19. In previous years, Turkmenistan made heavy investment in upgrading equipment and hard infrastructure. The focus should shift to strengthening the qualifications and skills of medical staff.

- Currency convertibility issues should be resolved and the exchange rate adjusted to reflect macroeconomic fundamentals. Using access to foreign currency at an undervalued exchange rate as a support mechanism for selected entrepreneurs, as the government has been doing, is clearly inferior to market-based selection of the fittest firms. Removing exchange rate distortions would improve the competitiveness of the country's exports and correct external imbalances while stimulating growth of the private sector.
- The authorities should increase data transparency. Collection of economic and social data and its availability must be improved to facilitate sound decision-making by all
- Stakeholders and the public at large. Greater transparency would help private-sector actors to make investment, production and financial management decisions, while also helping the government take timely policy actions grounded in rigorous statistical evidence.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021
GDP growth	6.5	6.2	6.3	5.9	6.3
Inflation (average)	8.0	13.3	5.1	7.6	12.5
Net FDI/GDP [neg. sign = inflows]	-5.5	-4.9	-4.8	-2.5	-3.5

Investment Opportunities in Turkmenistan

One of the main priorities of the state is to increase foreign direct investment inflows. The only way to achieve this goal is to ensure social, political, legal and economic stability in the country. To this end, states make changes to their domestic legislation.

On March 18, 2008, the Law of Turkmenistan on Foreign Investments came into force. The law aims to encourage foreign investors and facilitate FDI inflows. On June 8, 2019, the law was revised with the changes made in some of its articles. Turkmenistan in 2009, after the entry into force of the law, managed to attract FDI inflows in the amount of 22.5% of its GDP.

In accordance with the Law of Turkmenistan on Foreign Investments, the legal regime of activity and post-investment income of investors and enterprises with foreign investment does not differ from the same legal regime of activity and post-investment income of local investors.

This means that foreign investors can also take advantage of all the opportunities available to domestic investors.

Foreign investors in Turkmenistan are granted preferential visas. In addition, foreign individuals and stateless people with full ownership of foreign investment enterprises have the right to permanently reside in Turkmenistan in the manner prescribed by the legislation of the country.

After paying taxes and other mandatory payments, foreign investors have the right to freely use their incomes and profits in Turkmenistan or transfer them outside the country. Disputes arising in connection with the implementation of foreign investments in Turkmenistan are resolved through negotiations, arbitrage courts of Turkmenistan or any other court agreed by the parties.

Foreign investments play an important role in utilizing the experience of foreign investors in the exploration and extraction of natural resources and accelerating the introduction of new technologies into the country. Turkmenistan is rich in raw materials and attaches the most importance to its energy sector. Therefore, foreign investors are needed for the exploration and production of natural resources. In this area, the development of legal norms and the provision of preferential terms have created a favorable environment for foreign investors in Turkmenistan.

Turkmenistan's energy sector presents an important potential for foreign investors. At the same time, Turkmenistan has been more successful in attracting foreign capital in the textile sector. The Turkmen government has stated that the country supports foreign investments and, in this regard, is working to ensure the political and macroeconomic reforms necessary to create a positive investment environment.

INVESTMENT INCENTIVES

According to the Law on Foreign Investments, foreign investors, especially those operating in the free economic zones, may enjoy some incentives and privileges, including license and tax exemptions, reduced registration and certification fees, land leasing rights, and extended visa validity. However, the law is inconsistently implemented and enforced, and currently no free economic zones are known to be in operation.

Foreign investors are disadvantaged because they face higher tax rates than most local companies. The value-added tax rate (VAT) is 15 percent, an income tax of eight percent is applied to JVs, and an income tax of 20 percent is applied to wholly owned foreign companies and state-owned enterprises. Dividends are taxed at 15 percent. The personal income tax rate is 10 percent. Under the Simplified Tax System of Turkmenistan, most individual entrepreneurs pay a flat two percent income tax.

The president has issued special decrees granting exemptions from taxation and other privileges to specific investors while they recoup their initial investments. The assets and property of foreign investors should be insured with the State Insurance Company of Turkmenistan pursuant to Article 53 of the 2008 Petroleum Law (if applicable) and Article 3 of the 1995 Insurance Law. National accounting and financial reporting requirements apply to foreign investors. All contractors operating in Turkmenistan for a period of at least 183 days a year must register at the Main State Tax Service. As of January 2017, 90 percent of the workforce of a company owned by a foreign investor must be composed of citizens of Turkmenistan.

Petroleum Production Sharing Agreement (PSA) holders are regulated by the 2008 Petroleum Law. They are subject to a 20 percent income tax and royalties up to 15 percent, depending on the level of production. The social welfare tax, which is 20 percent of the total local staff payroll, is paid by foreign investors and their subcontractors. PSA holders' employees and their subcontractors pay a personal income tax of 10 percent. Subcontractors of PSA holders can bring their equipment into the country only for the duration of a valid contract. There is no specific legislation that regulates the operations of oil and gas subcontractors.

Turkmenistan currently lists 49 import and 20 export goods and materials that are subject to customs duties. The goods and materials on these lists are subject to a 0.2 percent customs fee payment and a charge of TMT 20 (US$5.70) for every hour a Customs official spends inspecting the imported goods. The Customs Service maintains a list of goods subject to customs duty payment. State enterprises often receive preferential treatment; for example, wool carpets produced at state factories are exempt from customs duties. In contrast, private carpet producers pay US$20 per square meter in customs duties to export a carpet. Foreign investors are required to adhere to the sanitary and environmental standards of Turkmenistan and should produce products of equal or higher quality than prescribed in national standards.

FOREIGN TRADE ZONES/FREE PORTS/TRADE FACILITATION

The Law on Free Economic Zones was enacted in October 2017. The law guarantees the rights of businesses, both foreign and domestic, to operate in free economic zones (FEZs) without profit ceilings. The law forbids the nationalization of enterprises operating in the zones and discrimination against foreign investors. The law does not list any FEZs currently in Turkmenistan.

Section 6: Tajikistan investment & financial Overview

After the economic slowdown in 2020, Tajikistan's GDP grew at an annual rate of 8.7 percent in the first half of 2021. According to the Listening-to-Tajikistan (L2T) survey, the social and economic wellbeing of the population severely deteriorated following the outbreak of COVID-19, and the country remained far from full recovery at the end of 2020. The strong economic rebound was mainly supported by a continued sharp increase in the export of precious metals, and a pickup in private investment and consumption. The cautious and incremental resumption of air traffic with regional countries allowed migrants to resume traveling abroad and restore the inflow of remittances. Domestic economic activity strengthened as the government gradually relaxed lockdown measures. Following expansionary fiscal policy in 2020, the government pursued budgetary consolidation during 2021 in line with the adopted budget law for 2021. The expiration of COVID-19-related fiscal relief and solid economic activity in the first half of 2021 bolstered revenues. Almost all sectors saw an increase in budgetary funding, led by social outlays and infrastructure projects in energy and transport. Rising inflation, largely due to global factors, forced the central bank to reverse its policy stance in the beginning of the year. The monetary authorities raised the policy rate twice, in February and April 2021. Inflation moderated from its peak in March 2021, but rising global demand for fuel, food, and supply chain bottlenecks are expected to continue exerting upward pressure on import prices.

Highlights

- The Tajik economy continues to grow despite the impact of the Covid-19 pandemic. Real GDP rose by 3.5 per cent year-on-year in the first half of 2020 thanks to strong performances in industry (leading to a dramatic increase in gold exports) and agriculture.
- The government has focused its limited crisis response resources on healthcare, food security, targeted support of vulnerable households, and tax benefits to small and medium-sized enterprises (SMEs). Low-income households received cash transfers, and firms were granted tax holidays, free rent of state property, property tax exemptions and postponements of non-tax audits.
- Tajikistan received a comprehensive foreign aid package. This includes USUS$ 189.5 million in emergency financing from the International Monetary Fund (IMF), a USUS$ 52.5 million grant from the Asian Development Bank, a USUS$ 11.3 million grant from the World Bank, and debt relief of USUS$ 50 million under the G20 debt service suspension initiative.

Key Priorities for 2021

- The authorities should continue providing targeted support to vulnerable households and SMEs in the hardest-hit sectors. There should also be a focus on preserving existing jobs, and creating new opportunities, for young workers and returning migrants, including through public work programs.
- Reforms need to continue to improve the business environment and attract foreign investment. The focus should be on easing two key constraints for businesses: tax administration practices, and currency restrictions. The business environment is also hampered by governance deficiencies and a lack of a level playing field, which should be tackled to facilitate the flow of investment.
- Fiscal and monetary discipline should be maintained. The authorities should adhere to the targeted overall fiscal deficit of 4.4 per cent of GDP in 2021 and refrain from non-priority spending, while the central bank should continue exercising strong oversight of the banking sector to ensure confidence in the banking system.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020
GDP growth	6.9	7.1	7.3	7.5	-1.0
Inflation (average)	5.9	7.3	3.8	7.8	8.0
Net FDI/GDP [neg. sign = inflows]	-3.5	-2.6	-2.9	-2.6	-0.1

Priority areas for investment

- Hydropower
- Mining sector and manufacture of construction materials
- Deep processing of cotton fibers and primary aluminum
- Agriculture development
- SME Development in processing of Agricultural products
- Tourism and service industry

Opportunities for Investment

- Strategic Geographic Location;
- Political and Economic Stability;
- Positive Reform Dynamics;
- System of Guarantees and Preferences for Investors;
- Natural Resource Endowment;
- High-Level Political Commitment;
- Diverse Investment Opportunities.

Investment Incentives

According to statements by President Rahmon, there are over 200 taxes, regulatory, and legal incentives for businesses. According to the IFC Business Regulation and Investment Policy project, there are 97 incentives for investments. In practice, businesses and investors cannot access or utilize most of these incentives.

The Tajik government has officially expressed an interest in attracting FDI and in recent years the government has issued state guarantees for joint projects, principally with Chinese investments. Tajikistan's ambitious National Development Strategy 2016-2030 highlights the critical role of private sector investment, but the strategy's goal to attract US$55 billion in FDI by 2030 may be more aspirational than realistic.

Foreign Trade Zones/Free Ports/Trade Facilitation

The Tajik government has established five Free Economic Zones offering reduced taxes and customs fees to both foreign and domestic businesses. To be eligible for preferential tax treatment, manufacturing companies must invest a minimum of US$500,000, trading companies US$50,000, and service and consulting companies US$10,000. The newest Free Economic Zone was created in March 2019, in Kulob.

Section 7: Uzbekistan investment & financial Overview

Uzbekistan is expected to grow by 5.3 percent in 2022. The medium-term outlook remains positive, as ongoing economic reforms are expected to continue to invigorate private sector led growth.

Uzbekistan has pursued an ambitious initial set of trade and price liberalization reforms in recent years. However further reforms are needed to continue to spur productivity, private sector-led growth, and job creation. The focus should shift to addressing weak factor markets, high trade and transit costs, dominant state-owned enterprises, the weak regulatory environment, and further strengthening market incentives and sustainability in agriculture and across the economy.

The government recognizes the need for a more inclusive transition. According to the new national poverty line, about 17 percent of the population lived in poverty in 2021. The recent reform efforts to expand coverage and strengthen the targeting of social assistance will be key to supporting those who may otherwise fall behind.

Highlights

- Uzbekistan's economy is recovering rapidly. Real gross domestic product (GDP) increased by 6.9 per cent year-on-year in the first three-quarters of 2021, driven by services, manufacturing and mining. Investment activity has also started to recover, with fixed investment up by 5.0 per cent year-on-year in the first three-quarters of 2021.
- State-owned enterprise (SOE) reform is advancing. A new SOE strategy for 2021-25 seeks to reduce the state's footprint in the industrial, mining and manufacturing sectors, and ensure that SOEs are governed and managed in line with market principles.
- Uzbekistan has committed to reaching carbon neutrality in power generation by 2050. The authorities aim to develop power sources with low-carbon emissions, including solar, hydro, wind and nuclear, and modernize the electricity grid. Gas-fired power generation will be used in the transition to carbon neutrality and plans are under way for the construction of a comprehensive hydrogen energy infrastructure.

Key priorities for 2022

- The immediate priority is to continue supporting people's livelihoods. Besides economic measures for the most vulnerable, relevant infrastructure should be put in place to ensure that the healthcare system has sufficient capacity for the sick during the Covid-19 pandemic.

- The authorities should step up efforts to accelerate digital transformation. Investment in broadband infrastructure, digital skills and the information technology ecosystem is essential to enable remote working and learning for all groups of the population.
- The government should adjust reform priorities in light of the post-Covid-19 situation. In the short term, priority should be given to macroeconomic stabilization, continued improvement of the investment climate and other measures to build investor confidence. Earlier plans for large-scale privatization of state-owned banks and enterprises may have to be delayed to include restructurings in case of a slower-than-expected economic recovery or adverse market momentum.

Recent Economic Developments

Uzbekistan's GDP grew by 5.4 percent in the first half (H1) of 2022, led by strong remittances, exports, and investments. Exports (in USUS$) grew by 40.5 percent year-to-year. Non-gold exports were 22.5 percent higher. Imports expanded by 27.4 percent.

Net remittance inflows doubled as a share of GDP in H1 to 16.7 percent due to favorable exchange rate movements with the Russian Ruble and more labor migrants going abroad. These drivers narrowed the current account deficit to just 1.4 percent of GDP in H1 2022, compared with 4.8 percent in H1 2021.

The fiscal deficit declined from 5 percent of GDP in H1 2021 to 4.2 percent in H1 2022. International reserves increased to USUS$35.6 billion, equivalent to 11 months of imports.

Higher costs of food, fuel, and logistics drove CPI inflation up to 12.3 percent in June 2022, compared with 10.9 percent in June 2021. While the banking system remains resilient overall, non-performing loans spiked from 2 percent in end-2020 to 6.2 percent in August 2021, but gradually decreased to 4.9 percent in H1 2022.

Poverty declined from 17 percent in 2021 to 15.7 percent in 2022. The unemployment rate fell to 8.8 percent in H1 2022.

Economic Outlook

In Uzbekistan, growth is expected to slow to 5.3 percent in 2022. Increased logistical challenges linked to the sanctions imposed on Russia will dent private consumption growth. Private investment and exports will grow strongly, and the current account balance will improve due to strong global commodity prices and increasing remittances. FDI is not expected to pick up in 2022, with the trade deficit to be financed largely by official borrowing.

The fiscal deficit will decline from 6.2 percent of GDP in 2021 to 4.4 percent in 2022 – higher than the 2022 budget target of 3 percent of GDP, due mainly to higher social protection and infrastructure spending. An anticipated fiscal consolidation by 2023 is to be delayed due to a prioritized social protection spending increase in response to pressure from rising food prices.

Poverty will reduce to 14.5 percent in 2023 and 12.2 percent in 2024. Public debt and total external debt will gradually fall to 32 and 55 percent of GDP, respectively, by end-2024.

Risks to the outlook are tilted to the downside, including a prolonged war in Ukraine, further sanctions on Russia, and tighter global financial conditions. Potential positive surprises include higher global commodity prices and stronger productivity growth arising from ongoing structural reforms.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021
GDP growth	4.5	5.4	5.6	1.6	6.8
Inflation (average)	13.9	17.5	14.5	12.9	11.0
Net FDI/GDP [neg. sign = inflows]	-3.0	-1.2	-4.0	-3.0	-4.5
Gross reserves/GDP	47.5	53.7	50.3	60.5	n.a.

Why invest in Uzbekistan

Uzbekistan is the heart of Central Asia, a land of opportunities inspired by the traditions of the Great Silk Road. Modern Uzbekistan is taking the stage again as an international trade and business center with its developed communications, logistics and fast-growing economy offering many lucrative opportunities for international investors. There are many reasons to choose Uzbekistan as a preferred investment destination, the most significant ones being geographical location, growth of demand with a 35 million populations and guaranteed government support.

Firstly, Uzbekistan has a strategic position in the middle of Central Asia, which allows fast and convenient access to Asia's biggest economies. Furthermore, the Free Trade Agreement with the CIS countries provides duty-free access of Uzbekistan's products to regional markets with a population of more than 300 million people.

Secondly, Uzbekistan with its population of more than 35 million people is the largest consumer market in the region. Tashkent, the capital, is a modern city, while Samarkand, Bukhara and Khiva are historically significant provinces and Andijan is the most industrial city.

Andijan, also called the pearl of the valley, is located in the eastern part of Fergana. In the 9th century, it is first mentioned as one of the most ancient cities at the crossroads of the Great Silk Road, surrounded by high mountains on the Andijan-sai River. Modern Andijan is an industrial city with 10% of Uzbekistan's total population which creates a major factor in the increase of demand for real estate housing. As the recent study conducted by the World Bank shows that more than 50,000 new houses are in shortage in the Andijan region where masterplan development, well-thought infrastructure, modern architecture and design are new phenomena, which opens huge opportunities for foreign investors in the real estate sector.

The last but not least, the Government of Uzbekistan support and encourages investment initiatives by creating comfort and security for foreign investors. Uzbekistan's Government forms free economic zones for enterprises with foreign investments, which are exempted from tax on property, land, tax on the use of water resources for multiple years depending on the investment amount.

All being said consider investing in one of the most rapidly growing economies – the world of enormous opportunities – to create a better living together!

Investment incentives

There used to be a number of tax incentives available to investors and enterprises with foreign investment. Some of these incentives were set in the general tax legislation; some of them were granted on a case-by- case basis, mostly in respect of investments made to key industries. The case-by-case incentives were provided by the Government through issuing enterprise specific decrees.

Effective 1 June 2006, all "non-compliant" and permanent incentives with respect to payment of taxes, customs and other mandatory payments provided earlier by decisions of the Government to enterprises with foreign investments, were abolished. The enterprises which happened to lose the tax incentives had to apply to the Cabinet of Ministers, so that the latter re-considers granting the incentives.

The Uzbek legislation still provides for certain tax incentives to encourage manufacturers, importers and exporters of strategically important products.

On 10 April 2012 the President of Uzbekistan signed a decree "On additional measures to stimulate direct foreign investment". Based on the decree above, enterprises with foreign capital in which the foreign investor's contribution in cash is not less than US$ 5 million are covered by a 'grandfathering clause' protecting them from adverse changes in the tax legislation for the period of 10 years from the date of state registration with respect to corporate income tax, value-added tax (turnover on sale of goods, works and services), property tax, tax on the improvement and development of social infrastructure, unified social tax, unified tax payment, as well as mandatory contributions to the Republican Road Fund and the Fund on Reconstruction, Capital Repair and Equipment of Educational Institutions and Medical Institutions.

Section 8: Afghanistan investment & financial Overview

According to UNCTAD's World Investment Report 2021, FDI flows into Afghanistan have declined sharply over the past two years to US$ 13 million in 2020, down from US$ 39 million in 2019 and US$ 119 million in 2018. The decline was partly due to the global economic crisis triggered by the Covid-19 pandemic and the unstable political situation. At the same time, the total stock of FDI was estimated at US$ 1.6 billion.

Among the main projects is the railway project, which aims to connect Turkmenistan, Tajikistan and Afghanistan was signed in 2013. In 2015, the Chinese Government expressed interest in supporting the development of railway infrastructure and the construction of a hydroelectric plant. The railway connection from China to Hairatan, Northern Afghanistan, was established in September 2016, allowing goods to be carried from Eastern China to Afghanistan in two weeks compared with six months by road. The railway was launched in September 2019, providing a boost to Afghan exports and investment from China, already the largest investor in Afghanistan since 2014. In December 2020, Iran launched a new railway connection to Afghanistan, supporting freight transport between both countries. In February 2021, Afghanistan agreed on a roadmap with Uzbekistan and Pakistan for a railway project that would connect all three countries.

Foreign investors were not required to have an Afghan partner, but due to the restriction on land ownership, they almost always chose to work with one. Private investors had the right to transfer their capital and profits out of Afghanistan, including for debt service for offshore loans. Nevertheless, the situation is currently unstable and investment in the country is almost impossible, and future foreign financial assistance is placed under a cloud of uncertainty. Among the structural problems Afghanistan is facing there are weak regulations regarding property protection, a substantial lack of skilled workforce, under-developed financial markets and insufficient infrastructure limit the country's potential for attracting foreign investors? The country was ranked 173rd out of 190 economies on the latest edition of the Doing Business report of the World Bank, down by six spots from the previous edition (mainly due to increased bureaucracy with regards to paying taxes).

Economy

During the last two decades, Afghanistan’s economy has steadily increased year by year. There has been growth in every economic sector. Data from the World Bank, as highlighted in the following chart, shows that Afghanistan’s Gross Domestic Product (GDP) increased from US$4 billion in 2002 to US$19 billion in 2019 – showing an increase of a whopping 38% over

18 years which translates to an average GDP of 2.1% per year. The same source states that Afghanistan's economy grew by 3.9% in 2019 due to strong agricultural growth by government's emphasis on agriculture production.

Agriculture remains Afghanistan's most important source of employment for over 75% of Afghanistan's population and accounts for close to a quarter of its GDP. According to Afghanistan's National Infrastructure Plan (NIP), 2017-2021, the growth prospects for the economy are predominantly in agriculture and mining which will require large private sector investment.

Strong Points

The low level of competition creates opportunities for foreign investors and exporters to bring in new products with potentially good profit margins. With its strategic geographical position connecting Central Asia to South Asia and leading to Europe, Afghanistan could serve as a gateway for investors seeking to enter the regional market. Local companies are adaptable, entrepreneurial and have shown resilience to economic downturn and political uncertainties. The country has a growing middle class and 70% of the population is below 25 years of age. There is also a significant potential for exploration in minerals, and in oil and gas. Foreign companies benefit from a 0% duty on import of machineries and 1% duty on import of raw materials.

Main Activities

- Encouraging and promoting bilateral trade and enhancing the prospect for a sustainable development in trade and investment between the two countries
- Exploring and providing access to the high value business opportunities in both countries through enhanced communication and information dissemination among the key private sector players (exporters/importers, investors, SMEs)
- Organizing Business to Business Matchmaking events for traders and investors
- Facilitating participation of Afghan exporters in trade exhibitions in the UK
- Facilitating Afghan business delegations' visit to the UK market
- Providing data on trade and investment volume in Afghanistan
- Providing information on customs tariff and customs requirements to interested traders
- Branding Afghan products in the UK

Economic Outlook

The Government of Afghanistan understands the critical role it must play to create a favorable environment for investment. The passage of the Private Investment Law in 2006 was an important milestone demonstrating the Government's commitment to attracting new investment. The Investment Law allows for one hundred percent foreign ownership, easy repatriation of profits, and treats foreign investors in the same fashion as domestic investors, meaning a foreign investor can achieve 100% ownership of his or her investment.

Additionally, our Financial Management Law emphasizes fiscal discipline and management of public finances in line with the current international standard of best practice. The 100 % write-off of Afghanistan's past debt, combined with the Government's policy of maintaining a balanced budget, allows for Afghanistan to now be one of the least indebted governments in the world.

Afghanistan has a very liberal foreign exchange system that allows people to legally bring money to the country and easily take it out again. Therefore, individuals, companies, and banks are allowed to operate foreign exchange accounts in Afghanistan.

In 2005, the tax code was restructured and clarified with an emphasis on simplicity and low taxation with export taxes removed for almost all products. Afghanistan has the lowest tariffs in the region and its tariff categories are simple and few in number.

Business Opportunities

1. Afghanistan is an emerging market of strategic importance close to some of the largest and fastest-growing markets in the world. Afghanistan is strategically located between the energy-rich republics of Central Asia and the major emerging consumers in South Asia providing a key transit route for Central Asian oil and gas to markets in South Asia as well as overseas.

2. Afghanistan offers a pro-business minded environment with legislation favorable to private investments. The principles of a market economy are incorporated in the Constitution of Afghanistan. Considering the National Development Strategy, the growth of the private sector is a cornerstone of Afghan politics. Consequently, the government of Afghanistan has focused intensely on removing obstacles to private sector development.

3. Afghanistan is rich in natural resources. In Afghanistan there are currently more than 1.400 identified mineral deposits. These include energy minerals such as oil, gas and coal as well as iron and copper deposits of world quality. Furthermore, the country has been blessed with a great variety of precious and semi-precious stones, including emerald, jade, amethyst, alabaster, beryl, lapis lazuli, tourmaline, ruby, quartz and sapphire. Following the national privatization program most of the major state-owned enterprises have been slated for international tender, which has made the entry into all these sectors easier.

Investment Priority Sectors

1. Agriculture

Agriculture remains fundamental to the livelihood in Afghanistan, generating one third of the country's GDP and supporting nearly 80 per cent of its people. The climate of Afghanistan is well suited for the cultivation of horticultural crops. That's why the country is the origin of many high-end crops like raisins, pomegranates, pistachios and almonds.

One industry related to the agricultural sector is packaging, which provides great opportunities for investors. Although demand for Afghan agricultural goods is high, current packaging procedures are outdated and prevent trade and commerce. Processing is another great investment opportunity. Due to the growing markets for fruits and vegetables, the potential for processed agricultural products is enormous, including snack foods, fruit concentrates as well as fresh fruit jams.

2. Construction Materials

Creating a competitive national construction industry is a prerequisite for the reconstruction of Afghanistan. Currently, the sector is one of the fastest growing in the country. That's why; the demand for construction materials is rising rapidly in Afghanistan, making the market more attractive for foreign investors. For example, urban planners and government officials develop a new urban area in the north of Kabul, which will be home to estimate 1.5 million people.

3. Telecommunication

Core telecommunication service providers supply the Afghan market already in a sufficient manner with increased competition and price pressures. While there are still opportunities for mobile service providers, the other supply and service areas of the telecommunication sector represent a far more virgin market. Examples are: Data processing, basic business-processing operations, information and communication technologies, data transfer, process control and call centers.

4. Transport and Logistics

Afghanistan shares borders with six neighbors – Iran, Turkmenistan, Uzbekistan, Tajikistan, China and Pakistan – and is considered as a land bridge connecting emerging markets in Middle East, Central and Southern Asia. The country's large and growing market for transportation and logistics services presents a ground floor opportunity for new providers. Early investors report modest start-up costs and low overheads, and even smaller operators are moving large volumes of freight. Investments in the transportation and logistics sector are vital to the overall economic development, as it will enable the transportation and distribution of products throughout the country and to overseas destinations.

Invest in Afghanistan

Building a strong economy is crucial to Afghanistan's long-term success. The Government of Afghanistan is dedicated to creating an investor-friendly business environment. During the past three years, significant improvements have been made in infrastructure, banking, customs, and legal reforms. The Government has also enacted one of the most liberal investment laws in the region and is committed to offering low taxes and tariffs to promote investment and trade.

Afghanistan is a well-positioned central trading hub. Today, Afghanistan's principal trading partners include Pakistan, India, Korea, China, Japan, Germany, and the UAE. One of the Government's priorities is to appropriate donor aid being provided by our international partners to promote investment, trade, and the development of the private sector. Most of the major foreign direct investments in Afghanistan are by Afghan entrepreneurs, who have made lucrative careers in the telecommunications, the I.T and many other sectors.

Why should you invest in Afghanistan?

- Strategic Geographical Position Connecting Central Asia to South Asia, and Leading to Europe.
- Free market economy led by private sector initiatives
- Unprecedented economic growth (GDP growth from US$ 2.2 billion in 2002 to US$ 21.8 billion in 2014)
- Utilization of Preferential Trade Agreements and Systems (with India, China, Europe, USA, and etc.) .
- Availability of skilled labor
- Increased market demand
- Flexible tax and duty regime
- 20% corporate tax
- Zero Percent Duty on import of machineries
- 1% Duty on import of raw materials
- Carry forward of losses (An accounting technique that applies the current year's net operating losses to future years' profits in order to reduce tax liability)
- Strong Government Commitment for Investment Climate Reforms.
- 100% foreign ownership
- Foreigners can lease real estate, for periods up to 90 years for arable land or longer for non-arable land.
- Bi-Lateral and Multi-Lateral Trade Agreements (APTTA, ECOTA, SAFTA).
- Membership of International Road Transport TIR.

Investment Opportunities

Afghanistan offers great opportunities in every economic sector as the country has not seen any major development of these sectors when the country encountered many problems including wars, displacements of its people, outward migrations, and political instability. However, Afghanistan has witnessed steady growth since 2002 when its GDP was close to US$4 billion. In 2019, its GDP was approx. US$19 billion – a staggering increase of 38% over 18 years. Although the country has been impacted by the effects of Covid-19 pandemic in 2020, it offers fresh opportunities to the government and the private sector.

Only a few sectors have seen more growth compared to other sectors. For instance, investors (domestic and foreign) invested heavily in the telecommunication sector mainly covering wireless communication. This sector has not reached its full capacity yet because there are other areas that need attention of investors. One such area is the digitization of public and private services, which is in line with the government's vision for creation of an E-Afghanistan within a decade or so.

Below is a brief description of investment opportunities available in primary, light, and heavy industries as well as non-tradable/service industry as per industrial classification developed by MoIC. For a detailed industrial classification please refer to United Nation International Standard Industrial Classification for all economic activities (UN-ISIC)

Section 9: Islamic Republic of Iran investment & financial Overview

The Islamic Republic of Iran is a country in the Middle East (West Asia) and it has an important geographic- strategic location in the Middle East, close to Europe and Central Asia. Iran is bordered on the north by Armenia, Azerbaijan, and Turkmenistan. Since it borders the Caspian Sea - considered an enclosed sea with joint ownership - it is also an indirect neighbor of the Caucuses, Kazakhstan and Russia. Iran is bordered on the east by Afghanistan and Pakistan, on the south by the Persian Gulf and the Gulf of Oman, on the west by Iraq and Kuwait and on the northwest by Türkiye. Additionally, it has a strategic location in the Persian Gulf and Strait of Hormuz, which is a vital point for passage of crude oil.

With an area of 1,648,195 km^2 (636,372 sq mi) Iran is the 17th largest country in the world, with a population of 86 million (2022). Tehran is the capital, the largest city of Iran and its political, cultural, commercial, and industrial center. Due to its great oil and gas resources, Iran is a powerful country in the region and plays an important role in the security of international energy and economy resources.

Iran has one of the highest urban growth rates in the world. From 1950 to 2016, the urban proportion of the population increased from 27% to 74%. The United Nations predicts that by 2030, 80% of the population will be urban.

With unique geographical location at the heart of a cross-road linking the Middle East, Asia and Europe, empowered by inter and trans-regional trade, customs, tax and investment arrangements. Despite the abundance of aviation, land and sea routes Iran plays super-strategic and crucial part in energy transformation and international commodities, the privileged strategic territory, road and maritime routes for oil and gas resources transit from exporting to consuming countries, in the Persian Gulf.

The Strait of Hormuz is a strategically important as it links the Persian Gulf with the Arabian Sea and the Gulf of Oman and one of the world’s foremost chokepoints, which is as a sea route for the shipment of goods. The main product which moves through the Strait Hormuz is oil from the Middle East.

The strait is only 21 to 60 miles (33 to 95 km) wide. Iran and Oman are the countries nearest to the Strait and share territorial rights over the waters. However, the width of the shipping lanes is much narrower i.e. about two miles wide in each direction (3 km) because the waters is not deep enough for oil tankers throughout the strait’s width. Iran dominates a number of islands with a privileged strategic position in the Hormuz Strait and the Persian Gulf.

Main indicators

GDP	US US$1.974 trillion (nominal, 2022) US$1.599 trillion (PPP, 2022)
GDP rank	11th (nominal, 2022) 21st (PPP, 2022)
GDP growth	3.0% (2022f)
Population	86,758,304 (2022)
Telephones-main lines in use	30,944,169
Telephones-mobile cellular	88,341,723
Airports	319
Railways	13,437 km
Roadways	232,535 km
Electricity-production	304.4 billion kwh

Iran Economic Advantages

- The 18th largest Economy in the World by Purchasing Power Parity (PPP).
- The Diversified Economy and Broad Industrial Base directly involved in Tehran Stock Exchange (TES) and Iran Fara Bourse (IFB) are the Largest Industrial Base in the MENA region.
- Rich in Natural Resources.
- Labor-Rich Economy
- Young and Educated Population
- Large Domestic Market
- The Middle East market as a Prime Market Opportunity for Iran’s Non-Oil Exports
- Developed Infrastructure in Transportation, Telecommunications and Energy
- Strategic Location, surrounded by 15 Land and Sea Neighbors, Serve as a Lucrative Trade and Transit Route in Both North-South and East-west Directions
- Tax Exemptions and Incentives
- Diversified hydrocarbon-rich economy
- 4th Oil Producer in the World
- 2nd Gas Reserves in the World
- One of the Top Producers of Zinc, Lead, Cobalt, Aluminum, Manganese and Copper in the World.
- Ranks amongst the Top 7 Countries in Producing 22 Important Agricultural Products

Why Invest in Iran?

Rich Natural Resources

Türkiye's consumption potentials, Saudi Arabia's oil, Russia's gas and Australia's mining reserves, all are found in Iran, holding the world 4th and 2nd rank in oil and natural gas reserves. Also, it has the 15th ranking in mineral resources with 70 types of various products with about 37 billion tons of proven and 57 billion tons of potential reserves. These resources include chrome, coal, copper, iron ore, lead, manganese, oil etc.

In other words, Iran has the world over 7% mining resources of the world, while having 1% of world's population. Iran globally ranks as: the 4th in lead and zinc; the 9th in copper; 10th in iron 5th in strontium; Also, holding 1.2% sodium chloride and 3.7% barite of the world, 2nd producer of gypsum by 9% after china and the world's oldest, finest and largest producer of Turquoise stone.

Energy Security

Compared to the oil and gas producing countries, Iran has unique status in the global energy supply in total proven oil and gas reserves. This global position allows maximizing national security by providing appropriate strategies for energy security. Concerning accessibility, Iran claims 157 billion barrels about 9.3% of the world's proven crude reserves. Given the current production and will remain the world leading oil exporter for another 94 years and holds 33,500 BCM of gas, up to 18% of proven natural gas reserves, which will produce natural gas for another 165.5 years

Iran is located in two energy-rich regions i.e. the Middle East and the Caspian Sea; so, is not affected by the policies of the major consumers.

Strong & Widespread Infrastructure in the Economic Sectors

Iran has the largest and the most extended industries in MENA region, led to providing sufficient infrastructures in upstream, downstream and knowledge-based industries and provides most of the world market with an annual petrochemical production capacity equal to 100 million tons.

The pharmaceutical industry is one of the worlds and region medicinal poles with a wide range of raw materials for 70 years of experiences in producing medical products and holds Cement holds 4th ranking in the world and manufacturing over 1.2% automotive of the world vehicles and currently, is the greatest steel producer in the Middle East. Alongside with the various industries, Iran has a wide range of communication networks including over 214,000 km of road and almost 11,000 km of railway, with about 200 under operation dams and power plant capacity by 85,000 MW.

Young Educated Human Resources

Having Young population is one of the advantages of Iran. The average age is 31.1 years, according to latest census; more than 25.1% of the population is between the ages of 15 and

29. The working-age population (aged 15-64) reached from 52% in 1986 to 70% of the total population in 2016, providing a "demographic opportunity".

With its young population and significant part of which are educated and knowledge-based, Iran has specific labor force conditions that are rarely seen in other countries. The literacy rate is 96.6 % and more than 12 million people have university degree. With average more than 3.5 million students enlisted in universities each year, Iran has doubled the number of university students over the past 10 years. Currently, there are more than 2,500 active universities and related institutions and is one of the top states in secondary school graduates attending universities.

Low Utility & Production Cost

Despite the youngest and highest educated workforce, Iran has the lowest wage in the Middle East. Foreign investors can enjoy the benefits of highly trained workforce with the minimum monthly wage by 150 US$.

Vast Domestic Market with a Population of 86 million growing steadily

Iran ranks the world 17th with 86 million population and is the most populous country in the Middle East after Egypt.

There are large middle classes with increased income distribution equality and changing consumption patterns, with annual household net expenditure increasing rapidly.

Regional Market's Hub

Surrounded by the consuming countries, which lack the sufficient infrastructures for industrial development, Iran can hold the main part in importing required goods. Proximity to countries such as Azerbaijan, Turkmenistan and Armenia have opened a unique capacity to enter into 300 million market of the Central Asia. Additionally, Iran plays a key role since being as a linking chain of North to South and East to West for the transit of goods, Swaps (oil swap) and connectivity to international electricity transmission networks.

Iran is the Cheapest Tourism Destination in the World

According to the Travel and Tourism Competitiveness report published by World Economic Forum (WEF), Iran was ranked as the most affordable foreign tourists' destination for the third time. This biennial report, which surveyed 136 countries in 14 categories indicates how well these countries could deliver sustainable economic and social benefits through their tourism sector. The report states that Iran in terms of price competitiveness is ranked above main players of tourism industry such as Egypt, Malaysia, Russia, Türkiye, Greece, Spain, the US, France and Italy. The report indicates how costly it is to travel or invest in countries. Costs relating to travel such as ticket prices, fuel rates and taxes as well as costs including accommodation and food prices are the indicators for "price competitiveness". Iran Global Competitiveness Index (GCI) is 6.7 and achieved the first global place in this field.

The Transit Axis of the Region

Having common border on the north by the Caspian Sea and on the south by the Persian Gulf and the Oman Sea, has allowed Iran to access more than 5,800 km of coastal strip. Iran has a privileged position in transit, since having access to the Eurasian countries from the north, east to the Central Asian countries and from the West with a land border with Türkiye and thus using a part of the Silk Road. The geographic location over the transatlantic crossroads has turned the country to the transit axis on the North-South and East-West corridors.

Trans-boundary transit of Afghanistan and Central Asia through the eastern border i.e "Chabahar-Milk" the geographical location of Bandar-Chabahar to Afghanistan, numerous investments in various transportation sectors, especially the maritime, establishing facilities and transport infrastructures on eastern axis and government extensive supports have turned Chabahar into the transit hub of Afghanistan.

Iran is located in the center of the ECO member states; therefore, this is an opportunity to play main role in establishing trade and economic relations between ECO members.

Since the goods from Uzbekistan, Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan have to cross Iran to reach the Arab countries like Oman, Qatar, Saudi Arabia, Kuwait and Iraq. Thus, Iran's position among the three international unions is another advantage. Through Türkiye, Azerbaijan and Georgia, connecting the Black Sea and the Mediterranean Sea to the European Union, the Eurasian countries and to the continent of Oceania create an intercontinental connection.

New Fields of Investment Opportunities & Priorities

- Setting up the rating agencies
- Establishing foreign financial institutions
- Establishing Clusters for Export, Trademarks in agricultural products
- Development of at least 54 Rural Business Clusters.
- Construction and Operation of 98 Rural Industrial Area
- Development of modern irrigation methods
- Development of fisheries and fish farming in cages.
- Water desalination and Sewage.
- Urban wastewater system network, recycling and management of waste and sewage.
- New petrochemical products.
- Construction of power plants with efficiency of 55% to 60%.
- Bunkering.
- PPP Projects.
- Renewable Energy.

- Electronic trading.
- ICT infrastructure development in rural area.
- Knowledge-based companies (start-up's).
- Urban and suburban rail transport.
- New small ports.
- Exploration, production and utilization of oil and gas fields.

- **Full Government Support & Services Providing**
- Free of charge before and after care
- Services to foreign investors
- 3 years' multi-entry Visa.
- 3 years' residence permit.
- Work permit.
- Covering political risks for foreign investments.
- To facilitate the Foreign Investment procedures in Iran, OIETAI provides investment services with a One-Stop-Shop approach in its "Foreign Investment Services Centre" (FISC) at the national level and in 31 provincial Investment Service Center.

Investment Promotion Agency (IPA)

The Organization for Investment, Economic & Technical Assistance of Iran (OIETAI) founded in June 1975 and is the sole official authority for the promotion and protection of foreign investments in Iran.

As the main investment authority, OIETAI is responsible for receiving and processing foreign investment applications.

OIETAI also presents investment opportunities to potential foreign investors and supports them by assisting, coordinating and facilitating all issues pertaining to their investments throughout the licensing process and ever after and other issues related to Foreign Investment in the country such as:

- Admission, Importation, Utilization, Repatriation
- Performing and conducting foreign investment promotion activities
- Introducing legal grounds and investment opportunities,
- Carrying out studies and applied researches,
- Organizing conferences and seminars,
- Cooperating with the relevant international organizations and institutions,
- Establishing relations and coordination with other agencies in gathering, compiling and providing information related to Foreign Investment

Some Advantages and Incentives: Features and Advantages of Foreign Investment Promotion and Protection Act (FIPPA)

- There is no restriction on the percentage of foreign shareholding.
- The possibility of registering an Iranian company with 100% foreign capital.
- Transfer of principal capital, dividend and the profits gained through the utilization of capital in the form of foreign currency or goods.
- Enjoyment of same and equal treatment as accorded to domestic investors by foreign investors.
- The possibility of investment by foreign natural and juridical persons and Iranians living abroad.
- Allowing investment in all areas which are permitted to the private sector.
- Granting protection coverage to different foreign investment schemes.
- Quick approval of the Foreign Investment Application
- Issuing three-years multiple entry visa and residence Permit for Foreign Investors, directors, experts as well as their immediate family members.

Risks covered under FIPPA

- Expropriation and Nationalization
- Unlimited transfer of capital and dividend
- Guarantee of the Purchase of the goods and services resulting from investment projects in BOT investment schemes where the government acts as the sole purchaser

Investment Facilities and Incentives in Free and Industrial Zones

- 20 years' tax exemption for all economic activities
- No visa requirement for the entrance of foreigners
- No limitation on the transferring foreign currency
- Flexible monetary and banking services
- Exemption of raw materials and industrial machineries of producing units from customs duty.
- Easy registration of companies, industrial and cultural institutions and intellectual property ownership.
- Easy circumstances for re-export and transit of commodities.
- Easy regulations for the import commodities allowed by law.
- The possibility of exporting products to the mainland within the framework of the added value regime.
- Sale/lease of the land for the Iranian and long-term lease for the foreigners.

- Suitable rates for the energy consumption.

Other Incentives and Benefits of Investment

- Unique geographical situation as the junction of the Middle East, Europe and Asia.
- Huge domestic market with more than 80 million population and quick access to the markets of the neighboring countries with more than 600 million populations.
- Massive resource of efficient, trained and economic-friendly workforce.
- Advanced infrastructure across the country in the fields of telecommunication, energy and rail/road transportation.
- Huge energy resources and low cost of production and public services.
- Suitable climate conditions which allow agricultural activities in all parts of the country and in all seasons.

Capital Protection & Repatriation

- Foreign Investors enjoy the same treatment as accorded to domestic investors.
- Import of Foreign Capital, being cash or non-cash (in kind), is only subject to the Investment License and does not require any other license.
- The volume of Foreign Investment in each individual case shall not be subject to any limitation.
- Foreign Capital is guaranteed against nationalization and expropriation, and in such cases the Foreign Investor shall be entitled to receive compensation.
- Transfer of the principal capital, profit and capital gains derived from utilization of capital shall be affected in the form of foreign currency or, as the case may be, in the form of goods, as set out in the Investment License.
- The freedom to export goods produced by the Investee Firm is guaranteed and, in the event of any prohibition on the export, the goods produced may be sold in the domestic market, and proceeds of sale shall be transferable abroad in the form of foreign currency through the Country's Official Monetary Network.
- Investment may be made in all areas where the private sector activity is permitted.
- There is no restriction on the percentage of foreign shareholding.

Section 10: Islamic Republic of Pakistan investment & financial Overview

Pakistan, with an estimated GDP (nominal) of USUS$276 billion is the 41st largest economy of the world. Goldman Sachs has identified Pakistan as one of the 'Next 11' countries including Mexico, Nigeria, Egypt, Türkiye, Iran, Pakistan, Bangladesh, Indonesia, Vietnam, South Korea and Philippines (along with BRICS), which can become the world's large economies in the 21st century.

The country is strategically located at the crossroads of South Asia, East Asia, Central Asia and Middle East. More than 40% of entire global consumer base and an import market of USUS$ 2.15 trillion are available on its immediate borders. Pakistan's own 220 million consumer base, the world's 5th largest, and a youth bulge offers a potential demographic dividend. The institutional and regulatory reforms have improved the ease of doing business, culminating in a leap of 28 places in World Bank's global ease of Doing Business ranking in 2019, making Pakistan one of the world's top 5 business-climate improvers.

Macroeconomic Highlights

Favorable GDP Growth

Pakistan's economy continued to witness a V-shaped economic recovery for the second consecutive period, in FY22. The country attained a real GDP growth of 5.97% which is higher than growth of 5.74% recorded last year.

Current Account Deficit

The current account deficit during 10m22 stood at US$ 13.8 billion compared to a deficit of US$ 0.5billion during the same period last year. This huge deficit was due to surge in global commodity prices which resulted in an upward pressure on import payments.

Higher Remittances

Remittances, which always support in easing out the pressure of balance of payments, were recorded at US$ 26.1billion during 10m22 and posted a growth of 7.6%.

Higher Inflation

Average CPI for 11m21 was 11.3%, as compared to average inflation of 8.8% during the same period last year.

Fiscal Deficit

The economy posted a fiscal deficit of 6.3% relative to GDP during FY22, compared to 6.1% for last year. Total tax collection grew by 28.1%, while non-tax revenues fell by 14.3% during 9m22. FBR surpassed the revenue target by collecting net tax revenue of PKR 4.86tn during 10m22.

Credit Rating Downgrade

The recent financial turmoil has led to a downgrade in credit rating outlook by Moody's from stable to negative.

GDP

- GDP growth rate for FY22 (P) is 5.97%, which is higher than the 5.74% in the same period last year.
- Pakistan's economy showed a strong recovery after being depressed due to the global pandemic. Higher growth in GDP is
- Due to robust growths of 4.4%, 7.2% and 6.2% in agriculture, industrial and services sectors, respectively.
- Investment to GDP ratio was recorded at 15.1% in FY22 compared to 14.6% last year.
- Household Consumption proved a significant contributor to GDP. It witnessed a healthy growth of 24.2% in FY22 compared to 20.1% in FY21 even during high inflation.

Foreign Direct Investment

- Net Foreign Direct Investment stood at US$ 1.46billion during 10m22, compared to US$ 1.48billion in the same period last year, reflecting a decline of 1.65%.
- Net Foreign Direct Investment in Pakistan has decreased due to an increase in outflow related to the dividends paid by cellular companies to their international owners.
- Foreign Direct Investment (FDI) in the telecom industry was US$ 107.9million during 8m22 compared to the local investment in the telecom sector of US$ 822.2million during the same period.
- The power sector received the largest FDI (38%) followed by financial sector (25%).
- FDI contribution by China represented 26% of the total FDI followed by United States which contributed 14%.

Key Developments

- During FY22, the SBP launched licensing and regulatory framework for setting up digital banks in Pakistan as a separate and distinct category in the banking business. The primary objectives of the framework include:
- Financial inclusion
- Providing cost effective digital financial services & providing credit access to the unnerved and underserved.
- During FY22, the Federal government established the Special Technology Zones Authority (STZA). The primary objectives of the framework include:
- Encouraging modern innovative solutions and futuristic entrepreneurship
- Developing a knowledge economy and a technology-driven ecosystem
- Providing special incentives to attract investors, builders, and technology companies to partner with the government

- SBP also launched Raast during FY22 which is Pakistan's first instant payment system that will enable instantaneous end-to-end digital payments among individuals, businesses and government entities.
- During FY22, SBP launched a "Banking on Equality" policy, aiming to reduce the Gender Gap in the financial sector through specific measures that would bring a shift towards

Economic Review

The fundamental weaknesses of Pakistani economy; low tax to GDP ratio, poor savings rate and minimal export growth with negligible value addition etc. were further attenuated by misaligned economic policies like loose monetary policy and overvalued exchange rate which have made it difficult to control twin deficits; the fiscal and the current account. This, in the short term, fueled demand and short-term growth, but has gradually eroded macroeconomic buffers, increased public debt and depleted international reserves. Moving along this path was unsustainable as it was moving the country towards ever slowing growth and eventual default.

The shift in economic policy undertaken by the present government, through its policy of adjustments and structural reforms, has changed the course entailing readjustment in the fiscal and monetary policies. The stabilization process gained momentum with the commencement of the IMF's 39-months Extended Fund Facility (EFF) arrangement program in July 2019. The stabilization measures implemented to reduce the twin deficits had a profound impact on economic activity during the year.

As the new fiscal year FY2020 began, the economy started to witness a remarkable turnaround which confirmed that the Government has taken appropriate policy actions to address the macroeconomic imbalances. The stabilization efforts paid off in terms of sustained adjustment in current account deficit and continued fiscal prudence. For the first time in many years, the current account deficit posted a surplus in October, FY2019. While primary balance continued to remain in surplus during the current fiscal year. During July-March, FY2020, fiscal deficit has been reduced to 4.0 percent of GDP, while current account deficit reduced by 71 percent during July-April, FY2020. In addition, stable exchange rate, healthy growth in FDI (126.8 percent), improved ranking in World Bank's ease of doing business index, and 'Stable'' credit outlook to B3 from 'Negative' by Moody's, reaffirmed the successful policies of Government in stabilizing the economy and laying a foundation for robust growth.

Nevertheless, the government remained cognizant of painful impact of these stabilization measures in terms of economic slowdown, rising inflation, low pace of job opportunities and resultantly its impact on the lowest income groups of the society. In the wake of these challenges, the government-initiated reforms in key sectors of the economy with bringing.

Why invest in Pakistan

Geo-Strategic Location

Pakistan connects Central Asia, Afghanistan, Iran, Middle East and China through land and sea routes. Its unique location makes it an obvious choice for production and distribution facilities for region-wide trade. With CPEC and construction of the Gwadar Port, distance and travel time for goods sent from China to the Middle East and Europe will drastically reduce.

Market of 190 million

Pakistan is a consumer society with a market of 190 million and a vibrant middle-class product. Most of the population live in urban centers having high marginal propensity to consume (MPC), striving for high mass consumption and better living standards, with increasing demand for food commodities and high quality finished/value added products.

Young, Educated and Skilled Population

The youth accounts for 36 percent of Pakistan’s population. The young people are highly educated, technically skilled and proficient in English. Pakistan, therefore, has a skilled and semi-skilled labor in services, retail manufacturing sectors especially in automation, agriculture, textiles and information technology.

Investment Friendly Regime

Pakistan offers an investment friendly regime with high ease of doing business, tax reduction, tax holidays and special economic zones. The government is in the process of further relaxing the investment regime. There are no limits on inflow or outflow of investment capital or dividend and foreign investors can repatriate their entire profit. As a result, multiple multinationals have continued to invest heavily in Pakistan.

Stable Political Environment

The stability in the political environment provides an ideal environment for investment in Pakistan. Low-cost Labor Compared to other developing countries in the region, labor costs in Pakistan are very low and competitive.

Low-cost Labor

Compared to other developing countries in the region, labor costs in Pakistan are very low and competitive.

Stable Capital Market

Pakistan ranked 3rd in 2014 amongst the top 10 best performing capital markets in the world for the third consecutive year. Karachi Stock Exchange (KSE)-100 Index generated a return of 31 percent for investors in year 2014.

Vibrant Financial Institutions

Pakistan has vibrant and stable financial markets managed by national and international financial institutions under the overall supervision of State Bank of Pakistan. This year State Bank of Pakistan has reduced the policy rate by cumulative 300 bps to 7 percent which is the lowest rate in 42 years reflecting improved macroeconomic conditions.

Transport, Infrastructure and Communication

There is a well-established transport and communication network throughout the country. As CPEC develops, this network is poised to further expand. Over the past decade tele-density has shown remarkable rise covering 75.2 percent of the population. With 3G and 4G spectrum, the cellular services are state of the art which provides an impressive environment for doing business in Pakistan.

Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 1

Output 1.3

Researcher: Amir Mostafavi PhD

Phase-I: Output 1

Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Output 1.3

Analyses of the ECO Member States' SW/NDFs and Investment Promotion Entities to determine their outward investment propensities

Introduction

In this part, we are going to comprehensively review the NDF/SW of the member countries, in some of them, based on the survey, there is no such SPVs as a development or wealth fund.

Due to the lack of response and the sending of the questionnaire, which was requested in one of the items to introduce the desired SPV to participate in the joint action plan, unfortunately, except for the National Development Fund of Iran, none of them gave an answer in this item, and therefore, in order to advance the research, the following points are assumed has been:

1- The SPVs of the member country is considered to participate in the joint action plan of the same NDF/SW, and the research is carried out accordingly.

2- At the end of the research and publication of the results, if the member countries agree, they will introduce the desired representative or SPVs in the operational plan and agreements resulting from the research.

3- The possibility of cooperation between the funds and the way of inter-operability is based on the default and according to the research data from the funds, and unfortunately, no response has been received from the funds to investigate this issue.

Section.1: Republic of Azerbaijan (SW/NDF)

The State Oil Fund of the Republic of Azerbaijan (SOFAZ)

Overview

Azerbaijan is well-known worldwide as an ancient oil country. From the late 19th to the early 20th century, Baku has transformed into one of the biggest oil centers in the world.

After Azerbaijan gained its independence, oil played a crucial role in the country's development.

- the attraction of foreign investments and expertise
- establishment of multi-optional export routes
- efficient and transparent management of accumulated revenues

On September 20, 1994, Azerbaijan signed the Azeri-Chirag-Gunashli Production Sharing Agreement (PSA) with leading international oil companies. Dubbed the "Contract of the Century," this agreement spurred the signing of new oil contracts, which generated substantial revenues for the country. These developments urged the need to establish an entity whereby assets could be accumulated and efficiently managed. Ilham Aliyev, the vice-president of SOCAR back then, initiated the realization of this idea. As proposed by Ilham Aliyev, the experiences of similar sovereign wealth funds abroad were thoroughly evaluated.

Consequently, the national leader Heydar Aliyev signed a Decree to establish the State Oil Fund of the Republic of Azerbaijan (SOFAZ) on December 29, 1999.

SOFAZ is an extra-budgetary fund and functions as a legal entity separate from the government or central bank. SOFAZ safeguards and prudently manages energy-related earnings for present and future generations. One of the key principles of SOFAZ is transparency. Throughout this period, the Fund has developed institutionally and became an internationally recognized asset management organization. **SOFAZ's assets under management: US$ 45 386.4 million (2021).**

Mission

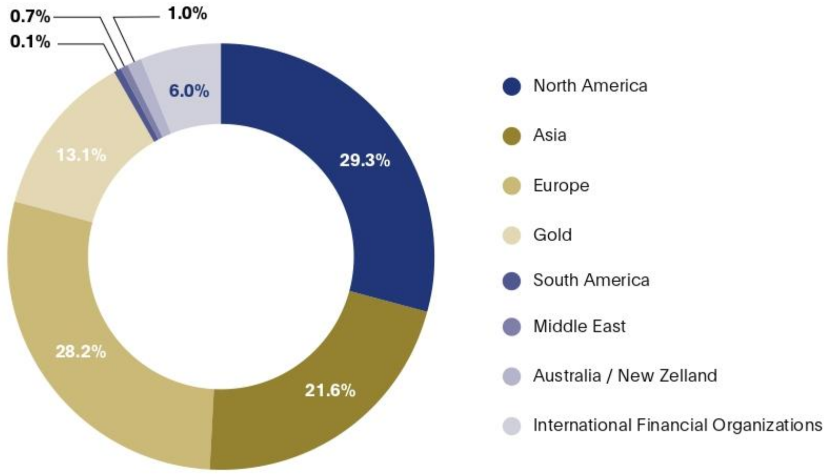
The mission of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) is to transform deplorable hydrocarbon reserves into financial assets generating perpetual income for current and future generations.

Objectives

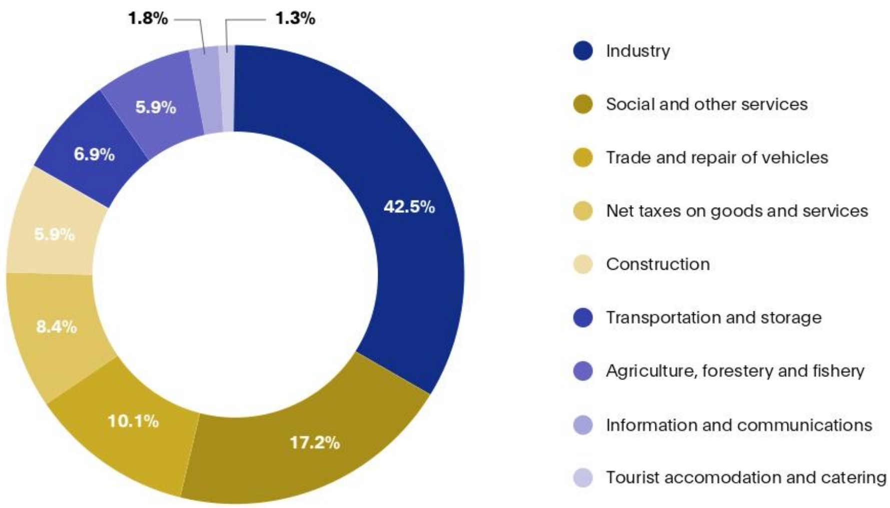
The main goal of the establishment of SOFAZ is to accumulate and efficiently manage oil revenues. SOFAZ's activity is directed to the achievement of the following objectives:

- Preserving macroeconomic stability, ensuring fiscal-tax discipline, decreasing dependence on oil revenues and stimulating development of the non-oil sector
- Ensuring inter-generational equality with regard to the country's oil wealth and accumulate and preserve oil revenues for future generations
- Financing major national scale projects to support socio-economic progress

SOFAZ's investment portfolio breakdown by geographic region

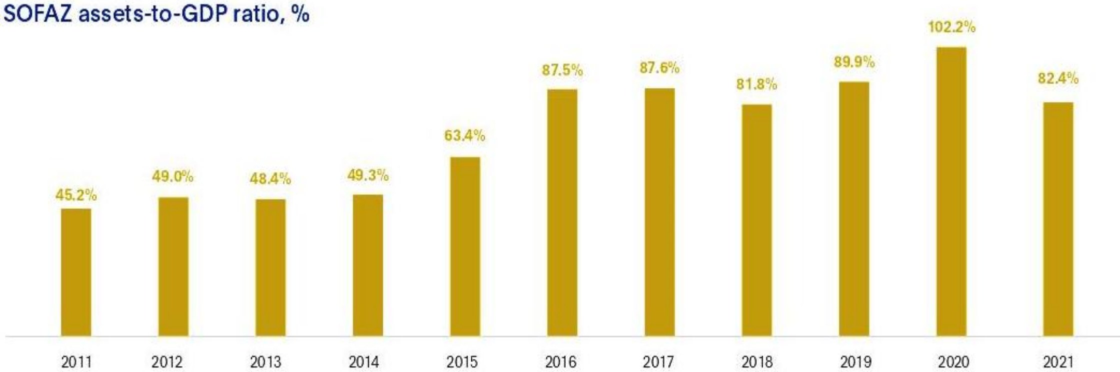


GDP structure



Source: Ministry of the Economy

SOFAZ assets-to-GDP ratio, %



Source: SOFAZ and Ministry of the Economy

General info

The State Oil Fund of the Republic of Azerbaijan (SOFAZ) cooperates with international organizations, financial institutions and banks and is recognized by the world organizations as a reliable and trusted partner. SOFAZ's development areas in international relations and its objectives can be classified as follows:

1. Corporation with international financial institutions
2. Cooperation in study and sharing experiences
3. Cooperation in enhancing existing partnership relationships

SOFAZ's dynamic economic development grows the attention and interest of international financial institutions. Experts of international financial institutions, including the International Monetary Fund and the World Bank regularly visit SOFAZ. During the visits they exchange views about the growth patterns of SOFAZ's assets, its place and position in the development of the country's financial system and macroeconomic regulation policy, possibilities and options of using modern regulatory and financial mechanisms and SOFAZ's investment policy.

Applying the best international practices, learning and sharing experience is specifically essential for the development and promotion of SOFAZ's international relations. Since its establishment SOFAZ has been continually exploring the best international practices for the improvement of the legal and regulatory framework and the application of methodologies for evaluating the effects of oil revenues on macroeconomic dynamics. Implementation of advanced and modern economic mechanisms is particularly important in this field.

Economic policy and economic partnership of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) can be grouped as follows:

- Cooperation with World Bank;
- Cooperation with International Monetary Fund;
- Cooperation with United States Trade and Development Agency;
- Cooperation with International Finance Corporation;
- Cooperation in the frame of the Extractive Industries Transparency Initiative.

$45.0 bn.	61,80 % 19,00 % 6,10 % 13,10 %	2021	The investment policy has been amended: The share of allocations in gold was increased from 10% to 15%; The ICE BofA fixed income indices in the corresponding currencies have been designated as the benchmark for the performance of the Fund's Fixed Income and Money Market sub-portfolios.
$43.6 bn.	63,80 % 15,90 % 6,10 % 14,20 %	2020	Changes were made to investment policy: allocation to USD denominated assets increased from 50% to 65%, while allocation to EUR denominated assets decreased from 35% to 20%; SOFAZ sold Pine Avenue Tower, located in Seoul, for KRW 521.5 billion
$43.3 bn.	68,70 % 14,10 % 5,80 % 11,40 %	2019	Assets increased to over 40 billion; SOFAZ hosted "Impact Investing: Opportunities and challenges for institutional investors" conference.
$38.5 bn.	76,50 % 12,80 % 5,30 % 5,40 %	2018	SOFAZ was included in the top 100 most impactful public investors by the Sovereign Wealth Fund Institute; The share of allocations in gold increased.
$35.8 bn.	76,30 % 14,90 % 5,30 % 3,50 %	2017	Changes were made to investment policy: allocation to equities increased from 15% to 25% and allocation to fixed income decreased from 70% to 60%; The share of allocations to real estate and equities increased.
$33.1 bn.	80,00 % 12,20 % 4,40 % 3,40 %	2016	Changes were made to investmen policy: allocation to equities increased from 10% to 15%; allocation to real estate increased from 5% to 10%; and allocation to fixed income decreased from 80% to 70%; The share of allocations in alternative asset classes increased.
$37.1 bn.	87,50 % 6,50 % 2,90 % 3,10 %	2014	Changes were made to investment policy: allocation to equities increased from 5% to 10%, while allocation to fixed income decreased from 85% to 80%; SOFAZ started in-house management of public equity indexes.
$34.1 bn.	94,36 % 2,00 % 1,29 % 2,35 %	2012	Assets increased to over USD 30 billion: SOFAZ began investing in public equity, gold and real estate The currency composition of the fixed income portfolio was further diversified to inculed the Australian Dollar, Turkish Lira, ano Russian Ruble
$22.8 bn.	99,89 % 0,11 %	2010	SOFAZ began investing In private equity funds.
$2.5 bn.	100 %	2007	SOFAZ received a UN Public Service Award: Assets reached USD 2 billion.
$0.5 bn.	100 %	2001	First investments were made.

● fixed income ● equities ● real estate ● gold

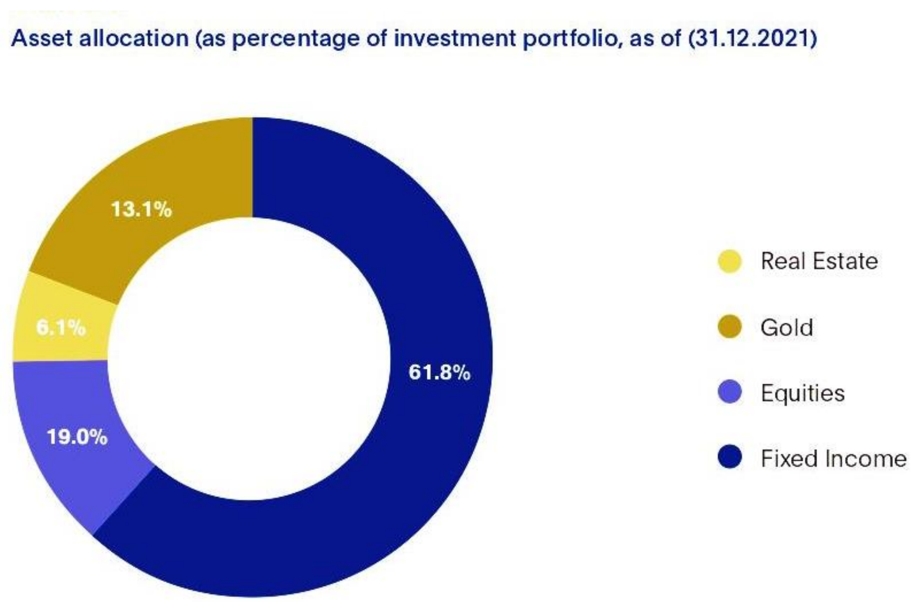
Investment

The assets of the State Oil Fund of the Republic of Azerbaijan (SOFAZ) are managed in accordance with the Azerbaijan” approved by Presidential Decree No. 511 dated June 19, 2001 and amended by Presidential Decree No. 607 dated December 21, 2001, No. 202 dated March 1, 2005, No. 216 dated February 10, 2010, No. 519 dated October 27, 2011, No. 1376 dated May 12, 2017 and No. 450 dated December 28, 2018 and "Investment Policy of the State Oil Fund of the Republic of Azerbaijan" approved by Presidential decrees on an annual basis.

According to these Rules, the purpose of management of the SOFAZ’s foreign currency assets is to hold foreign currency assets of the Fund securely and to generate revenues by effective management.

Investment policy defines the objectives, forecasted size, currency composition, strategic asset allocation, benchmarks and risk limits for the SOFAZ’s investment portfolio.

In line with the long-term objectives, asset class composition of SOFAZ’s investment portfolio is reviewed and approved annually.



1. Main directions of expenditures of the assets of the State Oil Fund of the Republic of Azerbaijan (hereinafter – SOFAZ)

1.1. Upper limit of transfers to 2021 state budget of the Republic of Azerbaijan;

1.2. Financing of the “State Program on increasing international competitiveness of the higher education system in the Republic of Azerbaijan for 2019-2023”.

Investment directions

<table>
<tr><th colspan="2">Asset classes</th><th>Strategy employed</th><th>Implementation methods</th></tr>
<tr><td rowspan="2">Traditional</td><td>Public Equity</td><td>Exposure to global equities</td><td>MSCI World Index, MSCI Europe ex UK index, strategic stake in VTB Bank</td></tr>
<tr><td>Fixed Income</td><td>Exposure through bonds and money market instruments</td><td>Sovereign, supranational, agency, and corporate investment grade bonds and money market instru-ments</td></tr>
<tr><td rowspan="3">Alternative</td><td>Private Equity</td><td>Exposure through private equity funds</td><td>Commitments to buy-out and growth funds

Co-investments

Private Equity Separately Managed Mandate with Neuberger Berman

Investment in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of SOFAZ (90%) and SOCAR (10%)</td></tr>
<tr><td>Real Estate</td><td>Exposure through direct property acquisitions, co-investments, and real estate funds</td><td>Moskva, London, Paris və Tokyo şəhərlərində yerləşən kommersi-ya tipli daşınmaz əmlaka yatırılan birbaşa investisiyalar;

Almaniya, Yaponiya, Çin, Honq Konq, ABŞ və Sinqapurda yerləşən kommersiya tipli daşınmaz əmlaka yatırılan müştərək investisiyalar;

Asiya və Sakit Okean hövzəsi, Avropa və ABŞ-da müxtəlif sektor-ları əhatə edən daşınmaz əmlaklara yatırım edən fondlara investisiyalar</td></tr>
<tr><td>Gold</td><td>Exposure through physical purchase</td><td>Qızıl külçələrinə investisiya</td></tr>
</table>

2. Investment Policy of SOFAZ for 2021

2.1. The objective of the Investment Policy of SOFAZ

In 2021– SOFAZ will implement an investment policy aimed at maximizing returns while minimizing the probability of substantial losses.

2.2. Investment portfolio of SOFAZ

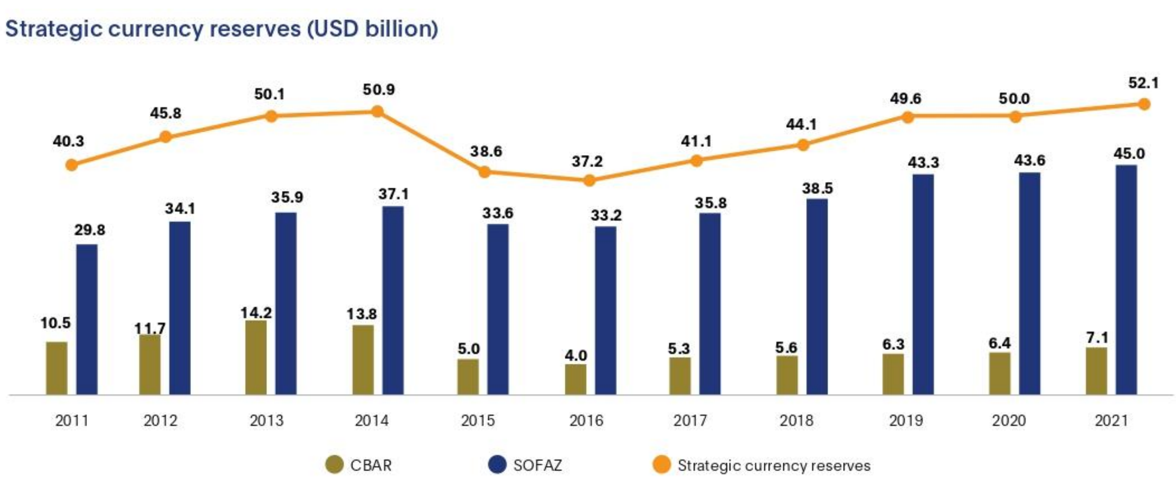
2.2.1. Forecasted size of the investment portfolio of SOFAZ

The total value (weighted average size) of the investment portfolio of SOFAZ for 2021 is forecasted at US$ 41.1 billion.

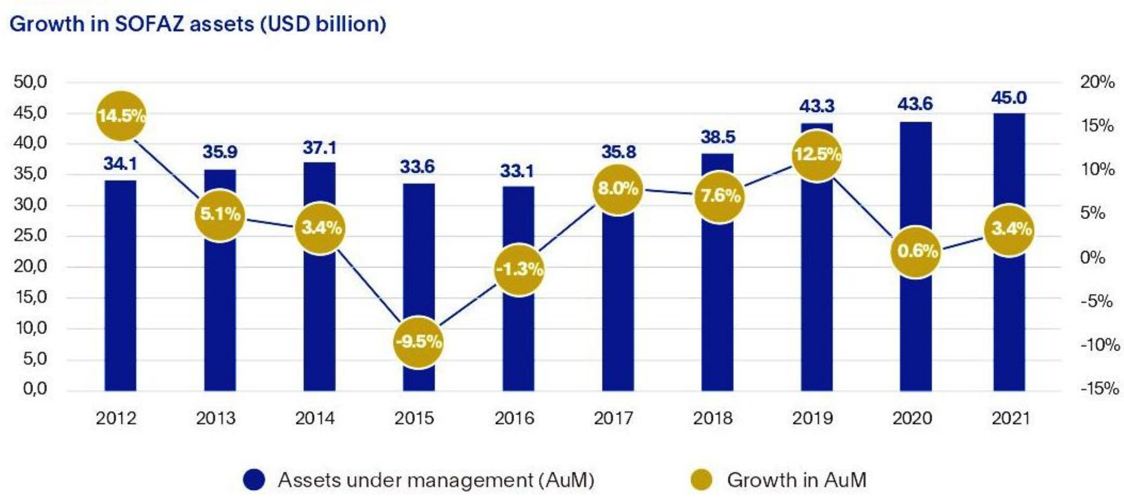
2.2.2. The currency composition of the investment portfolio

US$ is the base currency of the investment portfolio.

Provided that at least 90% of the total value of investment portfolio can be be invested in assets denominated in the currencies of countries with a credit rating of no less than “A” (by Standard and Poor’s, Fitch) and “A2” (by Moody’s), the currency composition of SOFAZ’s investment



Source: SOFAZ and CBAR



Portfolio shall be as follows:

1. 65 % in assets denominated in US$;
2. 20 % in assets denominated in EUR;
3. 5 % in assets denominated in GBP; and
4. Up to 10 % in assets denominated in other currencies.

2.2.3. Sub-portfolios of the investment portfolio

Investment portfolio of SOFAZ consists of the following sub-portfolios:

1. Debt obligations and money market instruments sub-portfolio (excluding investments in non-rated debt funds) – 50% of the investment portfolio along with maximum lower deviation of 5%;
2. Equity sub-portfolio – up to 25% of the investment portfolio (including up to 5% with maximum upper deviation of 2% in private equity funds and non-rated debt funds, as well as, co-investments in private equity);
3. Real estate sub-portfolio – up to 10% of the investment portfolio along with maximum upper deviation of 2% (including direct real estate, real estate funds and non-rated real estate debt funds);
4. Gold sub-portfolio – up to 15% of the investment portfolio along with maximum upper deviation of 3%.

2.2.4. Benchmark of the investment portfolio

1. The benchmark for the debt obligations and money market instruments sub-portfolio is "ICE BofA Fixed Income Indices" for corresponding currencies.
2. The benchmark for the equity sub-portfolio is "MSCI Stock Market Indexes".
3. According to section 4.2 of the "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" approved by No. 511 dated 19 June 2001 (hereinafter – the Rules), benchmark for the gold sub-portfolio is not applied.

2.3. Risk management requirements of the investment portfolio

2.3.1. Interest rate risk

The duration of the debt obligations and money market instruments sub-portfolio is determined by SOFAZ depending on the current situation of the global financial markets and should not exceed weighted average duration of the correspondent benchmark.

2.3.2. Credit risk

1. The maximum average weight of a single security or an issuer (excluding depository banks and sovereign debt obligations of the countries included in the benchmark) in the investment portfolio should not exceed 15% of the total value of the investment portfolio.
2. Assets included in the SOFAZ’s investment portfolio as a result of investments made for implementation of projects in accordance with the acts of the President of the Republic of Azerbaijan are not subject to 5% upper limit on allocations to non-investment grade debt obligations and deposits, set in section 3.3 subsections 8 of the Rules.

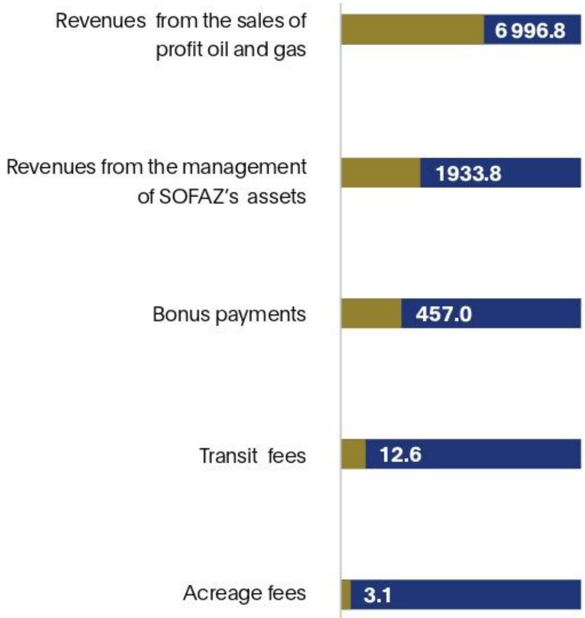
2.3.3. Liquidity requirements

Liquidity of the SOFAZ’s assets should be at a sufficient level to ensure full and timely execution of planned cash and other transfers related to budgetary expenditures of SOFAZ. For that reason, a part of assets equivalent to not less than US$ 100 million (minimum liquidity level) should be kept in cash or cash equivalents. If it falls below the minimum liquidity level, it should be restored within 7 (seven) business days

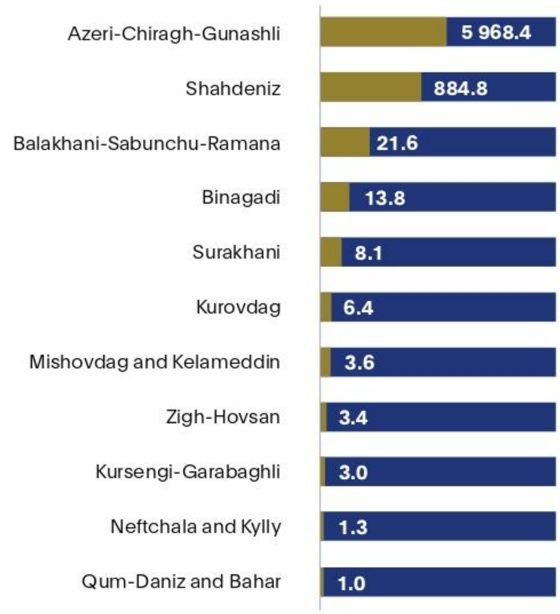
2.3.4. Requirements with respect to external managers

1. Credit rating assigned to the external manager or its parent company by the international credit rating agencies (Standard and Poor’s, Fitch, or Moody’s) should not be below the investment grade; otherwise, the external manager should have either at least 5 years of successful asset management experience, or expertise in managing assets valued at not less than US$ 1 (one) billion.
2. The maximum allocation to external managers should not exceed 60% of the total value of the investment portfolio. The maximum allocation to one external manager should not exceed 5% of the total value of the investment portfolio.
3. Investment mandate of the external manager(s) involved in the management of the assets of SOFAZ should be reflected in agreements signed between SOFAZ and the respective manager(s).

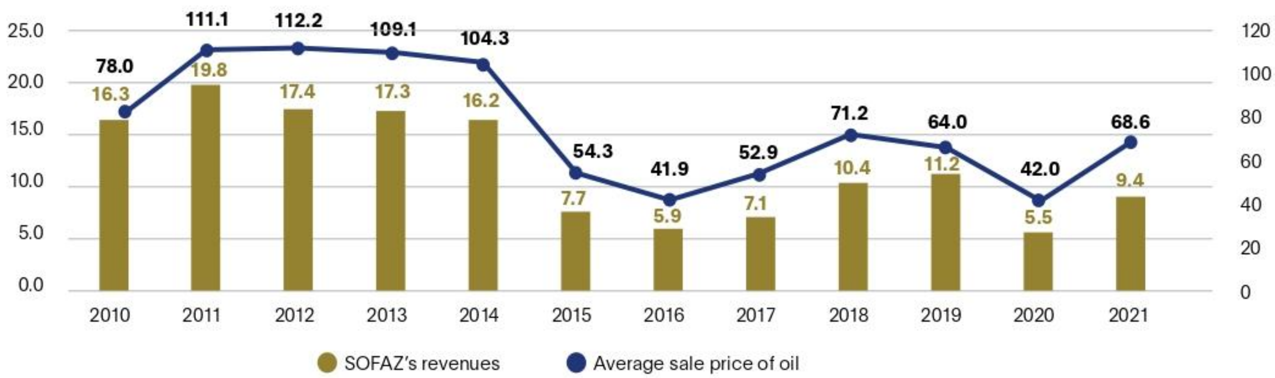
SOFAZ's revenues in 2021 (mln USD)



Revenues from sales of profit oil and gas in 2021 (mln USD)



SOFAZ's revenues (USD billion) and average sale price of oil (USD)



Main Projects of SOFAZ

Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline

Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline is an international project designed for the transportation of crude oil, produced from the oilfield in the Azerbaijan sector of the Caspian Sea, to the international markets. The length of the BTC pipeline route is 1767 km, of which 443 km covers Azerbaijan, 248 km - Georgia, 1076 km - Türkiye. The design life of the pipeline is 40 years, while the throughput capacity is 1 million barrels of oil per day.

The State Oil Company of Azerbaijan (SOCAR) is participated in the BTC project through its special purpose subsidiary AzBTC Co., which is a 25 percent stakeholder in the BTC Company, a consortium of oil companies. The participants including AzBTC Co. funded a 30 percent equity component with the remaining 70 percent raised from multilateral financial institutions, export credit agencies and commercial banks.

The Ministry of the Economic Development (MED) of Azerbaijan acquired, on behalf of the Government of Azerbaijan, a stake of around 80 percent in AzBTC Co., while SOFAZ financed this acquisition and correspondingly MED's obligations with respect to AzBTC Co. and the BTC project. Dividends gained from MED's share in AzBTC Co. are accumulated in SOFAZ. Moreover, SOFAZ had been financing Azerbaijan's equity share in the Baku-Tbilisi-Ceyhan (BTC) oil pipeline project since 2002, in accordance with the Presidential Decree No. 739, dated July 30, 2002 "On Financing the Share of the State Oil Company of Azerbaijan Republic in the Heydar Aliyev Baku-Tbilisi-Ceyhan Main Export Pipeline Project". As of February 1, 2007, AZN 298 million has been directed towards the financing of Azerbaijan's equity share in BTC.

The Azerbaijan section of the Baku-Tbilisi-Ceyhan (BTC) oil export pipeline was inaugurated on May 25, 2005 by the Presidents of Azerbaijan, Georgia and Türkiye in an official ceremony, which was held at the BTC head pump station in the Sangachal Terminal near Baku. This event marks the official celebration of the first oil into the Heydar Aliyev BTC main export pipeline.

The BTC pipeline was officially inaugurated on July 13, 2006, by the Presidents of Azerbaijan, Türkiye and Georgia in Ceyhan, Türkiye

Improving social conditions of refugees and internally displaced persons

Since 2001 State Oil Fund of the Republic of Azerbaijan (SOFAZ) has been allocating money for building housing and the improvement of socio-economic conditions of refugees and internally displaced persons who were forced to flee their native lands as a result of Armenian-Azerbaijan, Nagorno Karabakh conflict. SOFAZ's assets were utilized for high-rise buildings, private residential houses, social and cultural objects, construction of infrastructure and other facilities in order to settle of refugees and IDPs in the districts of Aghdam, Fuzuli, Bilasuvar, Goranboy, Sabirabad, Aghjabadi, Beylagan, Gabala, Shamkir, Aghstafa, Ismayilli, Imishli, Goygol, Barda, Oghuz, Shaki, Gadabay, Saatly, Hajiqabul, Balaken, Qazakh, Zaqatala,Terter, Goychay, Ujar, Kurdamir and Samukh regions, Nakhchivan Autonomous Republic, Baku, Ganja, Mingachevir, Sumgait, Yevlakh, Shirvan and also in PirAllahi, Sabunchu, Absheron and Binagadi region, Mehdiabad, Ramani, Mushfigabad, Masazir, Pirshaghi, Fatmayi, Kurdakhani and Umid districts.

Resources allocated for the above mentioned projects are transferred by SOFAZ to the state treasury accounts of the State Committee for Refugees and Internally Displaced Persons, as well as the Social Development Fund for Internally Displaced Persons based on their written, substantiated requests and subsequently disbursed to the contractors by the implementing agencies. The Social Development Fund for Internally Displaced Persons under the Cabinet of Ministers of the Republic of Azerbaijan is the executing agency for projects associated with resolution of settling problems of internally displaced persons and refugees. The executing agency is responsible for overall supervision of project implementation, carrying out tenders and other relevant proceedings, organization and coordination of works through site offices.
Since 2001 (up to December 30, 2020) SOFAZ's financial support to measures related to refugees and IDP's totals 2702.7 million manats, including 200.0 million manats during 2020.

Constructing a water pipeline from Oguz-Gabala region to Baku

Constructing a water pipeline from Oguz-Gabala region to Baku project is designed to use underground water sources located in Oguz-Gabala region and to transport this water to Baku by gravity feed at the flow rate of 5 cubic meters per second, provide people with high quality water supply, to ensure Baku with reliable and sustainable water supply system. As a result a well field facility consisting of 78 wells at a depth of 150 meters was built.
In compliance with the Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan No. 42 s, dated February 24, 2006 management and executing functions of the project of "Constructing a water pipeline from Oguz-Gabala region to Baku" are entrusted to "Azersu" JSC. Financing of the project started in 2006 and completed in 2011.
Thus, a total of 779.6 million manats were allocated by SOFAZ for the financing of the oguz-gabala-baku water pipeline project, and financing of the project is completed.
On December 28, 2010 with the participation of the President of the Republic of Azerbaijan Mr. Ilham Aliyev, Oguz-Gabala-Baku water pipeline was put into operation.
Execution of this project was implemented within the framework of the following contracts according to the orders of "Azersu" JSC:

Financing of the share of the Republic of Azerbaijan in the construction of “STAR” Oil Refinery Complex in Türkiye

The groundbreaking ceremony of one of the major investment projects in Türkiye “SOCAR Türkiye Aegean Refinery Project (FAT)” Oil Refinery Complex (“STAR” Oil Refinery Complex) took place on the 25th of October 2011, with the participation of the President of the Republic of Azerbaijan Ilham Aliyev and the President of Türkiye Recep Tayyip Erdogan.
The refinery will have the capacity of processing 10 million tons of crude oil and SOCAR will be the main supplier of raw materials. The refinery will produce approximately 1.6 million tons of

naphtha, which will in return decrease Türkiye's petrochemical industry's dependence on foreign countries, reduce the current account deficit of diesel and jet fuel and will act as a source of raw materials for petrochemical products.

The State Oil Fund of the Republic of Azerbaijan (SOFAZ) finances the project in accordance with the Decree No. 2698 of the President of the Republic of Azerbaijan dated February 4, 2013 "On additional measures for supporting the Azerbaijan in "SOCAR Turkiye Aegean" Oil Refinery (STAR) project". According to the Decree a joint stock company was founded with the statutory capital of US$ 1.9 billion and financing of the 40% of its shares was assigned to SOFAZ.

According to the Decree, dividends on state-owned shares must be transferred to SOFAZ.

Regarding to, based on the current financial model, received capital will firstly be directed to pay off debt and cover the maintenance expenses of STAR. Then, payment of dividends to SOFAZ is considered.

The statutory capital of the Company was increased from US$ 1.9 billion to US$ 2412.0 million and the Company's 40% share price stood at US$ 964.8 million According to the Presidential Decree No. 3136 dated July 31, 2017 statutory capital of the Company was increased from US$ 2412.0 million to US$ 3482.0 million and the Company's 40% share price stood at US$ 1392.8 million.

In accordance to the SOFAZ's budget execution SOFAZ has allocated US$ 1392.8 million to the project. Considering SOFAZ fulfillment of its commitments on financing of the state's share in the 'Star oil refinery complex construction project', expenditure item for this project have not been included to SOFAZ"s 2018 budget.

The Opening ceremony of The Star oil refinery was held in İzmir city of Türkiye on October 19, 2018. President of the Republic of Azerbaijan Ilham Aliyev and President of the Republic of Türkiye Recep Tayyip Erdogan attended the ceremony.

The total price of the project is US$ 6.3 billion.

Baku-Tbilisi-Kars New Railway

During a meeting in Tbilisi on February 7, 2007, the President of the Republic of Azerbaijan Ilham Aliyev, the President of Georgia Mikhail Saakashvili and the Prime-Minister of the Republic of Türkiye Rejep Tayyib Erdogan signed several projects, including; Trilateral Agreement (hereinafter referred to as the "Trilateral Agreement") "On Baku-Tbilisi-Kars New Railway", bilateral Agreement (hereinafter referred to as the "Bilateral Agreement") between the Government of the Republic of Azerbaijan and the Government of Georgia, as well as the Ministry of Transport of the Republic of Azerbaijan (hereinafter referred to as the "Creditor") and "Marabda Kartsakhi Railway" LLC (hereinafter referred to as the "Debtor"), on financing, design, rehabilitation-renovation and terms and principles for maintenance of Marabda-border of the Republic of Türkiye (Kartsakhi) Railway Section within the new Baku-Tbilisi-Kars Railway implementation project, and Agreement on Credit Financing Terms of "Marabda-Border of the Republic of Türkiye" Railway Section (hereinafter referred to as the "Credit Contract") within the framework of a New Railway line "Baku-Tbilisi-Kars" project.

Financing of the share of the Republic of Azerbaijan in the “Construction of New Semi-submersible Drilling rig Project”

Starting from 2013, the State Oil Fund of the Republic of Azerbaijan (SOFAZ) started to finance the share of the Republic of Azerbaijan in the construction of the sixth generation of semi-submersible drilling rig. Recently, companies operating in the Caspian Sea have been facing facility shortages in drilling exploration and production wells. Along with the current needs, future Production Share Agreements will require more of such rigs for exploration of deep and large scale wells. Insufficiency of existing facilities for fulfilling the work plan creates a necessity for new and modern equipment for drilling new exploration wells.

In order to construct the semi-submersible drilling rig Socar Rig Assets LLC was established. The State Oil Company and Caspian Drilling Company limited LLC acquired 10% and 90% of the shares, respectively. On the 5th of July 2013, 90% shares of Socar Rig Assets LLC were purchased by SOFAZ.

Control of the activity of Socar Rig Assets LLC is overseen by the Supervisory Board, consisting of overall 2 people; one person from SOFAZ and one person from the State Oil Company. According to the decision of the Supervisory Board, Socar Rig Assets LLC was renamed to “Azerbaijan Rigs” LLC. The purchase of the statutory capital of “Azerbaijan Rigs” LLC is considered as an investment project and is included to the SOFAZ’s investment portfolio.

The maximum limit for the budget of the project is US$ 1 116.7 million (US$ 1 005.0 million. SOFAZ’s share). Since the start of the project SOFAZ has already allocated US$ 904.6 million and the project was completed in February 2018.

Formation of the statutory capital of Azerbaijan Investment Company

In 2006, the State Oil Fund of the Republic of Azerbaijan (SOFAZ) allocated AZN 90 000.0 thousand to form up the statutory capital of the Azerbaijan Investment Company, established under the Presidential Decree dated March 30, 2006.

The primary objective of the Company’s investment activity is to ensure long-term investment of resources by acquiring equity investments as well as shares in joint-stock companies and other commercial entities, operating in the non-oil sectors of the country’s economy.

The newly launched investment company has led to a start of an advanced, state-of-the-art investment mechanism in the country. Implementation of this new mechanism will enable the state, on one hand, to stimulate growth for the enterprises, as well as fulfill the investment policy designed to promote non-oil sectors, and, on the other hand, to preserve and maintain the proportionality and equitability between the public and private sector ownership. The company's equity and bond issuing activities will help to foster the domestic securities market as well as support the development of corporate governance forms. The dividends gained through the company's shares in the enterprise equities will be transferred to the state, in this case - SOFAZ's account. This in return results in an additional source of income and expanded resource base for SOFAZ.

Financing the share of the Republic of Azerbaijan in "Southern Gas Corridor" CJSC statutory capital

In accordance with the Presidential Order No. 287 on "Actions related to projects on Phase II of development of Shah-Deniz gas-condensate field and establishment of Southern Gas Corridor" dated February 25, 2014 "Southern Gas Corridor" CJSC (hereinafter referred as "Company") was established for the purpose of effective management of the projects within the second stage of the Shah-Deniz gas and condensate field's development, Trans Anatolian Gas Pipeline (TANAP), Trans Adriatic Pipeline (TAP) and expansion of the South Caucasus Pipeline. "Southern Gas Corridor" CJSC was established with US$ 100 million statutory capital, where 51 percent of the shares of the Company belongs to the state and 49 percent are owned by SOCAR.

According to the second paragraph of the Ordinance, the State Oil Fund of the Republic of Azerbaijan (SOFAZ) will make a long term investment for financing the shares of the Company belonging to the state and its shares in the abovementioned projects. State shares of the Company will be held and controlled by the Ministry of Economy, while dividends from the shares will be transferred to the Fund.

On April 14, 2014 SOFAZ allocated US$ 51 million (AZN 40 million) for financing the state share of the Company and transferred money to the account of the Ministry of Economy and Industry in state treasury.

In accordance with the Ordinance Fund invested US$ 2.517 billion as of December 31, 2014 for financing the state shares in projects implemented by the Company. The invested money will be returned to the Fund as stated in the Ordinance.

According to the second paragraph of the Decision of the State Commission, established in accordance with the Decree of the Republic of Azerbaijan, dated July 9, 2014 on the financing mechanism of the projects by the Company, it was decided to increase the statutory capital of the Company every two months starting from 2015, while maintaining the same percentage rates of the shares of the Ministry of Economy and SOCAR. The capital growth should be financed by the shareholders. Consequently, statutory capital of the Company was increased up to US$ 2 415.8 million till 30.06.2017 in accordance with the Decisions of the Supervisory Board and the General Assembly of the Company. SOFAZ has allocated US$ 1232.1 million (51%).

RULES ON MANAGEMENT OF FOREIGN CURRENCY ASSETS OF SOFAZ

1. GENERAL PROVISIONS

1.1. These Rules are prepared in accordance with the “Statute of the State Oil Fund of the Republic of Azerbaijan” approved by the Decree of the President of the Republic of Azerbaijan № 434 dated December 29, 2000 and determine the arrangements for allocation and management of the foreign currency assets of the State Oil Fund of the Republic of Azerbaijan (hereinafter referred to as the Oil Fund).

1.2. The purpose of management of the Oil Fund’s foreign currency assets in accordance with these Rules is to hold those assets securely and increase their value by means of efficient management.

1.3. For the objectives of these Rules, the term “foreign currency assets of the Oil Fund” (Investment Portfolio) should mean reserves denominated in foreign currency,except for converted and transferred to manat accounts expenditures approved within the framework of the main directions (program) of utilization of the Oil Fund’s assets and expenditures related to the management of the Oil Fund. The total value (weighted average size) of the investment portfolio is determined on the basis of the monthly revaluation of assets included in the Oil Fund’s investment portfolio.

2. CREDIT QUALITY AND CURRENCY COMPOSITION REQUIREMENTSFOR THE INVESTMENT PORTFOLIO OF THE OIL FUND

2.1.1. Credit quality requirements for the Investment Portfolio of the Oil Fund

2.1.2. Correspondent accounts of the Oil Fund for foreign currency assets in the Republic of Azerbaijan should only be opened at the Central Bank of the Republic of Azerbaijan.

2.1.3. Correspondent accounts of the Oil Fund outside the Republic of Azerbaijan (abroad) should be opened at the banks with a long-term credit rating of not less than:
“A-” based on Standard & Poor`s credit rating
scale“A3“based on Moody`s credit rating scale
“A-” based on Fitch credit rating scale
The threshold credit rating for foreign correspondent banks
is:“A-” based on Standard & Poor`s credit rating scale

“A3“based on Moody`s credit rating scale
“A” based on Fitch credit rating scale

In the event, the long-term credit rating of an abovementioned bank is downgraded and below threshold level, the Oil Fund will initiate a transfer of the Oil Fund’s assets to another bank with a long-term credit rating consistent with threshold requirements within a reasonable period of time.

2.1.4. The counterparties of the Oil Fund in the international financial markets should be commercial banks and other financial institutions with long-term investment grade credit ratings (Standard & Poor’s, Fitch or Moody’s).

The counterparties in the domestic financial market should be amongst the largest commercial banks by the level of capital or the most reputable ones based on their credit rating. Maximum capital, allocated to those banks should not exceed 5% of the total value.

2.1.5. Custodian (depositary) services for securities are provided to the Oil Fund by central (national) banks, commercial banks and other financial institutions with long-term credit ratings of not less than:
“A-” based on Standard & Poor`s credit rating scale“A3“based on Moody`s credit rating scale
“A-” based on Fitch credit rating scale

The threshold credit rating for financial institutions providing custodian services tothe Oil Fund is:
“A-” based on Standard & Poor`s credit rating scale“A3“based on Moody`s credit rating scale
“A” based on Fitch credit rating scale

In the event, the long-term credit rating of such an institution is downgraded and below the threshold level for more than 60 calendar days, the Oil Fund will substitute it for other banks or financial institutions with a long-term credit rating consistent with threshold requirements within a reasonable period of time.

2.1.6. Holding or placement of foreign currency assets of the Oil Fund is carried out on the basis of appropriate contracts.

2.1.7. If the credit rating of the assets included in the Investment Portfolio or of the banks and other financial institutions where foreign currency assets of the Oil Fund are placed, is downgraded and continuously remains below the appropriate rating considered by these Rules for more than 90 calendar days, the Oil Fund will transfer those foreign currency assets to institution with an appropriate rating that comply with the requirements of these Rules, or remove (sell, exchange and etc.) the asset from the portfolio, as applicable.

2.1.8. In accordance with the instances mentioned in the eighth subparagraph of paragraph 3.3 of these Rules, counterpart banks and other financial institutions in international financial markets that provide depository services, where foreign currency assets of the Oil Fund are placed, may have non-investment grade credit rating (not less thanB-" (Standard & Poor`s, Fitch) or B3" (Moody`s)).

3. MANAGEMENT OF THE OIL FUND'S INVESTMENT PORTFOLIO

3.1. Asset management framework

3.1.1. Management of the Oil Fund's Investment Portfolio should be implemented in accordance with its investment policy adopted each year.

3.1.2. The investment policy of the Oil Fund is to be prepared by the Executive Director of the Oil Fund in a manner that complies with the program on the main directions of utilization of the assets of the State Oil Fund and submitted to the President of Republic of Azerbaijan for approval along with the opinion of the Supervisory Board.

3.1.3. Financial institutions that are qualified as investment managers (hereinafter, external managers) may be involved in the management of a certain part of the Investment Portfolio of the Oil Fund (hereafter, externally managed portfolio). Requirements for external managers and size of managed portfolio are defined in Oil Fund's Investment policy.

3.1.4. The following general principles and directions of the Investment Portfolio management should be reflected in the Oil Fund's investment policy:

- The forecasted size of the Investment Portfolio;
- If applicable, requirements with respect to external manager(s) including size of the portfolio under management and management period;
- Liquidity and interest rate risk requirements;
- Credit risk limits;
- Investment Portfolio benchmarks and target returns;
- The composition and breakdown of Investment Portfolio by asset classes and currencies.

3.1.5. The Executive Director of the Oil Fund defines the internal procedures of the Oil Fund and makes arrangements for the allocation and management of the foreign currency assets of the Oil Fund in accordance with the investment policy of the Oil Fund and these Rules.

3.1.6. Division of activities and responsibilities, internal controls and accurate accounting systems should be applied, in order to minimize operational risks associated with Investment Portfolio.

3.1.7. Deal execution, confirmation (cancellation) and settlement as well as accounting and reporting operations associated with the aforementioned activities, should be implemented by the relevant departments or officials of the Oil Fund with clear division of the responsibilities.

3.1.8. The Oil Fund should have internal controls for adhering to these Rules, insuring proper division of responsibilities, and implementing operational procedures.

3.1.9. The professional behavior of the officials and employees of the Oil Fund should comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and in no case may personal interest be in a conflict with duty to the Oil Fund.

3.2. Risk management

In order to mitigate the risks in the management of the Oil Fund's foreign currency assets, limits are defined in the investment policy of the Oil Fund based on the following criteria and in the following sequence:

Credit risk - i.e. the maximum weight that can be allocated to one issuer and/or holding, and the credit rating threshold for an issuer and/or holding;

Liquidity risk - i.e. maximum duration of the Investment Portfolio and minimum liquidity for specific periods;

Market risk (currency and interest rate risk) as well as the maximum weight of each currency included in the Investment Portfolio and the investment assets denominated in these currencies and the duration of the Investment Portfolio.

3.3. Allocation of foreign currency assets (investment directions)

By not prejudicing items 2.1 and 3.4 of these Rules, Oil Fund's Investment Portfolio, which is divided into corresponding sub-portfolios in accordance with the Oil Fund's Investment Policy, may include the following assets:

- Deposits in the central (national) banks, commercial banks and other financial institutions;
- Debt obligations issued by the governments, government agencies, international financial organizations, for profit organizations and other institutions with long-term investment grade credit ratings (Standard & Poor's

or Fitch or Moody's);

- Debt obligations with long-term investment grade credit ratings (Standard & Poor's or Fitch or Moody's) issued by governments, government agencies, international financial organizations, for profit organizations and other institutions;
- Investments in stocks included in major international equity indices;
- Share of mutual and alternative investment funds that invest in stocks, debt obligations without credit rating, and real estate;
- Gold bars conforming to the requirements of the London Bullion Market Association;
- Real Estate;
- Non-investment grade debt obligations or deposits of which up to 1% should be with credit rating of not less than "B-" (Standard & Poor`s or Fitch) or "B3" (Moody`s), and the rest investments should be with credit rating of not less than "BB-" (Standard & Poor`s or Fitch) or "Ba3" (Moody`s). Maximum capital, allocated to those investments should not exceed 5% of thetotal value.

3.4. Limitation on investment directions

3.4.1. Foreign currency assets of the Oil Fund cannot be invested in other asset classes and except for the assets considered in item 3.3. of these Rules and necessary operations for their acquisition (selling).

Derivatives (i.e. swaps, forwards, futures, etc) may be used for hedging or optimizing the currency composition and asset allocation of the Investment Portfolio.

4. REPORTING ON INVESTMENT PORTFOLIO MANAGEMENT

4.1. Quarterly statements and annual report with relevant information regarding Oil Fund's Investment Portfolio (volume, structure and forecasted inflows and outflows) is submitted to the Supervisory Board of the Oil Fund and the President of the Republic of Azerbaijan.

4.2. In the course of preparation of the report on the management of foreign currency assets, the performance of foreign currency assets of the Oil Fund should be calculated in accordance with the Fund's currency basket.

SELF-ASSESSMENT: SOVEREIGN WEALTH FUNDS'SANTIAGO PRINCIPLES' GENERALLY ACCEPTED PRINCIPLES AND PRATICESSELF-ASSESSMENT

April, 2021

A. Legal Framework, Objectives, andCoordination with MacroeconomicPolicies.

GAPP 1. PRINCIPLE

The legal framework for the SWF should be sound and support its effective operation and the achievement of its statedobjective(s).

R: Legal framework of SOFAZ is clearly defined in the "Statute of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Statute of SOFAZ") approved by the decree of the President ofthe Republic of Azerbaijan.

GAPP 1.1. Subprinciple

The legal framework for the SWF shouldensure legal soundness of the SWF and itstransactions.

R: SOFAZ is a legal entity separate from the government or centralbank. The Fund's operation is guided by the Constitution and laws of the Republic of Azerbaijan, Presidential Decrees and resolutions, and SOFAZ's Regulations.

GAPP 1.2. Subprinciple

The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.

R: All relevant documents related to the legal basis and structure and the legal relationships between SOFAZ and the other government agencies are publicly disclosed and they are available on the Fund's website.

GAPP 2. PRINCIPLE

The policy purpose of the SWF should beclearly defined and publicly disclosed

R: SOFAZ was established for the purpose of accumulation and management of the revenues generated from implementation ofoil and gas agreements. SOFAZ's primary objectives are to help maintain macroeconomic stability in the country (neutralize negative impact of the currency inflows) and to generate wealth for present and future generations.

Above discussed purpose of establishment, as well as the primary objectives are publicly disclosed on the Funds website.

GAPP 3. PRINCIPLE

Where the SWF's activities have significant direct domesticmacroeconomic implications, thoseactivities should be closely coordinatedwith the domestic fiscal and monetary authorities, so as to ensure consistencywith the overall macroeconomic policies.

R: According to its bylaws, SOFAZ is not permitted to invest domestically. Expenditures of SOFAZ constitute part of the consolidated state budget approved by the Parliament. According to Budget System Law the consolidated state budgetis being prepared in close consultation with all relevant government entities (Ministry of Finance, Ministry of Economy,etc.) and involvement of SOFAZ.

GAPP 4. PRINCIPLE

There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

R: SOFAZ's Funding and Withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Rules on the budget of SOFAZ") which are publicly disclosed on SOFAZ's website.

GAPP 4.1. Sub principle

The source of SWF funding should bepublicly disclosed

GAPP 4.2. Sub principle

The general approach to withdrawals fromthe SWF and spending on behalf of the government should be publicly disclosed.

R: For further information:

https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf
https://www.oilfund.az/storage/images/reydixurrb.pdf
https://www.oilfund.az/storage/uploads/emcjtf8wiz.pdf

GAPP 5. PRINCIPLE

The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

R: SOFAZ submits monthly statistical reports to the President and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. Additionally, SOFAZ regularly provides the relevant information on its activities to the World Bank and InternationalMonetary Fund.
All the relevant statistical data pertaining to the fund, is publiclydisclosed on SOFAZ's website (audited annual reports, quarterlystatements, etc.).

B. Institutional Framework andGovernance Structure

GAPP 6. PRINCIPLE

The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives

R: SOFAZ has a three-tier governance structure, with the President of the country being a supreme governing and reporting authority for the Fund. SOFAZ's activities are overseen by a Supervisory Board which is headed by the Prime Minister and consists of the Vice-Speaker of Parliament, Minister of Finance, Minister of Economy, Governor of the Central Bank, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy and Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry. The operational management of SOFAZ is vested in the Executive Director. The relevant duties and responsibilities of the President of the country, Supervisory Board and Executive Director are clearly defined in the "Statute of SOFAZ".

GAPP 7. PRINCIPLE

The owner should set the objectives of theSWF, appoint the members of itsgoverning body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

R: The objectives of SOFAZ are clearly defined in "Statute of SOFAZ"approved by the President of the Republic of Azerbaijan.Please see also the response on GAPP 5 and 6.

GAPP 8. PRINCIPLE

The governing body(ies) should act in the best interests of the SWF, and have a clearmandate and adequate authority and competency to carry out its functions.

R: The Supervisory Board of the Fund, which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy, Vice-Speaker of Parliament, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy and Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry, have a clear mandate and adequate authority and competency to fulfil its functions. All roles and responsibilities of the Supervisory Board are clearly defined in the relevant legislation.

GAPP 9. PRINCIPLE

The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

R: "Statute of SOFAZ", "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan" (hereinafter "Investment guidelines") and "Rules on the budget of SOFAZ" clearly define the role and responsibilities of the Executive Director. In accordance with these role and responsibilities Executive Director has independence in operational management.

GAPP 10. PRINCIPLE

The accountability framework for the SWF's operations should be clearlydefined in the relevant legislation, charter, other constitutive documents, ormanagement agreement.
R: Accountability framework of SOFAZ is clearly defined in the "Statute of SOFAZ", "Investment guidelines", "Rules on the budget of SOFAZ" and Budget System Law all of which are available on the Fund's website. Fund produces and publicly discloses audited annual reports and quarterly reports. Information about Fund's activities is also disseminated through regular press conferences and published onthe Fund's website.

GAPP 11. PRINCIPLE

An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized internationalor national accounting standards in a consistent manner.
R: Since the start of its operations, SOFAZ has prepared annual reports and accompanying financial statements. All financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All annual reports and accompanying financial statements arepublished on SOFAZ's website.

GAPP 12. PRINCIPLE

The SWF's operations and financialstatements should be audited annually inaccordance with recognized internationalor national auditing standards in a consistent manner.

R: Since the start of its operations SOFAZ has been audited by reputableinternational audit firms. In line with the Public Procurement Law, the Fund conducts open market tender processes to select its auditor.Price Waterhouse Coopers has been appointed to audit SOFAZ financial statements for years 2019-2021. All annual reports and accompanying financial statements areavailable on the SOFAZ's website. SOFAZ also has Internal Audit department that prepares periodicinternal audit reports.

GAPP 13. PRINCIPLE

Professional and ethical standards shouldbe clearly defined and made known to themembers of the SWF's governing body, management and staff.

R: Professional and ethical standards are clearly defined in the "Investment Guidelines". SOFAZ's management and staff have to comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and "Rules of Ethical Conduct for the Employees of SOFAZ".

GAPP 14. PRINCIPLE

Dealing with third parties for the purposeof the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

R: SOFAZ's activities related to third parties are based on economic and financial grounds. Fund's "Investment Guidelines" and "Investment Policy" regulate SOFAZ's dealing with third parties.

All aspects of dealing with external managers are clearly defined in relevant documentation about SOFAZ's activity. Appointment of external managers is carried out in compliance with the current legislation of Azerbaijan Republic on "State Procurement". Externalmanagers are selected on the basis of the criteria, such as credit rating of manager, assets under management, experience in the asset management industry, proposed rate of return and risk, proposed fees schedule etc. Compliance of the external managers' investments to their mandate is monitored daily. Performance of external managers' portfolios is monitored monthly.

GAPP 15. PRINCIPLE

SWF operations and activities in host countries should be conducted in compliance with all applicable regulatoryand disclosure requirements of the countries in which they operate.
R: SOFAZ conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries.

GAPP 16. PRINCIPLE

The governance framework andobjectives, as well as the manner in whichthe SWF's management is operationally independent from the owner, should be publicly disclosed.

R: SOFAZ's governance framework, objectives and its operationalindependence are clearly defined in the relevant legislation.

GAPP 17. PRINCIPLE

Relevant financial information regardingthe SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stabilityin international financial markets and enhance trust in recipient countries.

R: Audited financial statements are published in SOFAZ's annual report, which is publicly available. Quarterly reports and all other relevant financial information about SOFAZ's activities are published on its website. Disclosed financial information includes AUM, asset allocation, benchmark, annual rates of return, etc.

C. Investment and Risk ManagementFramework

GAPP 18. PRINCIPLE

The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.
R: "Investment Guidelines" and "Investment Policy" set up SOFAZ's asset management framework and ensure the transparency in its investment decisions. Among the others, they define strategic asset allocation, currency composition, benchmarks, risk limits, minimum requirements for the SOFAZ's external managers and limitations onthe investment directions, as well as the credit quality limits for Fund's counterparties (custodian banks, correspondent banks, etc.).

GAPP 18.1. SUBPRINCIPLE

The investment policy should guide the SWF's financial risk exposures and the possible use of leverage
R: Derivatives (i.e. swaps, forwards, futures, etc.) may only be used forhedging or optimizing

the currency composition and asset allocationof the Investment Portfolio.

GAPP 18.2. SUBPRINCIPLE

The investment policy should address theextent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

R: Fund's "Investment guidelines" and "Investment Policy" are availableon its website.

GAPP 18.3. SUBPRINCIPLE

A description of the investment policy ofthe SWF should be publicly disclosed.

R: For further information: https://www.oilfund.az/storage/images/daafr06kpe.pdf

GAPP 19. PRINCIPLE

The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

R: According to its "Investment Policy", SOFAZ's investment decisionsshould aim at maximizing the risk adjusted returns. Fund's all investment decisions are made purely on an economic and financial basis according to the sound asset management principles.

See also response on GAPP 18.

GAPP 19.1. SUBPRINCIPLE

If investment decisions are subject to other than economic and financial considerations, these should be clearly setout in the investment policy and be publicly disclosed

R: For further information: https://www.oilfund.az/en/investments/investment

GAPP 19.2. SUBPRINCIPLE

The management of an SWF's assets should be consistent with what is generally accepted as sound assetmanagement principles.

GAPP 20. PRINCIPLE

The SWF should not seek or takeadvantage of privileged information or inappropriate influence by the broadergovernment in competing with privateentities

R: According to its bylaws, SOFAZ is not permitted to invest domestically. In line with the "Investment guidelines", SOFAZ makes investment decisions independently of the government. Institutional and legal framework of SOFAZ has been designed in a way that SOFAZ cannot seek or take advantage of any privileged information.

GAPP 21. PRINCIPLE

SWFs view shareholder ownership rightsas a fundamental element of their equity investments' value. If an SWF chooses toexercise its ownership rights, it should doso in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its generalapproach to voting securities of listed entities, including the key factors guidingits exercise of ownership rights.

R: SOFAZ started to invest in equities in 2012 and has chosen not toexercise its ownership rights at this stage.

GAPP 22. PRINCIPLE

The SWF should have a framework that identifies, assesses and manages the risks of its operations.
R: Identification, assessment and management of the risks of SOFAZ's operations play crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with appropriate legal framework ("Investment Guidelines", "Investment Policy", etc), a specialized risk unit (Risk Management Department), internal and external audit functions and tools like Risk Manager 4 by Risk Metrics and proprietary models.

GAPP 22.1. SUBPRINCIPLE

The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.
R: "Investment Guidelines" and "Investment Policy" set the main principles of risk management framework and clearly define limits on major factors for market, credit, concentration and liquidity risks. Certain pre-trade limits are set based on these factors. Furthermore, these risk factors are monitored on a daily basis via regular risk and performance reports. In addition to the factors set in the "Investment Guidelines" and "Investment Policy", a more in-depth analysis and monitoring of the market risk is performed on a regular basis through: interest rate sensitivity analysis (key rate durations, PV01, etc.), risk concentration analysis (duration by groups, VaR by groups, marginal VaR, etc.), tail events (conditional VaR, stress tests) and scenario analyses.

GAPP 22.2. SUBPRINCIPLE

The general approach to the SWF's risk management framework should be publicly disclosed.
R: Operational risk is managed in accordance with SOFAZ's Operational Manual and business continuity planning.

GAPP 23. PRINCIPLE

The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.
R: Comprehensive reports on assets of SOFAZ (including information on breakdown of investment portfolio by foreign currencies, asset class, credit ratings, maturities and geographic regions) are disseminated through the quarterly press releases. The performance of SOFAZ's investments is measured according to best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on SOFAZ's website.

GAPP 24. PRINCIPLE

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.
R: This report was first published on SOFAZ's official website in April,2011 and it is reviewed on an annual basis.

Section.2: Republic of Türkiye (SW/NDF)

Türkiye Wealth Fund (TWF)

Overview

Wealth Funds in the World Established first in Kuwait in 1953 and later on used as important investment institutions for states to achieve their various economic objectives, the total global asset size of the sovereign wealth funds has reached US$8 trillion as of 2020. Launched in the Middle East, developed in Asia, and then furthered with Western variations, sovereign wealth funds gained importance, especially after the global financial crisis in 2008, where they assumed great responsibility and filled an investment vacuum in a time where venture capitals and corporations reduced their activity.

The total size of the Türkiye Wealth Fund (TWF), one of the largest financial structures in Eastern Europe, the Middle East, and Africa, is USUS$296 billion as of the end of 2020. The central vision behind this financial capacity is to maximize the value of its assets, provide equity for strategic domestic investments, sup- port the emergence of Turkish companies as regional and global leaders, and contribute to the enhancement of capital markets.

Structured using successful sovereign wealth funds around the world as a benchmark the TWF serves the following purposes:

- Contribute to production and employment through investments,
- Support domestic companies and enable them to become regional and global players,
- Assist in financing large-scale public infrastructure projects,
- Take steps to deepen capital markets,
- Invest in sectors strategic to Türkiye, such as natural gas and oil, to ensure the security of supply.

The Türkiye Wealth Fund complies with the Santiago Principles, voluntarily adopted by all sovereign wealth funds. Per these guidelines, the TWF endorses the principles of public in- formation, transparency, and good governance, thus, ensuring the use of democratic auditing and fund resources at the highest level.

Additionally, the TWF has initiated efforts to integrate sustainability and ESG (Environment – Social - Governance) factors into its investments and operations. In this effort to contribute to a more sustainable future, a holistic framework is being developed encompassing the TWF and its primary stakeholders, including portfolio companies.

Roadmap & Mandate

The TWF's roadmap and mandate consist of four main strategic objectives and four key resources.

1. **Strategic Objectives**

- **Enhance the Value of Assets within the Fund**

The TWF monitors the performance of its portfolios and carries out additional operations to increase the value of its assets.

- **Provide Equity For Strategic Investments in Türkiye**

The TWF provides equity for investments in line with Türkiye's 2023 vision and other long-term objectives to reduce the current account deficit and increase its saving rate.

- **Carry Out Investments Supporting Türkiye's International Economic Strategies and Companies**

The TWF acts as the primary point of contact for large-scale foreign direct investors and their investments in Türkiye. The Fund aims to invest in regions aligned with Türkiye's international economic objectives and in domestic companies to trans- form into regional and global champions.

- **Reinforce the Improvement and Deepening of FinancialMarkets**

The TWF aims to make equity investments supporting financial markets and increase the depth and diversity of financial markets in the country.

2. **Strategic Resources**

- **Financing**

  The TWF reduces the weighted average cost of capital by adopting the most appropriate and various financing models when making investments in line with the Fund's strategic objectives.

- **Corporate Governance**

  The TWF operates with complete transparency and accountability, complying with globally accepted corporate governance standards and best practices. In this regard, it acts per its corporate governance principles and legal requirements in its corporate structure and operations.

- **Principles and Values**

TWF acts per the environmental, social, and governance principles in all its activities and operations as a responsible investor, in line with four fundamental values reflected in all its business and decision processes:

  - Serving the nation and creating value,

  - Accountability and transparency,
  - Discipline, professionalism, and cooperation,
  - Results-oriented.

- **Human Resources**

The TWF works with the principle of mutual value creation with field experts and aims to be a talent pool of Türkiye in the long term.

About TWF

The Türkiye Wealth Fund was established as an asset-based development fund to increase the value of the public assets of the Republic of Türkiye and contribute to economic growth by providing capital support to strategically important sectors and visionary projects in Türkiye.

The TWF aims to support the emergence of regional and global leaders from Turkish companies through strategic investments, contribute to improving financial markets, and leave a more robust economy for future generations.

The Türkiye Wealth Fund Management Co. (TWF Management Co.) was established under Law No. 6741 on "Establishment of Türki- ye Wealth Fund Management Company and Amendments on Certain Laws" published in the Official Gazette No. 29813 dated 26 August 2016. The provisions of Law No. 6741 stipulates that the main scope of operation of TWF Management Co. is "to establish and manage the Türkiye Wealth Fund and its sub-funds to contribute to the diversity and depth of investment instruments in capital markets, bringing domestic publicly owned assets into the economy, procuring foreign investment sources, and taking part in large-scale strategic investments." Accordingly, the articles of association of TWF Management Co. were registered in the trade register on 22 December 2016.

As per Law No. 6741, TWF Management Co. is subject to private law provisions and is responsible for managing assets within the portfolio of the TWF. As per the Decision of the Council of Ministers No. 2016/9429, dated 17 October 2016, Article 20 Paragraph 3 stipulates that "the assets and rights transferred to the TWF and all other assets that may be subject to registration obtained as a result of the activities carried out by the Fund shall be registered in the name of the TWF in the relevant register or ledger. The TWF shall be deemed to have a legal entity, limited to the registration procedures within the scope of this article." Ac- cording to Paragraph 2 of the same article, the assets of the TWF and asset rights transferred to be managed by TWF Management Co. are to be separated from the assets of TWF Management Co.

Per Article 1 of Law No. 6741 and the operation- al principles outlined in Article 4 of the Decision of the Council of Ministers, the “TWF Market Stability and Equilibrium Sub-Fund,” “TWF SME Financing Sub-Fund,” “TWF License and Loyalty Sub-Fund” and “TWF Mining Sub-Fund” were established in 2017, and the “TWF Management Co. BIST Venture Capital Investment Fund” was established in 2018 by TWF Management Co. to exist under the TWF; these sub-funds were declared in the Turkish Trade Registry Gazette No. 9547, dated 29 March 2018. The establishment, structure, operation, management, and activities of the sub-funds are outlined in the provisions of the internal regulation of the TWF and the articles of association of TWF Management Co. Furthermore, the name of the “TWF SME Financing Sub-Fund” was amended as “TWF Istanbul Financial Center Real-Estate Investment Sub-Fund” by an amendment published in the Turkish Trade Registry Gazette No. 9919, dated 30 September 2019.

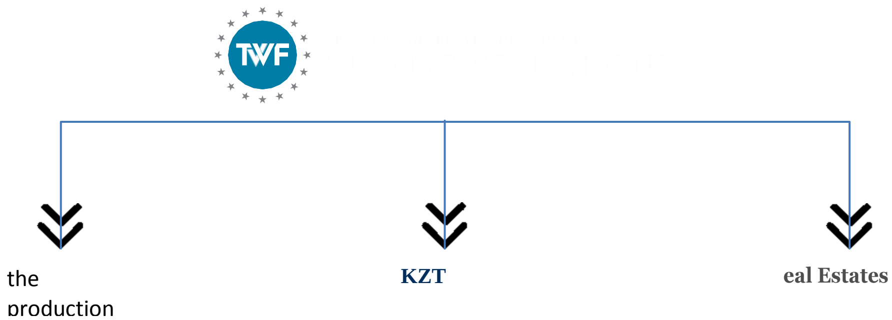
Sub-Funds

1. TWF Market Stability and Equilibrium Sub-Fund
2. TWF Istanbul Financial Center Real-Estate Investment Sub-Fund
3. TWF License and Loyalty Sub-Funds
4. TWF Mining Sub-Funds
5. TWF Management Co. BIST Venture Capital Sub-Fund

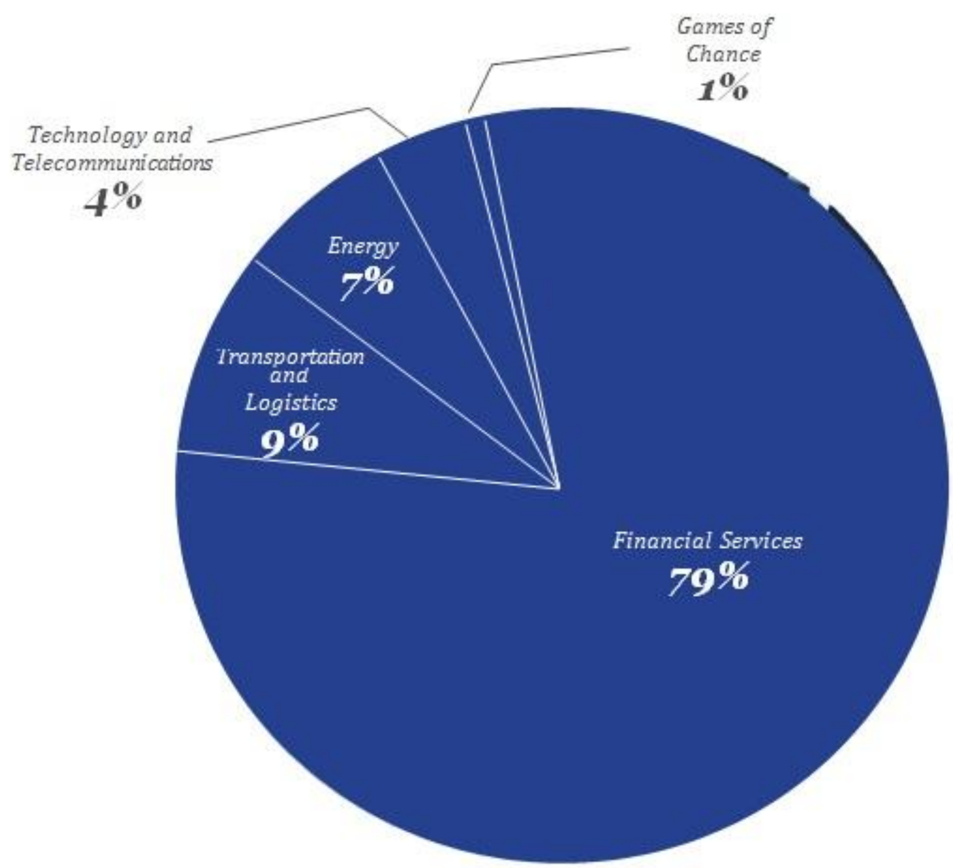
Under Presidential Decision No. 1 Article 37, dated 1 July 2018, the TWF was made into one of the institutions officially affiliated with the Presidency. With the Presidential Decision No. 2018/162, dated 11 September 2018, Article 13 Paragraph 2 of the Decision Regarding the Process and Principles of the Structure and Operation of Türkiye Wealth Fund Management Company No. 2016/9429, dated 17 October 2016, was amended as follows: “The Chairperson of the Board of Directors of the Company is the President of the Republic of Türkiye. Any member of the Board of Directors may be appointed as the Deputy Chairperson by the President of the Republic of Türkiye. The Board Members and the CEO shall be required to meet the qualifications stated in the Presidential Decision.”

Capital and Shareholding Structure

The capital of TWF Management Co. is TRY 50 million; it is paid in full. All shares are the property of the Privatization Administration under the Ministry of Treasury and Finance of the Republic of Türkiye. No changes have occurred in the capital structure of TWF Management Co. during the reporting period. The TWF has no privileged share, nor has it acquired its shares.



TWF Portfolio



The TWF's total assets' sectorial distribution.

Financial Services

Company	Fund Ownership
Ziraat Bankası	100%
HALKBANK	75.29%
VakıfBank	35.99%
BORSA İSTANBUL	80.60%
TÜRKİYE SİGORTA	81.10%
TÜRKİYE HAYAT EMEKLİLİK	98.61%

Energy

Company	Fund Ownership
BOTAŞ	100%
TP	100%
TVF ENERGY	100%
TVF REFINERY AND PETROCHEMICAL	100%
TVF AEL ELECTRIC	100%

Transportation and Logistics

Company	Fund Ownership
TURKISH AIRLINES	49.12%
Ptt	100%
Türkiye Denizcilik İşletmeleri AŞ	49%
İzmir Alsancak Port	100%

Mining

Company	Fund Ownership
ETİMADEN	100%
TVF MINING	100%

Technology and Telecommunications

Company	Fund Ownership
TURKCELL	26.20%
TÜRKSAT	100%
Türk Telekom	6.68%
Platform AŞ	20%

Agriculture and Food

Company	Fund Ownership
ÇAYKUR	100%
Kayseri Şeker	11.07%
Türkşeker	100%

Games of Chance

Lottery License

Horse Racing License

Real Estate

İSTANBUL FINANCIAL CENTER

46 Properties across Türkiye

Companies Publicly Traded in Borsa Istanbul

Türkiye Halk Bankası A.Ş.	75.29% BIST
Türk Hava Yolları A.O.	49.12% BIST
Türk Telekom A.Ş.	6.68% BIST
Turkcell İletişim Hizmetleri A.Ş.	26.20% BIST & NYSE
Türkiye Sigorta A.Ş.	81.10% BIST
Türkiye Vakıflar Bankası A.O.	35.99% BIST

Investments

- **The Merger of Public Insurance Companies, the Need for Consolidation in the Insurance and Pension Sectors**

  The necessity of restructuring the insurance and pension sectors to develop the non-bank financial sector in Türkiye and further development of this field, increasing the country's saving rate, has been outlined in the economic programs of the Ministry of Treasury and Finance. Therefore, the TWF played a leading role in assessing the potentials of public insurance and pension companies.

- **Acquisition of Turkcell Shares**

  On 18 June 2020, the TWF signed agreements with Telia Company, LetterOne, Çukurova Holding, Ziraat Bankası and related parties to acquire 26.20% shares of Turkcell İletişim Hizmetleri A.Ş. (BIST: - TURKCELL, NYSE: TKC). Before completing the transaction, all necessary permissions were obtained from the regulatory authorities of Türkiye and other relevant countries. Following the General Assembly of Turkcell, held on 21 October 2020, the deal's closing procedures were completed, the CMB and SEC were notified, and the TWF became the largest shareholder of Turk- cell.

- **Investment in İstanbul Financial Center**

Aiming to deepen Türkiye's financial markets and ensure it receives its share from global financial markets, the İstanbul Financial Center (İFC) is a strategic and visionary investment project. Planned as a unique financial cluster on 1.5 million m2 of land in Ümraniye, Istanbul, the TWF was first involved in the IFC project as the main investor in 2019; its share reached 50% in 2020 with the further acquisition of land.

The İstanbul Financial Center consists of the three main components of real estate, legal regulations, and an ecosystem ensu- ring integration with global financial mar- kets, aiming to position Istanbul as a regi- onal financial center. The TWF leads the development of the İFC project in all three areas. For this purpose, the TWF established İFC Real Estate Construction and Management A.Ş. (İFM Gayrimenkul İnşaat ve Yönetim A.Ş.) on 28 May 2020, to complete the investment of the project and effectively carry out its facility management and operation.

Greenfield Investments

- **Petrochemicals**

The petrochemical industry is one of the loco- motive sectors that uses petroleum products and natural gas as raw materials and provides input to many sectors, such as packaging, ele- ctronics, automotive, textile, and agriculture, by producing various intermediary products such as plastics, rubbers, synthetic yarn, and fiber. Therefore, in order to contribute to the development of this strategically important se- ctor in Türkiye, the petrochemical investment project initiated by the TWF on the Mediterra- nean coast is carried on.

The project aims to produce base petrochemi- cal products, and will also contribute to estab- lishing a petrochemical cluster in the region, promoting the production of other petroche- mical products, developing economic activities in the region and Türkiye, and increasing emp- loyment.

- **Energy**

The project of power generation from coal was prioritized as a result of the TWF's objective to provide capital for strategic investments with the aim of using national resources in line with the principles of sustainability and responsible investment. The project consists of the power plant and mine investment and operation, wit- hin the scope of assessing the lignite reserve in the Afşin-Elbistan basin. As a result, the licen-se for Afşin C site was transferred to the TWF Energy and Industry Trade A.Ş. (TWF Enerji ve Sanayi Ticaret A.Ş.), together with its acquired rights from Elektrik Üretim A.Ş

- **Mining**

The company TWF Mining TVF Maden A.Ş. was established by the TWF in 2020 for mining investments. In this process, under the relevant articles of the Mining Law No. 3213, the right to discovery was acquired from the General Directorate of Mineral Research and Exploration (MTA), and a total of 20 Group IV mining licenses, given by the General Directorate of Mining and Petroleum Affairs (MAPEG), were acquired by TWF Mining Considering the proximity of the licenses to one another, the 20 licenses were then made into a total of 14 project areas. Gold, copper, lead-zinc, iron, and chromium were discovered in 12 of these 14 project sites as a result of initial explorations carried out by the MTA; the remaining two project areas' exploration processes were taken on by TWF Mining to be carried out from scratch.

- **Capital Injection into Public Banks**

In efforts to strengthen public banks against the potential adverse effects of the Covid-19 pandemic and fluctuations in global markets on the economy and financial institutions, the Türkiye Wealth Fund increased core capital of the public banks of T.C. Ziraat Bankası A.Ş., Türkiye Halk Bankası A.Ş. and Türkiye Vakıflar Bankası T.A.O. by a total of 21 billion TL, in May 2020 with the approval of the Banking Regulation and Supervision Agency (BDDK).

The financing of this transaction of increasing the allocated core capital was covered by the cash obtained from the sale of 10-year CPI-indexed special government debt securities issued by the T.R. Ministry of Treasury and Finance on loan to the banks at their market values.

- **A New Model for Games of Chance**

The TWF-owned licenses of games played for cash were designed to be executed through a model without being transferred to a subcontractor, where only operations were made as per the agreement with Sisal Şans A.Ş. in 2019. Since the beginning of 2020, it has undergone the stages of planning, preparation, implementation, and final control; finally, the National Lottery (Administration) operations were taken over on 1 August 2020.

In the first 5-months, its revenue increased from 1501 million TL to 2 billion 985 TL, and share transferred to the public increased from 309 million TL to 704 million TL.

- **Borsa Istanbul**

Borsa Istanbul is one of the leading trading platforms among emerging market stock exchanges with its deep-rooted history, technological infrastructure, end-to-end transaction integration, and diverse product portfolio offered to investors.

Playing an essential role in strengthening the Turkish economy and developing financial markets, Borsa Istanbul performed very well in 2020, mainly due to increased market activity during the pandemic, which adversely affected social, economic, and commercial life across the world.

Sustainability

Actions on Environmental, Social and Governance (ESG) Issues

Economic development, population growth, and rising living standards in return increase landuse, demand for energy, consumption of natural resources, and environmental pollution, lead-ing to global risks such as disease, food safety, and climate change. Financial institutions andcompanies can no longer delay the integration of sustainability and environmental, social, and governance (ESG) factors into their business processes. The steps taken in the light of these developments contribute to achieving better financial returns and a more sustainable future in the long run.

Sustainability issues such as climate change significantly impact companies, influencing their operations and financial performances and shaping their long-term values. That's why, starting from the last quarter of 2020, the TWF has accelerated its efforts to create a framework to manage its ESG approach, including integrating ESG factors into its investment decisions and activities throughout its operations and providing guidance to its stakeholders. The general objectives of the TWF in this regard are as follows:

- To develop cultural awareness by building corporate ESG literacy to identify better, under-stand, and proactively manage ESG related risks,
- To focus on identifying and managing ESG related principles and considerations,
- To contribute to the development of ESG in portfolio companies and ensure the improvementof performance in ESG related activity over time by transparent reporting,
- To represent and advocate for ESG principles,
- To identify short- and long-term priority ESG target areas to address and mitigate ESG risks.

Priority ESG target areas are identified through interviews and in-depth analyses with internaland external stakeholders. In addition to the priority areas, other ESG related topics are also considered by the TWF and studied in the long-term.

SELF-ASSESSMENT: SOVEREIGN WEALTH FUNDS‘SANTIAGO PRINCIPLES’ GENERALLY ACCEPTED PRINCIPLES AND PRATICESSELF-ASSESSMENT

The Santiago Principles, developed by the International Working Group of Sovereign Wealth Fun- ds (IWG) in 2008, consists of 24 Generally Accepted Principles and Practices (GAPP) that establish good governance standards for the management and auditing of sovereign wealth funds.

The principles include ensuring good governance, transparency, and accountability, and procedures for guaranteeing healthy long-term investments. The Santiago Principles cover three main areas, including the legal framework, objectives, and coordination with macro-economic policies (GAPP 1-5), institutional framework and governance structure (GAPP 6-17), and investment and risk management framework (GAPP 18-24) of sovereign wealth funds.

The TWF exerts its utmost effort to comply with the Santiago Principles, a key mandate of inter- national sovereign wealth funds. As part of its compliance with the Principles, the approach of the TWF to the Self-Assessment Survey planned to be published in early 2020 is as follows:

PRINCIPLE 1: The legal framework for the sovereign wealth fund should be sound and support its effective operation and the achievement of its stated objective(s).

TWF Management Co. was established with Law No. 6741 on 19 August 2016 as a joint-stock company as the exclusive fund manager of the TWF. The Decision of the Council of Ministers, dated17 October 2016, regarding the process and principles of the structure and operations of the Fund was published in the Official Gazette on 9 November 2016. Law No. 6741 is available on the Official Gazette and the TWF’s websites.

PRINCIPLE 2: The policy purpose of the sovereign wealth fund should be clearly defined andpublicly disclosed.

Law No. 6741 Article 1 clearly defines the purpose and scope of the TWF.
As per TWF’s roadmap, approved by the Board of Directors of TWF Management Co. on 24 October 2018, the strategic objectives are as follows:

1. Increasing the Value of Assets Within the Fund
2. Provide Equity for Strategic Investments in Türkiye
3. Carry Out Investments Supporting Türkiye's International Economic Strategies and Companies
4. Support the Improvement and Deepening of Financial Markets

PRINCIPLE 3: Where the sovereign wealth fund activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, to ensure consistency with the overall macroeconomic policies.

The President of the Republic of Türkiye chairs the Board of Directors of the TWF Management Co. The TWF Roadmap and Strategic Plan operate in tandem with national economic policies.

PRINCIPLE 4: There should be clear and publicly disclosed policies, rules, procedures, or arrangements concerning the sovereign wealth fund's general approach to funding, withdrawal, and spending operations.

The scope of activity and funding of the TWF, including the founding capital, are disclosed under Article 2 and Article 4 of Law No. 6741. The TWF uses debt and equity financing to fund its investment activities. All funding and investment-related decisions are subject to final approval by the Board of Directors.

PRINCIPLE 5: The relevant statistical data about the sovereign wealth fund should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

In line with Article 18 of the Decision of the Council of Ministers, TWF Management Co. commits to regularly publishing annual reports on its website. TWF Management Co. also shares information with the related government authorities when necessary. As per Article 6 of Law No. 6741, TWF Management Co. is subject to a three-layer audit framework. These are independent external audits in line with International Financial Reporting Standards, audits by the State Supervisory Board of annual financial statements and activities, and finally, the Turkish Grand National Assembly Plan and Budget Committee audit. TWF Management Co. also established its internal audit structure through its Audit Committee.

PRINCIPLE 6: The governance framework for the sovereign wealth fund should be sound and establish a clear and effective division of roles and responsibilities to facilitate accountability and operational independence in the management of the sovereign wealth fund to pursue its objectives.

Organizational structure and job descriptions of the TWF are clearly defined with Article 6 of the Decision of the Council of Ministers. Furthermore, Executive and Human Resources, Corporate Governance, and the Early Detection of Risk and Audit Committees, operating under the Board of Directors, were established in accordance with the scope of corporate governance as outlined in Article 19 of the Turkish Capital Markets Law No. 6362.

PRINCIPLE 7: The fund holder should set the objectives of the sovereign wealth funds, appoint the members of its governing body(ies) per clearly defined procedures, and exercise oversight over the sovereign wealth funds operations.

TWF's strategic objectives and operations are governed by the Board of Directors, consisting of experienced representatives from government, public, and private sectors. The objectives of the TWF are defined under Law No. 6741 and are described in the Mandate and Strategic Plan, approved by the Board of Directors.

PRINCIPLE 8: The governing body(ies) should act in the best interests of the sovereign wealth fund and have a clear mandate and adequate authority and competency to carry out its functions.

The structure of the Board is defined under Articles 12, 13, and 14 of the Articles of Association. In addition, the Board of Directors follows Article 14.5 of the Articles of Association and the Turkish Commercial Code provisions for decision making.

PRINCIPLE 9: The operational management of the sovereign wealth fund should implement the sovereign wealth funds strategies in an independent manner and per clearly defined responsibilities.

As stated in Article 15 of the Articles of Association, the Board of Directors meets regularly as it is responsible for the TWF's overall governance. Senior management of TWF Management Co. proposes investment and financing projects to the Board of Directors through executive committees and is responsible for the day-to-day execution of Board decisions.

PRINCIPLE 10: The accountability framework for the Sovereign wealth funds operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.

Law No. 6741 and the Decision of the Council of Ministers define the framework, including executive committees, audit mechanisms, and corporate governance standards in accordance with Capital Markets Law.

PRINCIPLE 11: An annual report and accompanying financial statements on the sovereign wealth funds operations and performance should be prepared in a timely fashion and per recognized inter- national or national accounting standards consistently.

In accordance with Article 18 of the Decision of the Council of Ministers, the TWF commits to the regular publishing of annual reports on its website.

PRINCIPLE 12: The sovereign wealth funds' operations and financial statements should be audited annually by recognized international or national auditing standards in a consistent manner.

Article 6 of Law No. 6741, states that the TWF is subject to a three-layer audit framework. These are independent external audits in line with International Financial Reporting Standards, audits by the State Supervisory Board of annual financial statements and activities, and finally, the Turkish Grand National Assembly Plan and Budget Committee audit. In addition, TWF Management Co. also established its internal audit structure through its Audit Committee.

PRINCIPLE 13: Professional and ethical standards should be clearly defined and made known to the members of the sovereign wealth funds governing body(ies), management, and staff.

Articles 9 and 14 of the Decision of the Council of Ministers cover the basic principles, while TWF Management Co. defines the Code of Conduct encompassing professional and ethical guidelines.

PRINCIPLE 14: Dealing with third parties for the sovereign wealth funds operational management should be based on economic and financial grounds and follow clear rules and procedures.

All dealings and transactions with third parties are based on economic and financial foundations. TWF Management Co. carries out tendering processes before related contracts govern third-party appointments and relationships.

PRINCIPLE 15: The sovereign wealth fund operations and activities in host countries should be con- ducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

The TWF does not have any overseas investments as of the end of 2020 but is committed to complying with all applicable laws and regulations in the jurisdiction of any future investments.

PRINCIPLE 16: The governance framework and objectives, as well as how the sovereign wealth funds management are operationally independent of the owner, should be publicly disclosed.
TWF Management Co. is the exclusive fund manager of the TWF, and its Board of Directors consists of representatives from the government, public sector, and private sector. The structure of the Board allows TWF Management Co. to operate independently as a joint-stock company while also in compliance with national economic objectives.

PRINCIPLE 17: Relevant financial information regarding the sovereign wealth fund should be publicly disclosed to demonstrate its economic and financial orientation, contribute to stability in inter- national financial markets, and enhance trust in recipient countries.
According to Article 18 of the Decision of the Council of Ministers, the TWF is committed to regularlypublishing annual reports on its website.

PRINCIPLE 18: The sovereign wealth funds investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies) and be based on sound portfolio management principles.
The TWF carries out all its operations according to its Roadmap and Strategic Investment Plan approved by the Board of Directors. All investment decisions are subject to final approval by the Board of Directors; the TWF will publish its annual reports through its website as per Article 18 of the Decision of the Council of Ministers.

PRINCIPLE 19: The sovereign wealth funds investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy and based on economic and financial grounds.
The TWF seeks to maximize portfolio assets’ value and investment returns as per its

approved Roadmap. All investment decisions are subject to the Board of Directors. The TWF ensures its assets are managed in accordance with generally accepted practices and principles.

PRINCIPLE 20: The sovereign wealth fund should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

TWF is committed to complying with the principle in question.

PRINCIPLE 21: The sovereign wealth fund regards shareholder ownership rights as a fundamental element of their equity investments' value. If a sovereign wealth fund chooses to exercise its owner- ship rights, it should do so in a manner that is consistent with its investment policy and that protects the financial value of its investments. The sovereign wealth fund should publicly disclose its general approach to selecting securities of listed entities, including the key factors guiding its exercise of ownership rights.

The TWF will be represented on the boards of directors of its portfolio companies to monitor and evaluate financial performance indicators closely. The TWF may exercise its ownership rights to protect its interests if and when necessary. The TWF complies with the applicable laws and regulations regarding the listed entities within its portfolio.

PRINCIPLE 22: The sovereign wealth fund should have a framework that identifies, assesses, and manages the risks of its operations.

The Board of Directors governs all risk-related matters through the Early Detection of Risk Commit- tee. The TWF will establish the necessary reporting systems to identify, assess, and manage risks, as described under Articles 10, 11, and 12 of the Decision of the Council of Ministers.

PRINCIPLE 23: The assets and investment performance (absolute and relative to benchmarks, if any) of the sovereign wealth fund should be measured and reported to the owner according to clear-ly defined principles or standards.

According to Article 18 of the Decision of the Council of Ministers, the TWF is committed to the regular publishing of annual reports on its website.

PRINCIPLE 24: A process of regular review of the implementation of the General Accepted Accounting Principles should be engaged in by or on behalf of the Sovereign wealth fund.

The TWF conducts an annual review of the General Accepted Accounting Principles implementation.

Section.3: Republic of Kazakhstan (SW/NDF)

1-Samruk-Kazyna

Overview

"Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Fund" or "Samruk-Kazyna") was established on November 3, 2008 in accordance with the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 and the Resolution of the Government of the Republic of Kazakhstan dated October 17, 2008. The formation was enacted by the merger of "Sustainable Development Fund "Kazyna" JSC ("Kazyna") and "Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer to the Fund of interests in certain entities owned by the Government of the Republic of Kazakhstan (the "State" or the "Government"). The Government, represented by the State property and privatization committee of the Ministry of finance of the Republic of Kazakhstan, is the sole shareholder of the Fund (the "Shareholder" or the "Parent").

During this process the Government's overall objective was to increase management efficiency and to optimize organizational structures in these entities for them to successfully achieve their strategic objectives as set in the respective Government programs and development plans of these entities.

The Fund is a holding company combining state-owned enterprises listed in Note 35 (the "Group"). Prior to February 1, 2012, the Fund's activities were governed by the Law of the Republic of Kazakhstan On National Welfare Fund # 134-4 dated February 13, 2009 and were aimed to assist in provision of stable development of the state economy, modernization and diversification of economy, and improvement of the Group companies' efficiency. According to the Law of the Republic of Kazakhstan enacted on February 1, 2012 On Sovereign Wealth Fund #550-4, the Fund's activity is focused on improving sovereign wealth of the Republic of Kazakhstan by increasing the long-term value of the Group companies and by effective management of the Group assets.

For management purposes, the Group is organized into organizational business units based on their products and services, and has 8 (eight) reportable operating segments as follows (Note 40):

- Oil and gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil and refined products;
- Transportation segment includes operations related to railway and air transportation of cargo and passengers;
- Telecommunication segment includes operation of fixed line communication, including local,

- long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also renting out of lines, data transfer services and wireless communication services;
- Energy segment includes operations related to production and distribution of electricity, the function of oversight over the input of electricity into the energy system and consumption of imported electricity, the function of centralized operation and dispatch of facilities in the Unified Energy System of Kazakhstan;
- Mining segment includes exploration, mining, processing, sales of mineral resources and geological exploration;
- Industrial segment includes military industry enterprises and civil engineering, projects for the development of chemical industry;
- Corporate center segment covers Fund's investing and financing activities, including provision of loans to related and third parties;
- Other segment includes operations related to assisting the Government in increasing housing availability by investing into residential development and other operation.

Financial Performance		
Indicator	**2022- KZT**	**2022- US$**
Authorized capital	5 268 819,00 млн KZT	11,400 bn US$
Equity capital	19 381 676,00 млн KZT	41,770 bn US$
Total assets	**33 897 736,00 млн KZT**	**73,100 bn US$**
Total liabilities	14 516 060,00 млн KZT	31,284 bn US$
Sales volume	11 403 032 млн KZT	24,575 bn US$
Gross revenue	2 784 513,00 млн KZT	6,000 bn US$
Net income	1 986 602,00 млн KZT	4,282 bn US$
ROA	5,86%	5,86%
ROE	10,25%	10,25%
ROS	17,42%	17,42%

About Samruk-Kazyna

Samruk-Kazyna Sovereign Wealth Fund Joint Stock Company was founded in 2008 by the Decree of the President of the Republic of Kazakhstan. The Sole Shareholder of the Fund is the Government of the Republic of Kazakhstan.

The mission of the Fund is to create a long-term value and stimulate sustainable economic development through effective asset management in the interests of the people of the Republic of Kazakhstan.

Vision

The vision of the Fund is to become a leader of the national economy and make a breakthrough in the innovation-driven development based on the principles of people's welfare and environmental protection through responsible investment.

Strategy of the Fund

The Fund's strategy corresponds to key nation-wide priorities and contributes to the implementation of Kazakhstan-2050 strategy, which is a national document that defines the long-term course of the country's development.

In accordance with the Fund's Development Strategy, new approaches were developed to ensure the transition to low-carbon development, provided that a reasonable balance between energy and environmental safety should be maintained. The Fund has set the goal of achieving carbon neutrality by 2060.

On a 10-year horizon, as part of key priorities, the Fund focuses on the introduction of ESG principles and the implementation of infrastructure and green investments in the Republic of Kazakhstan. Optimization and enhancement of efficiency of the asset portfolio management was achieved by dividing the portfolio into three groups: strategic management assets, investment management assets, and assets for the transfer to a competitive environment, with priority consideration of the AIFC platform.

Currently, the Fund is implementing the most ambitious program of changes for intensive modernization in its entire history. The changes apply to all areas of the Fund activities. The program approved by the President of the Republic of Kazakhstan Qasym-Jomart Toqaev at the meeting of the Supreme Council for Reforms is aimed at increasing the efficiency of the Fund, supporting domestic producers and suppliers, and increasing transparency in procurement. It should be noted that all the proposed reforms are already being implemented. Even now, the activities of the renewed Fund have become as transparent as possible.

The updated Development Strategy of the Fund, taking into account new challenges that the Fund faces, will be approved by the Sole Shareholder in the prescribed manner in the nearest future.

LONG-TERM STRATEGIC GOALS

The development plan of the joint-stock company "Fund national welfare "Samruk-Kazyna" (hereinafter referred to as the Fund) is a fundamental document defining and justifying vision, mission, goals and objectives of the Fund for portfolio companies aimed at to increase the long-term value of companies groups of the Fund, effective asset management Foundation.

The fund is the sovereign fund of the Republic Kazakhstan, whose sole shareholder is the Government of the Republic of Kazakhstan, and operates as an independent commercial entity.

Based on the need to ensure quality growth and building resilience to global business model challenges, determined by the strategic vision of the Fund as a leader in the national economy, making a breakthrough in innovation sustainable development based on the principles of human well-being and environmental protection through responsible investments.

The mission of the Fund is to ensure sustainable development economy and the creation of long-term value a means of effective management of diversification portfolio of assets and business support in the interests of the people of the Republic of Kazakhstan.

Three strategic goals are defined:

- Efficient and active portfolio management assets

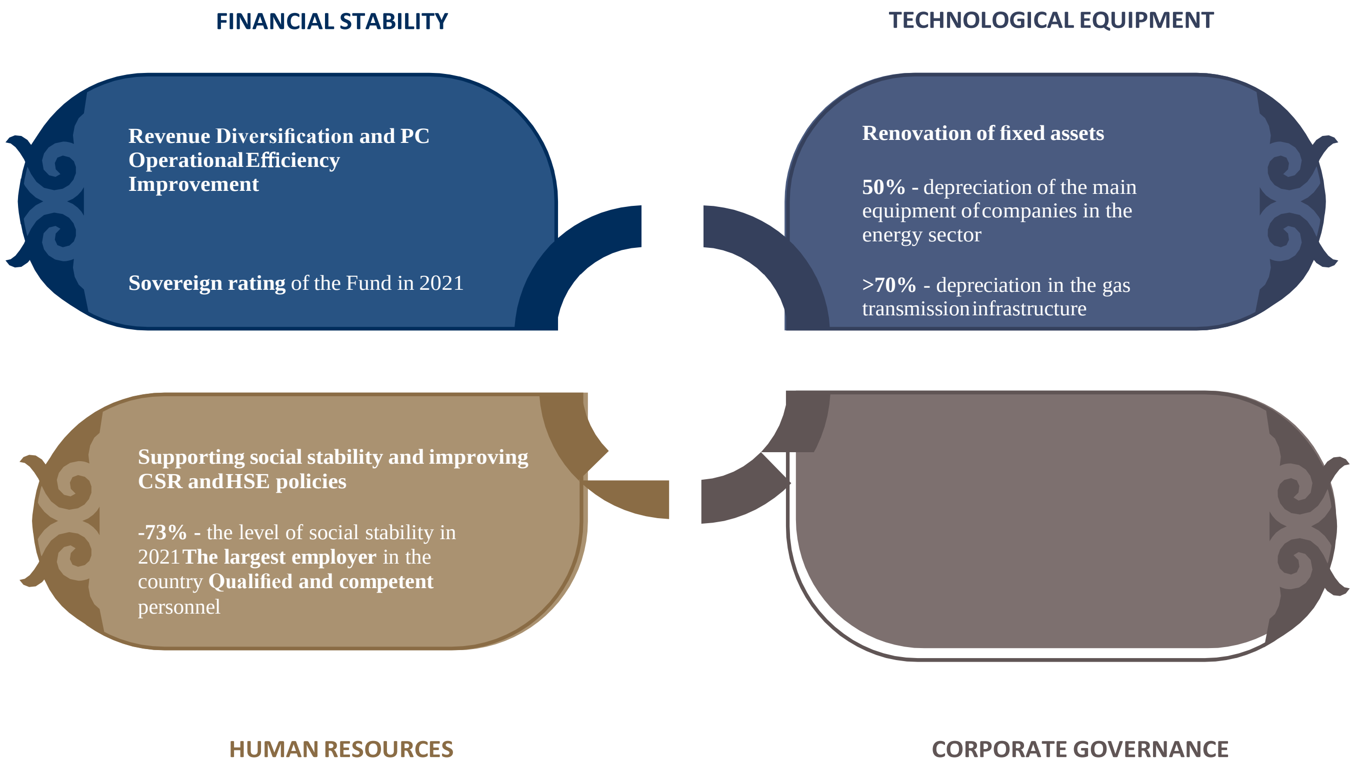
The goal is to increase net worth assets in 2 times. The Fund will ensure optimization and improving the quality of the portfolio, introducing re-new technologies, as well as improving business models.

- Diversification.

The goal is to increase output non-commodity goods and services. The Fund will provide inflow of investments into the development of new industries and access to new redistributions, which will allow promoting the diversification of the economy.

- Sustainable development.

The goal is to introduce the principle POV ESG. The key factors for the Fund should us to be the well-being of people, ecological balance and, at the same time, ensuring long-term financial stability on the basis of business practices and principles of corporate management. Implementation of ESG principles as appropriate yes to doing business and developing corporate responsibility will contribute to the increase in the long-term value of assets, increase investment attractiveness



Samruk-Kazyna Main Portfolio

The following is a partial list of organizations partly or wholly owned by the Samruk-Kazyna fund. The percentage of shares controlled by the fund is indicated in brackets. 576 subsidiaries and associated companies are included in the Fund's group of companies:

- "KazMunayGas" NC (90%)
- "Kazakhstan Electricity Grid Operating Company" JSC (90%)
- "Kazakhtelecom" JSC (51%)
- "Kazpost" JSC (100%)
- "Kazakhstan Engineering" JSC (56,35%)
- "Pavlodar Airport" (100%)
- "Aktobe Airport" (100%)
- "Air Astana" JSC (51%)

- "Samruk-Kazyna Contract" LLP (100%)
- "Samruk-Kazyna Invest" LLP (100%)
- "Samruk-Energy" JSC (100%)
- "Real Estate Fund Samruk-Kazyna" JSC (100%)
- "Kazakhstan Temir Zholy" JSC (100%)
- "Kazatomprom" JSC NC (75%)
- "United Chemical Company" LLP (100%)
- National Mining Company "Tau-Ken Samruk" JSC (100%)
- "Alliance bank" JSC (51%)
- "Shalkiya Zinc Ltd" JSC (100%)
- "KOREM" JSC (100%)
- KGF IM (100%)
- "Atyrau Airport" JSC (100%)
- "Karagandagiproshaht & K" LLP (90%)
- "Samruk-Kazyna Finance" LLP (100%)

INVESTMENT ACTIVITIES

The main directions of the Fund’s capital expenditures are the implementation of investment projects in five Portfolio Companies: KMG, Samruk-Kazyna Ondeu, KTZ, SE, TKS. The main investment projects requiring large capital expenditures are exploration and production of oil and gas, construction of railways, construction of a gas chemical complex, construction of a railway station, construction of power transmission lines and other equally important projects.

Participation of the Fund in the implementation of infrastructure projects

The Fund continues to perform the function on supporting the country’s economy through the implementation of infrastructure projects, as well as regional and industrial development projects. Today, the Fund participates in 54 projects under the SPIID program with a total amount of KZT 2 trillion. At the same time, in order to accomplish the National Action Plan for the implementation of the Message of the President of the Republic of Kazakhstan “Unity of the People and systemic Reforms as a Solid Foundation for the National Prosperity” and orders of the Fund's management, the Fund is considering the implementation of 14 priority infrastructure projects totaling KZT 3.82 trillion (ongoing, promising projects and projects under development).

These projects mainly cover the transport, logistics, and energy and infrastructure industries. The implementation of these projects will create about 6 thousand permanent jobs and 24.6 thousand temporary jobs

New investment

The mission of the Fund is to create a long-term value and stimulate sustainable economic development through effective asset management in the interests of the people of the Republic of Kazakhstan. The vision of the Fund by 2013 is to become a leader of the national economy and make a breakthrough in the innovation- driven development based on the principles of people's welfare and environmental protection through responsible investment. In 2021, the following activities were carried out in this area:

- In accordance with the Rules for the implementation of new investments of Samruk-Kazyna JSC developed in 2020 to improve the efficiency of the process of implementing new investments, the Fund annually forms a short list of investment initiatives. In 2021,
- 50 initiatives were considered in 11 industries, and 29 initiatives at various stages of development were included in the short list.
- As part of the qualitative formation and effective management of assets of the Fund of Future Generations, the Rules for the formation of the portfolio of the Fund of Future Generations and the Rules for the formation of the treasury portfolio were updated.

MAJOR INVESTMENT PROJECTS OF THE FUND GROUP

ҚазМұнайГаз

NORTH CASPIAN PROJECT
(Experimental program development)

Purpose and brief description of the project

- Exploration, development and production of oil and by-products on the contract area.
- Production is carried out from the wells of D islands, A islands, EPC-2, EPC-3 and EPC-4. All technological facilities of D Island, oil, gas and sulphur technological lines of the onshore complex, as well as engineering support sites of both complexes are in operation.

Total project cost, 11,843[1]

SAMRUK-KAZYNA ONDEU

CONSTRUCTION OF AN INTEGRATEDGAS CHEMICAL COMPLEX
(Second phase)

Purpose and brief description of the project

Construction of a polyethylene plant with the design capacity of 1,250 million tons per year inAtyrau region.

Total project cost, 2,719

SAMRUK-KAZYNA ONDEU

CONSTRUCTION OF AN INTEGRATEDGAS CHEMICAL COMPLEX

(First phase)

Purpose and brief description of the project

Creation of an integrated gas chemical complex for

Total project cost, 953R

ҚазМұнайГаз

CONSTRUCTION OF THE BEINEU – BOZOI – SHYMKENT GAS PIPELINE

Purpose and brief description of the project

- Construction of a main gas pipeline with a length of 1,475 km in a single-cut design with 2 Compressor stations (hereinafter – CS) Bozoi and Karaozek, as well as four additional compressor stations built by ICA. The construction of the maingas pipeline with the aim of supplying natural

gas to the southern regions of the Republic of Kazakhstan, diversification of export supplies of

Total project cost, 740

SAMRUK-KAZYNA ONDEU

CONSTRUCTION OF A GAS SEPARATION UNIT

Purpose and brief description of the project

- Construction of a gas separation unit for ethane production with a capacity of 1.6 million tons at Tengiz (TCO) field to provide raw materials for the

Total project cost, 621

SAMRUK-KAZYNA ONDEU

CONSTRUCTION OF INFRASTRUCTURE FACILITIES OF THE NATIONAL INDUSTRIAL PETROCHEMICAL TECHNOLOGY PARK SEZ

Purpose and brief description of the project

- Construction of infrastructure facilities of the special economic zone "National Industrial Petrochemical Technology Park" in Atyrau region.

Total project cost, 385

SAMRUK ENERGY

EXPANSION AND RECONSTRUCTIONOF EKIBASTUZ GRES-2 WITH INSTALLATION OF POWER UNIT AT THE STATION NO. 3

Purpose and brief description of the project

- Meeting the growing needs of Kazakhstan in electricity and electric capacity, increasing the export potential of Kazakhstan; improvement of the reliability of power supply to consumers; providing sustainable efficient operation of the energy source in market conditions.

Total project cost, 374

Tau-Ken Samruk

INDUSTRIAL DEVELOPMENT OF SHALKIYA POLYMETALLIC ORE DEPOSIT IN KYZYLORDA REGION

Purpose and brief description of the project

Total project cost, 270

CONSTRUCTION OF FOUR COMPRESSOR STATIONS ALONG THEBEINEU – BOZOI – SHYMKENT GAS PIPELINE

Purpose and brief description of the project

- Construction of four compressor stations alongthe Beineu-Bozoi-Shymkent main gas pipeline to provide a throughput capacity of up to 15 billion m^3/year. Ensuring stable gas supplies to the southern regions of the Republic of Kazakhstan, especially to cover the shortageduring the heating season and increase the supply of gas

Total project cost, 215

CONSTRUCTION OF A FERRY COMPLEX IN KURYK PORT AND OPERATION OF UNIVERSAL CARGOAND PASSENGER FERRIES

Purpose and brief description of the project

- Creation of an effective logistics hub and development of the Caspian maritime infrastructure and an increase in the transit potential of Kazakhstan. Development of cross-border trade and economic relations, an increase in transport and socio-economic

Total project cost, 96

EXPANSION AND RECONSTRUCTIONOF EKIBASTUZ GRES-1

(RESTORATION OF THE BLOCK NO.1)

Total project cost, 144.1

MINING OF POLYMETALLIC ORES AT ALAIGYR FIELD IN KARAGANDAREGION

Purpose and brief description of the project

Total project cost, 48

2-Kazakhstan National Fund & JSC National Investment Corporation

Kazakhstan National Fund

National Oil Fund of Republic of Kazakhstan (Kazakhstan National Fund) is a Sovereign Wealth Fund located in Astana Kazakhstan, Asia. The Kazakhstan National Fund was established in 2000, primarily to act as a stabilization fund to lessen the impact that volatility in oil, gas, and mineral prices have on the Republic of Kazakhstan. The Kazakhstan National Fund is a secretive organization, and little information can be found as to its governance, holdings or investment strategies.

Current Assets for Kazakhstan National Fund is US$55,322,000,000 US$. The Kazakhstan National Fund is a sovereign wealth fund for Kazakhstan that is operated by the National Bank of the Republic of Kazakhstan.

- The Kazakhstan National Fund is a sovereign wealth fund for Kazakhstan that is operated by the National Bank of the Republic of Kazakhstan.
- The Kazakhstan National Fund was established in 2000, primarily to act as a stabilization fund to lessen the impact that volatility in oil, gas, and mineral prices have on the Republic of Kazakhstan.
- The Kazakhstan National Fund is financed from surplus revenues gained from taxes on the development of oil, gas, and mineral reserves.

At stake among all of these disputes are whether sovereign wealth funds are investment arms of governments or independent institutional investors. These kinds of funds, of which Norway's is the largest at over US$1 trillion, hold more than US$7 trillion worth of wealth spread all over the globe. As a result, the ultimate decision on this case is closely watched by governments around the world.

JSC National Investment Corporation of the National Bank of Kazakhstan

The Corporation is a financial organization specialized in managing a part of the National Fund of the Republic of Kazakhstan, foreign exchange reserves of the National Bank of the Republic of Kazakhstan, pension funds and other assets determined by the legislation of the Republic of Kazakhstan.

The Mission of the Corporation is to diversify and enhance the long-term returns of sovereign assets of the Republic of Kazakhstan through investment in alternative instruments. The Corporation’s primary goal is to improve asset management efficiency and to increase assets yield in the long term by maximizing risk-adjusted returns through asset diversification in a manner consistent with its Investment Strategy.

In order to achieve its goals the Corporation invests in traditional and alternative assets in the global financial markets with an investment horizon of 10-20 years and conducts other types of activities involving trust asset management.

Establishing the Corporation resulted in important changes to the framework for the management of Kazakhstan's international assets and was a necessary development given the current macroeconomic environment, as it will increase the profitability and level of diversification of Kazakhstan's international assets.

The Corporation was established under the initiative of the Governor of the National Bank of Kazakhstan and in agreement with the President of the Republic of Kazakhstan.

Investment portfolio

The Corporation was established in 2012 with the purpose of enhancing the management efficiency and diversification of the international reserves of the Republic of Kazakhstan. The Corporation is focused on active investments in alternative asset classes: private equity, real estate, infrastructure and hedge funds.

The Corporation's portfolio management is guided by the Investment Strategy, which is approved by the Executive Board of the National Bank of Kazakhstan. The Strategy determines the investment horizon, risk appetite, profitability target indicators and investment limitations. According to the Strategy, the Corporation's target returns and risk appetite is determined by the Reference Portfolio, which is a low-cost and passively managed portfolio composed of global shares (80%) and global bonds (20%).

The Corporation's portfolio management aims to generate a long-term return that exceeds the Reference Portfolio returns, at an equal or lower risk level.

The Corporation invests in alternative assets mainly through investing in funds using a «Core-Satellite» approach. Large investments in diversified funds serve as the Core. Smaller specialized funds aimed at increasing returns or reducing risk serve as Satellites.

a. «CORE-SATELLITE» Approach

- Portfolio basis
- Direct investment in large global funds that
- Discretionary management
- Investments in specialized funds and strategies managed by the strategic partner

b. ALTERNATIVE INVESTMENTS PRIVATE EQUITY

Private equity investments aimed at creating a diversified portfolio in terms of strategy, industry and geography. Private equity investments are part of the dynamic assets category.
Growth equity

- Strategy of acquiring minority positions in relatively mature companies
- Aim: expansion, entry into new markets, organic growth and acquisition of companies
- Venture capital
- Strategy of investing in companies at an early stage of development with minimal/negative cash flow
- Aim: increasing the company value and subsequent sale of the investor's share through M&A or IPO
- Mezzanine
- A hybrid strategy combining debt and equity financing
- Aim: opportunity to convert to an equity interest
- Buyout
- Strategy of acquiring the controlling stake of a company with the use of debt financing
- Aim: company development with subsequent resale
- Special Situations
- "Rescue" financing of companies that are in certain financial or operational circumstances
- Aim: gaining profit from a potential increase of the company value

c. REAL ESTATE

Investment in funds whose key activity is investing in real estate properties covering various real estate types, strategies and geographies. Investments in real estate funds fall under the category of assets that provide additional diversification to investment portfolios:

Core

- Investing in real estate with top characteristics in its class (location, quality)
- Offices, retail, apartments in central locations of big cities

Core Plus

- The strategy of investing in lower quality assets with smaller capital investments
- Real estate properties located on the outskirts or outside city centers

Value Add

- The strategy of investing in real estate that is in need of considerable capital investments

- Goal: Investors see ways to improve various properties, and increase their values, while taking the moderate level of risk

Opportunistic

- The strategy with large capital investments
- Approach: The comprehensive plan of improvement with potential change of the intended use of the building

d. HEDGE FUNDS

Investment funds created for investment in accordance with a certain strategy and in various financial instruments. Investments in hedge funds fall under the category of risk mediators.

Global Macro

- A strategy of investment with the aim of making profit based on change in interest rates, stock quotes, exchange rates and value of other financial instruments

Event driven

- A strategy of investment based on identification of potential corporate events and their impact on the value of the financial instruments / arbitrage from potential mergers and acquisitions

Relative-value arbitrage

- An investment strategy aimed at making profit on the basis of the price divergence between correlating financial instruments

Equity

- A strategy of investment in a combination of long and short positions in publicly traded stocks and derivatives

Credit

- A strategy of investment in a combination of long and short positions in debt markets

Multi-strategy

- A combination strategy combining long/short positions, the use of trading systems for tracking trends and other strategies

e. INFRASTRUCTURE

Investment in funds whose main investment target is infrastructure assets; Investments in infrastructure fall under the category of assets that provide additional diversification to investment portfolios.

- Utilities
- Electricity

- Gas
- Water
- Global communications
- Telecommunications providers
- Cellular towers
- Wiring systems
- Energy infrastructure
- Wind and solar power stations
- Oil and gas
- Energy network
- Transport and logistics
- Trains
- Planes
- Trucks
- Marine transport
- Support infrastructure
- Goods and services ensuring the operation of the infrastructure projects

Section.4: Kyrgyzstan (SW/NDF)

Russian-Kyrgyz Development Fund

Mission, goals and objectives of the Fund

The Russian Kyrgyz Development Fund (hereinafter referred to as the Fund) was established and operates in accordance with the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation. «On the development of economic cooperation in the context of the Eurasian economic integration» of May 29, 2014, and the Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation «On the Russian Kyrgyz Development Fund» of November 24, 2014.

The main activity of the Fund is to provide loans to the self-sustaining projects, and to conduct other activities related to the provision of the medium and long-term financing to the businesses of the Kyrgyz Republic in the priority sectors of economy. The statutory goals of the Fund are:

- modernization and development of the economy of the Kyrgyz Republic;
- expansion and strengthening economic cooperation between the Kyrgyz Republic andthe Russian Federation;
- Facilitation of the integration of the Kyrgyz Republic into the Eurasian Economic Union(EAEU).

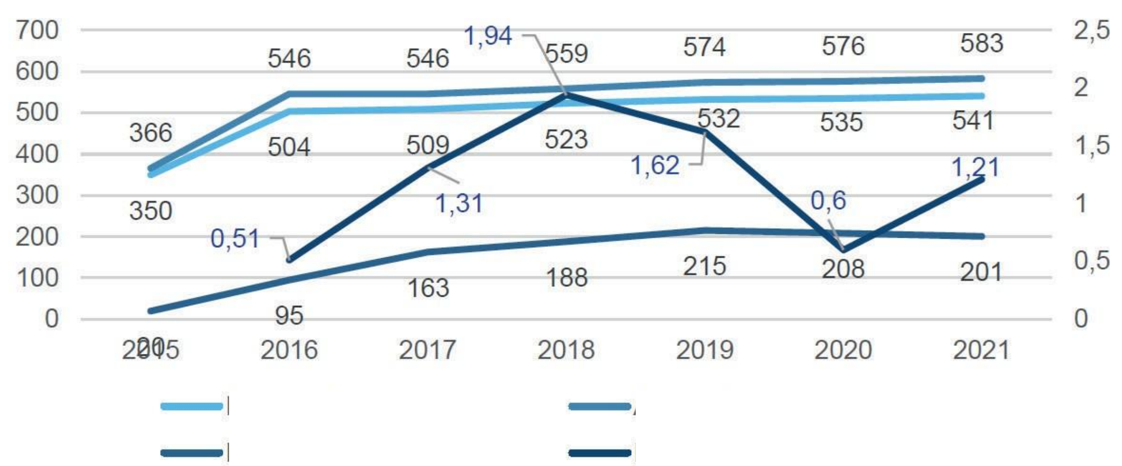
Main financial indicators

One of the significant limitations of the financial market of the Kyrgyz Republic is a lack of long-term financing. In this regard, the role of the Russian Kyrgyz Development Fund in providing long-term financial resources remains fundamentally important.

The Fund's capital is comparable to the capital of the entire banking system of the Kyrgyz Republic. The equity capital of the Fund at the end of 2021 reached 541 million US$, while the total capital of the banking system of the Kyrgyz Republic was 612 million US$. The ratio of the assets of the Fund and the assets of the banking system of the Kyrgyz Republic at the end of 2021 was 13.7 percent.

Name	31.12.2015	31.12.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021
Capital of the Fund, million US$	350	504	509	523	532	535	541
Assets of the Fund, million US$	366	546	545	559	574	575	582
Share of the Fund's capital inits assets, percent	96%	92%	93%	94%	93%	93%	93%
Ratio of the Fund's assets and total assets of the banking system,percent	16%	23%	19%	18%	16%	16%	14%
Total capital of the banking system,million US$	344	413	468	506	604	511	612
Total assets of the banking system,million US$	2 346	2 346	2 876	3 178	3 575	3 500	4 263
The ratio of the total capital of the Fund to the assets of the banking system, percent	15%	21%	18%	16%	15%	15%	13%
Loan portfolio of RKDF, million US$	17	96	164	188	216	211	204
Long-term loan and investment portfolio of the banking system of the Kyrgyz Republic correspondingto the mandate of RKDF , million US$	140	186	299	376	412	448	394
The ratio of the loan and investmentportfolio of RKDF and the long- term loan portfolio of the banking system, which conforms to the mandate of RKDF, million US$	12%	51%	55%	50%	52%	47%	52%
Leverage ratio of the bankingsystem, times	7	6	6	6	6	7	7

Key financial indicators of RKDF, million US$



The volume of the Fund's loan portfolio is about 9 percent of the loan portfolio of the banking system, 23 percent of the long-term loan portfolio3, or 51 percent of the long-term loan portfolio of the banking system that conforms to the mandate of RKDF, excluding the mortgage and consumer lending, which determines systemic importance of the Fund in the financial market of the Kyrgyz Republic.

The Fund's average weighted rate under direct financing in 2021, both in the national and foreign currencies, was approximately twice lower compared to the average weighted rates for long-term loans of the commercial banks4.

This, in its turn, affects the dynamics and the structure of interest rates, as well as the maturity of the loan market, which today is a significant achievement in the process of pricing on the country's loan market. The share of the long- term loans issued by the banking system after the start of the Fund's operation increased from 30 percent at the end of 2015 to 42 percent at the end of 20215. Notably, there was a significant increase in the share of loans in foreign currency provided for over three years in the total volume of loans in foreign currency from 41.8 percent at the end of 2015 to 47.8 percent on December 31, 2021. The weighted average interest rate on long-term loans for the same period decreased from 18.9 to 13.68 percent in national currency and from 15.08 to 9.04 percent in foreign currency. One of the significant reasons for the respective structural shifts was the Fund's program for targeted financing of SMEs through the financial and credit organizations.

The Fund provides funding to commercial banks and other financial and credit organizations on preferential terms in order to increase the availability of finance for small and medium- sized businesses. The share of the Fund's loan portfolio in the targeted financing of small and medium-sized businesses in the loan portfolio of the banking system of the Kyrgyz Republic at the end of 2021 is 3.7 percent. Herewith, the ratio of the credit portfolio in the direction of the target financing of small and medium-sized businesses to the long-term credit and investment portfolio of the banking system of the Kyrgyz Republic by the end of 2021 is 20 percent. The final rate for small and medium-sized businesses on loans from the Fund's resources is 5 percent in US$ and 9 percent in KGS (before August 15, 2017, the lending rate for small and medium-sized businesses in KGS was 12 percent, from August 15, 2017 to August 15, 2019 - 10 percent).

Investment and project activities

Between 2015 to 2021, the Fund approved 3,140 projects worth 407.8 million US$. In 2021, the Fund continued actively working to finance projects in the priority sectors of the economy, including the agro-industrial complex, the pharmaceutical and food sectors, tourism, light industry and other priority areas. The investment and credit activities of the Fund are carried out in two areas:

- provision of large investment loans under direct and program financing;
- Provision of the targeted financing to the financial and loan organizations of the Kyrgyz Republic for subsequent financing of the small and medium-sized businesses.
- Between 2015 and 2021, the Fund approved 3,140 projects worth 407.8 million US$. Under direct financing, the Fund approved 74 major projects in the amount of 205.4 million US$, and 3,066 projects in the amount of 202.4 million US$ under the «Lending to small and medium-sized businesses» program, through commercial banks and microfinance institution of the KyrgyzRepublic.
- Of the total amount of loans issued (407.8 million US$), 7.433 million were issued in the national currency KGS and 311 million in US$.

In the portfolio structure of the loans approved by the Fund, broken down by sector, as of December 31, 2021, the largest share was held by: sphere of production - 34 percent (141.5 million US$), agro-industrial complex, production and processing of agricultural products - 24 percent (99.5 million US$), infrastructure development 13 percent (53 million US$), tourism 12.4 percent (50.5 million US$), transport and warehousing 8.3 percent (33. 9 million US$).

Sectoral structure of the projects approved by the Russian Kyrgyz Development Fund as of December 31, 2021

Sphere	Number of projects	Thousands of US$	Structure, percent
Sphere of production	600	141 550	34%
Agro-industrial complex, production and processing of agricultural products	1 860	99 538	24%
Infrastructure development	183	53 053	13%
Tourism	179	50 494	12%
Transport and warehousing	226	33 905	8%
Communications and information technology	9	13 296	3%
Other sectors	81	10 448	2%
Financial activitity	2	5 529	1%
Total	**3 140**	**407 813**	**100%**

In its lending and investment activities, the Fund, among other things, adheres to one of the important tasks of facilitating the development of the regions through financing of the projects that have a multiplier socio-economic effect atthe territorial level.

In order to ensure the availability of project financing for all regions, direct lending limits were temporarily reduced to US$100,000 for the Talas, Batken, and Naryn regions, and to US$200,000 for other regions of the Kyrgyz Republic. This measure stimulates the growth of the gross regional product and supports entrepreneurship, including through the effect on employment and economic activity.

Through a wide partner network of the Fund under the «Lending to small and medium-sized businesses» program, the RKDF resources are available in every region. Financial and credit institutions who are partners of the Fund have over 600 divisions (branches, savings banks, representative offices) across the country, through which the RKDF loan funds are provided to small and medium-sized businesses on the favorable terms.

Regional structure of the projects approved by the Russian Kyrgyz Development Fundas of December 31, 2021

Name of cities/regions	Total loans issued as of 01.01.2022	
	Thousands of US$	Number of projects
Chui region	122 990	612
Bishkek	173 298	575
Issyk-Kul region	39 064	539
Talas region	4 278	455
Jalal-Abad region	19 856	352
Osh region	23 578	293
Batken region	3 948	116
Osh	16 018	107
Naryn region	4 783	91
Total:	**407 813**	**3 140**

In 2021, the Fund began to actively implement new loan products to finance cluster projects focused on the development of value chains inthe below priority sectors of the economy of the Kyrgyz Republic:

- dairy production;
- meat production;

- aquaculture;
- Fruit and vegetable sector.

The projects in these areas can provide a significant multiplier effect for the country'seconomy, and make a significant contribution to the development of the regions.

Since the launch of these products, financing of 12 cluster projects in the amount of 10.3 millionUS$ has been approved under direct lending.

Direct financing of large projects

The Fund provides direct financing to big projects in the priority sectors of the economy of the Kyrgyz Republic, aimed at the creation, acquisition, renewal and modernization of the fixed assets and other long-term investments. In 2021, under direct financing, 18 significant projects were approved and began to be implemented in the amount of 26.5 million US$.

Financing of small and medium businesses

Support and development of small and medium-sized businesses is one of the Fund's key areas of activities. In 2021, cooperation with the partner banks and microfinance organizations - partners in financing small and medium-sized businesses continued in all regions of the Kyrgyz Republic. 14 out of 23 commercial banks operating in the country, as well as 3 microfinance organizations were involved in the implementation of the program to support small and medium-sized businesses. According to the National Bank of the Kyrgyz Republic, in 2021 the bank sector of the Kyrgyz Republic had a high level of capital adequacy - 22.2% as of December 31, 2021, with a standard of 12%. This indicates that there is a potential to further improve the level of financial intermediation, the efficiency of operations and sustainability of the bank sector in the future.

In the reporting year, the «share of non- performing loans in the loan portfolio» indicatorin the banking system of the Kyrgyz Republic increased from 10.5 to 11.1 percent compared to the same indicator in 2020, which is not critical for assessing the state of the banking system.

During the cooperation of the Fund with commercial banks and microfinance organizations, an interaction mechanism has been formed that allows monitoring of the financial situation of the financial and credit institutions, and rapidly respond to the changes, monitor the loan portfolio formed at the expense of the Fund's resources.

In 2021, under the program for financing small and medium-sized businesses, 307 projects were financed at the expense of the Fund for a total of 24.9 million US$.

Interaction with regions

An important direction of the Fund's communication policy is to strengthen interaction with the regions of the republic. The Fund on a regular basis carries out workingtrips to the regions of the republic in order to establish direct contacts with local governments,organize meetings with entrepreneurs and visitthe ongoing projects through the Fund.

Currently, the Fund has memorandums of cooperation with the authorized representatives of the President (earlier with the Government representatives) of the Kyrgyz Republic in the Jalal-Abad, Batken, Talas and Naryn regions. In order to optimize and improve the quality of informational works in the regions in each region of the country (with the exception of Bishkek and the Chui region), the Fund's Regional consultants work on a permanent basis. Their responsibilities include:

- regular informing and consulting ofentrepreneurs in the region about the creditproducts and news of the Russian Kyrgyz Development Fund;
- continuous monitoring of business problems in the region;
- search for promising business projects in the region;
- Support and monitoring of the projects financed by the Fund at all stages.

In 2021, the regional consultants of RKDF provided individual advice to 1,265 potential borrowers of the Fund and provided support in the preparation of business plans and the development of feasibility studies for 245 projects

International activity

The international activity of the Fund is focused on the implementation of its mission – deepening an economic cooperation between the Kyrgyz Republic and the Russian Federation and expanding Eurasian economic integration,including the attraction of the external sourcesof investment financing to the economy of Kyrgyzstan. The key focus is on expanding Russian Kyrgyz business cooperation, including through integration events.

In August 2021, the III Kyrgyz-Russian Business Forum was held, which traditionally brought together representatives of the Russian businesses, investors, sectoral state enterprises and many others. Totally, over 300 people participated in the forum. 13 documents were signed - contracts that will allow entrepreneurs of the Kyrgyz Republic to expand cooperation with the Russian Federation and implement joint investment projects and export contracts. During the Forum, an agreement was signed with the Eurasian Development Bank on a credit line with the improved financing conditions. Under this agreement, the Fund may offer ruble financing to borrowers, including for the working capital. Also, an Agreement on strategic partnership and interaction between RKDF and the Russian Export Center Company was signed. The document provides for the expansion of cooperation between the export center and RKDF in order to facilitate the promotion of exports between the two countries.

In November 2021, the Fund organized a visit of the international multi-industry mission of Russian companies to the Kyrgyz Republic. As part of the event, representatives of about 70 leading companies and financial institutions of the Russian Federation visited the republic.

During the mission, RKDF and Natspromlizing company signed an agreement on the establishment of the company Natspromlizing- Kyrgyzstan in Kyrgyzstan with the authorized capital of 50 million KGS. This leasing company will focus on the development of industry and industrial cooperation and will allow attracting capital from Russia to the Kyrgyz economy in the coming years without using the Fund's resources directly.

About 200 Kyrgyz companies took part in the B2B business meetings. The venue of the event has become a convenient place to find new partners, launch joint projects and develop the potential of entrepreneurs of the two countries.

In 2021, the Fund continued active work to expand cooperation with international institutions and non-financial international development partners in order to implement joint projects. Activities within the framework of such projects include provision of technical assistance to projects, information campaigns, trainings, consultations on a wide range of issues and other activities aimed at buildingthe capacity of business entities of the Kyrgyz Republic.

In cooperation of RKDF with the UNDP Financing for Sustainable Development in the CIS region project, the Council for the formation of a list of priority investment projects under the Ministry of Economy and Commerce of the Kyrgyz Republic approved 11 applications for business projects for grant technical assistance for the development of a feasibility study, of which 3 projects have already been approved for RKDF financing. As part of the implementation by the Fund of an integrated approach to the development of the dairy industry, together with the UNDP Strengthening the Capacity for Financing Sustainable Development in the CIS Region project, the trainings were held for the owners of dairy farms located in the Jaiyl and Issyk-Ata districts of the Chui region.

Important agreements have been reached with the Ensuring Market Access" (EMA) project financed by the International Fund for Agricultural Development (IFAD) on attraction of the grant technical assistance for the projects in agriculture for the development of a feasibility study for the projects financed by RKDF.

The Fund continues cooperation with international financial organizations and other partners in order to establish the basis for interaction in the direction of joint and parallel financing of projects, as well as diversifyinginstruments within the framework of lending activities.

Risk management

Risk management is an essential element of the Fund's activities. The main tasks of risk management are to ensure long-term financial stability and achieve the goals set within the framework of the Fund's mission. The risk management system includes identification, assessment and monitoring of risks, the development of effective measures to reduce them. Significant types of risks of the Fundinclude:

1. Credit risk. The Fund's activity is characterized by a higher level of «risk appetite» in comparison with the banking system of the Kyrgyz Republic, which is caused by the Fund's mission and the availability of a significant capital adequacy ratio. An increased level of the risk appetite is expressed in lending to the predominantly big projects (concentration risk), long loan terms (up to 10 years), a preferential financing rate and higher risk metrics of projects, including the increased leverage ratiosand lower collateral requirements.

2. In 2021, there was an adaptation of businesses to the post-crisis situation and an improvementin the financial condition of most projects financed by the Fund. As a result, there wasan improvement in the quality of the loan portfolio: the share of loans without signs of impairment increased from 76% to 80%. The main provisions for loans with the signs ofimpairment were mainly formed in 2020, due towhich in 2021 there was a significant decrease in the volume of provisions: from 7.0 million US$ to 2.0 million US$.

3. Market and structural risks, including interest rate risks, liquidity risk and currency risk, were assessed as moderate during 2021. Inconnection with the policy pursued by the main central banks aimed at stimulating economic activity in the pandemic and post-pandemic years of 2020-2021, there was a decrease in the interest income on investments in securities. The decrease in the interest income was compensated by an improvement in the quality of the Fund's loan portfolio, which made it possible to recover part of the provisionsfor the expected credit losses and ensure the Fund's profitability in the respective period.

The Fund's liquidity in 2021 remained at a highlevel. Temporarily available funds exceeded the Fund's loan obligations several times. In 2021, the exchange rate of the national currency of the Kyrgyz Republic was stable, dueto this, the VAR indicators (estimated value of potential losses that will not be exceeded with a certain probability) decreased significantly compared to 2020. The size of the Fund's open currency position in 2021 remained at a minimum level and, as a result, the currency risks were assessed as low.

Long-term plans of the Fund for 2022

In 2022, the Fund faces a whole range of important tasks related to achieving a new level of institutional maturity, including the approval of the Fund's Strategy for 2023 - 2027. The Fund aims to strengthen its position as a sustainable development institution and increase its internal potential by completing the modernization of all major internal processes.

The Fund intends to complete optimization of the business processes, including the processes for reviewing loan applications and risk assessment. This will positively affect the quality of project development in the key areas of financing of the Russian Kyrgyz Development Fund, including within the framework of projectfinancing.

In order to diversify the liquidity risk when managing temporarily available funds, and to minimize the consequences of the emerging geopolitical situation, it is planned to expand the list of securities of the treasury portfolio. The internal corporate activities aimed at improving the skills of employees, the accounting of loans, guarantees, approaches to budgeting, organization of effective work with the problem projects and automation of the internal business processes will improve thequality and performance of the Fund.

In the context of the increased uncertainty of the development of the financial and economic situation in the world in general and in the Central Asia in particular, the Fund is ready to provide timely measures of financial support to its clients. The Fund plans to expand cooperation with the international development institutions and attract resources on the terms of co- financing projects. The Fund also intends to continue working with the specialized export organizations to attract resources to projects implemented by the Fund.

The Fund's attention will be directed to expanding ties between the business communities of the Russian Federation and the Kyrgyz Republic with the prospect of implementing joint integration projects. Conducting the Kyrgyz-Russian business forum, participation in the business mission of the Russian business in Kyrgyzstan will traditionally become one of the central events for the business community of the Kyrgyz Republic. The Fund's involvement in the preparation of the Eurasian Economic Forum will allow the establishment of new contacts, and the expansion of the business and economic cooperation. Regular meetings of Russianinvestors and the business community of the Kyrgyz Republic at the integration platforms willgreatly contribute to the emergence of the newjoint business projects.

The Fund will continue working on the development and implementation of the products for financing cluster projects focused on the development of sustainable value chains in the agro-industrial sector. In 2022, the Fund plans to conduct sectorial research in the priority areas in order to determine the cluster approach in a number of promising sectors of the country's economy. It is expected that asa result of the Fund's analytical activity, new cluster products will be created. In 2022, it is planned to increase the volume of lending based on the approaches of projectfinancing and financing of the innovative projects aimed at technological modernization of the economy of the Kyrgyz Republic. The Fund intends to intensify work on finding and assisting in structuring the projects. An increase in the volume of financing of the economy is also planned to be carried out through the development of such a new financial instrumentas equity participation.

It is planned to expand an expert and analytical support to improve the quality of project documentation for potential borrowers of the Fund. Technical assistance will be provided in the preparation of business plans and feasibility studies, as well as in the involvement of independent experts and audit firms. Sources of funding will be both the PPSF funds and technical assistance from other internationaldevelopment institutions.

In 2022, the Fund will keep working on establishing active interaction with the regions of the country. The activities will be intensified to raise awareness in the regions about the Fund’s products, including the cluster areas. Themain task of the regional advisory centers is stillto assist in the preparation of business plans and the receipt of financing by entrepreneurs through the Fund. The attention of the Fund will also be directed to promising areas, in particular, to the development of the level of digitalization of thefinancial sector of Kyrgyzstan and promotion of the sustainable green finance ideas.

Section.5: Uzbekistan (SW/NDF)

Fund for Reconstruction and Development of Uzbekistan

Name:	Fund for Reconstruction and Development of Uzbekistan
Legal Name:	Fund for Reconstruction and Development of the Republic of Uzbekistan
DBA:	Fund for Reconstruction and Development of Uzbekistan
Region:	Asia
Country:	Uzbekistan
Established At:	2006
Type:	Sovereign Wealth Fund
Assets	US$22,800,400,000

The Fund for Reconstruction and Development of the Republic of Uzbekistan, established in 2006 in accordance with the Decree of the President of the Republic of Uzbekistan No. UP-3751 dated May 11, 2006, is a financial institution under the Cabinet of Ministers of the Republic of Uzbekistan, designed to ensure the implementation of projects for the modernization and technical re-equipment of leading, primarily basic sectors of the economy, achieving a dynamic, sustainable and balanced socio-economic development of the country, as well as the implementation of an effective structural and investment policy.

The Fund for Reconstruction and Development of the Republic of Uzbekistan also finances the implementation of national socially significant state programs and projects for the formation of industrial and non-industrial infrastructure, primarily in promising but underdeveloped regions, modernization and development of transport and telecommunications infrastructure, creating conditions for integration republics into the international communications network, providing the shortest access to international transport corridors and world markets. The Fund for Reconstruction and Development of the Republic of Uzbekistan may participate in organizing joint financing of projects with international financial institutions, credit institutions of the republic and foreign countries.

Mission & Goals

"To modernize and re-equip the leading, primarily basic sectors of the economy, and to achieve a dynamic, sustainable and balanced socio-economic development of the country" (SDF).

The founder of the Fund is the Government of the Republic of Uzbekistan represented by the Ministry of Finance. The supreme governing body of the Fund is the Fund Management Council, headed by the Prime Minister of the Republic of Uzbekistan.

The Uzbekistan Fund for Reconstruction and Development was established in 2006. It is a 100% state-owned fund that finances investment projects in Uzbekistan's priority industrial sectors—oil and gas, chemicals, energy, and metals and mining.

The Fund has partnered with foreign investors, international financial institutions, and export credit agencies. Its beneficiaries are entities engaged in strategic infrastructure and socioeconomic development of Uzbekistan. It has partnered with ADB since 2014, contributing US$740 million to its work with ADB.

Section.6: Islamic Republic of Iran (SW/NDF)

National Development Fund of Iran (NDFI)

Overview

Generally speaking resource curse or Dutch Disease has already affected Iranian economy through formation of rent seeking governments and mismanagement of the resources. Although abundant oil and gas resources contributed to development of many sectors in recent decades still an unbalanced development of economic sectors and uneven economic growth in provinces in Iran rethinking the effective role of revenue from natural resources.

A glance at the government budget delineates that dependency on oil revenues has not experienced any diversion and stability.

There is no doubt that a steady and balanced inflow of revenues from natural resources can better regulate a sound and sustainable development. Gradual shift of economy from oil dependency towards economic diversification through market-oriented approaches and greater role of private sector in the economy was envisaged in the mindset of policy makers for a long period of time which finally concluded in formation of a stabilization fund in Iran.

The National Development Fund of Iran (NDFI) can be traced back to the Third Development Plan of Iran (2000) when a Foreign Currency Reserve Account (known as Oil Stabilization Fund) was established to stabilize the annual budget and prevent the oil prices fluctuations. The other objective of OSF was to save a portion of oil revenues for future generations through making productive investments. Persian Years end at 21st March

Due to the failure of OSF, it was in the Fifth Development Plan (2011) that NDFI was formed to save the shares of future generations and transform a portion of oil revenues to productive investments, while the OSF remained in place only with the single task of keeping the annual budget balanced. Half of OSF balance at the end of each year is transferred to NDFI regularly. NDFI is mandated with transforming a portion of the revenues from export of oil, gas, gas condensates and oil products to sustainable wealth and productive investments, as well as saving the share of future generations from these resources. Based on the law, 23% of the hard currency revenues from the above mentioned sources go to NDFI in 2013. This share will reach to 32% by the end of 2016.

The Investment Ethics of the NDFI

NDFI as a non-government public entity enjoys independently decisions making and transparent and accountable governance as well as observing Sovereign wealth funds' ethics in its investments, in line with Santiago Principles. The main pillars of NDFI ethics are as follows:

- The NDFI activities are within the clear and defined legal and governance structure, consistent with its Articles of Association without pursuing any political interest.

- The investment policy of NDFI is "optimum return on investments", "moderate risk" and "diversified investment portfolio strategy", founded on optimal resilient portfolio management.
- NDFI activities in the internal or external markets shall be clear, transparent and in line with domestic and international laws.
- NDFI assets are inter-generational and shall be invested for development objectives, taking the share of current generation, eco system, optimum return and moderate risk into account in order to achieve sustainable development (as an inter-generational issue).
- The strategies, policies, rules and laws, procedures, return, provision of funds, withdrawals and expenses shall be transparent and clear and will be disclosed to the public. The statistical data is released publicly on a quarterly and annual basis.
- Any deal between NDFI and natural or legal persons shall be on financial and economic basis in a transparent way, abiding by clear laws and procedures.
- NDFI activities in the receiving country shall observe all the rules and laws as well as disclosing requirements of the receiving country. NDFI activities in other countries are purely economic without following any political interest.
- The firms from which NDFI buys shares or provides facilities for, are required to observe the basic rights, environmental concerns, human life, hygiene and public health.
- The investors, domestic or foreign, who make investment in Iran, shall enjoy equal rights, provided that they abide by the NDFI regulations and by-laws. Being economically feasible and in line with NDFI priorities are the criteria for assessing the projects.
- Observing international rules in all of the commercial, financial and economic practices of NDFI as well as staying away from corruption, money laundry and other non-transparent commercial activities is a must.
- NDFI by no means benefits from information rents or other unauthorized rents for economic competition.

Articles of Association

Article 84 of the Fifth Development Plan of the Islamic Republic of Iran Article 84: The National Development Fund of Iran, hereinafter referred to as the “Fund”, is established to turn a portion of the revenue s originated from selling oil, gas, gas condensate and oil products to durable wealth and productive economic investments as well as preserving the share of future generations from the oil and gas resources and products. The Fund is positioned in Tehran and has no branches in the city of Tehran nor in other provinces of the country. The assets and properties of the Fund are owned by the Government of the Islamic Republic of Iran. This article forms the Articles of Association of the Fund

Recourses of the fund

- At least equivalent to 20 percent of the revenues from exporting oil (crude oil, gas condensates , gas and oil products) during the period of the Fifth Development Plan , while its amount is determined in the annual budget
- At least 20 percent of the value of swap of the above - mentioned items
- Shares of the resources described in paragraphs A and B shall increase on an annual basis by three percent
- Fifty percent of the cash balance at the end of the 1389 Iranian calendar year (2011) and following years
- Resources available from international money markets under the permission of the Board of Trustees in accordance with relevant rules and regulations
- Net profit of the Fund during the financial year
- Interest of the Fund's resources with the Central Bank of Iran, not less than the average of interest rate of the Central Bank of Iran's deposits in foreign markets, with calculation and payment every three months
- Twenty percent of resources subject matter of Part D of Paragraph 4 of the 2011 Annual Budget Law

Note 1: Repayment of the Principal and interest of facilities extended to applicants by the Fund shall be made to the Fund's account and be used again to materialize the goals of the Fund.

Note 2: The resources of the Fund shall be held only in the accounts admitted by the Central Bank of the Islamic Republic of Iran

The fund's spending

- To extend financial facilities to the private and cooperative sector as well as the economic entities owned by public non - governmental institutions , to be used for production and development of investments with economic, financial and technical feasibility
- To extend financial facilities for the export of engineering and technical services to Iranian private and cooperative companies which win international tenders, through the Fund's resources or syndicated facilities
- To extend buyer ' s credit to the buyers of Iran - made goods and services in the export - target markets of Iran
- To invest in foreign financial and money markets
- To extend financial facilities to foreign investors on competitive and economic viability grounds in order to attract and protect investors in Iran in accordance with 7 Article 80 of the Constitution

- To pay for expenses of the Fund

Note 1: Resources of the Fund shall not be used to cover costs, acquisition of capital assets and repaying debts of the government in any form and shape.

Note 2: Financial facilities, subject matter of the clauses of this article, shall be paid only in foreign currencies. Recipients of facilities are not allowed to convert the foreign currency into Rial in the domestic market.

Note 3: Financial facilities of the Fund shall be extended only through state - owned and non - governmental agent banks.

List of Financed Economic Sectors– JUN /11/2022

No	Economic Sector	Loan Currency	Loan Amount	Loan Amount in USD
1	Water	USD	603,305,987	603,305,987
		EURO	5,525,000	6,915,232
2	Refineries	USD	4,016,922,667	4,016,922,667
3	Petrochemical Industries	USD	1,877,769,467	1,877,769,467
		EURO	657,346,491	855,064,787
4	Transportation Sector	USD	463,092,087	463,092,087
		EURO	55,000,000	71,220,677
5	pharmaceutical Industries	EURO	77,579,836	102,106,140
6	Agricultural Processing and Comple Industries	USD	107,387,450	107,387,450
7	Food Industries	GBP	2,240,000	3,612,322
		USD	54,073,076	54,073,076
		EURO	144,422,955	189,088,878
8	Other Industries	AED	91,444,129	25,149,093
		USD	4,378,391,595	4,378,391,595
		INR	2,254,753,959	41,557,073
		RMB	126,137,709	20,256,884
		EURO	1,914,025,955	2,510,243,679
9	Tourism	EURO	10,404,193	14,780,857
10	Oil & Gas	USD	13,849,028,931	13,849,028,931
11	Power Plants	USD	2,771,739,839	2,771,739,839
		WON	39,957,745,000	34,636,756
		RMB	54,137,282	8,729,478
		EURO	1,367,774,368	1,802,070,765
Total		33,807,143,720		

Self-Statement (Research Questionnaire)

*Part One: Basic Information

a) Type and mission of the fund:

NDFI, as a non-government public entity, enjoys independent decisions making and transparent and accountable governance, as well as observing Sovereign wealth funds' ethics in its investments, in line with Santiago Principles. The main pillars of NDFI ethics are as follows:

The NDFI activities are within the clear and defined legal and governance structure, consistent with its Articles of Association, without pursuing any political interest.

The investment policy of NDFI is "optimum return on investments", "moderate risk", and "diversified investment portfolio strategy", founded on optimal resilient portfolio management.

NDFI activities in the internal or external markets shall be clear, transparent and in line with domestic and international laws.

NDFI assets are inter-generational and shall be invested for development objectives, taking the share of the current generation, ecosystem, optimum return and moderate risk into account to achieve sustainable development (as an inter-generational issue).

The strategies, policies, rules and laws, procedures, return, provision of funds, withdrawals and expenses shall be transparent and straightforward and will be disclosed to the public. The statistical data is released publicly on a quarterly and annual basis.

Any deal between NDFI and natural or legal persons shall be on a financial and economic basis in a transparent way, abiding by clear laws and procedures.

NDFI activities in the receiving country shall observe all the rules and laws and disclose the receiving country's requirements. NDFI activities in other countries are purely economic without following any political interest.

The firms from which NDFI buys shares or provides facilities must observe the fundamental rights, environmental concerns, human life, hygiene and public health.

The investors, domestic or foreign, who make investments in Iran, shall enjoy equal rights, provided that they abide by the NDFI regulations and by-laws. Being economically feasible and in line with NDFI priorities are the project assessment criteria.

Observing international rules in all of the commercial, financial and economic practices of NDFI, as well as staying away from corruption, money laundry, and other non-transparent commercial activities, is a must.

NDFI does not benefit from information rents or other unauthorized rents for economic competition.

b) Assets under management:

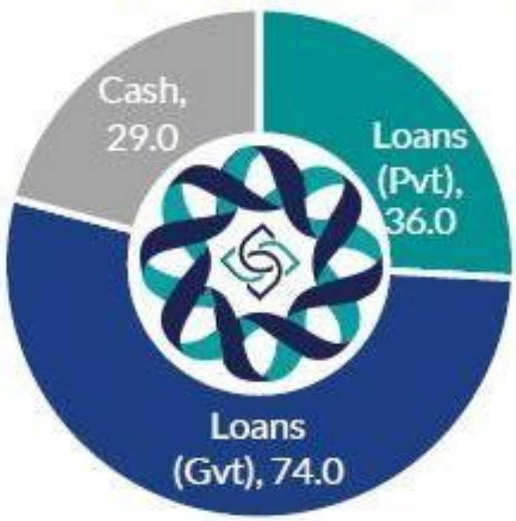
The Global Sovereign wealth fund site shows that NDFI Assets under Management (Aum)is 139billion US$.

c) Investment Sectors(portfolio):

The fund can form its foreign investment portfolio in all international monetary and financial markets through various tools, strategies and methods common in these markets, including stocks, bonds, bank deposits, treasury bonds, and certificates. Investing in investment funds, securities, shares or units, instruments and methods of commercial financing, participation in companies with specific purposes, Special Purpose Vehicles (SPV) and Joint Ventures (JV), TRADE FINANCE, Foreign Direct Investment in all areaswhere it is allowed and unhindered to invest, following the relevant guidelines andregulations.

d) Investment Priorities:

NDFI's Portfolio (US$ bn)



Sector	US$ bn	%
O&G	13.8	39%
Power	4.6	13%
Refineries	4.2	12%
Petrochem	2.7	8%
Water	0.6	2%
Transportation	0.5	1%
Others	9.4	26%

e) Investment volume and share in Foreign Projects (non-domestic):

According to its policies and regulations, NDFI can allocate part of its Funds to foreigninvestments.

****Part Two: The level of readiness**

f) According to the research summary, what is your regional interest/tendency to participate in a joint investment scheme? (Please describe the reasons)

NDFI is keen to increase economic chain value and develop regional trade finances.

g) Has your SW/NDFs participated in investment projects with other ECO members?

(Please mention your success or failure experiences)

No, NDFI hasn't participated in investment projects with other ECO members.

h) Do your SW/NDFs have projects that they would like to share with other ECO members regarding finance? (If there was a case, please state)

NDFI has bilaterally negotiated with some of the ECO member country SWFs to create a joint investment to have domestic or foreign investment cooperation or use project financing.

i) How a joint investment scheme (ECO-SW/NDFs) can attract participation? Please state your favorite model to do how?

The NDFI will be flexible on the joint investment model, although we will comment on thefinalized version.

j) What is your suggestion for participate and invest if the investment opportunities between ECO members are feasible or your research indicates that there are opportunities?

The NDFI proposes to create a joint investment among ECO members.

k) As Considering, mutual potentials and capacities of ECO members, do you have solutions for financing the joint investment projects? (Please explain about it)

Preference of NDFI is to enter into collective investments under Consortium or Iranian company's alliances' format or structure finances such as Sukuk.

***Part Three: How to participate in the joint investment scheme

l) What do you suggest to institutionalize the J.I.S (ECO-SW/NDFs)?

NDFI is interested in mutual investment funds and multinational investment companies to institutionalize the J.I.S.

m) What are your proposed investment priorities, if your fund wants to participate in J.I.S due to potential and capacities of ECO members?

NDFI will invest in projects mostly in transport, infrastructure, petroleum and energy, andfree zones.

n) What are your criteria's for evaluating projects in J.I.S, due to national and economic interests of projects? (Please explain about it)

We are primarily interested in projects with a high return on investments and a short-terminvestment horizon. For reducing risk management, these projects need sovereign guarantees and can leverage with other assets as well as being socio-economic.

o) Which projects do you have to submit in J.I.S (ECO-SW/NDFs)?

According to the structure of NDFI, this matter will be determined by NDFI in the future.

p) How will your participation, if there is interest to participate in J.I.S (ECO-SW/NDFs)?

Direct Investment

q) How will you participate in J.I.S.; directly or by an institution/subsidiary company?

By the decision made by other members, NDFI will be adaptable and will decide later.

r) What the minimum capital will you contribute in JIS to start?

NDFI will bring at least 500 million US$ and will improve this number if other members getsimilar income.

s) Describe the proposed financing methods for investing in the projects of J.I.S?

The preference of NDFI is to enter into joint investments under Consortium or Iraniancompany's alliances' format or structure finances such as Sukuk.

****Part Four: Suggested solutions for institutionalizing J.I.S of ECO-SW/NDFs

According to your experiences and proposed summary of JIS, it is pleasure to describeproposed solutions about the structure, operation model, organization, how to evaluateprojects, investment process and participate members in JIS.

(If similar documentation and research has been done in your country or by yourself,please attach to questionnaire.)

All the issues are mentioned in the concept paper prepared by the National DevelopmentFund.

SELF-ASSESSMENT: SOVEREIGN WEALTH FUNDS'SANTIAGO PRINCIPLES'

National Development Fund of Iran (NDFI)

GAPP 1. Principle

The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

R: NDFI was established under Article 84 of the Fifth Five Year Development Plan (Articles of Association (AoA)) as an independent entity. The assets are owned by the state of I. R. Iran. The objectives and responsibilities of various levels have been clarified in the AoA.

GAPP 1.1. Sub Principle

The legal framework for the SWF should ensure legal soundness of the SWF and its transactions

R: NDFI is operated by its Board of Executive Directors. Board of Trustees sets the strategies and policies while Supervisory Board oversees NDFI operations.

GAPP 1.2. Sub Principle

The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed

R:NDFI has an independent legal personality. Its three-tier management includes: Board of Trustees, Board of Executive Directors and Supervisory Board. The AoA, bylaws, contracts, structure and other documents are madepublic and posted on its website: www.ndf.ir.

GAPP 2. Principle

The policy purpose of the SWFshould be clearly defined and publicly disclosed.

R: NDFI AoA stipulates that:

NDFI objective is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations. In this direction, AoA and Bylaws clearly define the purpose and objectives which are available on NDFI website.

GAPP 3. Principle

Where the SWF's activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overallmacroeconomic policies.

R: The developmental aspect of NDFI is achieved by strengthening the private sector, attracting foreign investment and supporting Iranian contractors abroad. NDFI is also tasked with investing overseas in money and capital markets. The only impact of NDFI in currency and financial market is through the amount of inflow and outflow of resources which are rebalanced by Central Bank of Iran. In addition, NDFI's economic department monitors the macroeconomic policies of Iran and makes sure that NDFI policies are not conflicting with the country's macroeconomic policies. It should be noted that the pertinent members of board of trustees including minister of Economic Affairs and finance and governor of central bank of Iran, among others, make sure the alignment with macroeconomic policies is achieved.

GAPP 4. Principle

There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's general approach to funding, withdrawal, and spending operations.

R: AoA, Bylaws and parliament approvals as well as Board approvals clearly define the general arrangements regarding inflows and outflows, deposits, withdrawals and spending operations. All are available on the website.

GAPP 4.1. Sub Principle

The source of SWF funding should be publicly disclosed.

R: NDFI AoA states that at least 20% of revenues originated from selling oil, gas, gas condensates and oil products should go to NDFI. The figure increases by 3% annually. Any changes to that 3% are to be approved by Parliament. The assets, inflows and outflows, loans and other financial activities are made public in a timely manner.

GAPP 4.2. Sub Principle

The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

R: Based on AoA, Government has absolutely no access to NDFI resources. No financial facility is extended to Government or state-owned firms. The balance sheet and financial statements are published in official Gazette and a newspaper of mass circulation.

GAPP 5. Principle

The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.

R: AoA requires the chairman of Board of Executive Directors to prepare reports on the assets, outflows and expenditures to be submitted to Parliament, Supervisory Board and Board of Trustees. Balance sheets and financial statements are published in Official Gazette and a newspaper of mass circulation.

GAPP 6. Principle

The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in themanagement of the SWF to pursue itsobjectives.

R: NDFI was established as a separate statutory entity to turn oil and gas revenues into productive investments and conserve share of future generations. The Board of Trustees, as described in AoA, manages NDFI and oversees activities of Board of Executive Directors. Roles and responsibilities of the Board of Trustees and Board of Executive Directors have been clearly mentioned and level of responsibility andaccountability clarified in AoA.

GAPP 7. Principle

The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.

R: The Parliament has approved AoA and delegated levels of power, responsibility and accountability to the three Boards. Members of Board of Trustees include cabinet ministers, MPs, Attorney General, private sector representatives among others where appoints members of Board of Executive Directors for a period of 5 years.

Timely reports are prepared and submitted to supervisory bodies, Parliament and Board of Trustees to keep NDFI on the right track. NDFI budget is approved by the Board ofTrustees.

GAPP 8. Principle

The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.

R: Based on NDFI Articles of Association, the objective of NDFI is to turn a portion of revenues originated from selling oil, gas, gas condensates and oil products into durable wealth and productive investments as well as conserving the share of future generations of these oil andgas resources and oil products.

The Board of Trustees has a clear mandate and authority to manage the funds through the Board of Executive Directors. AoA determines who may sit on the Board of Trustees, and Executive Directors are determined throughapproval of Board of Trustees and appointed by the President (who is also Head of Board of Trustees). The Supervisory Board is comprised of the main three supervisory bodies of the state.

The management mandate is clearly defined by AoA where the all policies and operations are rooted. The board of executive directors has the competency to operationalize these policies through it organizational structure i.e. NDFI.

GAPP 9. Principle

The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.

R: NDFI strategies are proposed by the Board of Executive Directors and approved by Board of Trustees. Board of Executive Directors implements the strategy and is overseen by Board of Trustees and Supervisory Board. The Board of Executive Directors has authority, with somelimitations, to make investment and operational decisions, hire staff and so on, in line with constitutive laws and regulation.

NDFI was established as an independent legal entity in order to make its decisions based only on economic principles.

Investments are made on risk adjusted, return based basis within or outside of the country. Members of the Board of Executive Directors are full time employees without holding any other position or economic activity except teaching.

GAPP 10. Principle

The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents,or management agreement.

R: AoA requires the Board of Executive Directors to prepare balance sheets and financial statements to be approved by Board of Trustees. NDFI financial year is March 21 to March 20. The Board of Executive Directors prepares financial reports and the Supervisory Board prepares oversight reports semi-annually to be submitted to Parliament and the Board of Trustees.

GAPP 11. Principle

An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accountingstandards in a consistent manner.

R: The Chairman of The Board of Executive Directors prepares performance reports on a quarterly basis to be submitted to the Board of Executive Directors. The Boardof Executive Directors prepares financial reports and the Supervisory Board prepares oversight reports semi- annually to be submitted to Parliament and Board of Trustees.

The Head of State Audit Court is a member of the Supervisory Board (i.e. accounting and financial reportingstandards are overseen by him).

GAPP 12. Principle

The SWF's operations and financial statements should be audited annually in accordance withrecognized international or nationalauditing standards in a consistent manner.

R: The Supervisory Board is mandated with inspecting NDFI performance regarding compliance with statutory and regulatory criteria, AoA and NDFI objectives.
Statutory and regulatory criteria, including accounting andauditing standards, must be met. Currently the State Audit Organization (an independent body) audits the NDFI financial statements.

GAPP 13. Principle

Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.
R: The three-tier structure of NDFI is in line withprofessional and ethical standards. NDFI code of Ethics has been approved, disclosed on itswebsite and must be observed.

GAPP 14. Principle

Dealing with third parties for the purpose of the SWF's operational management should be based oneconomic and financial grounds, and follow clear rules and procedures.
R: The laws and regulations clearly explain the procedures for NDFI entering into contracts with third parties. All transactions are based on legal, economic and financial grounds and, along with the manuals and bylaws, are available at: www.ndf.ir.
Based on the objectives of NDFI, all economic activities are to achieve optimized risk-adjusted economic return.

GAPP 15. Principle

SWF operations and activities in hostcountries should be conducted in compliance with all applicable regulatory and disclosurerequirements of the countries in which they operate.
R: NDFI Ethics underscore alignment of NDFI activities with the host countries' laws, rules and regulations. The Investment Policy Statement (IPS for investing abroad) of NDFI ensures that external asset managers are fully aware of and in full compliance with the recipient country's laws and regulations

GAPP 16. Principle

The governance framework and objectives, as well as the manner in which the SWF's management isoperationally independent from the owner, should be publicly disclosed.
R: NDFI AoA clearly stipulates that NDFI assets are owned by the State and policy making, operational activities and supervisory oversight is done by NDFI's three Boards.Board of Trustees is comprised of cabinet members, the Attorney General, MPs and private sector representatives. AoA was published in the Official Gazette and is availableon NDFI website.

Any changes to AoA and related laws and regulations are published in the Official Gazette and a newspaper of mass circulation.

GAPP 17. Principle

Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

R: NDFI inflow has been set by Parliament, i.e. 20% of oil and gas revenues, at the inception, with incremental increase of 3% per annum up to the end of Fifth Five Year Development Plan (2011-2015). The Sixth Development Plan will set the annual increase thereafter. Relevant financial information including outflows and inflows are reported to Parliament, the Board of Trustees and the Supervisory Board, and are publicly disclosed.

GAPP 18. Principle

The SWF's investment policy shouldbe clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies),and be based on sound portfolio management principles.

R: AoA sets the minimum rate of return of NDFI investments (not less than the return on Central Bank deposits). IPS states a minimum 4% rate of return with low risk, consistent with other conservative SWFs. Portfolio management strategies, risk tolerance and investment strategies are defined and set in IPS.

GAPP 18.1. Sub Principle

The investment policy should guidethe SWF's financial risk exposures and the possible use of leverage

R: IPS determines investment policy which includes definition and limits of risk exposure. Use of derivatives is prohibited. At present, all cross-border investments are made by external asset managers.

GAPP 18.2. Sub Principle

The investment policy should address the extent to which internal and/or external investmentmanagers are used, the range of their activities and authority, and theprocess by which they are selected and their performance monitored.

R: Use of internal and external investment managers and the range of their activities and authority has been stated in the IPS. Investment managers' Selection process, oversight mechanism and assessing their performance has been stated in the IPS.

GAPP 18.3. Sub Principle

A description of the investment policyof the SWF should be publicly disclosed.

R: IPS describes NDFI investment policy and will be publicly disclosed once approved by the Board of Trustees.

GAPP 19. Principle

The SWF's investment decisions should aim to maximize risk- adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

R: Investment decisions are made by NDFI Board of Trustees based on economic and financial grounds with the aim of maximizing risk-adjusted return.

GAPP 19.1. Sub Principle

If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed

R: IPS deals with NDFI investments abroad. The goal is to maximize risk-adjusted return. The IPS and Ethics clearly stipulate the policies and investment considerations.

The domestic investments follow developmental objectives set by the parliament and/or Board of Trustees.

GAPP 19.2. Sub Principle

The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

R: IPS and Ethics require application of standards and principles for investments. For domestic and cross-border investments a conservative approach is adopted.

GAPP 20. Principle

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

R: One of the main goals of NDFI is to support and enhance private sector. NDFI does not compete with private sector but limits Government's access to oil and gas revenues in order to direct a portion of resources towards private sector.

NDFI extends financial facilities to the private sector through agent banks and does not make direct investments within Iran. All investments are made by private sector. NDFI does not have the power nor tools by any means to influence such investments inappropriately.

GAPP 21. Principle

SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

R: NDFI is not authorized to make direct investments within the country but provides financial facilities for private sector, so it does not acquire ownership to exercise ownership rights.

Regarding cross- border investments, investments are made by external managers to maximize return.

GAPP 22. Principle

The SWF should have a framework that identifies, assesses and manages the risks of its operations.

R: For domestic financial facilities, fund allocation is based on the risk of the Banks, i.e. the agent banks stand accountable for the risks and guarantee full repayment of NDFI financial facilities. NDFI does not take any direct risk in extending loans to the domestic recipients. Regarding cross-border investments, the IPS has set the framework for identification, assessment and management of risks.

GAPP 22.1. Sub Principle

The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

R: Risk management is consistent with risk profile of asset classes. NDFI, in line with asset managers, monitors and reviews risk exposure on a timely manner to ensure compliance with the IPS.

For domestic facilities, the risk exposure has been defined in AoA. That is, the agent banks take the risk not NDFI.

For investments abroad, the IPS defines in detail the acceptable risk exposure. The IPS will be disclosed once approved by the Board of Trustees.

GAPP 22.2. Sub Principle

The general approach to the SWF's risk management framework should be publicly disclosed.

GAPP 23. Principle

The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

R: NDFI performance, financial statements and semi-annual reports are prepared and submitted to the Parliament and Board of Trustees. The Supervisory Board prepares its semi-annual reports to be submitted to the Parliament. The standards, rules and regulations are observed when preparing the reports.

GAPP 24. Principle

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

R: Currently NDFI does not have any process of regular review in place. It is in the agenda of the relevant department to draw up a manual and regulations. It will bein place as soon as it is approved by the Board of Executive Directors.

Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 1

Output 1.4

Researcher: Amir Mostafavi PhD

Phase-I: Output 1

Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Output 1.4

Analyses of the SPVs in each of the ECO SW/NDFs to determine inter-operability between those and the future J.I.S

Introduction

National development/wealth funds are established and operate based on the specific goals of the country. Generally, the goal of the funds is domestic economic development and national support. In the previous surveys, information and introduction was presented for each of the funds.

In this section, based on the approach and mission of each fund, we will analyze the ability to participate and invest in the eco region .With the investigation conducted in several funds of ECO member countries, it can be said that a significant percentage of the resources and assets of the funds in the ECO region are not invested inter-countries.This can be both an opportunity to create a partnership among Eco members and a major obstacle to creating a joint action plan among funds.

In the following, some prominent funds of the Eco region are surveyed and their investment strategies and participation capacities are presented.

ECO Members SW/NDF		
COUNTRY	**SW/NDFs**	**Asset Under Management million US$**
Afghanistan	-	**-**
Azerbaijan	State oil found of Azerbaijan- SOFAZ	**45,000**
Iran	National development fund of Iran-NDFI	**139,000**
Kazakhstan	national found Kazakhstan	**61,000**
	JSC National investment corporation of the national bank of Kazakhstan	**109**
	Samruk-Kazyna	**74,000**
Kyrgyzstan	Russian-kyrgyz development fund	**1,000**
	Uzbek- kyrgyz development fund	
	Hungarian- kyrgyz evelopment fund	
Pakistan	-	**-**
Tajikistan	-	**-**
Türkiye	Türkiye Wealth Fund-TWF	**249,000**
Turkmenistan	Turkmenistan stabilization fund	**-**
Uzbekistan	Fund for reconstruction and development of Uzbekistan	-

Special Purpose Vehicle (SPV) - a way to form participation (ECO-J.I.S)

A special purpose vehicle, also called a special purpose entity (SPE), is a subsidiary created by a parent company to isolate financial risk. Its legal status as a separate company makes its obligations secure even if the parent company goes bankrupt. For this reason, a special purpose vehicle is sometimes called a bankruptcy-remote entity.

If accounting loopholes are exploited, these vehicles can become a financially devastating way to hide company debt, as seen in 2001 in the Enron scandal.

Key concept:

- An SPV is created as a separate company with its own balance sheet by a corporation in order to isolate financial risk.
- It may be used to undertake a risky venture while reducing any negative financial impact upon the parent company and its investors.
- Alternatively, the SPV may be a holding company for the securitization of debt.
- SPVs are also used by venture capitalists to consolidate a pool of capital to invest in a startup.
- SPVs have been used in the past by companies to hide financial losses.

Understanding Special Purpose Vehicles (SPVs)

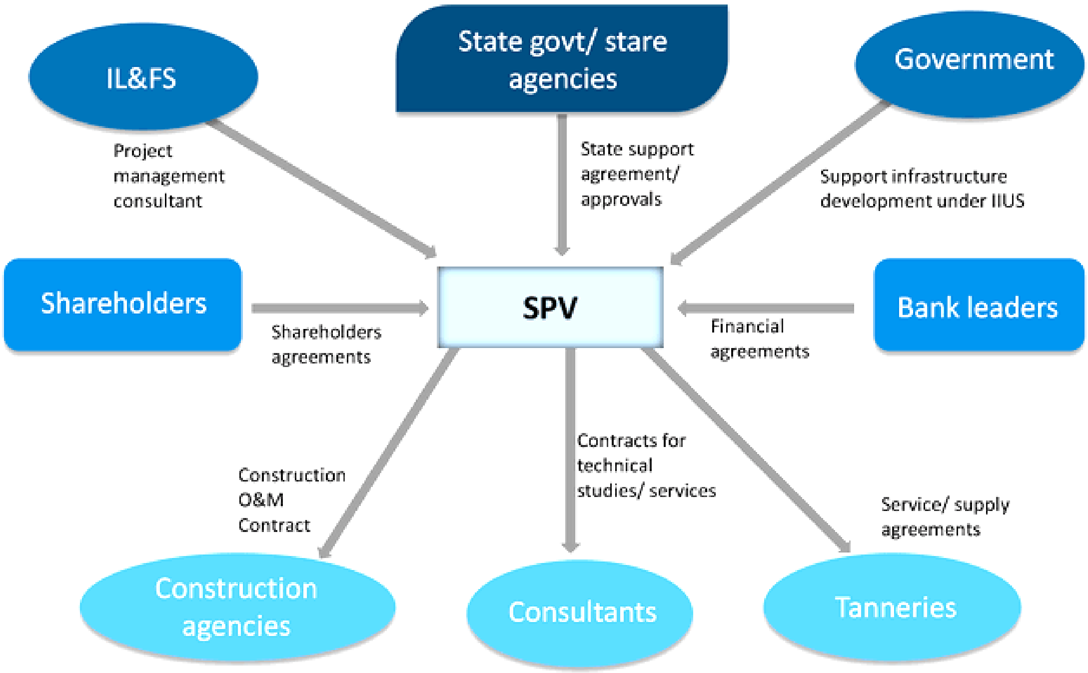
A parent company creates an SPV to isolate or securitize assets in a separate company that is often kept off the balance sheet. It may be created in order to undertake a risky project while protecting the parent company from the most severe risks of its failure.

In other cases, the SPV may be created solely to securitize debt so that investors can be assured of repayment.

In any case, the operations of the SPV are limited to the acquisition and financing of specific assets, and the separate company structure serves as a method of isolating the risks of these activities. An SPV may serve as counterparty for swaps and other credit-sensitive derivative instruments.

A company may form the SPV as a limited partnership, a trust, a corporation, or a limited liability corporation, among other options. It may be designed for independent ownership, management, and funding. In any case, SPVs help companies securitize assets, create joint ventures, isolate corporate assets, or perform other financial transactions.

In venture capitalism, SPVs are used by a group of investors to pool their assets in order to launch a new business or invest in a startup. SPVs typically make just one investment into a business whereas an investment fund would make multiple investments over a period of time.



<u>**Typical SPV Structure**</u>

Uses of Special Purpose Vehicles

The following are the most common reasons for creating SPVs:

1. Risk sharing

A corporation's project may entail significant risks. Creating an SPV enables the corporation to legally isolate the risks of the project and then share this risk with other investors.

2. Securitization

Securitization of loans is a common reason to create an SPV. For example, when issuing mortgage-backed securities from a pool of mortgages, a bank can separate the loans from its other obligations by creating an SPV. The SPV allows investors in the mortgage-backed securities to receive payments for these loans before other creditors of the bank.

3. Asset transfer

Certain types of assets can be hard to transfer. Thus, a company may create an SPV to own these assets. When they want to transfer the assets, they can simply sell the SPV as part of a merger and acquisition (M&A) process.

4. Property sale

If the taxes on property sales are higher than the capital gain realized from the sale, a company may create an SPV that will own the properties for sale. It can then sell the SPV instead of the properties and pay tax on the capital gain from the sale instead of having to pay the property sales tax.

Benefits and Risks of Special Purpose Vehicles

Benefits:

- Isolated financial risk
- Direct ownership of a specific asset
- Tax savings, if the vehicle is created in a tax haven such as the Cayman Islands
- Easy to create and set up the vehicle

Risks:

- Lower access to capital at the vehicle level (since it doesn't have the same credit as the sponsor)
- Mark to Market accounting rules could be triggered if an asset is sold, significantly impacting the sponsor's balance sheet
- Regulatory changes could cause serious problems for companies using these vehicles
- The optics surrounding SPVs are sometimes negative

Financials of an SPV

The financials of an SPV may not appear on the parent company's balance sheet as equity or debt. Instead, its assets, liabilities, and equity will be recorded only on its own balance sheet.
An investor should always check the financials of any SPV before investing in a company.
Thus, the SPV may mask crucial information from investors, who are not getting a full view of a company's financial situation. Investors need to analyze the balance sheet of the parent company and the SPV before deciding whether to invest in a business.

What Are Special Purpose Vehicles Used for?

A special purpose vehicle (SPV) is a subsidiary company that is formed to undertake a specific business purpose or activity. SPVs are commonly utilized in certain structured finance applications, such as asset securitization, joint ventures, property deals, or to isolate parent company assets, operations, or risks. While there are many legitimate uses for establishing SPVs, they have also played a role in several financial and accounting scandals.
Do an SPV's Assets and Liabilities Appear on the Parent Company's Balance Sheet? No. Special purpose vehicles have their own obligations, assets, and liabilities outside the parent company. SPVs can, for example, issue bonds to raise additional capital at more favorable borrowing rates than the parent could. They also create a benefit by achieving off-balance sheet treatment for tax and financial reporting purposes for a parent company.

What Are the Mechanics of an SPV?

The SPV itself acts as an affiliate of a parent corporation, which sells assets off of its own balance sheet to the SPV. The SPV becomes an indirect source of financing for the original corporation by attracting independent equity investors to help purchase debt obligations. This is most useful for large credit risk items, such as subprime mortgage loans.

Not all SPVs are structured the same way. In the United States, SPVs are often limited liability corporations (LLCs). Once the LLC purchases the risky assets from its parent company, it normally groups the assets into tranches and sells them to meet the specific credit risk preferences of different types of investors.

Why Would a Company Form an SPV?

There are several reasons why SPVs are created. They provide protection for a parent company's assets and liabilities, as well as protection against bankruptcy and insolvency. These entities can also get an easy way to raise capital. SPVs also have more operational freedom because they aren't burdened with as many regulations as the parent company.

What Is the Function of SPVs in Public-Private Partnerships?

Public-private partnerships are collaborations between a government agency and a privately owned company. Many private partners in public-private partnerships demand a special purpose vehicle as part of the arrangement. This is especially true for capital-intensive endeavors, such as an infrastructure project. The private company might not want to take on too much financial exposure, so an SPV is created to absorb some of the risks.

ECO Member’s-SPV formation model

Each of the SW/NDFs of ECO members have their own policies and guidelines and may not act directly for international participation. Also, the participation of other institutions, natural and legal persons and other investors requires a specific form and process that can be defined in the concept of SPV. Each ECO members can formulate a framework for participation in the eco Joint Action plan by forming an SPV. These SPVs are established according to the financial and legal structure of that their countries and each of them can invest directly with the specific mission of participating in the joint action plan.

In the formation of the SPV of the ECO members, the SW / NDFs provide the platform for its creation as the main trustee and sponsor. Other institutions and investors, both public and private, are defined in four categories:

1. The supporting entity, which can be the government or the economic structure of the government, which participates in this SPV through economic aid or infrastructure budget.
2. Financing institutions such as banks, pension funds and other investment funds can participate in this SPV.
3. 3-Private investment companies and legal entities can be part of SPV and create a percentage of participation.
4. 4-SPVs can be listed in the stock exchange or financial institution of the ECO members and the public can participate by buying shares or units of SPV via OTC or bond issuing.

The legal framework and intellectual property of each SPV is defined based on the commercial law of that country and it will not have the problems and issues of forming an international company.

These SPVs are specifically formed to participate in the joint action plan or joint investment scheme of ECO members and the structure of their activities are defined based on participation in J.I.S. These SPVs have their own board of directors and governance structure within the framework of the mission and goals of the member governments.

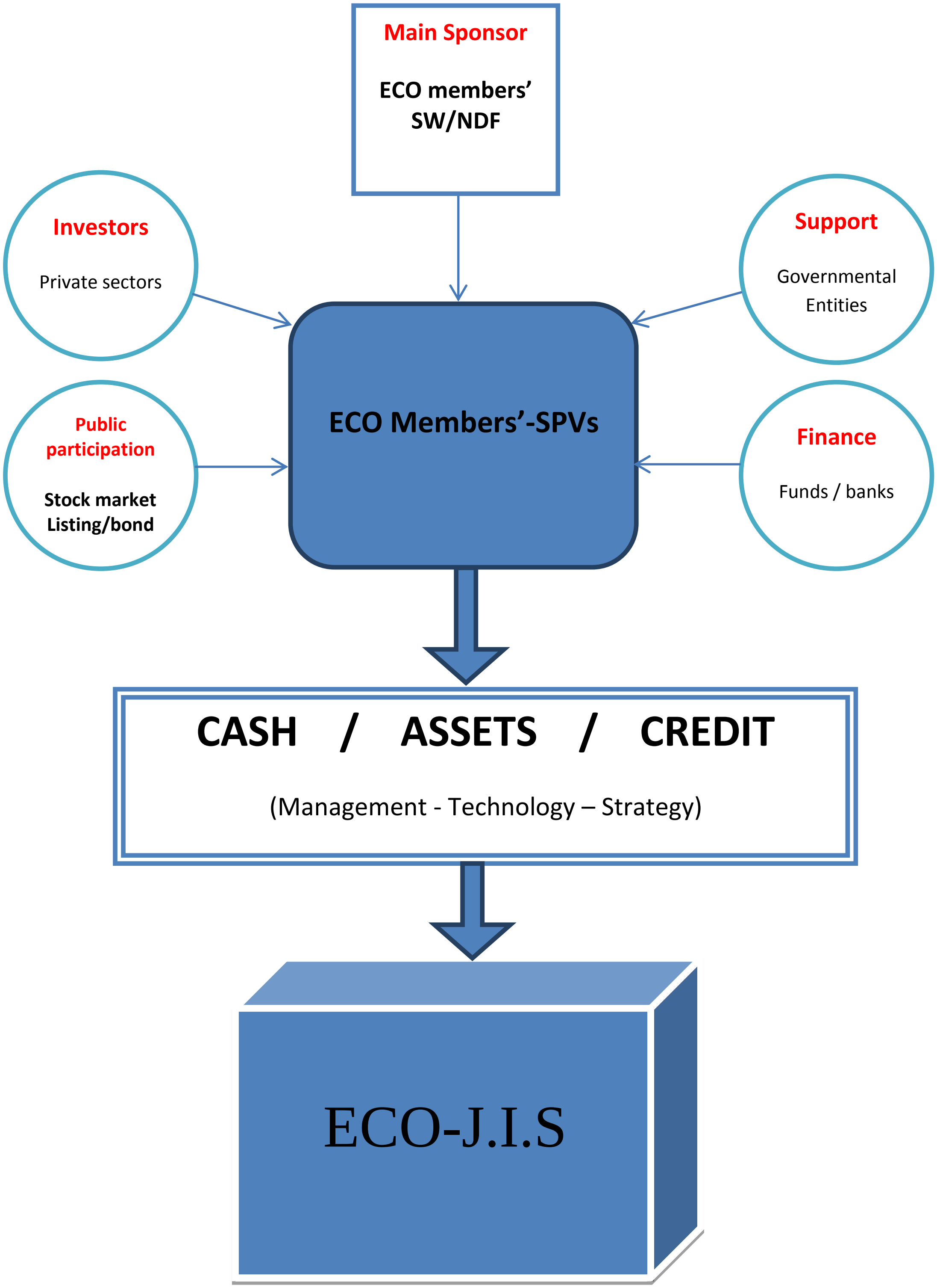
SPV participation in J.I.S

Each of the SPVs formed in the ECO members has a defined financial structure and its portfolio of assets can be cash, assets or credit line that can be used according to J.I.S strategies, the way to enter and inject SPV resources.

In addition, the management and governance structure of J.I.S will be determined based on the participation of the SPV managers of the member countries. Therefore, in addition to financial resources, each of the SPVs will inject the following items into J.I.S.

- Management system and knowledge
- Technology and technical knowledge
- Policymaking and formulation of strategies

ECO members-SPV's conceptual model



Azerbaijan ECO-SPV Formation based on SOFAZ

Sofaz plays an important role in the economy of Azerbaijan and includes a significant share of the country's GDP. Through the analysis, it can be concluded that two main roles in Sofaz strategies are clearly defined. One is investing in international resources and assets in other countries, especially developed countries, to create national support, most of which are low-risk assets, Second; domestic investments, which are focused on domestic infrastructural projects and social welfare.

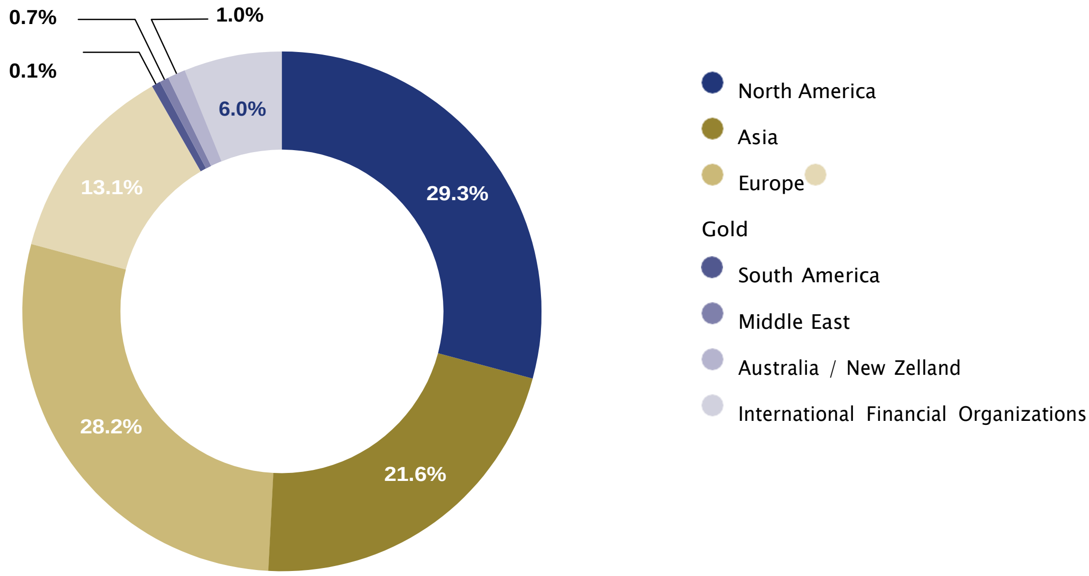
Therefore, Sofaz has a high capacity to allocate a part of the resources for regional projects, especially in the Eco region, and a mechanism with appropriate economic justification that has the necessary attraction to attract the resources of this fund in the Eco region should be presented in the joint action plan.

The Investment Guidelines set the general principles of SOFAZ's asset management framework. Along with other purposes, they outline permissible asset classes and currencies, and define the credit quality limits for SOFAZ's counterparties (custodian banks, correspondent banks, etc.). The Investment Policy defines the objectives, forecasted size, currency composition, and strategic asset allocation, minimum requirements for SOFAZ's external managers, benchmarks, and risk limits for SOFAZ's investment portfolio.

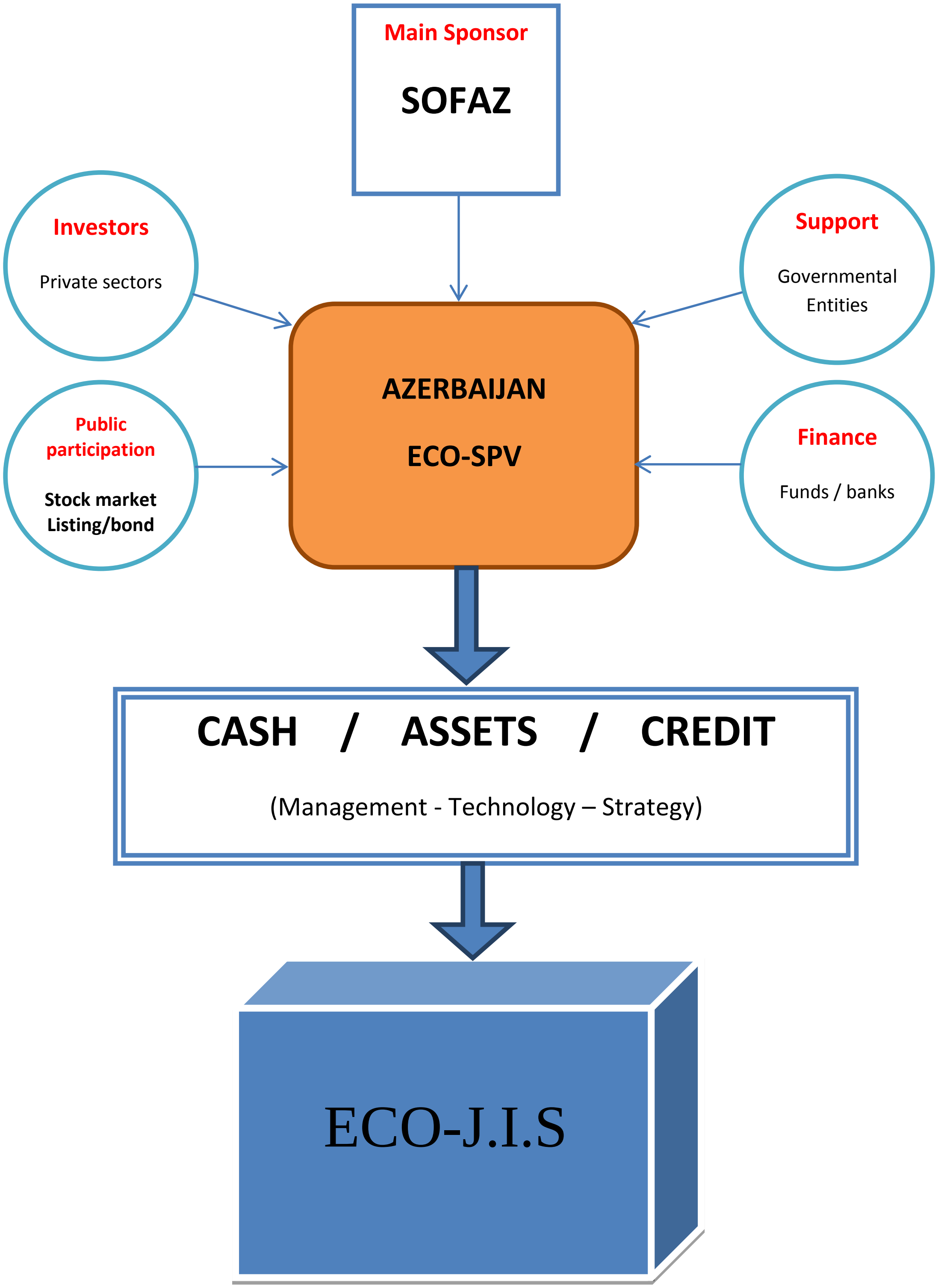
In line with the long-term objectives, the asset class composition of the Fund's investment portfolio is reviewed and approved annually. The 2021 Investment Policy defines the asset allocation of the investment portfolio as follows:

- 50% – Debt obligations and money market instruments (along with maximum lower deviation of 5%);
- 25% – Equities (including up to 5% with maximum upper deviation of 2% in private equity funds and non-rated debt funds, as well as co-investments in private equity);
- 10% – Real estate (along with maximum upper deviation of 2%);
- 15% – Gold (along with maximum upper deviation of 3%).

Portfolio as of 31 December 2020	Portfolio as of 31 December 2021	Target Portfolio 31 December 2021
Fixed Income: **63.8%**	Fixed Income: **61.8%**	Fixed Income: **50%**
Equities: **15.9%**	Equities: **19.0%**	Equities: **25%**
Real Estate: **6.1%**	Real Estate: **6.1%**	Real Estate: **10%**
Gold: **14.2%**	Gold: **13.1%**	Gold: **15%**



As of December 2021, 61.8% of the investment portfolio comprised fixed income and money market securities while 19.0%, 13.1%, and 6.1% were invested in equities, gold, and real estate respectively.


Main Sponsor
SOFAZ
Investors
Private sectors
Support
Governmental Entities
AZERBAIJAN
ECO-SPV
Public participation
Stock market Listing/bond
Finance
Funds / banks
CASH / ASSETS / CREDIT
(Management - Technology – Strategy)
ECO-J.I.S

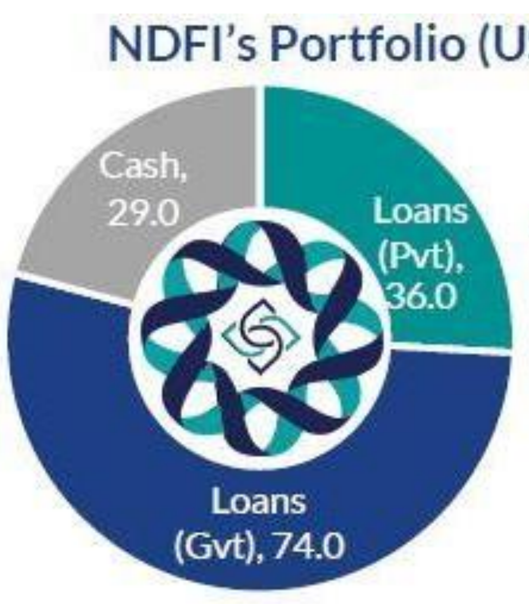
I.R.IRAN ECO-SPV Formation based on NDFI (National Development Fund of Iran)

The National Development Fund of Iran is one of the largest Eco development funds, and a significant percentage of its assets have been allocated to government projects and large private sectors .In reviewing the information of the fund, no significant foreign participation has been observed and its focus is mostly domestic .The questionnaire completed by the fund, it is stated that there is a necessary preparation to participate and invest in the Eco region projects.

Therefore, according to the geopolitical position of Iran and the transit and energy gateway of the region, the participation and investment of this fund in joint infrastructure projects, including transit, transportation and energy, is highly justified.

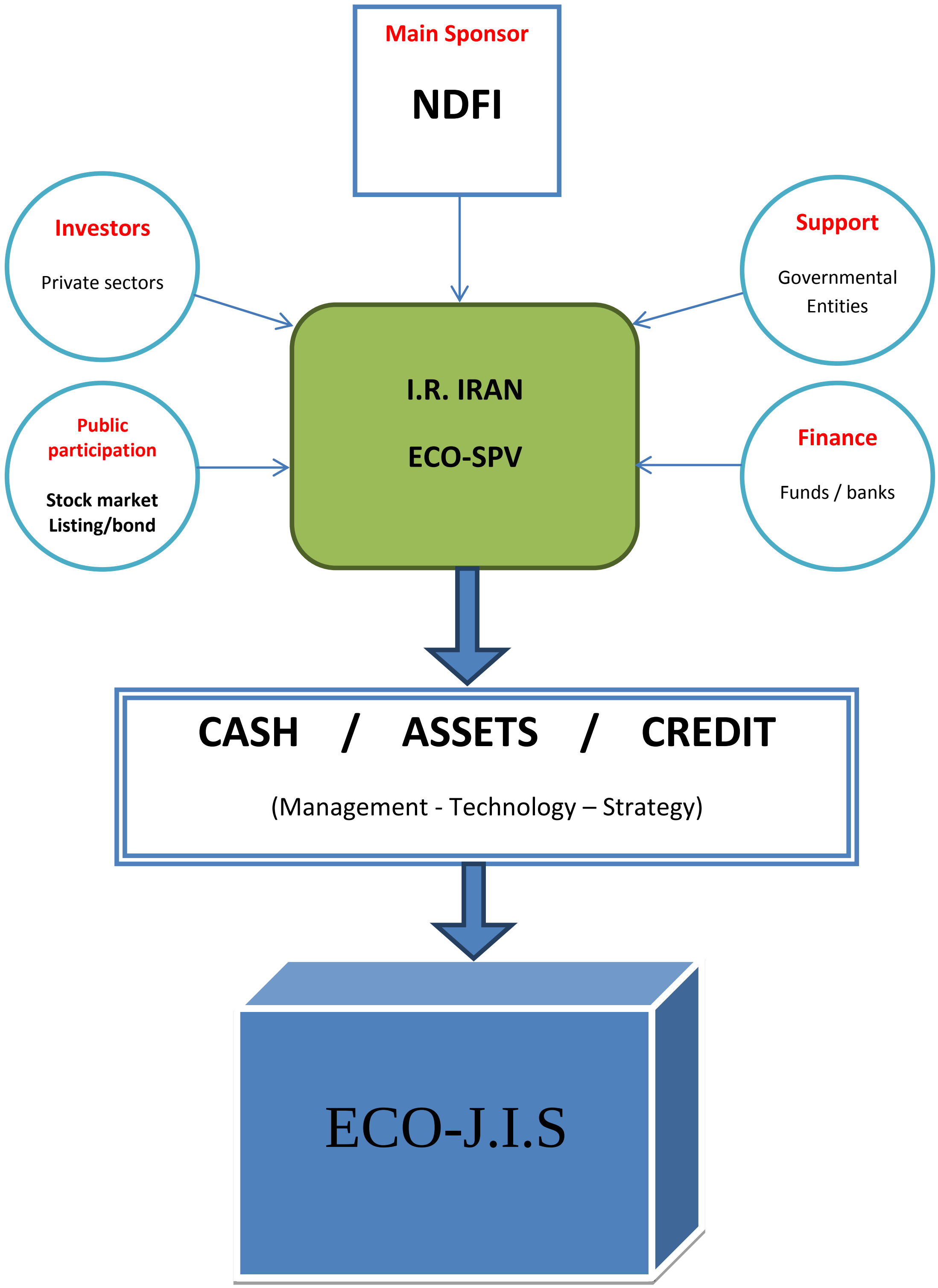
The Global Sovereign wealth fund site shows that NDFI Assets under Management (Aum)is 139 bUS$. The fund can form its foreign investment portfolio in all international monetary and financial markets through various tools, strategies and methods common in these markets, including stocks, bonds, bank deposits, treasury bonds, and certificates. Investing ininvestment funds, securities, shares or units, instruments and methods of commercial financing, participation in companies with specific purposes, Special Purpose Vehicles (SPV) and Joint Ventures (JV), TRADE FINANCE, Foreign Direct Investment in all areas where it is allowed and unhindered to invest, following the relevant guidelines and regulations.

Investment Priorities



Sector	US$ bn	%
O&G	13.8	39%
Power	4.6	13%
Refineries	4.2	12%
Petrochem	2.7	8%
Water	0.6	2%
Transportation	0.5	1%
Others	9.4	26%

According to its policies and regulations, NDFI can allocate part of its Funds to foreigninvestments.


Main Sponsor
NDFI
Investors
Private sectors
Support
Governmental Entities
I.R. IRAN
ECO-SPV
Public participation
Stock market Listing/bond
Finance
Funds / banks
CASH / ASSETS / CREDIT
(Management - Technology – Strategy)
ECO-J.I.S

Kazakhstan ECO-SPV Formation based on Samruk-Kazyna

In fact, this fund manages several large domestic companies as a large holding and has a significant role in the country's economy .The development of large industries and their ownership in line with the economic development of Kazakhstan is one of the goals of this fund, which includes a large number of infrastructure companies of the country as its investment portfolio.

Considering the high capacity of this fund's resources and the infrastructure companies in its portfolio, participation in regional projects such as road, transportation and energy has a proper justification and the capacity and capability exists.

The main directions of the Fund’s capital expenditures are the implementation of investment projects in five Portfolio Companies: KMG, Samruk-Kazyna Ondeu, KTZ, SE, TKS. The main investment projects requiring large capital expenditures are exploration and production of oil and gas, construction of railways, construction of a gas chemical complex, construction of a railway station, construction of power transmission lines and other equally important projects.

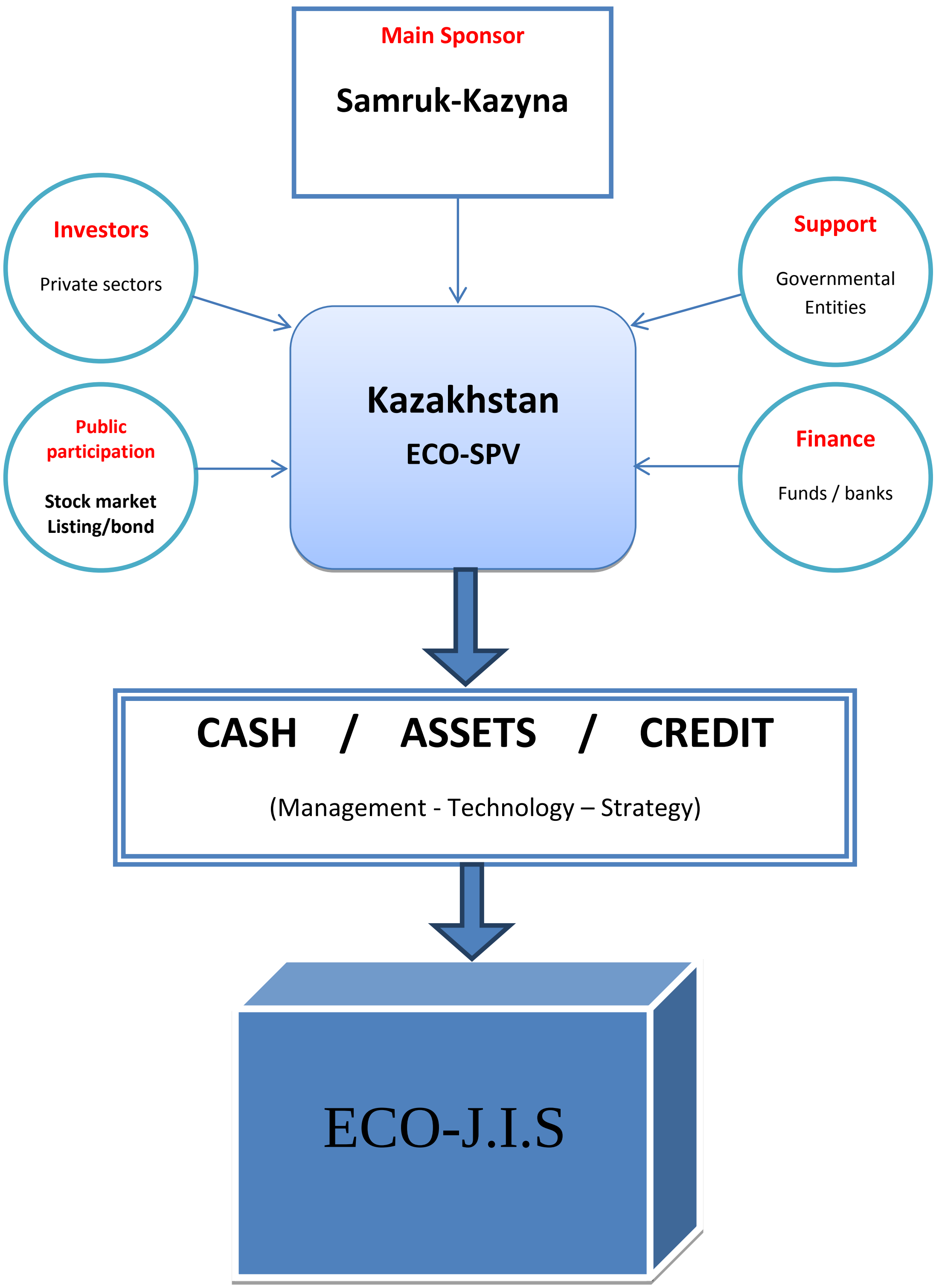
Participation of the Fund in the implementation of infrastructure projects

The Fund continues to perform the function on supporting the country’s economy through the implementation of infrastructure projects, as well as regional and industrial development projects. Today, the Fund participates in 54 projects under the SPIID program with a total amount of KZT 2 trillion. At the same time, in order to accomplish the National Action Plan for the implementation of the Message of the President of the Republic of Kazakhstan “Unity of the People and Systemic Reforms as a Solid Foundation for the National Prosperity” and orders of the Fund's management, the Fund is considering the implementation of 14 priority infrastructure projects totaling KZT 3.82 trillion (ongoing, promising projects and projects under development). These projects mainly cover the transport, logistics, and energy and infrastructure industries. The implementation of these projects will create about 6 thousand permanent jobs and 24.6 thousand temporary jobs.

The mission of the Fund is to create a long-term value and stimulate sustainable economic development through effective asset management in the interests of the people of the Republic of Kazakhstan. The vision of the Fund by 2013 is to become a leader of the national economy and make a breakthrough in the innovation driven development based on the principles of people’s welfare and environmental protection through responsible investment. In 2021, the following activities were carried out in this area:

- In accordance with the Rules for the implementation of new investments of Samruk-Kazyna JSC developed in 2020 to improve the efficiency of the process of implementing new investments, the Fund annually forms a short list of investment initiatives. In 2021, 50 initiatives were considered in 11 industries, and 29 initiatives at various stages of development were included in the short list.

- As part of the qualitative formation and effective management of assets of the Fund of Future Generations, the Rules for the formation of the portfolio of the Fund of Future Generations and the Rules for the formation of the treasury portfolio were updated.



Kyrgyz Republic ECO-SPV Formation based on RKDF (Russian Development Fund)

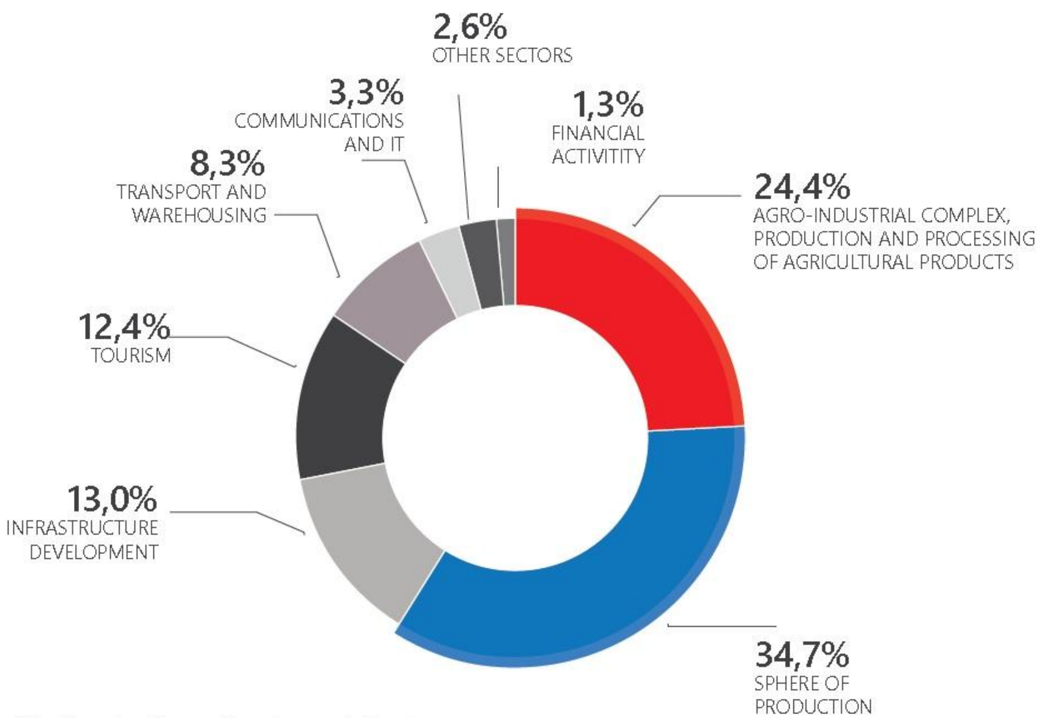
The joint development fund between Russia and Kyrgyz Republic was created in line with the development of projects and the integration of sub-structures between of the two countries, and it operates in many areas and industries concentrated inside the Kyrgyz Republic .

Most of the focus of this fund is attracting resources and investing for domestic projects of the country and economic development, which, due to its inter-country position, has the right capacity and potential to participate in projects that have a economic output for Kyrgyz Republic.

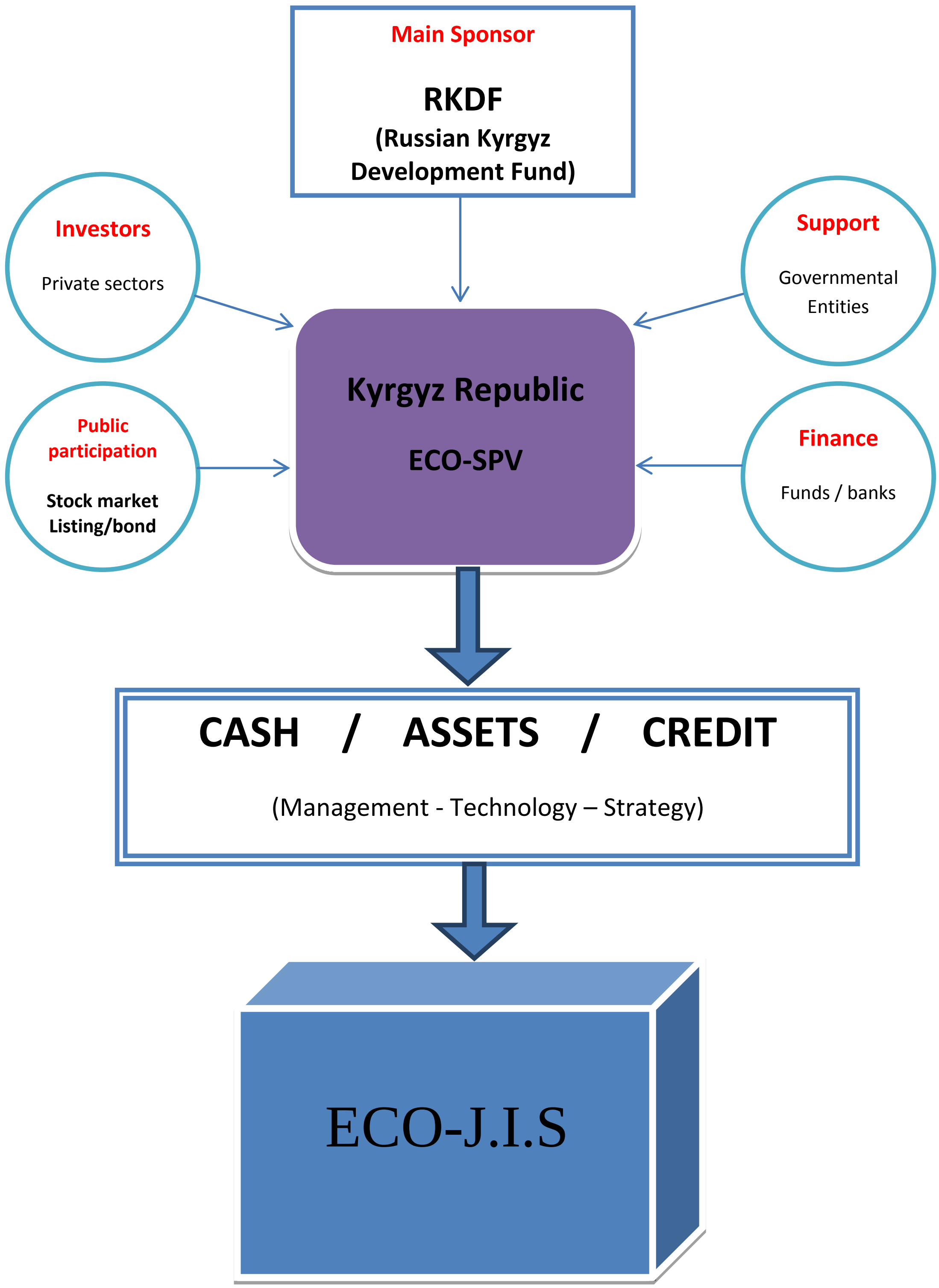
The international activity of the Fund is focused on the implementation of its mission – deepening an economic cooperation between the Kyrgyz Republic and the Russian Federation and expanding Eurasian economic integration, including the attraction of the external sources of investment financing to the economy of Kyrgyzstan.

The key focus is on expanding Russian Kyrgyz business cooperation, including through integration events. In August 2021, the III Kyrgyz-Russian Business Forum was held, which traditionally brought together representatives of the Russian businesses, investors, sectoral state enterprises and many others. Totally, over 300 people participated in the forum. 13 documents were signed - contracts that will allow entrepreneurs of the Kyrgyz Republic to expand cooperation with the Russian Federation and implement joint investment projects and export contracts.

Sectoral structure of projects



Source: The Russian Kyrgyz Development Fund


Main Sponsor
RKDF
(Russian Kyrgyz Development Fund)
Investors
Private sectors
Support
Governmental Entities
Kyrgyz Republic
ECO-SPV
Public participation
Stock market Listing/bond
Finance
Funds / banks
CASH / ASSETS / CREDIT
(Management - Technology – Strategy)
ECO-J.I.S

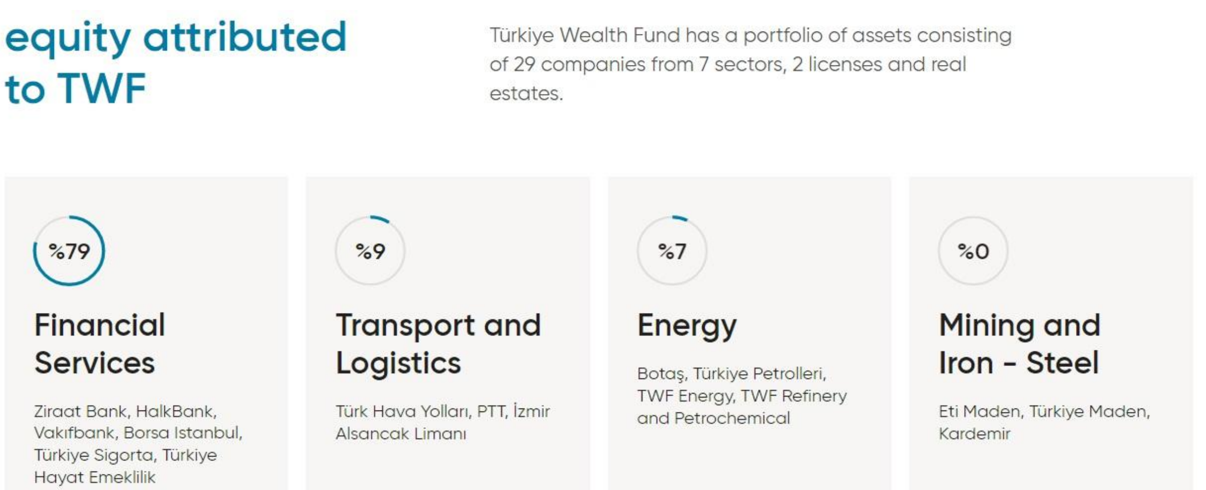
Türkiye ECO-SPV Formation based on Türkiye Wealth Fund (TWF)

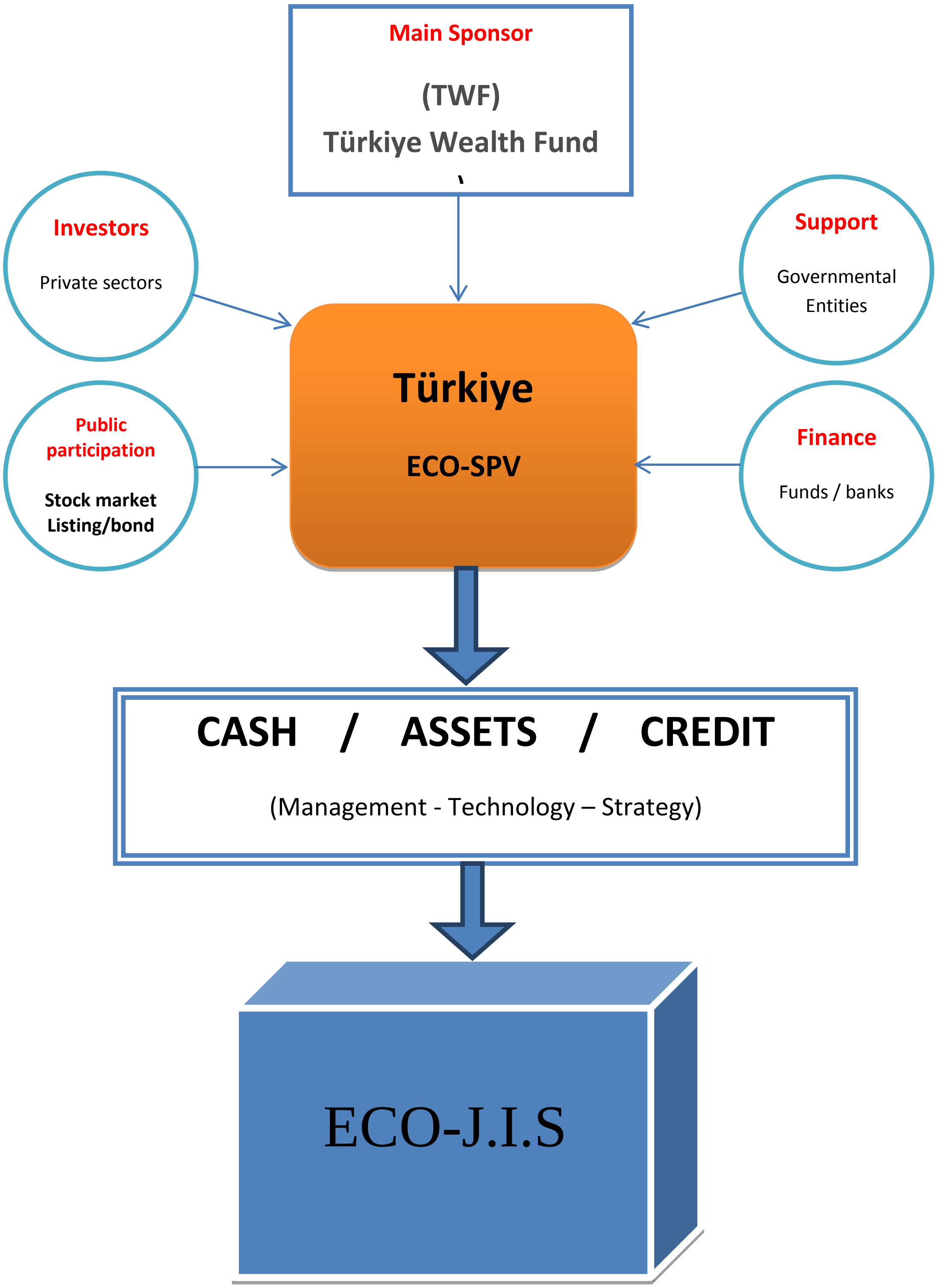
The fund has the most assets under management between all Eco funds and plays a worthy role in the Turkish economy. In the fund review, the main focus is on large and developing industries within Türkiye, and there is no data about participation in other countries or the region.

Considering the suitable capacity in terms of economy and regional position as a gate for the European markets of the ECO region countries, the participation of this fund in commercial and transit infrastructure projects is attractive and can have a suitable motivation as the final beneficiary.

The total size of the Türkiye Wealth Fund (TWF), one of the largest financial structures in Eastern Europe, the Middle East, and Africa, is US$296 billion as of the end of 2020. The central vision behind this financial capacity is to maximize the value of its assets, provide equity for strategic domestic investments, support the emergence of Turkish companies as regional and global leaders, and contribute to the enhancement of capital markets. Structured using successful sovereign wealth funds around the world as a benchmark, the TWF serves the following purposes:

- Contribute to production and employment through investments,
- Support domestic companies and enable them to become regional and global players,
- Assist in financing large-scale public infrastructure projects,
- Take steps to deepen capital markets,
- Invest in sectors strategic to Türkiye, such as natural gas and oil, to ensure the security of supply.




Main Sponsor
(TWF)
Türkiye Wealth Fund
Investors
Private sectors
Support
Governmental Entities
Türkiye
ECO-SPV
Public participation
Stock market Listing/bond
Finance
Funds / banks
CASH / ASSETS / CREDIT
(Management - Technology – Strategy)
ECO-J.I.S

Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 2

Output 2.1

Researcher: Amir Mostafavi PhD

Phase-I: Output 2

Preparation of the Comprehensive Plan of ECO-SW/NDFs on Investment

Output 2.1

Analyses of the ECO regional investment climate and existing financial infrastructure and joint collaboration

The ECO Region shelters more than 460 million inhabitants and expands over 8 million square kilometers of land, connecting the north to south, south and east to the west, Asia to Europe and Eurasia to the Arab World. Composed of some Caucasus, South, West and Central Asian countries, ECO is one of the oldest intergovernmental organizations.

The strategic Eco region consists of 10 countries, each of which plays a special role in the regional economy; it has formed an organization that if they can cooperate properly in joint investment, they will create a proper economic and social prosperity.

ECO organization has a good share in the world economy with a gross production of 2000 billion US$, and its geopolitical situation is the gateway to trade between Asia and Europe. This amount of gross production is an incentive to participate in the development of infrastructure and macroeconomic projects, which requires a strategic framework for cooperation.

Country	GDP-2021(Million US$)
Afghanistan	14,786.86
Azerbaijan	54,622.18
Iran	359,713.15
Kazakhstan	197,112.26
Kyrgyzstan	8,543.42
Pakistan	348,262.54
Tajikistan	8,746.27
Türkiye	819,035.18
Turkmenistan	45,231.43
Uzbekistan	69,238.90
Total	1,925,292.19
world	96,530,000
ECO as % of the world	2 %

The research aims to provide the concepts and basic plan of this cooperation and partnership and create a suitable framework for decision-making by the members in institutionalizing of this joint action. One of the main bases defined in this joint action are the National Wealth and Development Funds, the important role in the economic development of the countries and as a result can be a suitable basis for the establishment of this cooperative institution in the region.

In this research, by examining the national development and wealth funds of the member countries, about seven countries have SW/NDF in different structure and titles, which are presented in the table below .

The detailed information of each of the funds is provided in past sections. Each of them has their own investment and financial resources based on statement and national strategies. In the table below, the assets under management of funds are specified.

ECO Members SW/NDF- Asset Under Management

COUNTRY	SW/NDFs	Asset Under Management (AUM) million US$
Afghanistan	-	-
Azerbaijan	State oil found of Azerbaijan- SOFAZ	45,000
Iran	National development fund of Iran-NDFI	139,000
Kazakhstan	national found Kazakhstan	61,000
	JSC National investment corporation of the national bank of Kazakhstan	109
	Samruk-Kazyna	74,000
Kyrgyzstan	Russian-Kyrgyz development fund	1,000
	Uzbek- Kyrgyz development fund	
	Hungarian- Kyrgyz Development fund	
Pakistan	-	-
Tajikistan	-	-
Türkiye	Türkiye Wealth Fund-TWF	249,000
Turkmenistan	Turkmenistan stabilization fund	-
Uzbekistan	Fund for reconstruction and development of Uzbekistan	-
TOTAL		600,000
ECO region GDP		1,925,292
TOTAL AUM/ECO REGION GDP		31%

According to the above table, the resources of the member countries' funds are around 600 billion US$, a percentage of which provides a suitable volume for the formation of a joint financial institution between the ECO members.

Although in this research, due to the non-response of the funds to the sent questionnaire, we were not able to receive the necessary information from the funds, but according to the published information, the percentage and approximate volume of foreign investment of the development and wealth funds of the countries are summarized in the table below. The table shows, it can be generally concluded that a good percentage of the volume of assets has been invested in international areas abroad for hedging purposes.

If there is a necessary cooperation between the member countries within the framework of joint action and a solution to create incentives for the national wealth development funds, an appropriate amount of investment will be provided for the formation of this financial agreement.

Recent trends

The year 2020 posed an unprecedented challenge to the World economy with the outbreak of the Covid-19 pandemic shrinking the global GDP by 6.7%[2] and bringing worldwide severe economic repercussions. Thanks to the massive vaccination program, global economic recovery was experienced in 2021 and economic growth has been sustained largely with the revival of demand for goods and services. On the other hand, supply shortages with respect to the demand, increasing prices in energy & food, and disruptions in the supply chain; have trigger higher inflation in most of the economies. Moreover, the widespread outbreak of Omicron variant in the second half of 2021 produced uncertainties about global economic growth in the ensuing period.

After the adverse effects of Covid-19 pandemic, the overall global GDP had been projected to recover by 4 % on average , but actually the growth rate has been reported at around 3.3 % in 2022. The projections for subsequent recovery with a positive growth of 3.2% for the 2023-2025 periods are solely dependent upon the duration of the pandemic[3]. Like global economy,

[2] Estimated based on the IMF Data accessed at https://www.imf.org/en/Publications/WEO/Issues/2022-economic-outlook-october.
[3] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN.

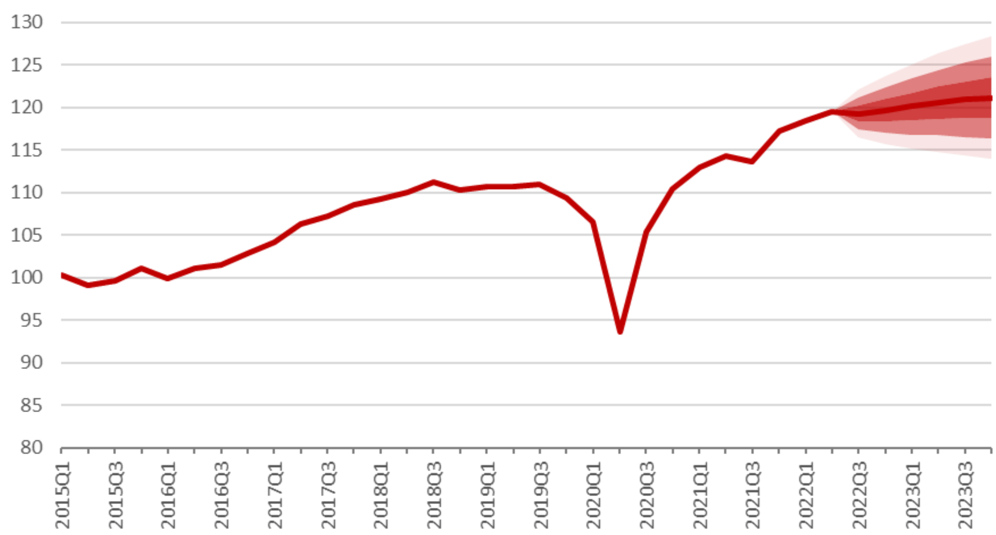
the economies in the Economic Cooperation Organization (ECO) are projected to face similar trends. The projected GDP growth rates of most of the countries are in the negative trajectory.

In the ECO region, the inflation rate is projected by IMF at 15.4% in the year 2023. In economic terms, if we see the global GDP at USUS$ 96.1 trillion in 2021 with share of countries like the US reported at 23.8 per cent; China at 18.4 per cent, Japan 5.1 per cent, and Germany 4.3 per cent4; the ECO's total share of 1.86 per cent of the total world GDP (as a group of ten countries) is not commensurate to its potential.[5] Within the ECO region, the economies of Türkiye, Pakistan, Kazakhstan and Iran have dominated in terms of population and economic size. In terms of GDP growth rates Türkiye is leading with a growth rate of more than 11 per cent in 2021, followed by Tajikistan 9.2 per cent, Uzbekistan 7.4 per cent and Turkmenistan 6.2 per cent. While in terms of GDP Per Capita (Current USUS$) in 2021, Kazakhstan is leading (USUS$ 10,041.5) followed by Türkiye (US$ 9586.6), Turkmenistan (USUS$ 7612) and Azerbaijan (USUS$ 5384).

Trade and Investment sector gives a reflection of any economy and it occupies central place in the ECO region too, as core priority areas, which can play crucial role in improving the economies of the Member States through expansion in the intra-regional trade as well as creating greater trade flows to other regions and the rest on world. Trade has been a critical tool in combating the pandemic and the strong growth underscores how important trade will be in underpinning global economic recovery. Figure 1 shows quarterly world merchandise trade volume through 2023 with error bands around the forecast period. If 2022 assumptions hold, trade growth in end up between 2.0% and 4 % in 2023, If the downside risks materialize, trade growth in 2023 could then be as low as -2.8%. If the surprises are on the upside, however, trade growth next year could be high as 4.6%. Trade could also finish outside of these bounds if any of the underlying assumptions change. The situation is clearer on a quarterly canvas as depicted in the following graph:

[5] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=AF-AZ-IR-KZ-KG-PK-TJ-TR-TM-UZ.

Figure: World Merchandise Trade (source :https://www.wto.org/english/news_e/pres22_e/pr909_e.htm)



1. The world merchandise trade recorded a pandemic induced contraction from USUS$ 19.425 trillion to USUS$ 17.606 trillion at a rate of 9.3 % in 2020 over 2019 (aggregate on a year-on-year basis). The world trade registered a rebound of 26.4 % around in 2021 over 2020 and reached USUS$ 22.265 trillion (aggregate on a year-on-year basis)[6].The situation in the first quarter (Q1) of 2020 was particularly worse which improved in the second and third quarter of 2020. Due to geo-political conflict in Eastern Europe the economists are predicting looming economic recession in coming year, which can affect world trade negatively. World trade is expected to remain subdued in 2023 as multiple shocks weigh on the global economy. WTO economists now predict global merchandise trade volumes will register a mere 1.0% increase in 2023—down sharply from the previous estimate of 3.4%. After softening to 4 percent in 2022, global trade growth is expected to decelerate further to 1.6 percent in 2023, largely reflecting weakening global demand

2. The share of the ECO in the global trade recorded a pandemic induced decline of 2.5% from USUS$ 729 billion (2019) to US US$ 711billion in 2020.[7] However, it increased by 23 % and reached at USUS$ 927.8 billion in 2021. In the year 2023, only Republic of Turkiye reported data which reflects Turkiye's trade at USUS$ 617.8 billion with exports recorded at USUS$ 254 billion and Imports at USUS$ 393. billion[8]. Based on the projection of 2021, the ECO region's share in global trade of all ten countries is projected to more than one trillion dollars, precisely at more than US US$ 1200 billion. The contribution of the region in world trade, at around 4.1 per cent

[6] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=AF-AZ-IR-KZ-KG-PK-TJ-TR-TM-UZ.

[7] ITC Web based tools, Trade map.

[8] Trade map ITC Web based tools accessed on 13th April 2023.

in 2021, clearly falls below its commensurate potential with a share of more than 15 per cent in world population and abundance of endowments in natural and human resource. The imports of the ECO region from world stood at US$ 499. 43 billion in 2021 and ECO exports to world were recorded at US$ 428.41 billion in the same period. Major Export destinations of the ECO region have been China (9.1 %, US US$ 39.1 billion), followed by the EU countries like Italy (7.1%, US$30.8 billion), Germany (%, US5.1 US$22.2 billion), USA (5.08 %, US$21.8 billion) and the UK (4.03 % with US$17.3 billion). Major Import sources of the ECO region have been China (16.7 %, US US$ 83.5 billion) followed by Russian Federation (12 %, 60.1 billion), Germany (5.6 %, USUS$ 28.2 billion), UAE (5.6 %, 28 Billion) and the US (3.92 % with US US$ 19.6 billion)[9]

3. The ECO intra-regional trade remained around USUS$ 76.3 billion in 2021, with imports recorded at US US$ 35.5 billion and Exports recorded at USUS$ 40.8 billion. The reported Intra-regional trade is only around 8.2 per cent of region's trade with the world. Within the ECO, the top exporters in 2020 were Türkiye, which accounted for over 50% of the total exports of the region followed by Kazakhstan and Pakistan according to the reported data of the ITC web based tools. In 2023 the data for intra-region trade has not been updated in ITC web based data bases. Only Republic of Tukriye has shared the data through ITC which indicates US US$ 23.7 billion worth of imports and exports of Turkiye in the region. Based on the mirror data the intra-regional ECO trade is projected at USUS$ 48 billion in 2023.[10]

4. The services sector is pivotal in providing inputs for other economic activities, including connecting supply chains, facilitating trade in goods through transpiration channels, mobility of men and material etc. Any disruption in services supply has resulted in a broad economic disruption. The type and extent of effects on trade in services vary by sector and mode of supply.

The trade in services in ECO region was recorded at USUS$ 152.97 billion in 2021 with services' exports to the world stood at USUS$ 82.95 billion and imports from the world at USUS$ 72. 02 Billion. Türkiye, with exports figures of USUS$ 58.13 billion accounted for more than 70 % of the services exports in the ECO in 2021, followed by Pakistan (USUS$ 6.4 billion, 7.7%). In 2021, Transport services accounted for 44.7 % share in services' exports with US US$ 37.1 billion, followed by Travel services (27.2 %, USUS$ 22.9 billion) and telecommunication (6.7 %, USUS$ 5.6 billion). Two major sectors i.e. tourism and transport services, suffered adversely due to Pandemic in 2020 in the wake of social distancing and lockdowns restricting domestic and cross border mobility of goods and services, jeopardizing travel, tourism and hospitality sector. The supply chains across the globe were disrupted compromising supply of essential goods.

[9] Trade map ITC Web based tools accessed on 13th April 2023.
[10] Calculations based on aggregate data to work out mirror data on ITC Trade Map accessed on 13th April 2023.

Nevertheless, the crisis spotlighted the importance of cross- border supply mode (Mode.1 of GATS) in telecommunications and computer services. The use of ICT services in trade through e-commerce and digital trade and communication has seen a revolution with virtual exhibitions/ fairs, tele-health services virtual education etc.

5. Services sectors, and the creation of conditions conducive to trade in services; have been pivotal to economic recovery from the pandemic induced slump. Global trade in services had registered a decline of (-) 7.3% in the first quarter (Q1) of 2020 and (-) 28.5% in second quarter (Q2) on a year-on-year basis. The hardest hit sector had been travel services, which registered a decline of (-) 26.2 % in Q1 and (-) 81.4 % in Q2 of 2020. In the ECO region, exports in services sector reported a decline of 24.41 % in Q1 and Q2 of 2020 compared with corresponding period in 2019, in six reporting ECO Members.[11]

6. FDI remains the most important source of external finance for developing countries according to UNCTAD. The Global FDI stock stood at US$37 trillion at the end of 2020. Global foreign direct investment (FDI) flows fell 49% in the first half of 2020 compared to 2019, due to the economic fallout from Pandemic. In the wake of the pandemic, lockdowns around the world slowed existing investment projects and the prospects of a deep recession led multinational enterprises to reassess new projects. According to the report by UNCTAD, developed economies saw the biggest fall, with FDI reaching an estimated US US$ 98 billion in the six-month period – a decline of 75% compared to 2019. The ECO countries received foreign direct investment (FDI) of about USUS$ 32 billion in 2019, making up 1.95% of total global FDI in 2019 compared with 1.87% five years ago.

7. The inflow of Foreign Direct Investments (FDI) to the ECO countries reached their peak at USUS$ 21.4 billion in 2021 against USUS$ 18. Billion in 2020[12]. As seen in table below, the ECO countries' performance on FDI indicates the need to have a regional financial architecture to streamline investment inward/outward flows for the health of financial systems of each of individual countries.

8. The sphinx of pandemic has revealed inevitability of supply side integration to meet the aggregate consumer demand in global and regional markets alike, leading to emphasis on Regional Supply/Value Integration (RS/VCs).

[11] ITC Web based Tools, Trade map
12. UNCTAD's World Investment Report-2020

FDI Flows (million USUS$) 2014-2019 [13]

Name	Inward						Outward					
Period	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Afghanistan	53	119	39	13	21	N.A	11	41	26	37	31	N.A
Azerbaijan	2867	1403	1504	507	-1707	N.A	2564	1761	2432	825	77	N.A
Iran	51019	2373	1508	1342	1425	N.A	76	75	85	78	81	N.A
Kazakhstan	4669	3757	3118	3675	3172	N.A	913	-1101	-2592	-2155	1468	N.A
Kyrgyzstan	222	139	209	-401	247	N.A	-29	-5	3	2	3	N.A
Pakistan	2496	1737	2218	2057	2102	N.A	52	-21	-7	-45	242	N.A
Tajikistan	307	360	213	106	84	N.A	159	822	23	70	48	N.A
Türkiye	11020	12981	8434	7821	12530	N.A	2662	3607	2841	3229	4979	N.A
Turkmenistan	2086	1985	2166	1169	1452	N.A	-	-	-	N.A	N.A	N.A
Uzbekistan	1798	625	2286	1726	2044	N.A	9	2	3	2	3	N.A

Foreign Direct Investment (ECO Region)

Foreign direct investment (FDI) is believed to be a key determinant of economic growth and development. It not only provides the necessary capital to the host economies but also brings spillover benefits including transfer of technology, productivity improvements, and introduction of better management practices. In recent years, regional economic integration schemes have played an important role in encouraging not only intra-regional FDI but also FDI from non-members. In the ECO region, there is significant potential for intra-regional FDI to expand. The ECO region also has the potential to become a major FDI destination from non-member countries owing to a large combined market.

[13] UNCTAD's data for 2020

Foreign Direct Investment (million USUS$) 2017-2021

Country	2017	2018	2019	2020	2021
Afghanistan	53	119	39	13	20
Azerbaijan	2,867	1,403	1,504	507	-
Iran	5,019	2,373	1,508	1,340	1,430
Kazakhstan	4,669	3,757	3,118	7,190	4,380
Kyrgyzstan	222	139	209	--	247
Pakistan	2,496	1,737	2,218	2,060	2,100
Tajikistan	307	360	213	106	84
Türkiye	11,020	12,981	9,570	7,830	13,840
Turkmenistan	2,086	1,985	2,166	1,170	1,450
Uzbekistan	2,601	2,355	3,070	1,730	2,100
Total- ECO region	**31,340**	**27,209**	**23,615**	**21,946**	**25,651**
WORLD –TOTAL					**1,600,000**
ECO region/ WORLD					**1.6%**

Source: UNCTAD, FDI/TNC database

All the ECO member countries rely on FDI as an important source of economic development and growth. Total FDI in the ECO member states reached at a level of US$25 billion in 2021 accounting for 1.6 percent of the total FDI in the world. Kazakhstan, Türkiye, Pakistan and Uzbekistan are the four major countries for inward FDI, Until 2021, Türkiye was the top FDI recipient in the ECO region, with overtaking other countries after 2004 to become a major FDI destination in the region.

The level of FDI into ECO member countries remains far below potential and is much less than the FDI received by the fast growing emerging economies such as Brazil, India and China. The only exception is Türkiye which has succeeded in attracting an increasing FDI on the back of its market-oriented reforms and liberalization policies. The situation is much worse at the intra-regional level. Except for some intra-regional investment by Türkiye in the ECO region and bilateral investment between Türkiye and Iran, intra-regional investment remains insignificant.

There are number of constraints that impede both global and intra-regional investment in the ECO region. Foreign investors respond to various location specific factors such as the state of physical infrastructure, the quality of skilled manpower, and regulatory and institutional efficiency. Evidence shows that countries which offer a conductive environment for business performance and growth are more successful at attracting FDI than those where doing business remains a challenge. Though ECO region has made progress in terms of improving the business climate challenges remain in several areas such as inadequate physical infrastructure, electricity shortages, and lack of highly qualified manpower, and law and order problems.

The quality of physical infrastructure plays an important role in attracting both domestic and foreign investment. High quality infrastructure reduces the transaction costs of doing business and hence contributes towards the productive efficiency and competitiveness. A well-developed infrastructure is one of the prerequisites for attracting FDI. Yet most of the member states have not developed their infrastructural facilities up to the mark.

Some issues about FDI in ECO region

- Weak Intellectual Property Rights
  In recent years, there has been a surge on foreign direct investment in technology intensive sectors such as computers and telecommunications equipment manufacturing. However, such investment relies on secure intellectual property rights that provide appropriate incentives to firms to invest in product innovation. Most of the ECO countries have not been able to attract foreign direct investment in high-tech segments and this is typically attributed to weak enforcement of intellectual property laws.

- Availability and Quality of Manpower
  Foreign investors require a sufficient pool of skilled and highly qualified manpower. The availability of such manpower ensures productive efficiency which in turn determines the competitiveness of firms. Unfortunately, skilled and technical manpower is in short supply which prevents foreign investors to make investments in high value added segments that require an adequate supply of highly skilled manpower.
- Regulatory Framework
  Over the past many years, the ECO countries have significantly reformed their regulatory frameworks, though still much more remains to be done. In particular,

businesses continue to face a host of regulations including strict labor laws, business licensing and registration, and location of business, all of which act as major constraints on establishing new businesses. In addition, businesses often identify weaknesses in the regulatory framework such as legal problems, lack of transparency and excessive documentation requirements that raise their transactions costs.

- Law and Order
  Law and order is essential for the security of private enterprises. In recent years, however, law and order has deteriorated --- especially in Afghanistan, Pakistan, Kyrgyzstan, and Uzbekistan --- resulting in travel advisories issued by foreign countries. Such travel advisories raise transaction costs as firms have to deal with non- availability of foreign managerial and technical expertise. Weak law and order situation, increasing terrorist activities and anti-terrorism war in some member states like Pakistan and Afghanistan are the major factors constraining FDI. Business activities are being severely affected by the uncertain situation prevailing in these countries.

- High Transportation Cost
  According to a survey, access to market is by far the most important location determinant of FDI. Among the ECO member states, seven member states are land locked having long distances from seaports. Kazakhstan has the longest distance from a seaport. High transportation costs and the lack of easy accessibility to the world market are negatively affecting the level of FDI in these countries.

- Low Mutual Financial Cooperation
  Mutual financial cooperation is very low in the region which in turn impedes the flow of intra-regional FDI. Presence of developed banking network and branches in other member states is imperative to have smooth flow of funds and business transactions. However many ECO member states do not have branches of their banks in other member countries.

- Cross Border Transportation and communication facilities
  Cross-border transportation and communication facilities are insufficient in the ECO region. Intra-regional investment can be promoted by building the modes of transportation and communication at the required level.

Policy Recommendations

Size and growth of the market are the most important location criteria, followed by the quality of resources (including skilled labor) and of the technical and administrative business environment, and government incentives. To begin with, a greater level of economic integration in the ECO region itself will be instrumental in promoting FDI in the ECO region. The ECO region is a combined market of 465 million inhabitants with GDP of USUS$ 2,000 billion. The region also offers diversity in terms of their production structures, and demand patterns.

Whereas these are important attributes for foreign investors, the individual member countries must also take steps to put in place an environment that can enhance the profitability of foreign investors. In particular, to attract FDI the host countries need to provide a business-friendly environment, promote industrial diversification, upgrade physical infrastructure, promote special economic zones, and take effective steps for human resource development.

The creation of a market-friendly business environment is essential to spur FDI. While the ECO countries have taken steps to improve their business climates in the recent past, more regulatory reforms are needed particularly in the labor markets as well as in tax administrations. In particular, consolidation of labor levies and the linkage between productivity and benefits; improving customs procedures, information flows, documentation related regulations and distribution/collection system; reduction in regulatory uncertainty by reducing the frequency of changes in the rules affecting businesses and making all rules transparent and by removing discretion from the administration of rules. Such reforms can be instrumental in attracting FDI by reducing the transactions cost of doing business in the host economies.

A well-diversified industrial structure is essential to attract FDI. This is because a diversified economy has the necessary dynamism and complementarities that are essential for businesses to thrive and grow. Except for Türkiye, Iran and to some extent Pakistan, other ECO economies are not well diversified, and have mostly attracted FDI into energy-related activities with little spillover benefits for the rest of the economy. These economies need to promote the establishment of new enterprises in high value- added segments of the industrial value chain. Also, the transforming economies of the ECO region have an opportunity to leapfrog to high technology industries especially in information and communications technology. Provision of proper incentives to such enterprises will help them to overcome initial disadvantages and to attain a competitive scale of operations that is essential for their growth.

Experience has shown the foreign investors tend to locate in countries with good physical infrastructure. Good quality infrastructure allows businesses to gain efficiencies by lowering their transactions costs. Modern businesses operations require an efficient infrastructure network and utilities that allow the businesses to effectively run their supply chains, achieve on-time deliveries, and manage their inventories. The ECO countries, especially the less developed members, need to improve their physical infrastructure to attract more FDI into their economies.

Special economic zones have played an important role in attracting FDI into developing economies. The experience of China and other East Asian economies is a testament to this fact.

These zones offer special incentives and better physical infrastructure to foreign investors. Both Türkiye and Pakistan have set up special economic zones to attract FDI particularly in export-oriented enterprises. Other ECO countries may also emulate the experience of Türkiye and Pakistan in establishing special economic zones for foreign and domestic investors. Availability of affordable and skilled manpower is one of the most important factors influencing investors' decision to locate in a particular country. Whereas some regional countries offer advantages in terms of cheap unskilled labor, labor with adequate skills required by modern businesses remain in deficient supply. It is imperative for the regional countries to develop their manpower in line with the global industrial requirements.

Role of ECO-TDB

The ECO Trade and Development Bank (ECO-TDB) was established on August 3, 2005 with its headquarters located in Istanbul. The Bank started its operations in 2008. The representative offices of the Bank in Tehran (Iran) and Karachi (Pakistan) are fully functional. The membership of the bank is open to ECO member states as well as to their banks and other financial institutions. The current shareholders are now six members of ECO, namely Afghanistan, Azerbaijan, Iran, Kyrgyz Republic, Pakistan and Türkiye.

If the joint financial institution of ECO members is established (J.I.S), banks, development funds and international investors are one of the suitable markets for financing. ETDB, as a body to support in regional projects through lobbying for resources as well as providing project financing.

Financial Regulations

An efficient financial system that channels investible funds to most productive uses is essential for development and growth. Studies have shown that financial deepening helps improve overall efficiency in the economy by lowering transactions costs as well as by facilitating consumers and businesses in terms of access to credit and other financial instruments such as bonds and equities. The financial sector is prone to instability due mainly to its risk-taking nature and hence requires effective regulations. The recent global financial crisis attributed mainly to lax regulation of the financial sector underscores the importance of putting in place mechanisms for the effective functioning of the financial system.

Financial Regulatory Authorities in the Eco member States	
Country	**Regulatory**
Afghanistan	• Da Afghanistan Bank (DAB)
Azerbaijan	• Financial Market Supervisory Authority of Azerbaijan
Iran	• Central bank of Iran • Securities and Exchange Organization (SEO)
Kazakhstan	• Astana Financial Services Authority - AIFC • Financial Markets Supervisory Agency (FMSA)
Kyrgyz Republic	• SSRSFM • Kyrgyz Republic Financial Market Oversight and Regulation Agency
Pakistan	• State Bank of Pakistan • Securities and Exchange Commission of Pakistan
Tajikistan	• NATIONAL FINANCIAL STABILITY COUNCIL
Türkiye	• Central Bank of the Republic of Türkiye • Banking Regulation and Supervision Agency of Türkiye • Capital Markets Board of Türkiye
Turkmenistan	• Central Bank of Turkmenistan
Uzbekistan	• Central Bank of Uzbekistan (CBU) • Center for Coordination and Control over Functioning of Securities Market

Role of Financial Regulatory Authorities

The financial regulatory authorities regulate the financial system with the overarching aim of ensuring financial stability in the economy. Other major objectives of the regulating authorities are to:

- Provide easy access to the required information for investors
- Guarantee the reliability of the financial system,
- Improve financial services and meet the challenge of globalization of financial services.

The regulatory bodies manage and monitor registration procedures, facilitate trade in equities, regulate monetary policy, and oversee foreign investment in the financial sector.

The major regulatory body in each member country is the central bank, which regulates the financial sector and conducts monetary policy to achieve the dual objectives of price stability and economic growth. In addition, each country has regulatory bodies to oversee the securities and capital markets (Table 6.1). These agencies provide a regulatory framework for the functioning of the non-bank financial institutions as well as the equities markets. A key concern of the regulatory bodies in the ECO members has been to manage international capital flows. With the liberalization of financial markets around the globe, developing countries are becoming increasingly integrated into the global financial system. In the ECO region, both Türkiye and Pakistan have seen a rising trend in private capital inflows especially the portfolio investment. It is generally recognized that such inflows can often be volatile and may thus destabilize the recipient economies. To avoid the potential risks attached with short term capital flows, the regulatory authorities aim to strengthen the domestic financial system through good governance and prudent regulations.

Obstacles to Financial Sector Development

With the exception of Türkiye and Pakistan, financial sectors in other ECO member countries are not very well developed. Several factors have impeded the development of an efficient financial sector in these economies. First, the dominance of the public sector in the financial market has hindered the development of private financial institutions. Private sector tends to shy away from markets with large public sector presence mainly because the presence of a large public sector creates an uncertain market environment. Second, large capital requirements for private financial institutions act as a major constraint to private sector participation. Consequently, financial sector remains concentrated and lacks depth in terms of offering appropriate financial instruments for consumers and businesses. Third, the equities markets have not gained prominence in some ECO countries mainly because of the limited participation of private manufacturing enterprises on the bourses.

- **Exchange rate / fluctuation**

The member countries of the ECO region have 10 different currencies, and the conversion rate is one of the problems facing international financial exchanges due to the drastic changes. Also, the different inflation rates and currency parity with common currencies such as the dollar and the euro have made financial exchanges always difficult. In some countries, there are several different exchange rates, which make financial transparency difficult and stability and there is no necessary stability for financial transactions.

- **Competition policy/ transparency**

One of the basic issues in regional cooperation is transparency and competition policy, which has a direct approval in the way of interaction and cooperation between countries and is one of the indicators of development among the countries of the world.

Competitive policies in the eco region and transparency regarding pricing, tariffs and government support, trust laws and how to compete are in an aura of uncertainty, and one of the obstacles to cooperation in the financial and commercial fields is the lack of transparency in information and data and lack of competitive policies between members. The low level of transparency and lack of a fair competition policy between the member countries is one of the obstacles to the use of business and investment programs in the region, which requires cooperation and a joint program between the members in this matter.

A transparent and fair competition enforcement process supports the impartial treatment of investigated persons. It also improves the accuracy and comprehensiveness of competition enforcement decisions, by making sure that all arguments are heard. Observing due process reinforces the legitimacy of competition enforcement and its credibility vis-à-vis interested parties and the public.

On October 6, 2021, OECD Ministers adopted the Recommendation on Transparency and Procedural Fairness in Competition Law Enforcement. This document is the first multilateral instrument that provides governments with recommendations on due process standards for competition law. It acknowledges that competition enforcement should be fair, predictable and transparent, and combine effective rules, impartial institutions and sound enforcement practices.

The Recommendation sets 7 specific principles for competition law enforcement:

- Transparency and predictability
- Independence, impartiality, and professionalism
- Non-discrimination, proportionality and consistency
- Timeliness
- Parties’ engagement in enforcement
- Protection of confidential and privileged information
- Impartial judicial review

Toward Improvement

Financial sector development requires a comprehensive set of policies aimed at financial liberalization, improving the regulatory roles of the central banks, capital market development, facilitating the adoption of modern banking technology, and capacity building. Financial liberalization aimed at greater participation of the private sector will introduce more competition in the market that will ensure provision of effective financial services and instruments.

The central bank, being the major regulator, plays an important role in the development of the financial sector. In particular, there is a need for the independence and autonomy of the central bank to ensure policy credibility. Also, there is a need to build the capacity of the financial regulatory authorities in terms of managerial and technical expertise to develop and enforce prudential regulations, as well as in risk management. Some ECO countries lack well developed capital markets. For the deepening of the capital markets, there is a need to further develop the corporate debt market through promotion of bonds and securities, and other term financing facilities.

In recent years, modern technology has transformed financial operations across the globe. However, some ECO members such as Tajikistan and Uzbekistan lack such modern technology. There is a need to facilitate the adoption of modern technology by strengthening the communication infrastructure and by making it available at lower prices. The introduction of Real Time Gross Settlement (RTGS) can greatly improve the payment settlement infrastructure improving the efficiency of the financial system. Also, the Negotiated Dealing System (NDS) has become essential feature of a modern financial system, enabling on-line dealing and dissemination of trade information relating to instruments in the money and foreign exchange market.

Regional cooperation in ECO can contribute significantly to the development of financial sectors in the ECO member countries. The less-developed countries can learn from the experiences of Türkiye and Pakistan in financial sector development. Similarly, the individual countries can benefit from the financial institutions of the ECO members. There are some instances of cross-border presence of the financial institutions in the ECO region. For example, major commercial banks in Kazakhstan expanded their operations to neighboring countries in recent years. Also, Turkish banks have a presence in other ECO member states.

There is great scope for enhancing intra- regional provision of financial services. Such cooperation will not only improve access to financial services and instruments but will also facilitate intra-regional trade in the ECO region. The ECO Trade and Development Bank can play an important role in the development of the financial sector. The Bank needs to expand its operations in terms of medium and long-term financing facilitates for both public and private sectors. The bank can also play an important role in promoting intra-regional trade through provision of trade finance facilities to the ECO member states.

Trade Barriers (Tariffs & Non-Tariff Barriers (NTB))

One of the characteristics of the region is the vibrant informal sector, which means that in the most cases unofficial economic ties are stronger than formal economic relationships among the countries. Informal trade- often called "shuttle trade" or unofficial trade-is common, involving usually small-scale movement of goods across countries on unofficial bases. Preferential tariff protocol was approved by the founder members and they agreed to execute it from March 1993. But its execution, because of a number of different issues has been delayed seriously which include: lack of necessary coordination among members and absence of appropriate information on each other's situations, region's economic- political circumstances and international monopolies, passing through of a transitional process (with emphasis on) private sector reinforcement, and absence of multilateral cooperation experiences. Issues such as lack of coordination among participating delegations, absence of a common language and lack of delegations knowledge about previous decisions have hindered this organization progress.

There have been occasions that because of lack of necessary coordination among members, ECO different meetings have been delayed. The committee for preferential tariff of ECO in its second meeting examined new lists of Iran, Türkiye and Pakistan discountable goods and finally these countries customs duties were reduced by ten percent. As the result, they left a long way to full elimination of tariffs behind. It is noteworthy that other new members were not even ready for this ten percent discount. While the ten percent plan was not in use, this committee considered its 20 percent discount plan.

ECO has appropriate grounds for expansion of economic cooperation which mainly are as follow: geographic condition, security and political necessities, international circumstances, historical and cultural ties, economic benefits of multilateral cooperation, possibility of cooperation with other regional and international organization's facilities for execution of common projects, expansion and utilization of communication networks between member states, utilization of common economic institutions such as insurance, shipping and airlines sectors, the possibility for execution of joint research, and expansion of business exchanges based on fixed amount of exchanges and tariffs. But in regard to expansion of trade between members, this organization has not been able to act successfully. There are so many obstacles and we point to some of them as follow:

- border disputes, civil wars in Afghanistan and Tajikistan, different political system of member states, foreign power influences, escalation of rivalry in the region, trans–regional obligations of some of the memberstates, lack of confidence in some of the member states toward other member's intentions, and lack of economic interdependence. There are different factors that together have limited ECO activities. With respect tothe different political consideration of members, it is necessary to point out that ECO is a regional economic organization and its most important aim should be to establish sustainable economic growth and development among member states.

ECO member's cooperation, like many regional cooperation organizations in the third world, is seriously overshadowed by member state's political considerations. There are many factors that have prevented expansion of trade relations which mainly are as follow:

- changing regulation and emergence of tariff and non–tariff barriers, repeated changes in laws and regulations related to import and export sector, use of different regulations in bargaining with other countries, newness of facilities and entities that are supporting foreign trades in new members of ECO. Unlawful confiscation of goods and escort of trucks, enactment and collection of different kind of taxes, exercise of health regulations and special standards in some of the member's states, lack of appropriate judicial communication and contacts between member states, difficult situations for exchange of local currencies to viable foreign currencies, exchange of illegal goods in some of the member's borders, and absence of efficienttransportation systems among them.
- In ECO strategy, the word "trade" is one of the three priorities in its activities in next ten years. As mentioned ECO first regional trade agreement was produced in 1992 which three member states with the aim of development of regional trade and as the first step to eliminate trade barriers in the region signed "preferential tariff arrangements" in March , 23, 1991 in Tehran. In Feb. 16, 1992 the three founder states of ECO granted privilege for 62 good items, 16 items belonged to Iran, 16 items were from Pakistan and the remaining 32 items belonged to Türkiye (2 items were agricultural goods). At the meantime, a 20 percent tariff discount in support of trade exchange's development was suggested but it has not

finalized yet. With respect to WTO and the executive effects of its agreements on ECO members, establishment of financial experts group was approved by the council of ministers in 1997.

- This group is obliged to examine non–tariff and tariff barriers for trade development and start negotiating toward preparation of a regional agreement draft with the aim of gradual elimination of these barriers. Non-tariff trade barriers mainly can be divided into two kinds of limitations that are related to geographic, political, cultural and social circumstances of these countries. These limitations are mainly as follow: nationality problems, lack of political pluralism, weakness of administrative systems, absence of social complementary grounds, limitation of cultural and social exchanges, political dependence, economic dependency, limited communication networks, limited volume of trade in the region, weakness of economic complementary grounds, unless trade volumes, and issues related to work force and unemployment. Non-tariff actions that are related to quantitative or non–value limitations include all form of trade limitations which operate through reduction of import volumes. In this method of trade policy making, government's gains is not considerable, because if the government only receive money for issuing import licenses, this would not produce revenue for it. This policy has often used in support of domestic production and improvement of balance of payments.

Countries like Azerbaijan, Kazakhstan, and Kyrgyzstan have the lowest level of tariffs. Azerbaijan and Central Asia countries have subjected their trade systems to liberalization in order to facilitate their integration into international trade system. They have also eliminated import and export limitations and to some extent, have stable and exchangeable currencies. Most of the member states don't impose qualitative limitations.

Iran and Uzbekistan's trade systems are the ones with most limitations. Iran's trade and currency system is subject to complicated and severe control. Uzbekistan government also imposes severe control on its trade and currency system. This country conducts a large portion of its foreign trade (41 percent in 1998) through government channels. Turkmenistan trade and currency system is also under severe control. Although imports don't need permission and imported goods are duty–free, but importers can only receive currency whey they have already received permission from a relative public commission. Transportation costs and arbitrariness of transit's duties are among problems when dealing with this country. The government charges transportation companies for different reasons increases the costs.

From an economic perspective, reducing the costs of trade and transit would be make sense under any circumstances, given that this has been identified as one of the main obstacles to the economic development of the region. Welfare improvement in the short run is likely to be largest for greater cooperation among neighboring countries.

Therefore, with respect to all of above points, ECO has not been able to establish the initial communications between members, like the one that already exists between members of economic institutions of the world. For example, In European Union the members can use customs tariff and the whole system and other countries adhere to policies. Absence of a common market is one of the main problems of ECO members.
Creation of a common market and preferential tariffs can drive ECO toward expansion of trade exchange within the region as well as with other countries.

In 8th summit of Council of Ministers in spring 1999, which was hold in "Alma–Aty", member states signed a memorandum of cooperation against smuggling and customs wrong doings among member states. Two other important documents were ECO trade transit agreement and an agreement onfacilitating visa process for merchants in ECO region.

Economic Cooperation
Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 2

Output 2.2-2.3

Researcher: Amir Mostafavi PhD

Phase-I: Output 2

Preparation of the Comprehensive Plan of ECO-SW/NDFs on Investment

Output 2.2

Projected Gain/loss analyses of the ten ECO Member States in institutionalization/networking of the SW/NDFs for investment in J.I.S in mega regional projects on the basis of bankability

Output 2.3

Matching the large-scale regional mega projects requiring capital investments in the ECO region with the results of the gains/losses analysis on investment

Critical factors of participation

ECO member states have their own priorities and development plan that are compatible with their economic prospects. Cultural and social commonalities and common geographical boundaries as a stimulus can influence other factors and increase the economic incentives of participation. Therefore, the formation of an economic cooperation framework has many requirements that should be given special attention as critical factors for the success of this joint action plan. Any states can participate based on economic output and development potential for the following reasons.

According to the studies conducted in the regional partnerships in the world and the economic corporation formed, a set of diverse factors that justify the participation of a country in the economic corporation were categorized in the form of critical parameters of participation.

1. Forming a joint action plan has a direct role in the economic growth of that country.
2. The financial benefits resulting from it, directly and indirectly, have the financial justification.
3. Participation in joint action creates suitable development leverage in line with the country's development plans.
4. Projects and joint action plans do not have a significant conflict with the regional role and long-term interests of that country, and security issues and protection of national interests are included in it.
5. Fairness in utilization of project outputs and interests via Balancing in participation

Based on the special situation of the ECO region, a small Delphi group was formed to investigate the main factors of success in the ECO regional partnership, and by examining each of the factors, we reached the following 5 summaries. Each of the factors plays a special role in decision-making and regional participation and can be defined as profit (benefits) and loss (risk) resulting from any participation in ECO region.

- **Benefits and profits from participation**
  1-Economic growth
  2- Investment return
  3- Development leverage
- **Risks and losses resulting from participation**
  1- Conflict of interest
  2- Fairness in participation

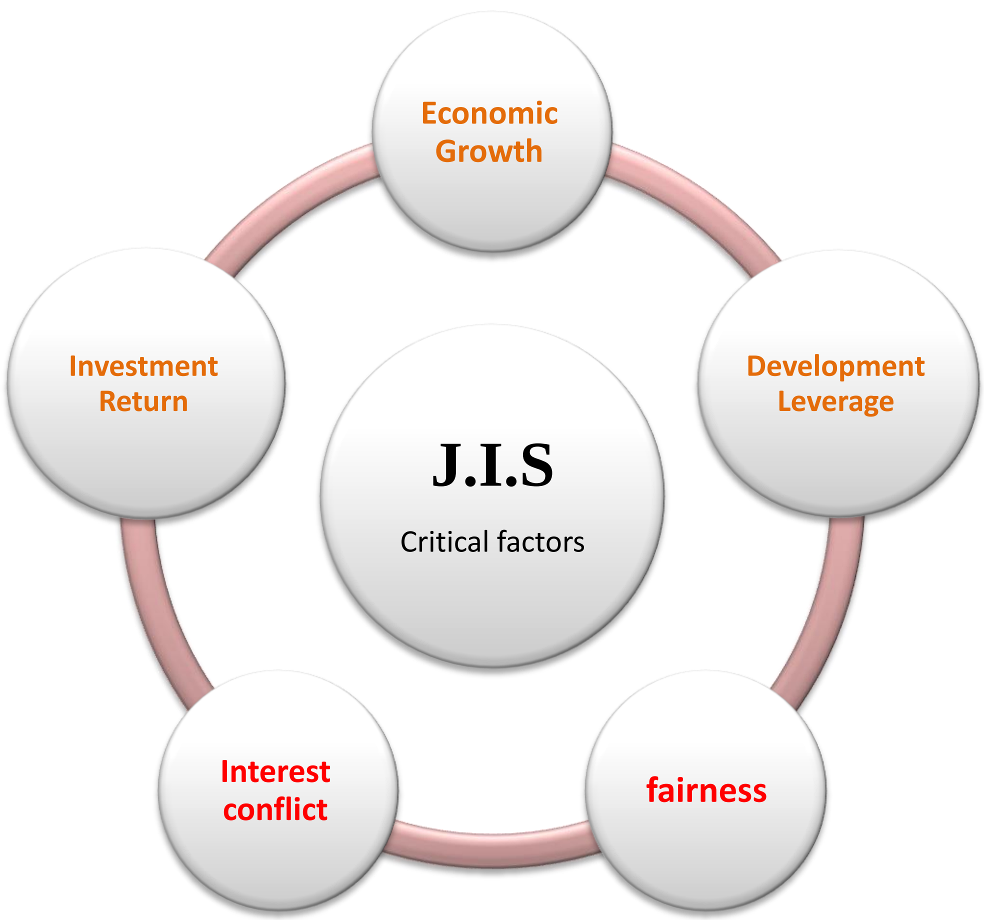
After quantifying these parameters, the profit and loss model of ECO members' participation can be summarized in the form of the following model.

Each of the factors has sub-indices that every joint investment project must have a balance between the benefits and risks mentioned in each of the member countries so that the participation of that country can be justified. Each of the above parameters can be measured based on various indicators, but in short, in order to measure the profit and loss or the benefits and risks of each country in participating in regional projects, the following indicators can be used as the basis.

	Factors	Sub-factors
1	Economic Growth	Investment- trade balance - employment
2	Investment Return	IRR- ROI
3	Development Leverage	Reinforce the advantage - competitiveness
4	Interest conflict	National interest- security
5	Fairness	Exploitation of benefits - partnership balance

By examining each of these indicators, it is possible to provide a correct definition of projects and the way countries participate in joint ventures, and in general, to what extent each country is involved in the benefits and risks of joint ventures in the form of J.I.S .

Critical success factors of ECO J.I.S



The formation of any institution or joint action plan must first be able to provide an appropriate response to the aforementioned factors. Addressing the above issues in the initial stages of formation and during operational institutionalization will be an integral part of the success of the joint action.

J.I.S Evaluation (Project-based)

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S Evaluation (Country-based)

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade Balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT-1										
PROJECT-2										
PROJECT-3										
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PROJECT-n										

Main investment sectors: ECO Vision Guideline

The "ECO Vision 2025" was finally adopted during the 22nd Meeting of the ECO Council of Ministers (COM) on 28th February 2017 in Islamabad, Islamic Republic of Pakistan. The "ECO Vision 2025" is a comprehensive and more focused document, which also contains an Implementation Framework. The salient features of this Vision are as follows:

VISION Statement

"ECO will pave the way to a territory of integrated and sustainable economies as well as free trade area achieved by highly educated societies and improved governance through enhanced cooperation"

Core principles and cooperation areas

The "ECO Vision 2025" is based on the following core principles of "**Sustainability", "Integration",** and **"Conducive Environment"**. This Vision focuses on the following six Cooperation Areas (priority areas):

1. Trade
2. Transport and Connectivity
3. Energy
4. Tourism
5. Economic Growth and Productivity
6. Social Welfare and Environment

Each of the above Cooperation Areas has its own Strategic Objectives, Policy Environment and the Expected Outcomes. The Strategic Objectives define the broad objectives for what will be achieved. The Policy Environment shows how an enabling environment will be created for realization of the Strategic Objectives. The Expected Outcomes are the specific actions that would be taken for realization of the Strategic Objectives, and these are also the variables against which the implementation of the Vision will be measured.

1. Trade

The investment trend is not different from the trade profile. The ECO countries received foreign direct investment (FDI) of about USUS$ 36.5 in 2016 which is too low compared tothe developmental needs of the Region and its potential trajectory of economic growth. In the "ECO Vision 2025", the basic trade objective is to make efforts to double the intra-regional trade so that the share of ECO trade (specifically exports) is increased in the global trade and the regional trade potential for economic growth is tapped. This will be done by creating a favorable policy environment by removing various constraints on flow of goods and services. The focus will be on free flow of goods and services, policy harmonization, maximization of economic efficiency, and reduction of transaction costs. This trade enhancement strategy entails early operationalization of ECO Trade Agreement (ECOTA) followed by further incremental trade liberalization to ultimately make ECO a free-trade area. Pending agreements relating to various spheres of trade and investment will be operationalized and implemented.

To reduce transaction costs, special attention will be paid to visa facilitation, trade promotion, and trade facilitation. Any constraint in these area increases the cost of doing business. Trade related human development and capacity building will be an important component of this strategy.

On the finance side, the ECO Trade and Development Bank (ECO-TDB) will be strengthened by increasing its membership and recapitalization. A trade financing program will be developed for enhancing regional trade. Also important on the financial side is the reinsurance sector. The reinsurance companies transfer the specific risks of the insurance companies. These facilitate regional trade, increase commercial activities and are the key to expansion of trade. Efforts will be made to operationalize the ECO Reinsurance Company at the earliest.

2. Transport and Connectivity

Trade and transport are mutually reinforcing. In this area, the focus will be to maximize connectivity, mobility and accessibility by making major ECO transport corridors commercially viable and operational. This will be done through increasing efficiency, creating a more harmonized and simplified legal and administrative framework, strengthening of private sector, and development of strategies for broadband & information society development.

It will involve accession to/implementation of major international legal instruments, improvement of regional transit transport, operationalization & commercialization of existing corridors, regulatory facilitation, well-organized customs infrastructure, visa facilitation, and increased penetration of Information Communication Technology (ICT) facilities and improved infrastructure.

3. Energy

This aims at enhancement of energy security and sustainability through wider energy access and increased energy trade, both within the ECO and beyond. This requires common efforts to ensure regional energy sustainability and resilience, in coherence with the Sustainable Development Goals (SDGs) and „UN sustainable energy for all". It

also needs a useful policy environment supported by broad political consensus, involvement of all stakeholders, and identification of country-specific energy mix.
This will require efforts towards establishment of regional power & electricity market, enhancement of energy trade, deployment of environment-friendly energy technologies, promotion of investment, and establishment of an institutional advisory mechanism.

4. Tourism

For tourism, the endeavor will be to establish ECO as a peaceful and green tourism destination and development of diverse products and high quality services in the region. This necessitates a comprehensive regional strategy for sustainable tourism development, coherent policy actions, and increased visibility of the ECO as a tourist destination and availability of quality services. This will involve development of ECO tourism brand & Silk Road tourism, visa facilitation, development of various tourism niches, efficient utilization of electronic media for promotion of tourism, human resource development, increased stakeholder participation, development of diverse means & new solutions, establishment of compliance infrastructure, and promotion of sustainable green tourism.

5. Economic Growth and Productivity

This is a new area which deals with agriculture, industry and investment. The objective is to achieve long-term growth, knowledge based production through increased contribution of Research and Development (R&D), entrepreneurship, increased participation of private sector, Small and Medium-sized Enterprises (SMEs) & women in these spheres.
The policy framework aims at use of modern technology, research, policy reforms, increasing human capital productivity, decrease in cost of production, enhancement of agriculture volumes & quality, rural development, pro-poor investments, optimum use of natural resources, and investment-friendly business environment. This will be done through the development of agriculture trade-related risk maps, establishment of Agricultural Trade Information System & the Regional Agricultural Trade Forum, capacity building, support to start-ups, SMEs & Women entrepreneurs, an investment- friendly climate, and a green industrial development strategy.

6. Social Welfare and Environment

This is also a new area aiming at improving the standard of living, quality of life, economic welfare and well-being of people, through providing social protection and environment preservation policies in the ECO Region. This needs a multi-faceted policy environment to address challenges like increased population, diminishing natural resources, socio-economic disparities, pressure on eco-systems, natural disasters, drug & human trafficking, food security, health and education problems. This will be done through effective national and regional policies, active involvement of all member countries, and meaningful relationship with the global players and stakeholders within the context of SDGs.

This will be achieved through capacity development, enhancement of food security and safety, focus on non-communicable diseases, encouragement of universal health coverage systems, environment-friendly economic cooperation, partnership of ECO with regional and global stakeholders for environment protection, establishment of an integrated disaster risk reduction system, and regional cooperation to combat illegal drugs and human trafficking and other trans-regional organized crime.

Based on the Eco perspective, six main investment sectors in the Eco region are identified and the basis for defining projects, of course, these sectors can be developed according to future developments and agreements.

1. **Trade**
2. **Energy**
3. **Tourism**
4. **Transport and Connectivity**
5. **Social Welfare and Environment**
6. **Economic Growth and Productivity**

Each of the projects of the above six sectors are reviewed and evaluated in the form of matrix analysis, and finally the benefit and loss of each one is determined for the member states.

In each of the influential factors, there are quantitative and qualitative indicators, and depending on the type of project, the ability to measure it will be different.

But the main point is the participation of countries in the evaluation of these projects and the provision of reliable data for evaluation so that more realistic results can be obtained.

J.I.S- Trade investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S- Energy investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S- Tourism investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S- Transport and Connectivity investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S- Social Welfare and Environment investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

J.I.S- Economic Growth and Productivity investment projects

Factors / Countries	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
Afghanistan										
Azerbaijan										
Iran										
Kazakhstan										
Kyrgyz Republic										
Pakistan										
Tajikistan										
Türkiye										
Turkmenistan										
Uzbekistan										

Economic Cooperation Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-I: Output 3

Researcher: Amir Mostafavi PhD

Phase-I: Output 3

Fulfillment of the Prefeasibility Study on the J.I.S

1-Introduction

One of the functions of regional cooperation between countries is the economic development and prosperity and the exploitation of common capacities between countries. ECO-Economic Cooperation Organization- which is formed from 10 countries with special potentials in a geopolitical region, where the cooperation potentials between them are less seen in other regions of the world.

Any type of alliance, joint plan and cooperation between members directly and indirectly affects the economic development of all members and its benefits extend to all countries. In this part of the research, the subject of which is the preliminary feasibility of the joint investment action plan or J.I.S.

Joint investment scheme usually originate from a joint effort in the implementation and design of justifiable investment projects for exploitation among ECO members. Therefore, the justification for creating this joint financial effort is, in fact, the justification for carrying out investment projects in the ECO region and between ECO members.

This prefeasibility study includes various issues and topics that are summarized in the following three main categories.

- Economic justification (financial and market)
- Technical and operational justification
- Social and cultural justification

In each of the above categories, a number of more detailed issues are examined and explored, each of which shows a dimension or parameter of the advantages and indicators of setting up this joint plan.

Traditionally in the ECO region, there are two types of intra-regional investment including government or public sector investment and private sector investment. However, this concept paper is to justify how public/state investment through Sovereign Wealth & National Development Funds (SW/NDFs) as a third option could contribute to the intra-regional investment.

Foreign Direct Investment (FDI) in each region is considered an engine for regional growth and development. Facts and figures show that FDI in ECO region reached USUS$19 billion in 2020. It is far behind the volume e of the required regional investment.

The estimated capital formation of the Famous Seven individual member countries' SW/NDFs currently stands at USUS$650 billion. Considering the regional potential - the potential in financial and capital market, consumption rate, potential production and value chain, accessibility to adjacent market, availability of skilled workforce at economical prices coupled with the abundance of energy resources at lower prices; provide an opportunity for networking of SW/NDFs to promote investment with secure and timely profit/returns on the capital.

It should be noted that such an idea gained the political will of the authorities of SW/NDFs in the ECO Member States as well as the Council of Ministers (COM) and harnessed the support of our leaders in the 15th ECO summit for setting up the network of SW/NDFs for intra-regional investment. A proper scheme for establishing an investment system, a mechanism for networking of SW/NDFs and a roadmap among member states; are recommended by the '1st Meeting of Heads SW/NDFs of the ECO Member States' and seconded by the Regional Planning Council of ECO (RPC).

The Capital will be provided by the Mutual ECO Fund for intra-region bilateral and multilateral development projects with committed and competent management and with the vision and desire for growth and development of the target group countries through "SWFs ECO Fund" (Joint Investment Scheme "J.I.S").The investment will focus on the priority areas with higher return on capital and where high interest is secured. The resources will be allocated in prioritized bankable projects in need of capital for long-term investment with greater potential for higher returns and profitability. Resources can be invested in financial markets in all available instruments as well.

Through an established Fund, active cooperation will be sought under the J.I.S scheme with other active investors/ investment entities in the region in prioritized sectors, and a strong relationship between the JIS and investee will be established.

Project Financing through Loans, co-financing, direct investment or, any other financial participation in Mutual ECO Fund would be granted to member states desirous to carrying out prioritized investment projects with an aim to stimulate integration among member states in various sectors like trade and investment, transport and connectivity, energy and infrastructure etc., and other large scale national investment projects.
An acceptable level of risk & return is a mandatory condition for investment financing by the 'Mutual ECO Fund' in bankable regional projects. Mutual ECO Fund also outlines the scale of the deal-making challenge and highlights the need to attract large investments to produce inclusive & sustainable economic transformation.

Therefore the endeavor of the present concept paper is to prepare the ground for the 2nd Meeting of Heads of ECO SW/NDFs by providing a roadmap for future cooperation among

SW/NDFs, a mechanism for networking as well as necessary criteria and schemes for establishment of the mutual ECO fund.

2-Background

As envisaged in the Izmir Treaty and provided in the ECO Vision 2025, the expansion of intra-regional trade and attraction of investment are the ECO's primary and strategic goals for sustainable socio-economic development in the region. Cooperation amongst the 'Capital Markets' of the region is one of the primary areas which are inevitable for achieving the desired growth in trade and investment. Low FDI is holding back ECO region's trade potential in various sectors like industry, transport, agriculture, health and tourism. One way to address the shortcut of FDI in our region is creating cooperative environment among our NDFs and SWFs. Greater regional cooperation is being looked at, as the ultimate solution for a V shape recovery for Pandemic hit economies.

Policies aimed at attracting FDI, particularly from our region in the form of joint investment, have a central place for the regionalism as in case of ECO regional economies. The Council of Ministers during its 22nd Meeting in 2017 at Islamabad, agreed to a target-oriented plan under 'ECO Vision 2025'. The need for a financial structure was also deliberated and 'ECO Vision Fund' was created open for voluntary contributions from various sources. The mandate of the Vision Fund was to assist implementation of regional priority projects in trade, energy, tourism, transit-transport, agriculture and industry. The 1st Meeting of the Heads of SW/NDF was held to assess how SW/NDFs may employ the potentials of ECO Vision Fund for their regional goals. By leveraging SW/ NDFs, Member States could invest capitals into their neighbors and establish common fund with contributions from SWFs/NDFs for the mutual benefit of the region. The NDFs network aimed to augment by cooperation among the SEZs or other relevant authorities of the ECO region for fostering technical cooperation and information sharing to create Regional Value Chains and connect with Global Value Chains (GVCs).

The 1st Meeting of the Heads of National Development Funds of the ECO Member States was virtually hosted by the Islamic Republic of Iran on December 16, 2022. The meeting requested the Secretariat to prepare a draft Road Map by designing a Small Size Project and recruiting a Specialist and distributing the result to Member States for their consideration and approval on the next meeting of ECO Heads of SWFs/NDFs.

Currently, seven of the ten ECO Member States have their respective Sovereign Wealth Funds/National Development Funds (SWFs or NDFs). These Funds are increasingly acquiring their merited physical weight in terms of capital accumulation, region-wide. Thus, the estimated capital formation of the seven individual member countries' SWFs, in aggregate, stands at current USUS$200 billion.

While initially designed for mobilizing liquid funds for the purposes of stabilization of economies during unforeseen economic downturns (particularly for social strata), the SW/NDFs are looking out for investment opportunities outside sovereign territories of countries. To that effect, the ECO region may offer ample opportunities to SW/NDFs of reasonable benefits for ECO societal community via regional projects.

3-Mission & Objective

The aim of the project is to develop the financial architecture of the ECO region to ultimately respond to the investment needs of regional countries for increasing ECO intra-trade. To attain this aim, the project will fulfill the following objectives:

To obtain the financing by ECO countries' SW/NDFs and by other interested public and private investment agencies of mega projects in the ECO region through a diverse range of financial instruments. An example of mega projects will be: financing the missing links in ECO's transit transport corridors/routes using ECO's regional connectivity's with the Eurasian mainland, Persian Gulf, Oman Sea, Indian Ocean and Caspian Sea. In this, the service infrastructures, including in Health Care and Agriculture & Industry will be given due attention along with ECO's core activity areas envisaged in the Antalya Communiqué.

As a tool of obtaining the much required investment financing, a special purpose vehicle (SPV) like the "Mutual Fund of SW/NDFs of ECO" that is **J.I.S.**[14] will be established for the purposes of the subject project. The project, for which the small sized study will be carried out as a pre-feasibility justification, will then directly focus on J.I.S.

The United Nations Sustainable Development Goals (SDGs) will also be addressed, including SDG-1 (No Poverty); SDG-7 (Affordable and Clean Energy); SDG-8 (Decent Work and Economic Growth); SDG-9 (Industry, Innovation and Infrastructure); SDG-10 (Reducing Inequalities) and SDG-11 (Sustainable Cities and Communities).

4-History in ECO

In ECO's past history, a single incidence of creation of a joint financial architecture, which could have been designed for the needs of the ECO region had not been observed so far.

From the point of view of the comprehensive policy support for fund investment in ECO, the ***Antalya Communiqué*** adopted by the Council of Ministers (COM), at its 24th Meeting, held in

[14] J.I.S. – Joint Investment Scheme stands in the concept proposal for "Mutual Fund of SWFs of ECO".

Türkiye on 9 November 2019 encouraged "the Member States, relevant international organizations, financial institutions, national development funds and other stakeholders to actively support the inclusive, multi-dimensional connectivity projects and associated infrastructure in energy, transport, communications and industry that could potentially transform into economic corridors in the long-term perspective" (paragraph-24, *Antalya Communiqué*).

Previously, the ***Dushanbe Communiqué*** adopted by the 23rd COM, in Tajikistan, recalled the "commitment of ECO for implementation of the ECO Trade Agreement (ECOTA) and continue efforts to establish Regional Free Trade Area as envisaged in ECO Vision 2025, taking into account commitments of some ECO Member States in other international and regional organizations, as well as their financial capabilities" and "requested Contracting Parties to explore necessary mechanisms and solutions for early implementation of the ECOTA" (paragraph-25, *Dushanbe Communiqué*).

Earlier, in February 2017, ECO had adopted its long-term strategy for the period of up to 2025 i.e. ***ECO Vision 2025***. In it, the Member States highlighted the need for trade expansion in which process "expanding the trade volumes requires trade liberalization, harmonization of policies, reducing the cost of doing business, financial infrastructure, and institutional capacity building" (*ECO Vision 2025*, Section II-Policy Environment, p. 7).

As with the aim to establish the ECO financial architecture, the accurate scheming of financial investment operations and thus of inward capital flows through Special Purpose Vehicle (SPV) by using (for this purpose) the Joint Investment Scheme (JIS) as a proxy, will have to be implemented in the framework of mainstream project.

It is to be borne in mind that the key highlight as conceptualized by the Heads of ECO countries' SW/NDFs is the development of ECO Roadmap. That is for laying down Comprehensive Plan of ECO-SW/NDFs. The above-described JIS will be designed by study for feasible fulfillment of the functions such as those of the SPV. The model of the SPV will be ECO– specific –tailored. It will be based on the model of existing SPVs in the seven ECO countries that currently have their operational SW/NDFs. In that context, the SPV-stymied JIS will assume the risks associated with regional investment and carry out adequate capital alignment to enhance the investment impact onto the ECO regional level. It is to be noted that the JIS will have a built-in transaction cost reduction mechanism as is the case in the current practice in the seven ECO countries.

5-Economic Justification

In the meantime, it is worth mentioning that due to the lack of appropriate information and data on investment projects and the amount of financial participation of members, quantitative investigations and some feasibility plans have been less able to be done.

Considering the nature of J.I.S, the most important issue to be investigated is economic feasibility, which refers to two different areas, and each of them deals with different aspects of the justification of J.I.S plan:

-Financial feasibility

-Market feasibility

As a rule, the J.I.S, which is a financial plan, has its own thematic literature, and in general, according to the financial nature of the J.I.S - joint action plan, issues are surveyed from different perspective.

5-1-Financial justification

Examining the possibility of forming a joint action between ECO members may be considered in several areas, which we will discuss further. What is certain is that the ability to finance and the financial participation of members in the formation of this joint institution is the main priority of the feasibility of the J.I.S, which can be examined in the form of the following questions：

- Do the members have the ability and resources to participate？
- Is it possible to use the participation of different private and public financial sectors of member countries？
- What are the financial markets for joint venture projects？
- What results motivate and enable the participation of members？

5-1-1-Financial resources

Firstly, the ECO countries’ sound financial posit, in terms of their international reserves (in gross), makes it possible for countries to reach out to outward investment opportunities. Thus, deriving from data of the Asian Development Bank (ADB), the international reserves of ECO countries during 2022 register USUS$ 1,234.7 billion, in total (Table-1). Health of financial assets of ECO regional countries enables them to step forward from domestic investments toward much wider external level of regional investments in ECO.

Table 1. International Reserves, Official Reserve Assets, IMF Reserve Position, US Dollars

Country	2017	2018	2019	2020	2021	2022
Afghanistan	0.27	0.27	0.26	0.28	0.27	0.25
Azerbaijan	82.36	80.44	79.97	83.30	80.94	76.97
Iran	736.97	719.72	715.60	745.32	724.27	688.70
Kazakhstan	282.23	275.63	274.05	285.43	277.37	263.75
Kyrgyzstan	0.12	0.16	0.20	0.45	0.44	0.41
Pakistan	0.17	0.17	0.16	0.17	0.17	0.16
Tajikistan	0.00	0.00	0.00	0.00	0.00	0.00
Türkiye	160.61	156.85	155.95	162.43	157.84	150.09
Turkmenistan	58.18	56.82	56.50	58.84	57.18	54.37
Uzbekistan	0.01	0.01	0.01	0.01	0.01	0.01
Total- ECO region	**1,320.92**	**1,290.07**	**1,282.7**	**1,336.23**	**1,298.49**	**1,234.71**

Source: IMF

Secondly, international liquidity of ECO countries (without account of gold, US dollars) registered USUS$61.2 billion, in total (Table-2) according the International Monetary Fund (IMF). That points out at the flexibility with which ECO countries are able to utilize diverse options of investing the available capital elsewhere.

Table 2. ECO countries' International Liquidity
International Reserves, Official Reserve Assets, SDRs, US Dollars

Country	2017	2018	2019	2020	2021	2022
Afghanistan	85.48	66.15	54.40	53.59	484.65	454.61
Azerbaijan	136.47	133.19	132.33	137.80	659.34	626.88
Iran	2,192.20	2,147.91	2,144.08	2,235.79	6,958.40	6,622.54
Kazakhstan	497.30	487.95	487.92	509.05	2,048.77	1,950.07
Kyrgyzstan	169.25	136.89	147.59	126.48	374.98	228.60
Pakistan	561.20	411.39	251.61	101.29	3,027.91	44.18
Tajikistan	31.51	30.75	30.72	31.92	264.54	251.73
Türkiye	1,375.56	1,342.95	1,334.79	1,407.23	7,709.21	7,330.90
Turkmenistan	41.22	40.22	39.94	41.59	360.49	342.75
Uzbekistan	378.93	370.10	368.02	383.32	1,111.89	1,057.29
Total- ECO region	**5,469.12**	**5,167.5**	**4,991.4**	**5,028.06**	**23,000.18**	**18,909.55**

Source: IMF

Thirdly, foreign direct investments (FDI) in ECO countries are sufficient enough thereby indicating at a good mix of foreign participation in the countries' capital structure. Thus, based on UNCTAD's World Investment Report-2020, inward FDI flows in ECO countries reached their peak at USUS$76.5 billion in 2017 where capital inflows grew at 50.8% whereas on the opposite side, much weightier outflows were seen in 2014 at USUS$14.1 billion versus to just USUS$505 million in 2018. For more details please see Table 3 below. Thus, the ECO countries' performance on FDI indicates at the need to have a regional financial architecture in place in order to streamline investment inward/outward flows for the health of financial systems of each of individual countries of the region.

Table 3. FDI Flows (million USUS$) 2014-2019

ECO Member State	Inward						Outward					
Period	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Afghanistan	44	163	94	53	119	39	-	1	15	11	41	26
Azerbaijan	4430	4048	4500	2867	1403	1504	3530	3260	2574	2564	1761	2432
Iran	2105	2050	3372	51019	2373	1508	3	120	104	76	75	85
Kazakhstan	8489	4057	8511	4669	3757	3118	3815	795	-5235	913	-1101	-2592
Kyrgyzstan	348	1142	579	222	139	209	-	-1	-	-29	-5	3
Pakistan	1887	1973	2576	2496	1737	2218	122	25	52	52	-21	-7
Tajikistan	451	572	345	307	360	213	-	-	35	159	822	23
Türkiye	12969	18976	13745	11020	12981	8434	6682	4809	2954	2662	3607	2841
Turkmenistan	3830	3043	2243	2086	1985	2166	-	-	-	-	-	-
Uzbekistan	809	1041	1663	1798	625	2286	4	5	6	9	2	3

Source: UNCTAD

Table 4. Foreign Direct Investment (Inward million USUS$) 2017-2021

Country	2017	2018	2019	2020	2021
Afghanistan	53	119	39	13	20
Azerbaijan	2,867	1,403	1,504	507	-
Iran	5,019	2,373	1,508	1,340	1,430
Kazakhstan	4,669	3,757	3,118	7,190	4,380
Kyrgyzstan	222	139	209	--	247
Pakistan	2,496	1,737	2,218	2,060	2,100
Tajikistan	307	360	213	106	84
Türkiye	11,020	12,981	9,570	7,830	13,840
Turkmenistan	2,086	1,985	2,166	1,170	1,450
Uzbekistan	2,601	2,355	3,070	1,730	2,100
Total- ECO region	**31,340**	**27,209**	**23,615**	**21,946**	**25,651**
WORLD -TOTAL					**1,600,000**
ECO region/ WORLD					**1.6%**

Source: IMF

Fourthly, the percent of net investment in nonfinancial assets in ECO countries is low at average 5 percent of the combined regional GDP (at current prices). This factor speaks in favor of investments in financial assets, which promises to become one of lucrative areas in terms of investment diversity.

Table 5. Net investment in nonfinancial assets (% of GDP)

ECO Country	2008	2009	2010	2011	2012	2013	2014	2015	2016
Afghanistan	39.6	29.0	31.4	35.0	25.2	22.8	15.1	18.5	0
Azerbaijan	11.2	10.2	10.5	14.2	13.1	14.6	13.2	12.1	0
Iran	5.9	5.3	0	0	0	0	0	0	0
Kazakhstan			1.4	1.3	1.3	1.4	1.2	1.0	1.2
Kyrgyzstan	0	0	0	0	0	4.5	6.0	6.2	6.9
Pakistan	2.5	2.1	2.2	1.2	0	0	0	0	0
Tajikistan	0	0	0	0	0	0	0	0	0
Turkmenistan	0	0	0	0	0	0	0	0	0
Türkiye	1.9	1.9	1.9	1.8	2.0	1.5	1.6	2.2	4.4
Uzbekistan	0	0	0	1.6	2.1	2.3	2.2	2.1	2.0

Source: IMF

At the back of above-described factors that favor the progressive activation of regional investment via multiply-diversified financial instruments, the justification of the ‘mainstream’ project, notably, the establishment of the J.I.S. seems to have solid economic reasons. Else, the study may look closer into a whole range of other factors, which may then sufficiently persuade potential partners/co-financiers of ‘mainstream’ project (J.I.S) to contribute to the realization of the ‘mainstream’ project for the purposes of investing capital in the ECO region.

Several constraints impede both global and intra-regional investment in the ECO region. Foreign investors respond to various location-specific factors such as the state of physical infrastructure, the quality of skilled manpower, and regulatory and institutional efficiency. Evidence shows that countries which offer a conductive environment for business performance and growth are more successful at attracting FDI than those where doing business remains a challenge. Therefore, it is emphasized again that one of the ways to improve FDI in the ECO region is creating a cooperative environment among SW/NDFs of ECO member states.

As it turns out, SW/NDFs are a way for countries to invest excess capital into markets or other investments. Many nations use sovereign wealth funds as a way to accrue profit for the benefit of the nation's economy and its citizens. The primary functions of a sovereign wealth fund are to stabilize the country's economy through diversification and to generate wealth for future generations. The emergence of sovereign wealth funds is an important development for international investing. Currently, seven of the ten ECO Member States have their respective Sovereign Wealth or National Development Funds. These Funds are increasingly acquiring their merited physical weight in terms of capital accumulation, region-wide. Thus, the estimated capital formation of the seven individual member countries' SW/NDFs, in aggregate, stands at current USUS$650 billion.

Many of these Funds' managers are highly skilled and experienced investors. As such, they clearly understand their long-term interest in preserving well-functioning, open, liquid global markets. On the other hand, some of the SWFs or NDFs of ECO member states; are members of the International Forum of Sovereign Wealth Funds (IFSWF) and follow the Generally Accepted Principles and Practices for Sovereign Wealth Funds (GAPP) which is known as the" Santiago Principal". The GAPP seeks to help maintain the free flow of cross-border investment and sustain open and stable financial systems. Both the SWFs and the recipient countries recognized that the GAPP will work to their mutual advantage, as it improves the understanding of SWFs, and allows newly-established SWFs to benefit from the experience of others. Furthermore, by embracing the GAPP´s principles and practices, SWFs could reduce concerns and thereby help to mitigate the risk of protectionist pressures on their investments and restrictions on international capital flows. Thus, the GAPP represents a valuable solution for effective and beneficial cross-border investing, while ensuring that the SWFs will continue to play their meaningful and constructive economic and financial role for the foreseeable future.

The investment potential to contribute to the sustainable development of the ECO region is very significant. The motto of ECO is "Sustainable socio-economic development for the people of the region". With this motto, the socio-economic development of the people of the region is achieved through increased capacity and high-value production in vital projects those are economically justified and on the other hand, need financing. This can be achieved through better management of financial resources, improving the business environment, reducing unemployment and easier access to markets and financial instruments. Therefore, there is an urgent need to establish a joint venture fund with the presence of the regional SW/NDFs to finance High-yield projects that contribute to economic growth and create a regional value chain.

5-1-2-Regional Project Financing

The establishing of a joint financial institution in the eco-region creates the necessary infrastructure for the implementation of joint investment projects, which usually the countries of the region do not have the motivation or resources to implement them alone.

Conflict of interests or linkage of project results to other countries is one of the main reasons for non-implementation of joint projects, which is strengthened by the formation of J.I.S.

A number of large infrastructural projects including transport and transit projects and transportation corridors between countries to access international ports, export markets and other countries, large construction projects including dam, road reconstruction and housing creation in High volume, infrastructural projects in the field of energy, electricity production and water and sewage, all of these require common financial resources and the involvement of the member countries, which J.I.S can create this joint action.

There is no accurate data on the amount of overall investment projects in the region, but according to the estimates of the region's need for energy, commercial, and other infrastructural projects, it requires a large amount of capital.

Therefore, the creation of a joint investment scheme is one of the requirements for carrying out joint projects in the eco region, and the urgent need for this financial institution is very clear and obvious.

5-1-3-Capital Efficiency

As a rule, the more the investment efforts in a region that are very interdependent and connected, in the form of a joint program, the more efficient the implementation and financing of the projects will be .Carrying out many projects in different ECO member countries in the form of scattered archipelagos creates a large capital cost for all countries.

economic scale and integration of projects, pooling of financial resources, strategic planning of regional needs and common needs, and the use of international and cheap financing leverage can be the main reasons for capital efficiency and effectiveness in creating a financial institution (J.I.S), which will bring together the efforts, resources and capital of countries.

5-2-Market Feasibility

One of the issues in feasibility study is to survey the market from different aspects. In this case, according to the nature of creating a financial institution, the market can be approached from two perspectives which is explored each of the topics as follow:

• Market of financial resources (capital supply and demand)

• The impact of establishing J.I.S on the regional market

5-2-1 Financial Resources & Capital Market

Out of the total of 10 ECO members, 9 countries have diverse financial markets, including the security market and the money market, and they are a suitable for financing, issuing bonds and shares .Capital markets of members, with diversification in stock and debt securities; it enables financing in different ways.

Also, national financial institutions, including national development sovereign wealth funds, are one of the valuable sources of financing regional projects, which are an integral part of J.I.S plan .

The sum of SW/NDF resources of the ECO members shows the appropriate ability of the countries in financing joint regional projects. The list of some of funds and capital under management is presented below.

Table 6. Sovereign wealth funds of ECO member countries- AUM (US$ b)

Country	SWF	AUM (US$ b)[15]
Türkiye	Türkiye Wealth Fund	294
Iran	National Development fund of Iran (NDFI)	130
Kazakhstan	Baiterek	9
	National Oil Fund of Republic of Kazakhstan	55
	Samruk Kazyna	69
Azerbaijan	State Oil Fund of Azerbaijan (SOFAZ)	45
	Azerbaijan Investment Holding	22
Uzbekistan	The Uzbekistan Fund for Reconstruction and Development (UFRD)	23
Kyrgyzstan	Russian-Kyrgyz Development Fund	1
Turkmenistan	Turkmenistan Stabilization Fund (SFT)	0.5
TOTAL AUM		**648.5**

Source: swfinstitute

According to the table, the amount of financial resources of ECO-SW/NDF members is more than 600 billion US$, if only 10% of them participate in J.I.S, the financing set of 6 billion US$ can be done from these funds.

[15] Assets under management: Latest end-year USD figure if available, estimation otherwise

Therefore, the financing market of the ECO members is a suitable and capable market for financing the J.I.S project, and based on the framework seen in the research project, it is possible to finance these funds in the form of ECO-SPV.

5-2-2-International Financing Markets

If the joint financial institution of ECO members is established (J.I.S), banks, development funds and international investors are one of the suitable markets for financing. Some of which are as follows:

ECO-TDB

The ECO Trade and Development Bank (ECO-TDB) was established on August 3, 2005 with its headquarters located in Istanbul. The Bank started its operations in 2008. The representative offices of the Bank in Tehran (Iran) and Karachi (Pakistan) are fully functional. The membership of the bank is open to ECO member states as well as to their banks and other financial institutions. The current shareholders are now six members of ECO, namely Afghanistan, Azerbaijan, Iran, Kyrgyz Republic, Pakistan and Türkiye.

Asian Infrastructure Investment Bank (AIIB)

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank that aims to improve economic and social outcomes in Asia. It is the world's second largest multi-lateral development institution. The bank currently has 106 members, including 14 prospective members from around the world. The breakdown of the 106 members by continents are as follows: 42 in Asia, 26 in Europe, 21 in Africa, 8 in Oceania, 8 in South America, and 1 in North America. The bank started operation after the agreement entered into force on 25 December 2015, after ratifications were received from 10 member states holding a total number of 50% of the initial subscriptions of the Authorized Capital Stock.

The bank was proposed by China in 2013 and the initiative was launched at a ceremony in Beijing in October 2014. It received the highest credit ratings from the three biggest rating agencies in the world, and is seen as a potential rival to the World Bank and IMF.

Asian Development Bank

The Asian Development Bank's primary mission is to "foster economic growth and cooperation" among countries in the Asia-Pacific Region.

Founded in 1966 and based in Manila, Philippines, the ADB assists members and partners by providing loans, technical assistance, grants, and equity investments to promote social and economic development.

The ADB has been responsible for major projects in the region and raises capital regularly through the international bond markets. The ADB also relies on member contributions, retained earnings from lending, and the repayment of loans for the funding of the organization.

Multilateral Development Bank

A multilateral development bank (MDB) is an international financial institution chartered by two or more countries for the purpose of encouraging economic development in poorer nations. Multilateral development banks consist of member nations from developed and developing countries. MDBs provide loans and grants to member nations to fund projects that support social and economic development, such as the building of new roads or providing clean water to communities.

Islamic Bank of Asia

The Islamic Bank of Asia (IB Asia) was launched by DBS Bank on 7 May 2007 after receiving official approval from the Monetary Authority of Singapore for a full bank license. IB Asia's founding shareholders include majority stakeholder DBS and 34 Middle Eastern investors from prominent families and industrial groups from Gulf Cooperation Council (GCC) countries.

Asia’s Global Investment Bank

Nomura is a leading global financial services group and the preeminent Asia based investment bank with worldwide reach. Nomura provides a broad range of innovative solutions tailored to the specific requirements of individual, institutional, corporate and government clients through an international network in over 30 countries Based in Tokyo and with regional headquarters in Hong Kong, London, and New York. Nomura’s unique understanding of Asia enables the firm to make a difference for clients.

5-2-3-Impact of J.I.S on ECO-Region Market

One of the investigations in the feasibility study is the extent of the impact on the development of trade and markets of ECO members. One of the basic issues in the formation of J.I.S is the development of infrastructures related to trade between members, transportation, transit and communication infrastructures that will directly and indirectly affect the development of export and import markets and inter-regional and extra-regional trade .

At a glance, the trade data (export and import) of members; most of the investment projects in the field of transit and transportation corridors that have led to access to open waters and transit routes from North to South, Asia and Europe.

Table 7. ECO- region Trade of Goods: EXPORT- US Dollars

Country	2017	2018	2019	2020	2021
Afghanistan	723.00	875.00	864.00	777.00	1,037.00
Azerbaijan	15,319.98	19,489.07	19,635.20	13,732.64	22,206.67
Iran	92,764.00	103,422.00	65,718.00	46,916.00	71,646.00
Kazakhstan	48,303.00	60,956.00	57,309.00	46,447.00	60,624.00
Kyrgyzstan	1,764.00	1,837.00	1,987.00	1,973.00	2,712.00
Pakistan	-	-	-	-	-
Tajikistan	1,198.00	1,073.00	1,174.00	1,407.00	2,150.00
Türkiye	164,495.00	177,169.00	180,835.00	169,637.00	225,215.00
Turkmenistan	7,458.00	9,760.00	10,539.00	6,545.00	9,212.00
Uzbekistan	10,079.21	10,920.70	14,341.50	13,127.10	15,673.35
Total- ECO region	**342,104.19**	**385,501.77**	**352,402.70**	**300,561.74**	**410,476.02**

Source: IMF

Table 8. ECO- region Trade of Goods: IMPORT- US Dollars

Country	2017	2018	2019	2020	2021
Afghanistan	7,065.00	7,407.00	6,777.00	6,538.00	5,574.00
Azerbaijan	8,783.30	11,465.91	13,667.48	10,732.04	11,705.79
Iran	49,499.00	49,353.00	41,828.00	38,757.00	48,978.00
Kazakhstan	29,265.00	32,534.00	37,758.00	37,221.00	41,171.00
Kyrgyzstan	4,495.00	5,291.00	4,989.00	3,719.00	5,617.00
Pakistan	-	-	-	-	-
Tajikistan	2,775.00	3,151.00	3,349.00	3,151.00	4,210.00
Türkiye	238,715.00	231,152.00	210,344.00	219,517.00	271,425.00
Turkmenistan	4,571.00	2,390.00	2,995.00	3,242.00	4,026.00
Uzbekistan	12,035.21	17,312.26	21,854.31	19,949.49	24,745.42
Total- ECO region	**357,203.51**	**360,056.17**	**343,561.79**	**342,826.53**	**417,452.21**

Source: IMF

Investing in transport corridors and transit infrastructure seems to be one of the outputs of J.I.S, will have a wide contribution to the connection between countries in the region, access to open waters, North-South transit routes, transit routes from Asia to Europe and vice versa.

One of the major problems of some ECO member countries is the lack of proper access to transportation systems and International open waters and the high cost of logistic. The formation of J.I.S. and the design of infrastructure projects for transport and transit will greatly help the flow of goods and reduce costs .

Also, one of the main things that can be done in J.I.S is the logistics, transportation and transit infrastructures, which by creating terminals, roads, railways and ports can make a significant contribution to reducing shipping costs that ultimately leads to the promotion of bargaining power in the export of goods and the supply of raw materials.

6-Technical & Operational Feasibility

There are four main elements that go into a feasibility study: technical feasibility, financial feasibility, market feasibility (or market fit), and operational feasibility. Technical and operational studies are usually discussed, and in J.I.S. plan, we will also study these issues.
Each operational topic in J.I.S can be generalized to two areas, each of which comes first and second.

- Ability to operate J.I.S
- Technical and operational effects of the establishing of J.I.S

Investigating the operational possibility of J.I.S is presented in the research and has been developed the necessary financial infrastructure, which is developed in the form of a conceptual model. But some operational requirements are reviewed in several cases.

6-1- ECO as Infrastructure and context

Considering the background and the existence of the secretariat structure of the Economic Cooperation Organization, the context and patterns of participation are available in many sectors such as trade, investment joint action, etc.
In this regard and due to the existence of ECO, it is possible to institutionalize J.I.S based on existing of many operational processes, the proposed model and roadmap.

6-2- Geopolitical location

Geographical and cultural commonality is one of the important factors in the motivation to create a common financial institution, and due to the common interests of ECO members and overlapping interests; it is possible to implement a joint financial plan. In this case, it can be said that any investment plan in any of the member countries or jointly between countries will directly or indirectly affect all ECO members.

6-3- Natural resources

Natural resources and raw materials are a very suitable stimulus for the participation of countries in exploitation and economic development. The J.I.S has ability to set up production, processing, export and exploitation infrastructures as investment projects, because the eco-region plays a vital role in the field of mineral and energy resources in the world and these resources increase the incentive to invest, exploit or process and create added value.

6-4- Workforce & Human Resources

Labor force and human resources is one of the axes of economic development and prosperity in any country and region. This issue can be mentioned from two points of view.

- Creating jobs
- Human resources to carry out projects

The existence of relatively cheap and educated human resources in most ECO members is one of the valuable resources for operationalizing J.I.S projects. Therefore, abundant labor force along with its relative cheapness in the region provides the necessary incentive for investment projects, especially employee-oriented projects.

Table 9. ECO-region Labor Force, Persons, Number of/Thousands

Country	2017	2018	2019	2020	2021
Afghanistan	7,201.98	...	...	6,884.70	8,154.81
Azerbaijan	5,073.80	5,133.08	5,190.14	5,252.52	5,303.93
Iran	26,218.63	26,690.64	26,940.32	25,539.83	
Kazakhstan	8,966.84	9,101.76	9,202.58	9,180.80	...
Kyrgyzstan	2,686.73	2,720.79	2,755.45	2,796.74	2,886.95
Pakistan	...	61,999.61	62,030.49	...	65,824.58
Tajikistan	...	...	...	...	...
Türkiye	31,616.83	32,244.65	32,523.58	30,849.33	32,718.00
Turkmenistan	...	...	...	...	...
Uzbekistan	14,203.70	14,609.00	14,835.16	14,791.16	...
Total- ECO region	**95,968.51**	**152,499.53**	**153,477.72**	**95,295.08**	**114,888.27**

Source: IMF

Table 10. ECO-region Employment, Persons, Number of/Thousands

Country	2017	2018	2019	2020	2021
Afghanistan	6,396.53	...	...	6,078.51	7,699.77
Azerbaijan	4,822.10	4,879.25	4,938.54	4,876.62	4,988.22
Iran	23,011.66	23,435.81	24,046.85	23,065.87	
Kazakhstan	8,527.14	8,660.64	8,760.53	8,732.00	...
Kyrgyzstan	2,616.55	2,620.85	2,638.28	2,667.25	2,768.70
Pakistan	...	59,121.56	59,034.31	...	61,652.46
Tajikistan					
Türkiye	28,196.08	28,733.08	28,078.90	26,804.45	28,797.00
Turkmenistan					
Uzbekistan	13,433.73	13,246.10	13,483.57	13,155.01	...
Total- ECO region	**87,003.79**	**140,697.29**	**140,980.98**	**85,379.71**	**105,906.15**

Source: IMF

Also, one of the results and advantages of J.I.S is the development and prosperity of employment and job creation in the region, which requires investment projects.
Considering the unemployment data and the goal of creating employment in the region, J.I.S can help member countries in this issue with setting up the investment projects.

6-5- Reducing Doing Business Costs

As mentioned in the previous articles, the investment plans in the ECO region focus on solving the basic problems and based on the ECO VISION, they have been prepared in six areas with appropriate goals and perspectives. Most of the infrastructural areas have reduced the costs of logistics, trade (export and import), delivery time and energy that result in reduction of business costs; and have influenced the development and prosperity of business in the member states.
The establishment of J.I.S and the setting up investment projects will create an incentive for cooperation between the businesses of the member states and can improve many of the previous barriers, including transit, transportation, trade barriers, and energy costs.
Also, many projects can be the origin of new businesses and entrepreneurial capacities in the region and laterally lead to the production of industrial clusters and value chains.

6-6-Technology Development & Transfer

Each investment project brings a specific technical system and knowledge into the boundary of member states. Therefore, investment projects lead to the transfer of technical knowledge and know-how from other countries to the engaged member states in the project, which will improve the level of technology in the ECO region.
Considering the exploitation of investment projects in the eco-region and the implementing of local forces in each country, technology transfer, know-how and technology development is one of the effects of J.I.S. The development of technology and setting up of research and development centers can be proposed as an investment plan, which, considering the high costs of research and development can be a high justification for the participation of member countries in establishing joint research and development centers (R&D centers for agricultural products, High-Tech, energy, ICT and mines and minerals and etc.).

7-Social Justification

Any J.I.S projects will directly and indirectly affect social and cultural parameters which can be summarized in some aspects as below:

- Reduction of unemployment as a result of social stability
- Reducing poverty and increasing welfare
- Development of intercultural communication

Among all cases, the economic prosperity resulting from the implementation of investment plans in J.I.S has a direct and indirect effect on the prosperity of employment and reduction of unemployment, and it is one of the goals of every country in the development of investment.

Table 11. ECO-region Unemployment, Persons, Number of/Thousands

Country	2017	2018	2019	2020	2021
Afghanistan	805.44	...	...	806.19	455.04
Azerbaijan	251.70	253.83	251.60	375.91	315.71
Iran	3,206.97	3,254.83	2,893.47	2,473.96	
Kazakhstan	439.70	441.13	442.05	448.80	...
Kyrgyzstan	70.18	99.94	117.17	129.49	118.25
Pakistan	...	2,878.04	2,996.19	...	4,172.12
Tajikistan	...	...	...	...	...
Türkiye	3,440.83	3,512.50	4,463.00	4,039.58	3,916.00
Turkmenistan	...	...	...	...	...
Uzbekistan	...	...	...	...	...
Total- ECO region	**8,214.82**	**10,440.27**	**11,163.48**	**8,273.93**	**8,977.12**

Source: IMF

As mentioned in earlier sections of the present document, the prime focus of SWFs of ECO countries falls on the social strata. In this regard, measuring of growth rates of household expenditures among the bottom 40% of population has been growing at modest rates in ECO countries. Thus, according to ADB, this indicator, among ECO countries, was positive in Pakistan, Tajikistan and Kyrgyz Republic, only. This factor speaks of the need to raise income of a particular social strata of regional population, that is, bottom 40% of the poor. If addressed, such measure will facilitate mitigating of poverty levels in ECO thereby countering SDG-1, No Poverty.

Table 12. Social indicators of the poor population of the ECO regional total

ECO country	Growth Rates of Household Expenditure or Income per Capita among the Bottom 40% of the Population (%)		Growth Rates of Household Expenditure or Income per Capita (%)	
Afghanistan	…		…	
Azerbaijan	–0.6	(2015-2019)	–0.6	(2015-2019)
Iran	–0.5	(2014-2019)	–0.5	(2014-2019)
Kazakhstan	–0.0	(2012-2017)	–0.6	(2012-2017)
Kyrgyzstan	0.9	(2012-2017)	0.8	(2012-2017)
Pakistan	2.7	(2010-2015)	4.2	(2010-2015)
Tajikistan	2.3	(2009-2015)	3.6	(2009-2015)
Türkiye	–6.2	(2016-2020)	–6.2	(2016-2020)
Turkmenistan	–4.0	(2016-2019)	–4.0	(2016-2019)
Uzbekistan	–9.2	(2015-2019)	–9.2	(2015-2019)

Source: ADB

In this regard, any joint action plan that ends in an investment project in the region can create employment results for a number of people from member countries or directly involved in the plan. Therefore, the reduction of unemployment in any percentage and amount will directly or indirectly create appropriate social effects in member countries, which can be increased purchasing power, level of welfare, reduction of crime, strengthening of family foundation, reduction of migration between member countries.

Also, the development of projects between members and the creation of common infrastructures will result in some kind of cultural and social closeness and strengthening of relations between the people of the member countries in some investment plans.

Ethnic, linguistic, and religious ties near the borders in many ECO member countries will enable the development and exploitation of these potentials in order to strengthen and successfully implement projects.

The formation of J.I.S. also strengthens the national and regional spirit, which will have a positive effect in reducing tensions and conflicts between cultures and member countries.

By implementing regional plans and exploitation the outputs of these projects, it will play a positive role in strengthening the relations between the people of the member countries, especially the strengthening of social relations at the level of the Eco region.

"PREPARATION OF THE ROAD MAP TO INSTITUTIONALIZE A COMPREHENSIVE JOINT ACTION PLAN AMONG THE SOVEREIGN WEALTH AND NATIONAL DEVELOPMENT FUNDS (SW/NDFS) OF THE ECO MEMBER STATES"

[16](Views/Comments of Iran)

Actions plan

*A:*Definitions:

****ECO Investment working group** is a proposed structure in ECO Secretariat to manage and monitor investment and financing activity as deputy or working group*

****ECO-J.I.S** is ECO's join investment scheme which will be created as **a Joint Action Plan** of ECO member states in the form of an investment fund or company*

****SPV** stands for special purpose vehicle which is a subsidiary company that is formed to undertake a specific business purpose or activity. SPVs are commonly utilized in certain structured finance applications, such as asset securitization, joint ventures, property deals, or to isolate parent company assets, operations, or risks.*

I. Primary Initiative

Action

1 . Invitation to hold the second summit of ECO members' sovereign wealth or national development funds

2. Holding the second summit of sovereign wealth or national development funds of ECO members
3. To achieve agreement between of ECO members on approval of the joint investment scheme in the form of ECO Investment Fund

4. To approve the mission and objectives of the ECO joint investment scheme

5. Deciding on the amount of initial capital of ECO Investment Fund

6. To determine the amount of initial capital contribution of ECO members

7. Establishing the board of founders or trustees of ECO Investment Fund

8. Determining the location of the permanent secretariat of ECO Investment Fund

9. To review and make suggestions about the development instructions of the ECO joint investment scheme

[16] The views and comments of Iran have been circulated by the Secretariat. These are given in **red colour** through the documents.

10. To set up committee of experts of ECO's SW/NDF for technical evaluation, operationalization of approvals and coordination to achieve results

II.Development Instructions

A. Objective: To provide general policies and approving a joint action plan

Actions

1- Approving the road map and general policies of joint action at the highest decision-making level (Council of Economic/Finance Ministers)

2- The executive structure of ECO Investment working group (deputy) to manage and monitor the formation of ECO-J.I.S

3- Determining the pillars, structure and duties of the Investment working group (deputy) in the ECO Secretariat

4- Declaration the approved instructions to the member states to form an investment working group which works in coordination with committee of experts of ECO's SW/NDF

5- Approving the action plan schedule and delegating authority to the Investment working group (deputy) to follow up on the approvals

6. Determining deadline to operationalize actions plan.

A. Objective: To institutionalize the structure of ECO-J.I.S

Actions

1-To facilitate decision-making about the type of ECO-J.I.S structure with highest probability of implementation

- ECO regional investment company
- ECO regional mutual investment fund

2-Determining the initial board of directors of the ECO-J.I.S structure, a combination of the following options:

- Deputy Minister of Economy/finance of member states
- Foreign investment managers of member states
- Managers of SW/NDF member states
- Expert and experienced entities recommended

3-Deciding on the headquarters and location of ECO-J.I.S by reviewing the following items:

- Evaluating the capability and executive qualification of candidates
- The place of establishment must have appropriate financial, banking and administrative sub-structures and high financial transaction background.
- The candidate countries must have the commitment to create the necessary facilities in the formation, implementation and establishment of the financial structure of J.I.S
- The place of establishment of ECO-J.I.S should have the facilities and operating conditions of a multinational company

4-Organizating the structure of ECO-J.I.S should be designed considering the following requirements:

- The task of studying projects and investment opportunities in the region and proposing the best projects
- The task of managing regional projects from idea to implementation
- The task of financing of ECO members and managing communication with ECO members
- The task of research & development and providing development plan and future research studies
- The task of Supply chain and logistics for ongoing projects
- The task of financing and attracting international investment and trans-regional partnerships

- The task of Accounting and auditing
- The task of managing exploitation and sharing benefits
- The task of human resources and the development of the expert force required by the ECO-J.I.S

5- Determining the arbitration to solve conflicts and disputes with the proposal of the arbitration working group of the chambers of commerce of the member states and the supervision of the international arbitration.

B. Objective: To attract the investment participation of member states and forms ECO-SPVs

Actions

1-Declarating of the proposed ECO-SPVs plan to the member states to facilitate the participation of the ECO-J.I.S

2-Facilitating the participation of the financial institutions of the member states with the following suggestions:

- National development funds or sovereign wealth as the main sponsor undertakes the preparations for the establishment of the SPVs
- Government entity, as a supporting role, guarantee the implementation of SPV and provide the necessary budget for participation
- Private sector can participate as investor in the SPV
- SPV Company can be listed in stock exchange market and the issuance of shares; the member states provide the possibility for the participation of people and the public sector.
- Banks and pension funds can provide part of the capital of the SPV

3- Providing the necessary licenses and authority, the member states provide SPV participation exclusively for ECO-J.I.S

4-The director's board of the SPV with sufficient authority introduced to the ECO-J.I.S and provided the preparations for participation.

5- SPVs of the member states can officially participate in the ECO-J.I.S as an investor and shareholder.

6- Members states track all financial transactions with ECO-J.I.S through their SPVs.

C. Objective: To Determine the mega projects of the ECO region, evaluation and selection

Actions

1-The ECO Investment working group (deputy) determines the methods to present projects and ideas for ECO-J.I.S.

2- Each member states present a number of proposed projects through their representatives

3- ECO's high-level documents and vision are used as the basis of evaluations

4-The project evaluation model and ranking are provided in the attachment and the member countries can present their priorities and suggestions in this framework.

5- All projects are reviewed and evaluated by submitting evaluation forms in the Investment working group (deputy), and a number of projects are selected and referred to the highest level decision-making meeting.

6- The proposed selected projects will be reviewed in the highest level meeting of ECO ministers and will be selected in order of time priority and will be communicated to the Investment working group (deputy).

7-The Investment working group (deputy) of ECO officially determines the agenda of J.I.S by referring the project documents and the framework of decisions to the board of directors of J.I.S.

8- Projects are reviewed in ECO-J.I.S and feasibility studies will prepare and its results of the feasibility study, financial plan and executive requirements are referred to higher authorities for final decision under the title of projects document.

9-The higher decision-making entity, including the ECO Secretariat or the Council of Ministers, sign the project document and send it to J.I.S. as an executive instruction.

10-The project documents are communicated between the ECO members and each ECO member announces the volume and type of investment in the projects formed through the SPVs mechanism.

D. Objective: To estimate the amount of investment and financial resources requirement

Actions

1- Approved projects are prepared in the form of a project document and required investment is announced to complete the projects.

2- Each member states determines the financial scale of their SPVs that provides domestic financing plan based on their participation policies by reviewing the project documents and the financial ability of the participation.

3- Presenting the financial plan in the form of SPV, the member states present the manner and amount of their participation.

4- The ECO-J.I.S summarizes financial planning with in the following items:

- The amount of investment of ECO members
- Required capital inside ECO region
- Required capital outside the ECO region
- Financing proposals and regional and international solutions

5- Facilitating the conditions of participation of private sectors, financial institutions and banks of ECO members for lack of financing and providing privileges and incentives.

6- Providing incentives and concessions to investors outside the ECO region

7- Presenting the capital marketing program outside the ECO region and attracting the participation of continental and international development banks

8-Completing the J.I.S. financial document and presenting it to the upstream levels for approval and declaration

E. Objective: To develop the process of project implementation and project management

Actions

1-The project feasibility document, which is attached to the project financial document, is sent to the management of J.I.S and is prepared for implementation.

2- The management structure of J.I.S prepares the operational plan by compiling the executive document of the project in the following items:

- To establish a project company to gather and allocate the necessary financial and human resources
- Determining the board of directors and the structure of duties and responsibilities
- Presentation of operational plan and phasing of execution, project schedule
- Technical design and construction
- tenders and auctions; Determining contractors
- Presenting the financial plan of the project and requirements
- Project financing from J.I.S and outside J.I.S
- Providing a comprehensive project operation plan (design, implementation, control)
- Determining the role of each member involved in the project and creating coordination and instructions
- Obtaining necessary permits from countries
- Communicating projects to contractors and managing relationships with contractors
- Preparing project risk management report by a reliable international body.
- Providing project control mechanism and checking risk and constraint

F. Objective: To determine monitoring, evaluation and arbitration mechanisms

Actions

1-The supervisory body in the ECO financial working group in the secretariat will be formed with the proposal of the members and will have the task of monitoring the actions and activities of ECO-J.I.S.

2- The supervisory body from the highest level of the secretariat and with the participation of the member countries as a supervisory committee will start its activity as soon as ECO-J.I.S is formed.

3- All reports of J.I.S. will be reviewed in the monitoring committee and its expert viewpoint will be attached

4- The monitoring committee first submits reports to the secretariat, and if the issues are not resolved, the reports are referred to higher level meetings.

5- In case of disagreement and inconsistency between executive activities and approvals plans, the monitoring committee has the right to intervene in the issues and submit its reports to the decision-making bodies.

6- In order to resolve disputes in the participation, operation and implementation of projects and contracts, the arbitration body consisting of the arbitration body of the chambers of commerce of the member countries and the participation of the international arbitration is responsible for determining and reviewing disputes and legal issues.

7- The dispute between the countries will be followed up first through negotiation and if not resolved through arbitration of J.I.S will be followed.

G. Objective: Determining rules and guidelines for outsourcing and contracting

Actions

1- In order to implement the projects, it is necessary to select and evaluate various executive contractors for the following items in different JIS units and project companies.

- Purchase of feasibility study, technical and economic advice services
- Executive, construction and production contractors
- Design and mapping contractors
- Regulatory and inspection contractors

2-Instructions for tendering, auctioning and employing contractors in the ECO-J.I.S are compiled and referred to the ECO investment working group for approval.

3-After approval in the ECO investment working group and related departments in ECO secretariat, the instructions for implementation will be communicated to J.I.S and supervisory units.

4- ECO investment working group and the supervisory body should provide arrangements in the instructions that there is fairness and equality in the selection of contractors and the purchase of services, and the necessary priority for the use of contractors within the ECO region should be provided.

5-If it is not technically and operationally possible to use contractors in the ECO region; guidelines for selecting international contractors should be provided.

6- The responsibility for payment and settlement of all contractors is with ECO-J.I.S

H. Objective: To determine the mechanism of exploitation, transfer and sharing the benefits of the projects

Actions

1-Any project carried out by the J.I.S organization in the ECO region is directly or indirectly related to some or all of the ECO members, which is one of the duties of the

ECO investment working group; to create exploiting instructions and share benefits and make decisions about it which works directly under the supervision of the secretariat.

2- Exploitation of projects can be in different following methods:

- Joint exploitation of all ECO members, which requires common instructions for all members
- Transfer exploitation to the ECO member based on project ownership, temporary operation, lease and other methods that the ECO investment working group will refer decision-making and formalization of instructions at high levels.

3- The financial benefits and profits of the projects are paid in the form of investment returns to the main beneficiaries within the framework of investment or financing contracts.

4- Preparation of instructions for profit dividend and payment method is the responsibility of the ECO investment working group.

5- Exploitation management in the form of a project company is determined by J.I.S and is independently responsible for the exploitation of projects and their development.

6- How to repay the debt, investment interests, loans and bonds is communicated to the ECO-J.I.S based on the instructions of the ECO investment working group

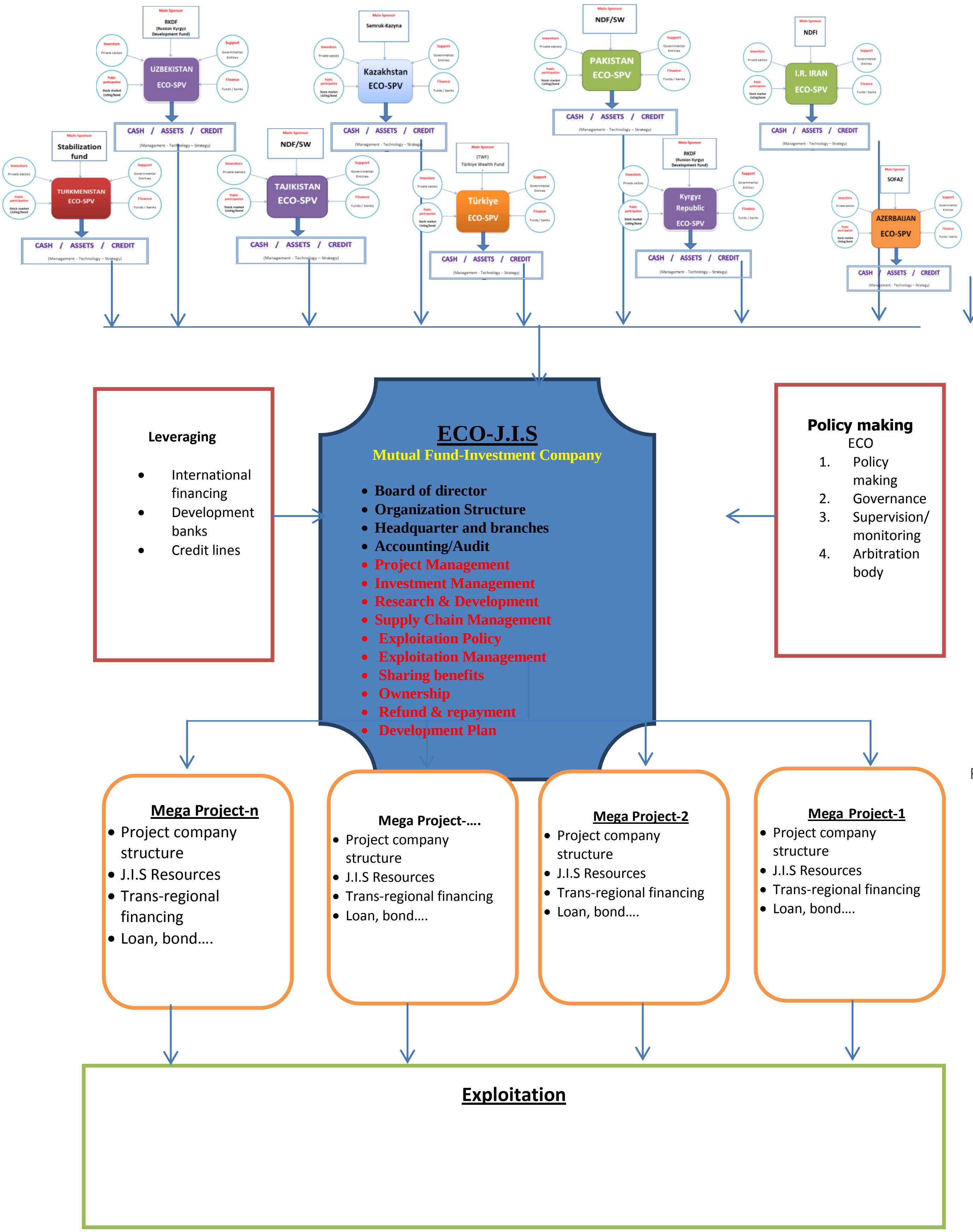
7- Exploitation policies are approved and notified by the highest level such as the Cabinet of Ministers, with the proposal of the ECO investment working group

8- The development plans after exploitation is presented to the ECO investment working group with the proposal of J.I.S.

9- Any dispute and conflict in exploitation and benefits will be investigated first in the ECO investment working group and otherwise in the upstream levels.

Appendix:* ***Conceptual Model of* *"THE ROAD MAP TO INSTITUTIONALIZE A COMPREHENSIVE JOINT ACTION PLAN AMONG THE SOVEREIGN WEALTH AND NATIONAL DEVELOPMENT FUNDS (SW/NDFS) OF THE ECO MEMBER STATES"*

Sources-ECO SPVs
2015



Structure

Capital of the Fund

Loan portfolio of RKDF

Implementation

Assets of the Fund, million USD

ROE of hte Fund %

Economic Cooperation
Organization

*Study on Preparation of the Road Map to Institutionalize a Comprehensive Joint Action Plan among the Sovereign Wealth and National Development Funds (SW/NDFS) of the ECO Member States

Phase-II: Output 4

Researcher: Amir Mostafavi PhD

Phase-II: Output 4

Preparation of the bankable project document

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ABBREVIATIONS/ACRONYMS

ADB	Asian Development Bank
CAREC	Central Asia Regional Economic Cooperation
ECO	Economic Cooperation Organization
EAEU	EurAsian Economic Union
EU	European Union
IDB	Islamic Development Bank
IRU	International Road Transport Union
TRACECA	Transport Corridor Europe-Caucasus-Asia
UN	United Nations
UNESCAP	UN Economic and Social Commission for Asia and the Pacific
WB	World Bank
WTO	World Trade Organization

COUNTRY ABBREVIATIONS

AFG	Islamic Republic of Afghanistan
CHN	People's Republic of China
IRN	Islamic Republic of Iran
KGZ	Kyrgyz Republic
KAZ	Republic of Kazakhstan
PAK	Islamic Republic of Pakistan
TJK	Republic of Tajikistan
TUR	Republic of Turkey

Section 1: Project Summary

PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR (ISLAMABAD - TEHRAN – ISTANBUL)

INTRODUCTION

The Project for Development of ITI Road Corridor (hereinafter - the Project) has being implemented under the authority of the Economic Cooperation Organization (ECO), an inter-governmental regional organization putting the countries from Europe, Caucasus and Central Asia, Middle East and South Asia together. The general purpose of the Organization involves the sustainable economic development of its Member States and the Region in the whole.

Now ECO unites 10 member states: Islamic Republic of Afghanistan, Republic of Azerbaijan, Islamic Republic of Iran, Republic of Kazakhstan, Kyrgyz Republic, Islamic Republic of Pakistan, Republic of Tajikistan, Republic of Turkey, Turkmenistan and Republic of Uzbekistan. Seven of these countries are land-locked therefore the social well-being and economic prosperity directly depends on the level of development of the transit-transport potential in the countries of the ECO region, both along these countriesand in the ECO region in the whole. The achievement of objective has been carried out in virtue of Transit Transport Framework Agreement (TTFA) focused on the formation of ECO Roadway Network and ECO Railway Network.

In the framework of this project, the ITI road corridor, constituting a part of the ECO Roadway Network, are essential due to the provision of transportation between six countries of the ECO region, as well as alternative trade routes between East and West.

The ITI Road Corridor**:** Pakistan, Iran, Turkey to EU runs along the route:

- <u>Pakistan:</u> Islamabad, Dera Ismail Khan, Zhob, Lorallai, Quetta, Dalbandin, Taftan (Mirjaveh, IRN);
- <u>Iran:</u> (Taftan, PAK) Mirjaveh, Kerman, Yazd, Qom, Zinjan, Tabriz, Bazargan (Gorbulak, TUR);
- <u>Turkey:</u> (Bazargan, IRN) Gurbulak, Erzurum, Amasya, Duzce, Istanbul, Edirne, Kapikule.

The purpose of this research is to facilitate the implementation of transit and transport and commercial potential within the framework of Transit Transport Framework Agreement (TTFA) and the concept of the development of road transport ITI corridors.

According to a stated objective, as well as in accordance with the task order hereto, the major objectives of the research were the following:

- Evaluation of the current cargo traffic on the routes of two road corridors and the prospects of its further increase;
- Data collection and analysis on road and roadside furniture on the routes of two corridors, as well as on the fleet of trucks in the corridors to determine the

requirements for their further development;
- Research of checkpoints operation, identification of bottlenecks and development of recommendations for simplification of border crossing procedures;

TTFA implementations considerations, affiliating with international conventions and agreements in the field of cargo carriage by road transport mentioned in the TTFA, as well as compliance with these conventions to determine measures on efficiency improvement and TTFA implementation;

- Development of proposals for monitoring of work and operational coordination of ITI road corridor.

In the course of research, all objectives set by the project including IRU's component of Model Highway Initiative (MHI) have been fulfilled, recommendations on simplification and harmonization of border crossing procedures, increasing the effectiveness and implementation of the TTFA have been developed as well as a mechanism for monitoring the work and operational coordination ITI road corridor. All findings are presented in this report. Thus the recommendations have been elaborated based on the research findings and the identified issues.

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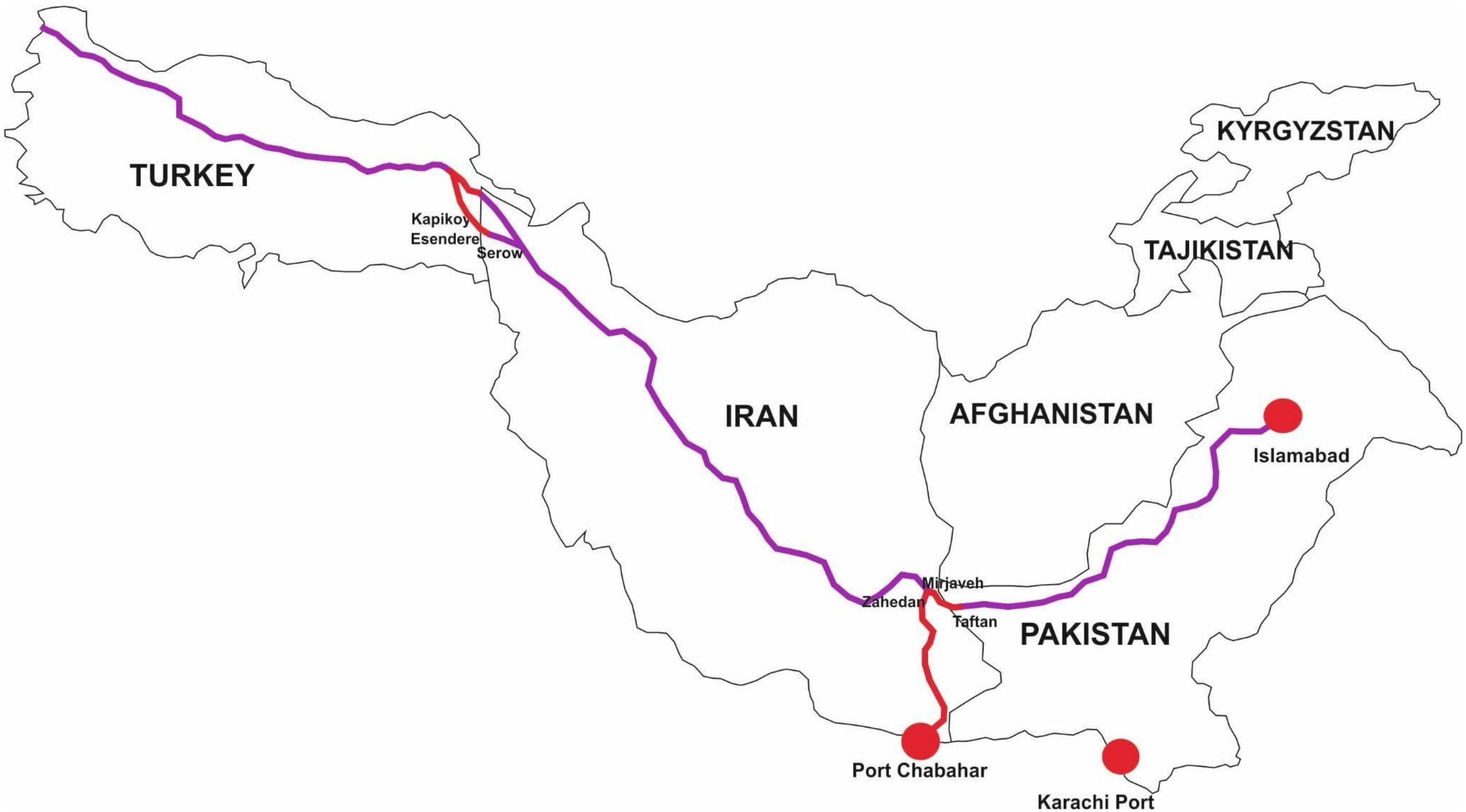

Figure 1. Field research routes

CHAPTER 1. TRADING ACTIVITY OF ITI CORRIDOR

Some factors affecting of trading activity in the region of the ITI corridor

Countries of the ITI corridor have some potential for trade activity (and traffic) due to the following factors:

- The territory of the countries is more than 3,2 million square kilometers with 358 million persons residing (4.8% of the world population), while the population in these countries has increased by 5.5% over the past 5 years (*see Table 1*);
- GDP growth has been recorded in the countries of the ECO region, including the countries enroute the corridor. The average growth of real GDP in the ECO region was 4.49 percent, which is higher than the world average of 2.78 for most of the years, except in 2012, when economic sanctions against Iran were introduced, which led to a significant reduction of economic growth of the country and affected the indicators of the region as a whole (*see Table 2*).

Table 1. Population and area of ITI corridor region[1]

Country / indicator	Population, mln. people					Growth over 5 years,%	Area, thsd. km^2
	2013	2014	2015	2016	2017		
World population	**7 181,7**	**7 265,8**	**7 349,5**	**7 432,7**	**7 515,3**	**4,6**	
Iran	77,2	78,1	79,1	80,0	80,9	4,8	1648,2
Pakistan	181,2	185,0	188,9	192,8	196,7	8,6	796,1
Turkey	76,2	77,5	78,7	79,6	80,4	5,5	783,6
Total in the corridors	**334,6**	**340,6**	**346,7**	**352,4**	**358**	**5,5**	**3227,9**
Share in World population, *%*	*4,7*	*4,7*	*4,7*	*4,7*	*4,8*		

[1] *https://www.cia.gov*, *http://www.imf.org*, *www.populationpyramid.net*

Table 2. GDP[1] at Constant Prices (2010 US$) of the Member States and the ECO Region, 2000-2015[2]

Member State	(in million US$)				Real GDP Growth (in %)	
	Year				Change in 2015 over 2000	Average Per Annum Growth Rate
	2000	2005	2010	2015		
Afghanistan[3]	8 013	9 763	15 937	20 294	153,26	**6,39**
Azerbaijan	13 147	24 751	52 903	59 025	348,98	**10,53**
Iran*	281 928	368 530	467 790	471 789	67,34	**3,49**
Kazakhstan	66 851	109 482	148 047	185 031	176,78	**7,02**
Kyrgyz Republic	3 205	3 859	4 794	6 059	89,05	**4,34**
Pakistan	117 555	149 991	177 407	217 668	85,16	**4,19**
Tajikistan	2 571	4 101	5 642	7 779	202,55	**7,66**
Turkey	500 192	624 924	731 168	906 585	81,25	**4,04**
Turkmenistan	10 754	13 789	22 583	37 254	246,43	**8,64**
Uzbekistan	20 046	26 085	39 333	58 114	189,91	**7,35**
ECO Region	**1 018 710**	**1 335 277**	**1 665 604**	**1 968 910**	**93,27**	**4,49**
Change(in %)	**-**	**31,08**	**24,74**	**18,21**	**-**	**-**
in ITI countries	*899 675*	*1 143 445*	*1 376 365*	*1 596 042*	***77,40***	*3,91*

Thus, the corridors are densely populated, and the population continues to increase. As expected, people consume goods and services. At the same time, the regions produce resources, produce goods and services (indicators of growing GDP), which are consumed both in the domestic markets of these countries, and also exported and imported. These two factors are fundamental to justify the availability of commercial potential and the formation of international freight flows in the ITI corridor countries.

Export-import between ITI corridor countries

The data on export and import volumes between the ITI corridor countries are given in Tables 3 and 4, as well as Figure 2. The Annex I also provides the geography of exports and imports of the ITI corridor countries for 2018.

[1] *GDP - Gross Domestic Product*

[2] *ECO Economic Review 2017 - Economic Cooperation Organization: Fifteen Years of Cooperation and Development (2000-2015)*

[3] *Data for Afghanistan was not available for 2000; hence the earliest available, 2002, has been used for 2000, Also data for Iran is not available for 2015, Proxy for 2015 has been used by multiplying GDP of 2014 with estimated growth rate 1,7 percent recorded in report available at http://pubdocs,worldbank,org/en/206581475460660337/Iran-MEM-Fall-2016-ENG,pdf and http://www,worldbank,org/en/country/iran/overview,*

Table 3. Export-import volumes between of the ITI corridor countries, mln. $US[1]

Country	Export 2012	Export 2013	Export 2014	Export 2015	Export 2016	Export 2017	Export 2018	Import 2012	Import 2013	Import 2014	Import 2015	Import 2016	Import 2017	Import 2018
IRAN														
PAK	742	653	971	639	796	930	1247	186	326	269	226	364	393	330
growth, %		-12	49	-34	25	17	34		75	-17	-16	61	8	-16
TUR	1476	1649	1976	1315	3247	3990	2367	3782	3605	3873	2970	2725	3183	2580
growth, %		12	20	-33	147	23	-41		-5	7	-23	-8	17	-19
PAKISTAN														
IRN	142	63	43	32	36	27	23	120	168	186	261	323	327	374
growth, %		-56	-31	-25	10	-25	-14		39	11	40	24	1	14
TUR	416	407	391	235	237	327	303	189	150	193	205	260	269	358
growth, %		-2	-4	-40	1	38	-8		-20	28	6	27	3	33
TURKEY														
IRN	9922	4193	3886	3664	4966	3259	2393	11965	10383	9833	6096	4700	7492	6931
growth, %		-58	-7	-6	36	-34	-27		-13	-5	-38	-23	59	-7
PAK	276	286	259	289	347	352	462	555	437	436	311	263	323	331
growth, %		4	-9	12	20	2	31		-21	0	-29	-15	23	2

Table 4. Comparison of export-import volumes of the ITI corridor countries with all countries of the world and among themselves, mln. $US

Country/ Indicators		2012	2013	2014	2015	2016	2017	2018
EXPORT								
IRN	to world	132713	92123	90328	60041	78267	91737	96618
	incl. to ITI	*2218*	*2301*	*2946*	*1954*	*4043*	*4921*	*3614*
PAK	to world	24614	25121	24722	22089	20534	21878	23631
	incl. to ITI	*558*	*470*	*434*	*268*	*272*	*354*	*326*
TUR	to world	152462	151803	157610	143850	142530	156993	167967
	incl. to ITI	*10198*	*4478*	*4146*	*3953*	*5313*	*3611*	*2855*
TOTAL	to world	**309788**	**269046**	**272660**	**225980**	**241331**	**270608**	**288216**
	incl. to ITI	**12973**	**7249**	**7526**	**6175**	**9629**	**8886**	**6796**
	share of ITI, %	*4,2%*	*2,7%*	*2,8%*	*2,7%*	*4,0%*	*3,3%*	*2,4%*

[1] For some years, information in the context of countries is missing

Country/ Indicators		2012	2013	2014	2015	2016	2017	2018
					IMPORT			
IRN	to world	51458	48432	52250	40043	42702	51612	41236
	incl. to ITI	*3969*	*3931*	*4143*	*3196*	*3089*	*3576*	*2911*
PAK	to world	43813	43775	47545	43990	46998	57440	60163
	incl. to ITI	*309*	*318*	*379*	*466*	*583*	*596*	*732*
TUR	to world	236545	251661	242177	207207	198618	233800	223046
	incl. to ITI	*12520*	*10820*	*10269*	*6407*	*4963*	*7815*	*7262*
TOTAL	**to world**	**331816**	**343868**	**341972**	**291239**	**288319**	**342852**	**324446**
	incl. to ITI	**16798**	**15069**	**14790**	**10069**	**8635**	**11987**	**10904**
	share of ITI, %	*5,1%*	*4,4%*	*4,3%*	*3,5%*	*3,0%*	*3,5%*	*3,4%*

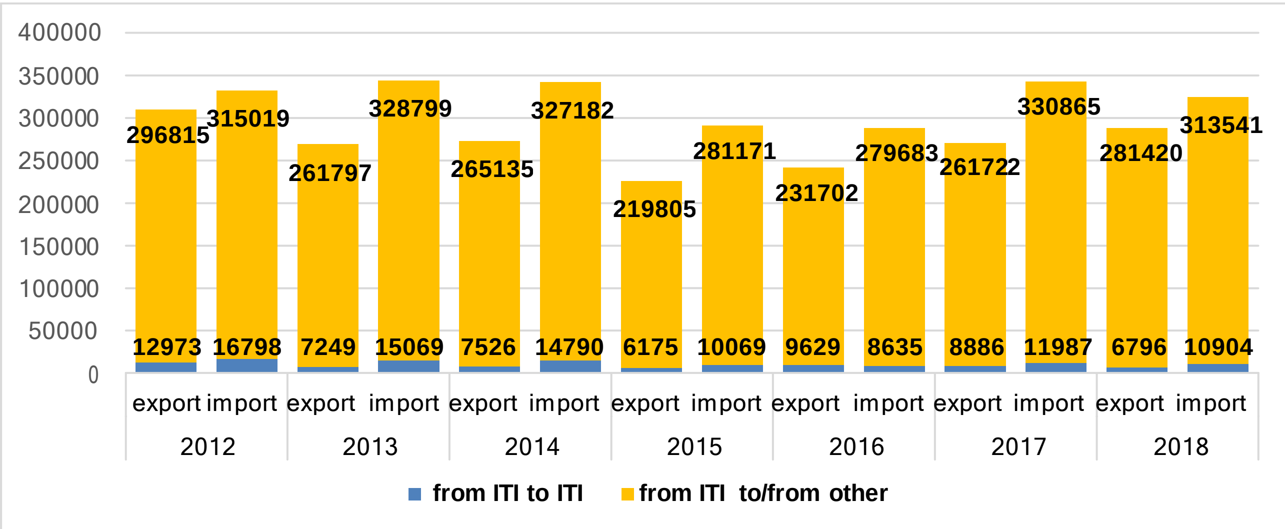

Figure 2. Comparison of export-import volumes of the ITI corridor countries with all countries of the world and among themselves in 2012-2018, mln.$US

The availability of commercial potential is supported by statistical data on export-import volumes in the corridors[1] shown in Figure 2 - Figure 7. More detailed data on the volume of exports and imports of the corridors over the past 5 years are presented in Annex I.1, an analysis of the trade geography is shown in Annex I.2.

The following conclusions can be drawn from the presented data:

- ☐ International trade between ITI corridor countries accounts for about 2,5-5% of the total trade volume of these countries with all countries of the world.
- ☐ Mainly traffic flows in the countries of concerned corridors are formed by the export and import of Iran and Turkey.

Assessment of the transit potential of the ITI corridor

Data on the volumes of export-import (in terms of value) of countries where goods can be transported to / from the ITI corridor are given in Table 5. From this data it can be seen

[1] *Information resources: International Trade Centre - www.trademap.org, https://comtrade.un.org/*

that part of the export-import shipments of Turkey, Iran and China can be delivered via the ITI corridor, which confirms that this corridor has a certain transit potential. The transit potential of the ITI corridor can also be formed due to freight traffic from China to Europe.

Table 5. Export-import volumes to assess the potential of transit of ITI corridor, mln. $US

country, indicators	export					import				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
					TURKEY					
CHN	**2861**	**2415**	**2328**	**2936**	**2913**	**24918**	**24873**	**25441**	**23371**	**20719**
growth, %		-16	-4	26	-1		0	2	-8	-11
					IRAN					
CHN	9389	7230	8370	9065	21099	12719	10473	10696	13115	14009
growth, %		-23	16	8	133		-18	2	23	7
					CHINA					
IRN	**24338**	**17770**	**16417**	**18585**	**14009**	**27504**	**16057**	**14827**	**18554**	**21099**
growth, %		-27	-8	13	-25		-42	-8	25	14
TUR	**19305**	**18608**	**16687**	**18122**	**17864**	**3705**	**2944**	**2785**	**3783**	**3763**
growth, %		-4	-10	9	-1		-21	-5	36	-1

Despite the fact that the data are presented in value terms, as well as the fact that these goods can be delivered by various modes of transport and alternative routes, the data show that some of these goods can be transported along ITI corridor.

Thus, in the course of creating favorable conditions for the carriage of goods, the ITI corridor possesses a certain transit potential since the use of this corridor may open up the shortest running distance to deliver goods in a number of directions.

Key findings

The countries enroute ITI corridors there are a commercial potential and, accordingly, the potential for cargo flows growth. This is justified by the following three facts:

- □ a steady increase in the population of the studied countries and constant GDP growth in corridors;
- □ fluctuating, but relatively stable volumes of export-import (in value terms);
- □ due to the significant export and import activity of China, Turkey and Iran, the ITI corridor has a certain transit potential, since the use of this corridor for transportation can ensure the shortest distance to deliver goods in a number of directions.

CHAPTER 2. CONCEPT OF TRANSPORT CORRIDORS, INTERNATIONAL INITIATIVES FOR THE DEVELOPMENT OF TRANSPORT CORRIDORS IN THE REGION

Concept of transport corridors

The principle idea of any transport corridor is the concentration of transport, cargo and passenger flows on highways having the maximum throughput and high level of arrangement. Modern systems of transport corridors have been actively developed on all continents since 1970s.

Depending on the purpose of creating the transport corridor, the level of interaction of stakeholders in its creation and the nature of regulation of transport, trade and economic activities, the transport corridor can be a transit corridor, a trade corridor or a development corridor.

A transit corridor provides conditions for an unhindered and cost-effective movement of vehicles in a certain direction.

A trade corridor introduces favorable customs, tax, administrative regimes and the provision of a set of additional logistics services for the development of trade between regions or countries that connects this transport corridor.

A development corridor is called upon to play a systemic role in the economic and social development of the territories they pass through. Their creation is linked with projects for the development of economic and social sectors of the respective regions.

Transport corridors can be international or national.

International transport corridors connect two or more neighboring states and can pass through several transit states, in particular, to ensure maritime trade for landlocked countries.

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The creation and development of the International transport corridors is the subject of international agreements concluded in various regions of the world. Such agreements involve the involvement of significant resources in the establishment of the transport corridor, as well as the harmonization of the legislation and administrative procedures applied in the transport of transport corridor.

Using the concept of transport corridors in the creation and development of transport systems allows:

- to ensure the alignment of priorities and projects for the development of transport and economic infrastructure, modes of transport, territories;
- reduce the costs associated directly or indirectly with transportation, by

concentrating transport and freight flows, reducing the necessary land allocation, etc.;

- to develop intermodal transport, ensuring the interaction of modes of transport at the key points of transport corridors;
- to localize environmental effects by placing in a common communication band of different modes of transport;
- provide a clear system of priorities for the selection of infrastructure projects.

The selection of projects for the development of communications and terminals in the transport corridor band, the attraction of resources for their implementation, the harmonization of regulatory regimes related to the transport corridor and the solution of other transport corridor development tasks require continuous monitoring of corridors functioning, analysis and forecasting of transport and cargo flows, parties. Therefore, transport corridors can be independent objects of management. The nature of the bodies and mechanisms of management created for this purpose depends on the type of transport corridor and the purposes of its creation.

International initiatives for the development of transport corridors in the region

Based on two main messages that the volume of trade between Europe and Asia has been constantly increasing, and the delivery of cargo by land, as a rule, takes less time than by sea, a number of international organizations pay significant attention to the development of transit and transport potential in the countries of ECO region, including the studied countries by forming transport corridors (including road and multimodal corridors). The main initiatives for the formation of transport corridors in Kazakhstan and Central Asia include:

Alongside ITI ECO corridor some other main initiatives for the formation of transport corridors in region could be as follows:

Initiatives of UN ESCAP[1]: The Asian Highway Route is a regional initiative for cooperation in transportation and the development assistance of the international road transport system in Asia, supporting the development of transportation between Europe and Asia and improving communication between landlocked countries. The Asian Highway Project was launched in 1959. The formalization of the network was started in 2002. The ESCAP Secretariat has worked with national Governments to develop the International Agreement on the Asian Highway Network adopted on November 18, 2003 and entered into force on July 4, 2005. The agreement includes a list of Asian Highways and classification and design standards.

TRACECA (TRACECA Corridor)[2] is a multifaceted program of cooperation proposed by the European Union in 1993. The program is aimed at developing economic relations, trade and transport communication in the regions of the Black Sea basin, the South Caucasus, and Central Asia (Europe - Caucasus - Asia). The TRACECA International Transport Corridor includes the transport system of 13 participating countries of the Basic

[1] *http://www.unescap.org*
[2] *http://www.traceca-org.org*

Multilateral Agreement on International Transport for the Development of the Corridor Europe-Caucasus-Asia (TRACECA BMA): Azerbaijan, Armenia, Bulgaria, Georgia, Iran, Kazakhstan, *Kyrgyzstan,* Moldova, Romania, *Tajikistan, Turkey*, Ukraine, and Uzbekistan.

The Belt and Road Initiative (BRI) or the Silk Road Economic Belt and the 21st-century Maritime Silk Road is a development strategy proposed by the Chinese government which focuses on connectivity and cooperation between Eurasian countries, primarily the People's Republic of China (PRC), land Silk Road Economic Belt (SREB) and ocean Maritime Silk Road (MSR) [1].

BRI is not an economic program with exact deadlines, a list of actions and final figures. The new image of the Great Silk Road doesn't have clear geographic framework, starting and ending points. It is assumed that the main routes of the Silk Road Economic Belt will be passing:

- from China across Central Asia, Russia till Europe (till the Baltic Sea);
- from China through Central Asia and western Asia to the Persian Gulf and the Mediterranean Sea;
- From China to Southeast Asia, South Asia, to the Indian

Ocean.The main directions of the Sea Silk Road of the XXI century:

- from China's seaports through the South China Sea to the Indian Ocean and further to Europe;
- From Chinese ports through the South China Sea to the South Pacific Ocean.

It is planned to form international corridors of economic cooperation such as: China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina, China-Pakistan, and Bangladesh-India-Myanmar-China in the above-mentioned directions.

The Central Asia Regional Economic Cooperation Program (CAREC)[2] is a partnership of 10 countries and 6 multilateral institutions working to advance development through cooperation leading to accelerated economic growth and poverty reduction, helping the Central Asian and neighboring countries realize their enormous potential in multi-speed Eurasia. The priority areas of CAREC are transport, trade facilitation, trade policy and energy. Within the frameworks of CAREC program six transport corridors shall be considered.

Other initiatives[3]**.** In addition to the above-mentioned initiatives, other organizations are also developing road (or multimodal) transport corridors, for example:

- The European Commission (EC) TES-T network includes nine main corridors.
- Within the framework of the New Eurasian Land Transport Initiative (NELTI) of the International Road Transport Union (IRU), three main corridors (routes);
- Other international initiatives for the development of transport corridors.

UNECE combined data on the initiatives for the development of transport corridors (not

[1] *For information on introduction of TIR pls. visit https://www.iru.org/resources/iru-library/tir-and-facilitation-unimpeded-trade-china*

[2] *http://www.carecprogram.org*

[3] *http://www.unece.org/fileadmin/DAM/trans/doc/2016/wp5/ECE-TRANS-WP5-2016-03r.pdf*

only road) and presented in the form of the scheme (see Figure 3).

From the data presented, it is clearly seen that the countries considered in this research are in the focus of many international organizations in terms of transport corridors development.

Presented data show that international organizations pay special attention to the development of trade and transport potential of the countries in the region and there are other alternative ways of cargo delivery (except for the ECO corridors).

Figure 3. Transport corridors of Europe and Asia[1]

Some factors constraining development of ITI corridor

In the course of field research, a research of the main transport participants (drivers, transport personnel) was carried out, during which it became clear that for the development of the ITI corridor there is objective factor limiting its development: Quetta-Taftan (PAK) has bad road segments and there are other problems related to border crossing (for more details see other sections of the report). There is an alternative more efficient transport connection with Pakistan involving maritime transport.

[1] *Source: UNECE, Transport Department*

CHAPTER 3. TIME-COST-DISTANCE CARGO ROAD TRANSPORTATION

Information sources

The research of the timing and cost of transporting goods is a large-scale research that requires considerable resources. Therefore, to demonstrate the overall picture of the cost and timing of the transportation of goods along the studied routes, we used data provided by the Corridor Performance Measurement and Monitoring (CPMM) project, carried out under the authority of ADB.

CPMM is a regional research of transport and trade facilitation effectiveness in Central Asia. Started in 2009, CPMM has been ongoing throughout the years. The research was possible through coordinated efforts of 11 national transport associations in each CAREC country spanning six CAREC Corridors. Basic data are recorded by drivers and freight forwarders using customized data collection sheets. These data are then collected by a CPMM coordinator in each of the transport association. The data are entered into a standardized Microsoft Office Excel spreadsheet. These are submitted monthly to international consultants who have reviewed the data and verified the values. After the acceptance, the spreadsheets are sent to the ADB CAREC Secretariat office to aggregate and report the findings using SAS statistical software. Quarterly and Annual CPMM reports can be found on the website www.cfcfa.net.

The procedures for CPMM data collection is based on the UN-ESCAP procedures CT-TPM Toolkit - Time / Cost-Distance. The application of this procedures allowed the collection of digital data about:

- The TIME, including time for transportation (Transit Time (hrs.)) And time for stops for the various operations (such as Border Security, Customs Control / Clearance, Health / Quarantine, Phytosanitary / Veterinary Inspection, Transport Inspection/ Weight / Standard Inspection, Road Toll) and delays in the way (Activities Time (hrs.))
- the COST, including cost for transportation (Operating Cost (US $)) and cost for the various operations, including unofficial payments (Activities Cost (US $)).

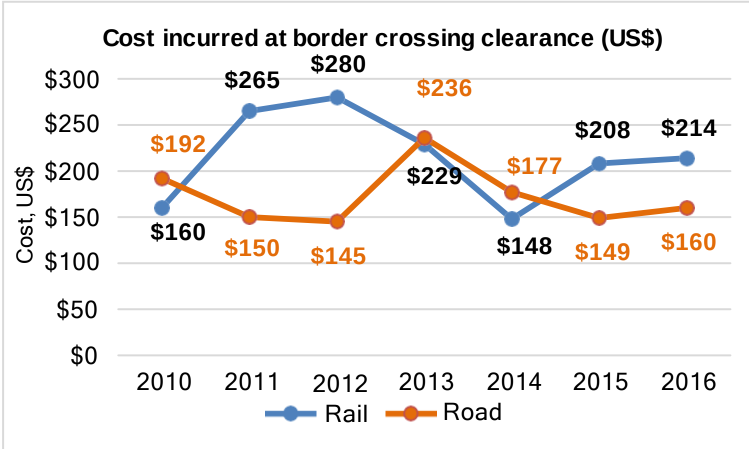
In the framework of this research, some CPMM Annual Report 2016 data were used[1], as well as the most current data received from national associations on the transport of goods along routes comparable to the ITI corridor, which are presented in Annex III.

Some useful conclusions of the CPMM research

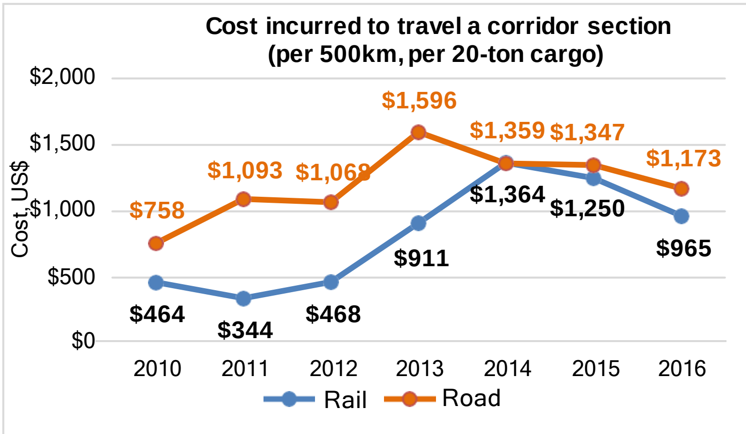
Although the CPMM research was conducted for the CAREC corridors, some of the routes of these corridors coincide with the ITI corridor, therefore some findings of the CPMM research can be correlated to demonstrate a common situation on the international transport of goods by road in the region.

[1] www.cfcfa.net

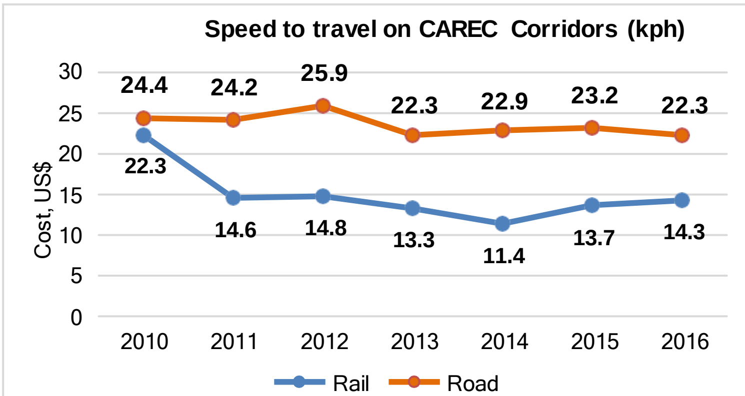
1. In 2016, the costs (average) incurred at border crossing clearance for both types of transport have increased. For vehicles the latter increased by 7% and amounted to US$160, and for the railway- by 3% and amounted to US$214.



2. In 2016, the average cost of transportation for both types of transport has decreased, displaying further tendency in this regard as it was noted in 2015. The cost of transportation by road has decreased by 12%.



3. CPMM measures two types of speeds. The first one is Speed Without Delay (SWOD). This measurement excludes any stopover time, for example, delays at crossing the border. The second is Speed With Delay (SWD). In 2016 it was revealed that in road transport has decreased (-4%) up to 22.3 km / h, in railway transport it has increased (+ 4%) up to 14.3 km / h. If you exclude the border crossing time, the speed (SWOD) by trucks was 41.7 km / h and the train - 38.6 km/h. Via comparing SWOD and SWD, it is not difficult to notice that crossing the border significantly affects the overall speed due to long and inefficient procedures at the border.



4. Operating Cost constitutes approximately 35-50% of the total cost of transportation (including Activities Cost and all related costs) and for a number of routes this figure is higher than Activities Cost (55-57% of the total cost of transportation).

CHAPTER 4. CARGO TRAFFIC AND EVALUATION OF TRAFFIC INCREASE

General data on volumes of international transport of goods

To assess the flow of goods from national consultants, data were obtained on the volumes of cargo transportation. The data presented in Annex II are organized as follows:

- □ Table with numbers 1.n contains information on the volume of exports, imports and transit in the whole country (in some cases there are two, because the information on transit is presented separately).
- □ Table with numbers 2.n contains information on the distribution of the volume of international transport of goods by different modes of transport.
- □ Table with numbers 3.n contains information on traffic volumes of cargo traffic through the researched checkpoints.

In Tables with numbers 1.n and 2.n, it was possible to collect only available information, which in a number of countries is represented by:

- □ Only for vehicles of one country;
- □ Only in US dollar equivalent which is more suitable for assessing traffic flows, rather than traffic flows (data on trade volumes are obtained from centralized reliable sources of information on customs statistics (presented in Annex I);
- □ In some cases, the data presented causes doubt and is not correlated.

For the above reasons, the data in Tables No. 1. and 2 in Annex II can only be used to show trends in international traffic in the countries that submitted them, namely:

- □ *The volume of international transportation of Iran* in general for the last 5 years has increased, both in export-import and transit traffic (see Annex Tables: IRN 1.1 and IRN 1.2), while:
  - volumes of export-import with Pakistan and Turkey increased;
  - volumes of transit traffic increased only with Turkey.
- □ *The volume of international transport of Turkey* in the export-import has generally increased (see Tables: TUR 1) for the last 5 years due to increase in the volume of transport with Iran, while the volumes with Pakistan have decreased.

Data on checkpoints' workload

From the point of view of the estimation of the traffic flow through the studied corridors, the data on the volume of work carried out by the number of trucks crossing the checkpoints presented in Tables No 3.n in Annex II are the most valuable, as in fact the checkpoints are the key points of the corridor section.

Such data are sufficient if only provided by one of the neighboring countries. Thus, the statistics on the work of checkpoints provided by Iran (see Tables IRN 3.1 .and IRN 3.2 in Annex II) covers the needs for the estimation of the ITI traffic flow. The data of these tables are shown in diagrams (Figure 4), where it is seen the following:

- At the Iranian checkpoints the freight traffic increased in 2017, wherein:
  - through Mirjaveh at border with Pakistani the traffic has increased in the export and transit (both ways) and has decreased in the import;
  - through Bazargan[1] at border with Turkey the traffic has increased in exports and imports and has decreased in transit.

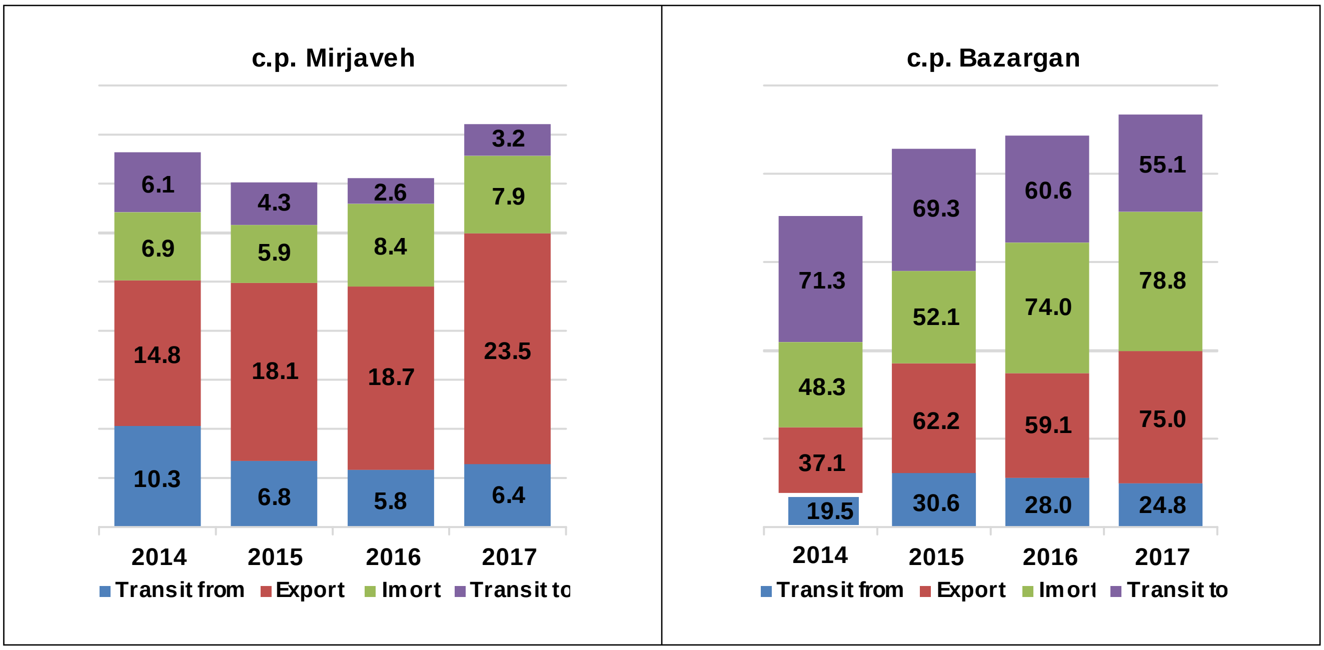


Figure 4. Annual traffic through Iranian checkpoints 2014-2017, thou. trucks

Table 6 presents data on the average freight traffic per day for all key corridor crossings in 2016[2] (calculated from traffic data for the year). These data are shown in Figure 5.

Table 6. Truck traffic through checkpoints (2016)

Name of checkpoint	Export		Import		Transit form		Transit to		Total Transit		Total	
	in year, thou. trucks	average per day, trucks	in year, thou. trucks	average per day, trucks	in year, thou. trucks	average per day, trucks	in year, thou. trucks	average per day, trucks	in year, thou. trucks	average per day, trucks	in year, thou. trucks	average per day, trucks
Mirjaveh (IRN) - border of PAK	18,7	51	8,4	23	5,8	16	2,6	7	8,4	23	35,5	97
Bazargan (IRN) - border of TUR	59,1	162	74,0	203	28,0	77	60,6	166	88,6	243	221,7	607
	Outgoing		Incoming		Total							
Serow (IRN) - border of TUR[3]	10,8	30	3,04	8	13,9	38						

[1] *Transportation of border trade is being performed through Serow check point*
[2] *Data for 2017 is not available since data collection has been made in September 2017*
[3] *The data on Serow BCP has been provided for 9 months of 2017 and these blinks are counted*

In 2017, daily traffic at Iran's checkpoints increased in accordance with annual indicators and in all directions amounted to:

- Mirjaveh (IRN) - 228 trucks on average per day (increased by 16%);
- Bazargan (IRN) - 640 trucks on average per day (increased by 5%).

In general, the data on the volume of work of the checkpoints confirms the conclusions made on the statistics analysis of the volumes of the international transportation of goods.

Traffic intensity of trucks along the studied routes

In addition to information received from national consultants, the data on the number of trucks suitable for the international transport of goods following the researched routes (see Annex IV) was collected to assess the current traffic flow during the roadside research.

Probably, not all fixed vehicles carried out international transportation, but the collected data provides a general description of the traffic intensity on the route. This data is consolidated in Table 7 and allows us to estimate the density of traffic along the studies routes.

Table 7. Data on the freight transport traffic, obtained during field research

RESEARCH ROUTE	Research time, hour	Total number of trucks	Average per hour, trucks	Waiting at the border, trucks
CHABAHAR– ZAHEDAN (IRN)	8	177	22	
ZAHEDAN – MIRJAVEH (IRN)	2	46	23	
ISLAM-QALA – HERAT (AFG)	2	17	9	150
HERAT – deep into the country (AFG)	0	0	0	
VAN – KAPIKOY (TUR)	2	2	1	
VAN – ESENDERE (TUR)	4	34	9	50

Main conclusions

The data presented above leads to the following conclusions:

- traffic volumes along the ITI corridor has increased mainly due to the growth of export and import shipments between Iran and Turkey;
- at the Esendere (TUR), Mirjaveh (IRN), Taftan (PAK) checkpoints there is a large accumulation of trucks (the reasons will be discussed in more detail in ‘Checkpoints’ clause.

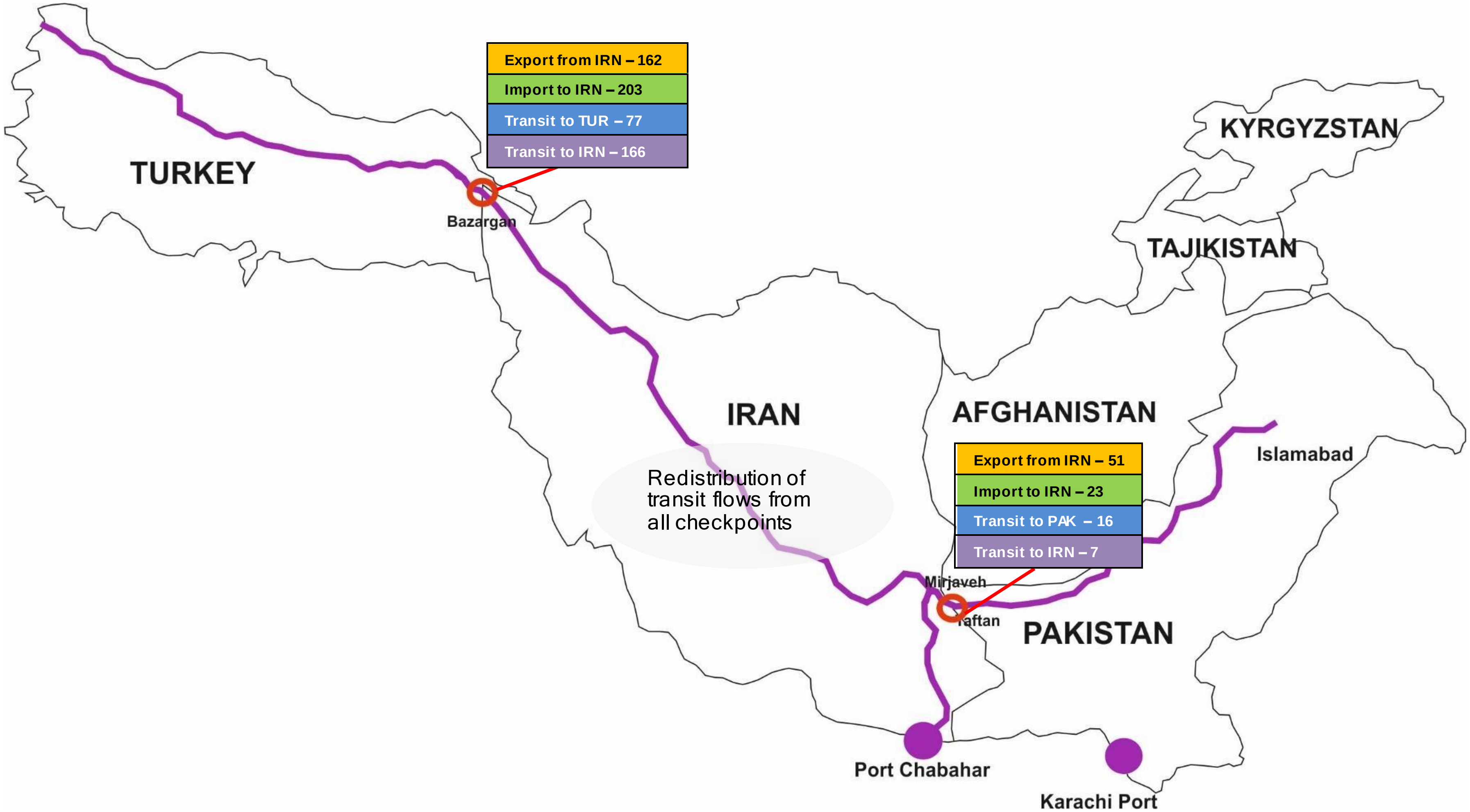


Figure 5. Estimation of daily traffic of ITI corridor in 2016 (trucks per day)

CHAPTER 5: EXISTING ROADS AND INVESTMENT NEEDS FOR DEVELOPMENT, ROADSIDE INFRASTRUCTURE, TRANSPORT LOGISTICS FACILITIES ANDTRUCK FLEET

Road and roadside infrastructure

The general information on the quality and assignment of roads in the countries under the study was provided by the national consultants and is presented in Annex 4.1. The data indicate that the development of roads in the countries under the study is at different levels. In Iran and Turkey, the road network is more developed compared to Pakistan. In Iran, there are plans to modernize the roads; it possesses 61 highways, which can be upgraded to motorways (5611 km) [1].

In the course of this study, the monitoring of roads and roadside facilities was conducted. Protocols of roads' monitoring are given in Annex 4.2. Summary data of the monitoring of roads and roadside facilities is given in Table 8.

Information on the construction and reconstruction of roads provided by national consultants of ITI corridor countries is presented in Annex 4.3.

Pakistan

Pakistan sprawls in an area of 868591 Km2 sharing borders with India, Iran, Afghanistan and China. Arabian Sea falls to its south with a coastal line of 1000 odd Km. The North – South geographical layout of the country provides an excellent trade corridor establishing the shortest possible links between the landlocked country of Afghanistan, as well as China with the Arabian Sea, added to this, Pakistan is an ideal location accessing the Central Asian Countries via Afghanistan, and Europe via Iran, becoming a bridge between Europe andthe South East Asia.

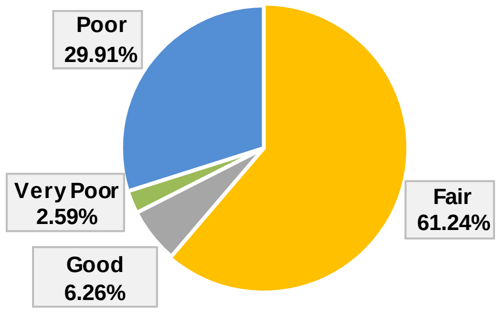


Figure 6. Road conditions of Lakpass-Taftan Road

Pakistan has approximately 262,000 km (2017) long highway network. Around 70% of the entire network consists of paved roads. This wide network provides extensive coverage and it consists of (a) National Highway & Motorway network (b) Provincial Highways & Roads and (c) Local Government and City Roads.

[1] *Data provided by Iran's Ministry of Roads and Urban Development and Road Maintenance and Transportation Organization (RMTO)*

Table 8. Summary data of road and roadside furniture monitoring

STUDED ROUTE	LENGTH, KM[1]						NUMBER OF SPECIAL NOTES AT THE ROUTE[2]											NUMBER OF ROADSIDE FACILITIES THE ROUTE						
	Total	With marks for road quality																						
		1	2	3	4	5	R	∫	↑	↓	S	Sn	W	I	P	N	*	GS	cant.	TSC	host.	bridge	TP	other
CHABAHAR – ZAHEDAN (IRN)	**651**			8	89	554	2	3			2							14	12	10	8	6	7	
ZAHEDAN – MIRJAVEH (IRN)	**100**				35	65														1			2	3
VAN – KAPIKOY (TUR)	**98**				43	55		1										2	1	1				5
VAN – ESENDERE (TUR)	**232**			8	35	189	1	8	2	5	3		1		4			19	5	2	2	2		3

[1] *Calculation of km has been done via utilizing speedometer of the vehicle, so there might be some differences between official cartographic data*

[2] *Transcript of symbols are given in Annex III*

The National Highway Authority (NHA) is responsible for approximately 12,000 km National Highways, Motorways and Strategic Roads System. It owns the main transport corridors, which constitute inter-provincial linkages and links major towns and cities, providing also connections to neighboring countries.

As a part of long term strategy, the government of Pakistan has taken up several initiatives to develop and modernize the road transport infrastructure. A number of these projects are entirely financed through government's own resources, while others are co-financed by the development partners.

Since 2005, a composite transport sector reform initiative supported by investments has been launched by the government to enhance the efficiency of the transport and logistics sectors. The program is known as National Trade Corridor Improvement Program (NTCIP) aimed at achieving a coherent transport and logistics system including all the transport sectors to support economic growth and improve regional connectivity.

As it was pointed out in the ECO Road Network Development Plan (2012) the NTC Highway Sector Improvement Program (HSIP) envisaged an investment of about US$ 4.0 to 5.0 billion aimed at upgrading capacity, extending the network, modernizing the national highways and improving the international linkages. The Asian Development Bank (ADB) under a Multi Financing Facility (MFF) was specified to provide equivalent to US $ 900 million for the National Trade Corridor Highway Improvement Program (NTCHISP). The implementation period is spread over 10 years (2007/08 to 2017/18).

Karachi and Gwadar are the two major ports of the country on the Arabian Sea to play the key role in the economy of the country. This was the main reason for specifying three routes having access either to Gwadar or Karachi ports and recommending them for inclusion in CAREC Corridors.

These are:

1. Khunjerab-Burhan-Pindigheb-Bhakkar-DG Khan-Jacobabad-Khuzdar-Gwadar (2325 km).
2. Chaman-Quetta-Kalat-Basima-Hoshab-Gwadar (825 km);
3. Torkham-Peshawar-Burhan-Pindi Bhattian-Faisalabad-Khanewal-Multan-Sukkur-Dadu-Karachi (1540 km).

As regards the route No.1, being a part of China Pakistan Economic Corridor (CPEC) corridor, the federal government has set aside at least Rs49.5 billion under the Public Sector Development Programme (PSDP) in the fiscal year 2016-17.

During the field study the roads of Pakistan were not visited. However, it was possible to collect the information presented in Table 9 and in the diagram (Figure 6)[1].

From the data presented, it can be seen that in the Lakpass-Taftan section there are sections of a bad road, despite the fact that the traffic intensity is high. In addition, Lakpass-Taftan has only 2-lanes.

[1] *Provided by the National Highways Authority of Pakistan*

Table 9. Information on the roads from Islamabad to Tehran

Route/ the name of the cities of the beginning and end of the segment	Road	Length (km)	Traffic, thou. Tracks per year[1]	Status of Road
Route-I				
Islamabad - Peshawar	M-1	156	38 087	6-lane
Peshawar - DI.Khan	N-55	334	9 310	4-lane
DI.Khan - Zhob	N-50	210	3 300	4-lane
Zhob - Quetta	N-50	310	8 409	4-lane
Quetta - Lakpass	N-25	37	8 088	
Lakpass-Taftan	N-40	623	1 216	2-lane
Route-II				
Islamabad - Pindi Bhattian	M-2	282,6	11 685	6-lane
Pindi Bhattian - Gojra	M-4	110		4-lane
Gojra - Multan	M -4	212		Under contraction
Multan - Qilla Saif ullah	N-70	447		
Qilla Saif ullah - Quetta	N-50/N-25	162	15 405	
Quetta - Lakpass	N-25	37	8 088	
Lakpass-Taftan	N-40	623	1 216	2-lane
Route-III				
Islamabad - Hakla	M-1	49		6-lane
Hakla- DI.Khan	CPEC part	285		4-lane
DI.Khan - Zhob	N-50	210	3 300	4-lane
Zhob - Quetta	N-50	310	8 409	4-lane
Quetta - Lakpass	N-25	37	8 088	
Lakpass-Taftan	N-40	623	1 216	2-lane
Route-IV				
Islamabad - Lahore	M-2	367	16 772	6-lane
Lahore - Sukkar	M-3/ M-4 /M-5	742		KLM
Sukkar - Quetta	N-65	385	3 300	2-lane
Quetta - Lakpass	N-25	37	8 088	
Lakpass-Taftan	N-40	623	1 216	2-lane

In the course of the field visit of the consultancy team to Pakistan only Karachi port was visited. Detailed information regarding Karachi Port is available in Chapter 7 “Checkpoints and Ports.

Figure 7. Prolonged construction of hostel near checkpoint Taftan

During an interview with the National Highway Authority, it was indicated that there are 5 recreation areas on the site of Islamabad-Quetta, and another one is being built in the immediate vicinity of the Taftan checkpoint. However, the object looks like a long-term construction (Figure 7).

In Quetta, there is a dry port. In accordance with the requirements of Pakistani legislation, customs clearance of the cargo to

[1] *In given data units of measurement have not been indicated*

Islamabad shall be carried out by Quetta, so there is an intense traffic on the segment of the Taftan-Quetta, an increase of its throughput is required.

From the information on the projects on construction, reconstruction and rehabilitation of roads presented in Annex 4.3 it can be seen that in Pakistan more than 2.3 thousand km of roads are being renewed or under construction, the cost of projects is more than 4.7 billion US dollars (37.9% of them are foreign investments). More attention is paid to the development of roads connecting to China.

Iran

The crucial geographical and strategic location of the country in the region has turned it to a transit route, playing an important role in the trade between West and East. Numerous international corridors cross the territory of the Islamic Republic of Iran, connecting the Middle East and Asia to Europe. Iran borders on 7 countries, namely, Afghanistan, Azerbaijan, Armenia, Iraq, Pakistan, Turkey and Turkmenistan.

There are 11 main sea ports available nationwide with transit capacity of around 135 mln.tons goods annually, of which 4 major ports of Bandar-e-Abbas, Bandar-e-Imam Khomeini, Bushehr and Chabahar are playing a significant role to open up for its neighbors, notably Central Asian countries, Azerbaijan and Afghanistan, the shortest access to the open seas.

Iran has a long paved road system linking most of its towns and all of its cities. It comprises of around 23000 km transit roads for transit of trucks.

In parallel to existing public roads serving for transit traffic as well, the Government of the Islamic Republic of Iran have come up with national plans on constructing freeways (expressways) destined for high-speed traffic with two or more lanes and with limited access road.

Among latest efforts in this regard is the construction of Marand-Bazargan freeway split into 3 segments (a) Marand-Ivugli (70 km) with the estimated cost of around $110mln., (b) Ivugli-Marganlar (60 km), around $123 mln., and (c) Marganla-Bazargan which is already under construction. Design estimates, feasibility/pre-feasibility studies for Marand-Ivugli and Ivugli-Marganlar are completed and the projects are ready for investment.

The reason for the construction of high-speed highways was the large volume of along the roads towards Bazargan checkpoint/Gurbulak checkpoint of Turkey which are one of the busiest border crossing points in the region. According to ECO's regional study on "implementation of customs provisions of TTFA and modernization of border crossing points" (2016) it was recorded that average 400-600 trucks pass via Bazargan/Gurbulak daily and in spring/summer season it may even go up to 1000 trucks per day.

In the course of the field visit the consultancy team was able to visit Chabahar - Zahedan - Mirjaveh road segments, constituting a part of ITI Road Corridor in the territory of Iran.

Chabahar – Zahedan – Mirjaveh (Protocols № 1 и 2). Almost on the whole route the road is very good, with good markings, roadside signs. There are some small sites for 4 and 3 points, but a parallel road or reconstruction is being built. Throughout the route, video cameras are installed to detect violations of speed limits.

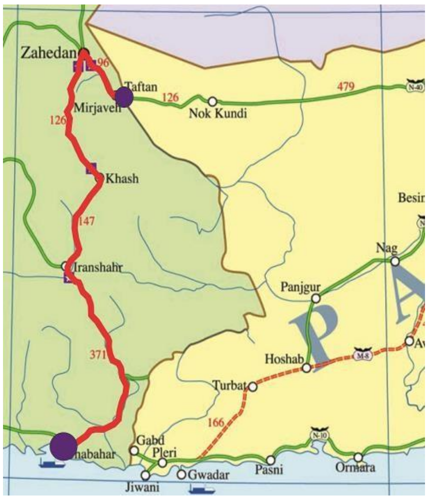


Figure 8. Route of research in Iran Chabahar – Zahedan – Mirjaveh (IRN) –Taftan (PAK)

The intensity of traffic on the route on average is 20-23 cars per hour, to the checkpoint Mirjaveh the traffic intensity of trucks is increasing.

On the route there are objects of roadside furniture (Figure 9), mostly gas stations and dining rooms, but most of them are empty. In many recreation areas, an ambulance is on duty.

Near Mirjaveh the construction of a dry port is planned, as according to the I.R.I Ministry of Roads and Urban Development, Mirjaveh is a strategically important place for the development of the country's transit and transport potential. Currently, a legislative base is being developed to regulate the activities of logistics centers and dry ports

At the checkpoint there is a large crowd of people (pilgrims from Pakistan), awaiting the passage of the border.

Road signs

Rest aria

Figure 9. Photos of road monitoring Chabahar - Zahedan - Mirjaveh (IRN)

On the route there were places where new roadside furniture facilities are being built, mostly TIR parking.

In general, Iran has a developed network of TIR parking lots (Figure 10) and they are still under construction. On the one hand, the presence of TIR parking is necessary to ensure safe transportation[1], on the other hand, it seems that the construction of such a significant number of TIR parking sites in Iran is not entirely justified.

In addition, since TIR parking involves not only ensuring the safety of cargo vehicles and cargo, but also the organization of rest for drivers, as well as other services, such as dining rooms, hostels, truck repair service.

Iran is building a TIR parking network, conditions are being created for the construction of logistics centers, it is planned to implement a WIM[2]

[1] *https://www.iru.org/resources/newsroom/safer-more-secure-road-transport-networks-iran-thanks-transpark*
[2] *Weigh-in-motion devices are designed to capture and record axle weights and gross vehicle weights as vehicles drive over a measurement site (do not require the vehicle to come to a stop).*

system on the roads.

layout of TIR parking in Iran

Figure 10. layout of TIR parking[1]

During the site visit, on the way to Mirjaveh checkpoint, TIR parking was visited, which is located 120 km from Chabahar Port (near Nikshahr City). This zone is fenced, there is everything necessary for parking TIR, technical service of trucks, however, there was no activity on this site, there were no trucks in the parking lot.

Turkey

The Republic of Turkey with a total area of 814,578 km^2 and 8,333 km of coastal line lies in the main traffic artery between Asia and Europe, having borders with Bulgaria, Greece, Iran, Iraq, Syria, Georgia, Armenia, and Azerbaijan. Turkey is surrounded by the Black Sea on the north and the Mediterranean Sea on the south; it connects the Balkans to the Middle East, Central Asia to the Caucasus and the Black Sea countries with the Mediterranean countries. Turkey's location elevates its transport policies and investments to a prime ranking relative to other policies of the country. The transportation sector together with the communication sector makes up almost 12% GDP.

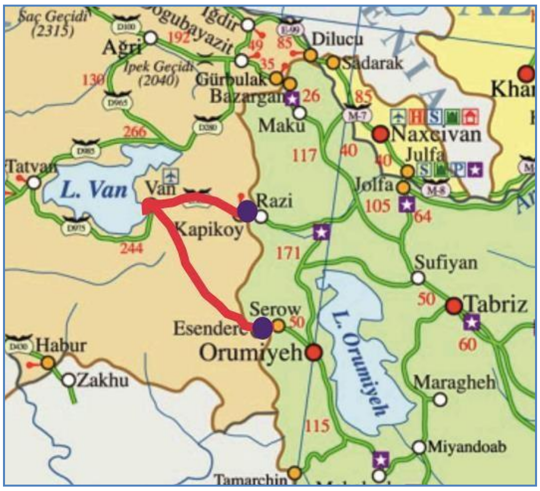


Figure 11. Routes of study inTurkey

Turkey will adopt the role of being an interconnection between Europe, the countries of

[1] *https://www.iru.org/apps/transpark-app*

the Middle East, the Caucasus region, the littoral countries of the Mediterranean, the Aegean and the Black Seas. The transport infrastructure networks in this region are, therefore, vital to competitiveness, economic growth and employment in Turkey and the entire region. Turkey's unique geographic location offers tremendous multi-modal transport opportunities. To make maximum use of these opportunities priority should be given to:

- Improving transport in the North-South and East-West axes to better integrate Turkish transport with international transport networks;
- Improving intermodal transport facilities and services, to take advantage of the strong growth in container transport; and,
- Improving maritime connections and nodal points (seaports), to take advantage of their potential strategic role as industrial and logistic platforms.

The transportation-communication sector ranks first in terms of public investments and is the major sector in the public fixed assets investments. The transportation sector together with the communication sector makes up almost 12% GDP. The Turkish road network has a great number of links to the routes originating from Europe and Asia and constitutes an important section of international arteries.

The country possesses more than 23,000 km of highways and motorways.

The international highway transportation ventures have been a substantial source of foreign currency revenues for Turkey, totaling between 1,5 and 2 bln.USD per year.

In the course of the field visit of the consultancy team to Turkey, it was able to visit only Van - Kapiköy and Van - Esendere road segment constituting a part of ITI Road Corridor.

Van – Kapiköy and Van – Esendere (Protocols № 3 и 4). The roads on the routes under research are very good, there are roadside furniture facilities, road markings and road signs. There are practically no trucks on the Van-Kapiköy route (Figure 12). Also they are few on the Van-Esendere route.

Figure 12. Photos of road monitoring Van – Esendere (Turkey)

Toll Roads

In Annex 4.4, information on toll roads provided by national consultants is compiled. According to Turkey, it was possible to collect information on the planned construction of toll roads. The presented data allow us to make the following conclusions:

- Iran has 490 km of toll road, but there is a free route for all these roads, in addition, the cost of using toll roads is relatively low;
- In Pakistan there are almost 2 thousand kilometers of toll roads, for more than half of them there is no free alternative, at the same time, the cost of using the toll road is relatively small;
- In Turkey, more than 2 thousand kilometers of toll roads which provide high-speed traffic, all toll roads have alternative free roads.

In general, current toll roads are not a significant obstacle.

Logistic centers, dry ports, common border zones, etc.

In the course of the field study we have not been able to collect enough information on the activities related to the logistics centers as the enroute countries have had own national plans and approach to the subject. Anyway there is a general information on the subject we have been able to analyze through various sources including own.

The development and globalization of international trade poses new challenges in optimizing supply chains, reducing the cost and timing of cargo delivery, requires action to facilitate the organization of transport: the provision of consolidation services, deconsolidation and delivery of goods to the desired destination and “just in time”.

That is why in recent decades, the issue of the development of logistics centers, dry ports and other transport logistics facilities - systems that optimize the delivery of goods by time and cost, carry out planning and organization of rational delivery of goods, monitor the implementation of the agreed transportation schedule and provide relevant information to cargo owners is demanded.

However still there is a general lack of consensus about the definition that an area containing logistics activities can have. A wide variety of terms have been put forward, including logistics zones, transport centers, freight village, freight village, freight yard distribution hubs, or logistics parks.

Today there are some transport companies claiming themselves as logistic centers although lacking own storage facilities (territories), since they can use them on an outsourced basis. Besides, logistics centers can be called by various names, such as: terminal-logistics complexes, transport center, freight village, intermodal center, etc.

In a broad sense, "logistics centers" ("multimodal / intermodal cargo terminals») are large enterprises having appropriate territories, buildings and structures (including warehouses), equipment and facilities that specialize in mass processing of goods, including customs clearance, may also provide free space and other services to customers (other companies). The range of services of such centers is usually very wide, therefore, regional logistics centers have a large number of different departments and a large working staff. The logistics center that provides services to other organizations (customers) is usually called "regional".

Logistic centers serving the needs of one company are called the "logistics center of the company."

The following are some definitions of UNESCAP transport logistics facilities.

Intermodal terminal enables containers to be transferred from road to rail or rail to road. It can be an efficient method for moving high volumes of freight from one inland location to another and typically incorporates the services of the other terminals in the ESCAP typology.

A container yard is dedicated to the temporary storage, cleaning, and repair of empty containers. Sometimes it is located near a seaport to improve import export container turnaround time.

A dry port provides all the services of a port except for the loading of cargo to and from seagoing ships. In comparison to container depots, it can accommodate all types of cargo, not just containers. Typically provides all of the features of the facilities above.

Keeping in view the role of dry ports of international importance as an important component of an effective and efficient international integrated intermodal transport and logistics system, especially in addressing the specific needs of landlocked, transit and coastal States, the "Intergovernmental Agreement on Dry ports "(hereinafter Agreement) under the aegis of UNESCAP,[1] was developed in 2013.

In accordance with this agreement, the member countries approved the list of “dry ports” and expressed their intention for their further coordinated development in accordance with the principles established by this Agreement (Appendix II of the Agreement). In accordance with the Agreement, the basic functions of the “dry ports” include the handling, storage and statutory inspection of goods transported in the international trade process, and the implementation of the applicable customs control and formalities. The Agreement also contains recommended requirements for the infrastructure, equipment and services of the Dry Ports.

Appendix I of the Agreement contains a list of 247 logistics facilities in 27 countries that have been designated by countries to be included in the international network of dry ports. About 150 of these facilities already exist, more than 80 are potential dry ports.

Today, the process of signing of the Agreement on dry ports is going on; from the ITI countries of the corridor, the agreement is not signed by Pakistan[2].

Name of facilities included in the list of dry ports in the KTAI enroute countries

Countries	names
Pakistan	• Customs Dry Port, Hyderabad • **Customs Dry Port, Peshawar** • Faisalabad Dry Port Trust, Faisalabad[3] • Lahore Dry Port, Mughalpura • **Margalla Dry Ports, Islamabad** • Multan Dry Port Trust, Multan • National Logistics Center Container Freight Station, Lahore • **National Logistics Center Dry Port, Quetta** • Pakistan Railways Prem Nagar Dry Port, Kasur

[1] https://treaties.un.org/doc/Treaties/2013/11/20131107%2012-02%20PM/XI-E-3.pdf
[2] https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XI-E-3&chapter=11&clang=_en
[3] https://faisalabaddryport.com/

	• **Railways Dry Port, Quetta** • Sambrial Dry Port, Sialkot • Silk Route Dry Port, Sost, Gilgit, Baltistan
Iran	• Imam Khomeini International Airport, Tehran Province • Motahari Rail Station, Mashhad, Khorasan Razavi Province • Salafchegan Special Economic Zone, Qom Province • Sirjan Special Economic Zone, Kerman Province • [Arvand Free Industrial Zone, Khozestan Province] • [Sahlan Special Economic Zone, Tabriz, East Azerbaijan Province] • [Sarakhs Special Economic Zone, Khorasan Razavi Province] • [Shahid Dastgheyb International Airport, Shiraz, Fars Province] • [Zahedan Logistics Centre, Sistan and Baluchestan Province]
Turkey	• Gelemen, Samsun • [Bogazkopru, Kayseri] • [Gokkoy, Balikesir] • [Halkali, Istanbul] • [Kaklik, Denizli] • [Kayacik, Konya] • [Mardin] • [Sivas] • [Usak] • [Yesilbayir, Istanbul] • Kazan, Ankara • [Bozuyuk, Bilecik] • [Habur] • [Hasanbey, Eskisehir] • [Kars] • [Kosekoy, Izmit] • [Palandoken, Erzurum] • [Turkoglu, Kahramanmaras] • [Yenice, Mersin]

To ensure the effective implementation of the Agreement, the UNESCAP secretariat developed the Regional Framework on Dry Ports in 2017. This document does not have legal force as an agreement, but only determines the direction of future possible development, is a reference and guidance. In order to analyze the current situation and compare it with the recommendations of the UNESCAP Regional Framework on Dry Ports, a number of studies have been carried out in several countries, including the ITI corridor.

Pakistan

The figure shows information on the deployment of logistics facilities included in the list of dry ports in accordance with the International Agreement on Dry Ports.

Only three of them are located along ITI corridor:

Railway and road logistic centers in Quetta и Margalla Dry Ports in Islamabad Given the proximity of Peshawar to Islamabad, the dry port in this administrative center can also be considered as a major logistics facility for the ITI corridor.

In addition, there is a logistics center in Chaman (Chaman Customs House), which is located 120 km from Quetta. However, this logistics facility is not included in the list of international dry ports. In total, it was revealed that 24 logistics facilities are called dry ports in Pakistan.

Unfortunately, it was not possible to find sufficient and reliable information about the work of the logistics centers and dry ports of Pakistan. Only three dry ports have their own site, but all of them are not located on the ITI route.

Azad Jammu & Kashmir	• Muzaffarabad Dry Port	
Balochistan	• Chaman Border Terminal • Quetta Dry Port	• Quetta NLC Dry Port • Taftan Border Terminal
Gilgit-Baltistan	• Gilgit Dry Port • Sost Dry Port	
Islamabad Capital Territory	• Islamabad Dry Port	
Khyber Pakhtunkhwa	• Torkham Border Terminal • Azakhel Dry Port • Havelian Dry Port	• Peshawar Dry Port • Jamrud Dry Port
Punjab	• Faisalabad Dry Port[1] • Lahore Dry Port[2] • Lahore NLC Dry Port • Multan Dry Port • Rawalpindi Dry Port • Sialkot Dry Port[3]	• Sialkot International Container Terminal • Wagha Border Terminal • M.M.T.H (Multi Model Transit Hub) Jia-Bagga Terminal J.V With Pak Group Of Companies (PLS)
Sindh	• Karachi Dry Port • Karachi NLC Dry Port	

In some publications[4], found on the Internet about the work of dry ports, it is noted that these facilities are not adequately equipped with equipment for customs inspection, cargo transshipment, and are not staffed with professional staff. Approximately the same observations were made during a visit to the Taftan Border Terminal, which is reflected in the section "checkpoints". The only exception is the Faisalabad Dry Port, which is managed in partnership with DP World, a Dubai-based logistics company (UAE). From the data of the site of this company, you can see that the dry port is quite well equipped.

Iran

In order to implement the provisions of the "Intergovernmental Agreement on Dry Ports", ratified by the Government of the Islamic Republic of Iran in 2017, the High-Level Council on Dry Ports was established, which is composed of representatives of several organizations under the chairmanship of the Railways of I.R.of Iran:

- Iranian Port and Maritime Organization
- Railways of the Islamic Republic of Iran (RAI)
- Islamic Republic of Iran Customs Administration

[1] https://faisalabaddryport.com/
[2] http://www.mict.com.pk/
[3] http://www.sdpt.org.pk/
[4] https://www.unodc.org/documents/data-and-analysis/Studies/Opiate_Trafficking_and_Trade_Agreements_english_web.pdf

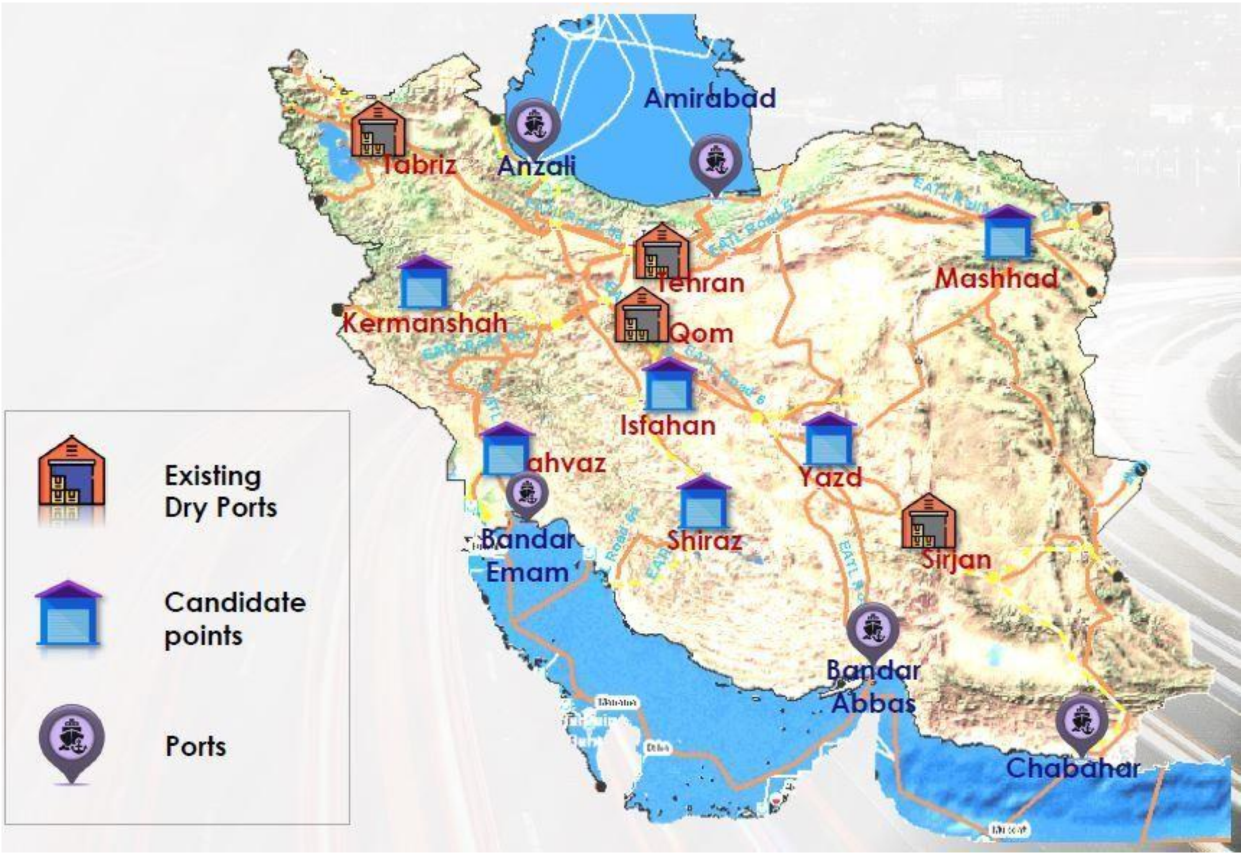
- Civil Aviation Organization of the Islamic Republic of Iran
- Management and Planning Organization of Iran
- Iran Chamber of Commerce, Industries, Mines and Agriculture

In addition to the 9 dry ports enlisted in the Agreement (see. Fig.), the dry port of Aprin, located about 21 km south-west of Tehran, was proposed to include in the list.

In addition to the approved sites, 15 more sites were proposed for the construction of the dry port. In accordance with a resolution of the Council, all approved and proposed dry ports must be connected to the railway network.

With few exceptions, all approved sites are those where trade generating industry is concentrated, and therefore they have been given priority for the construction of dry ports.

However, according to ESCAP study in 2017, one can doubt whether the market is large enough to support 9 or more "dry" ports, since the port's throughput capacity for container handling can cope with the existing volumes of container traffic.



There are three dry ports on the KTAI corridor route: Chabahar, Aprin and Tabriz.

Aprin is located about 21 km southwest of Tehran at the intersection of the east-west line from Mashhad to the border with Turkey at Razi, and the north-south line from Bandar Abbas to Tehran. As such, it is in a strategic position to handle cargo from the southern ports, 60-70 per cent of which originates in, or is destined for, Tehran and in addition to handle cargo to and from major industrial centres, such as Tabriz (automobiles, clothing and foodstuffs) and Esfahan (steel).

Aprin is situated within an industrial zone and will serve many factories within a 60 km radius.

A land area of 700 hectares is available for development at Aprin, all under the title of the Ministry of Transport and Urban Development. In 2016 a tender was awarded for the initial development of the dry port on 35 hectares. The facility will be developed and operated under a BOT contact between RAI and a Swiss company, at an estimated cost of € 42 million (US$ 44.4 million). Construction is estimated to take 2.5 years. Tenure of the BOT contract will be 25 years.

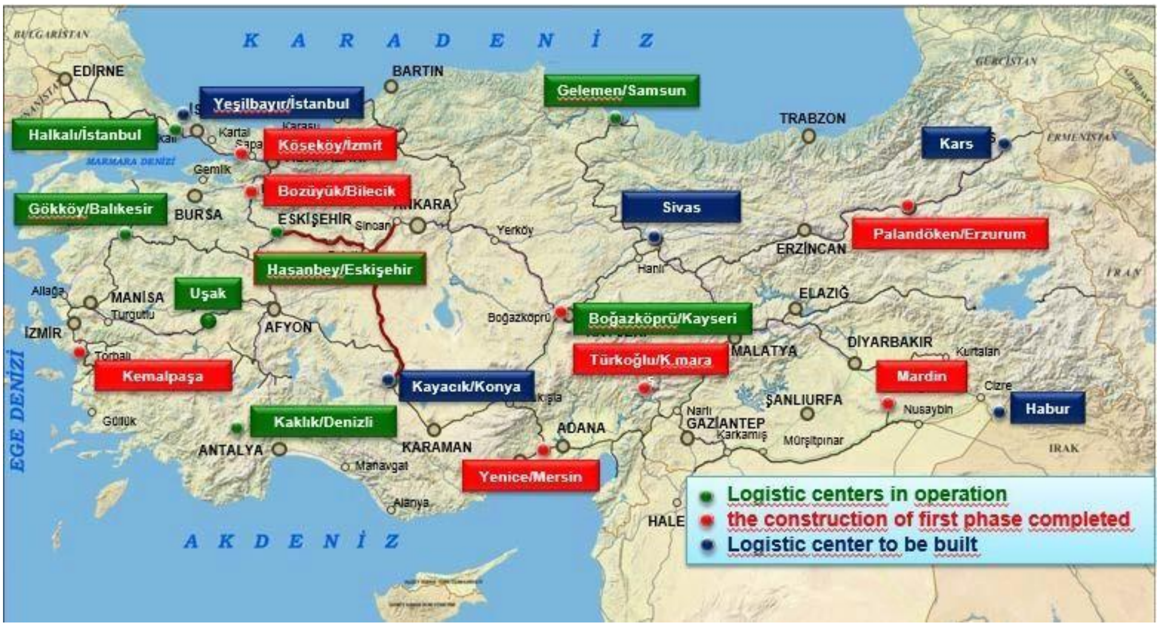
Sahlan Special Economic Zone (Tabriz, East Azerbaijan Province) located 15km west of Tabriz, 10 km from Tabriz international airport. Proximity to Turkey, Armenia and Azerbaijan. 14 km exclusive railway that connects warehouses directly to the rail. Capacity of handling 3 million ton freight per year, 345000 m^2 warehouses, container terminal with 25000 TEU.

Turkey

In Turkey, logistics centers are accepted as the base of modern transport and implemented under the leadership of the Ministry of Transport, Maritime Affaires and Communication (MOTMC). The development of a network of logistics centers is one of the targets of the Government listed in many policy documents, in particular the '2023 Strategy'.

In addition to Ankara Logistics Centre founded in 2004, which was the first logistics centre built in Turkey, logistics centres were, as mentioned, planned by TCDD, to be primarily built in the following 20 locations where the freight transport potential is high due to the existence of organized industrial zones (see fig.)[1].

[1] According to a 2017 study https://www.unece.org/fileadmin/DAM/trans/doc/2017/wp24/ECE-TRANS-WP.24-2017-03r.pdf



Turkish Logistics Centres vary in size, spectrum of services offered, modes served and financial/funding schemes. Most of them are developed on the basis of various forms of Public/Private Partnership.

The closest logical centers to the Iranian city, gravitating to the ITI corridor are: Kars and Erzurum (Palandöken)

Kars Logistics Centre. Kars is the last big terminal in north-eastern Turkey. The existing railway connection to Armenia is closed. The other connection to Georgia-Azerbaijan has been under construction for the past 9 years. TCDD made plans for the construction of a LC based on the assumption Kars Terminal would play an important role after the opening of Baku-Tbilisi-Kars railway line.

Construction of the Erzurum Logistics Center (Palandöken) was completed in 2018. The Logistics Center covers an area of 350,000 m² and has a capacity of 437 thousand tons of cargo per year.

Truck fleet

Table 10 provides information on truck park in the countries enroute corridor.

Table 10. Truck park

Truck category name	Total	Years of release		
		2015-2017	2010-2014	before 2010
TURKEY				
Total trucks	**76 678**	20 558	56 120	NA
including EURO 5	**33 610**	16 312	17 298	NA
including EURO 4	**5 113**	2 687	2 426	NA

Maximum permissible axle loads applied in the territories of contracting parties in accordance with their domestic legislations, is presented in Annex V.

Despite the fact that the data was not provided by all countries, the following conclusions are obtained, including data provided through interviews that were consumed during the research:

Figure 13. Homemade trucks, often found in Pakistan

- A relatively good fleet of trucks is available only in Turkey: a significant number, quite new, about 45% of EURO-4 and EURO-5;
- In Pakistan (from the observations of the field research), there are also few new vehicles, in addition most of the vehicles are built up by hand, it has a load of up to 70 tons (Figure 13);
- In Iran, the renewal of the truck fleet faces challenges, as the country is under economical sanctions. In order to ensure the safety of trucks, all vehicles are equipped with GPS (GPS equipment is provided by more than ten companies with special rights delegated by the state).

Main conclusions

- On the route of the ITI corridor there is a hard-to-reach area on Quetta-Taftan segment of Pakistan;
- On the route of the ITI (except Turkey), there are not enough rest areas for drivers, in some cases they are not enough (especially hostels), their location is spontaneous, the quality leaves much to be desired. Food places are mainly eateries;
- In Pakistan there are not enough TIR parkings. IRU's website contains information about all available TIR parking lots[1] (with the option of on-line search for the country, the location of the parking lot and the services available on it), but there are only information available on Turkey and Iran, the rest of the enroute countries did not provide such information to IRU;
- The truck fleet (with the exception of Turkey) needs to be updated, while the used trucks can be used for transportation to the corridors. In Iran, due to sanctions, there are difficulties with renewal of the fleet of trucks, however, the current fleet can serve the needs of international transportation.

There is a big problem with truck fleet in Pakistan, as there are a lot of self-made cars that exceed the dimensions that do not ensure traffic and road safety. Due to over-sized and overweight standards Pakistani vehicles cannot enter the countries enroute corridor. Cargo from Pakistani vehicles need to be reloaded at the border into 2-3 foreign trucks which causes delays.

[1] *https://www.iru.org/apps/transpark-app*

CHAPTER 6. CHECKPOINTS AND PORTS

Checkpoints and port of Iran

Mirjaveh Checkpoint (IRN) (Figure 14) is located 90 km from Zahedan City at the common border point with Pakistan and the closest city in Pakistan to the border is Taftan city. The total area of the terminal is 67 thou. square meters.

The terminal has the necessary facilities and services for border, customs and other required formalities, and to ensure unimpeded passage of goods, including the Truck X-Ray Scanner, Veterinary Quarantine and Plant Quarantine locations and others.

Also, in the customs operations area, the so-called commercial transactions for the execution of documents required in accordance with Iranian legislation are being processed (also information about the documents required for transportation in Iran and their cost are provided in CHAPTER 8. CUSTOMS PROCEDURES AND DOCUMENTS), including:

- insurance (since Pakistan is not a member of the Green Card).

In addition, a transit list and other documents are filled in for transit cargoes. Filling of all documents, including those related to customs inspection is automated, is made electronically.

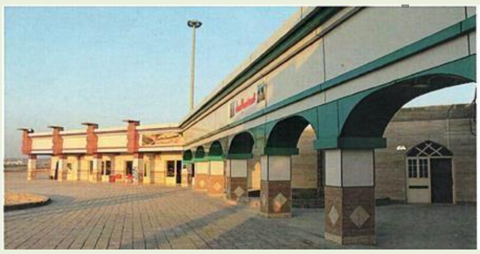
At the border terminals, there are 10 (ten) government organizations, providing services to drivers and merchants such as:

Currently:

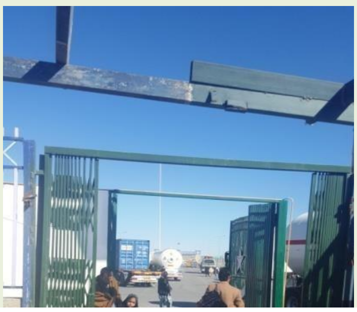
- Borderline Guard
- Passport Police
- Customs
- Road Maintenance & Transpiration organization
- Animal & Plant Quarantine Organization

Future development plan for border terminal:

- Construction of a commercial hall
- Increasing passenger lounge area to 3500 m^2
- Construction of wastewater treatment plant
- Increasing landscaping and parking places
- The construction of the entrance porch



Checkpoint terminal « Mirjaveh»



Checkpoint terminal «Mirjaveh «

Exit to the Pakistani side

View from above

Line of buses at the Checkpoint «Mirjaveh»

Line of people at the Checkpoint «Mirjaveh»

Figure 14. Photos of Mirjaveh Checkpoint

The Mirjaveh Checkpoint operates on the same principles as other Iranian Checkpoint terminals, however, the Pakistani party has complaints about the CMR clearance by the Iranian side. CMR are issued without the Iranian customs authorities' stamp, without the carrier's signature, looks like a copy of the document (not the original one), (see the sample of fake CMR at Figure 20).

Truck parking is located at 5 km distance from the border crossing point (private company), the cost of parking is US $2 per night, trucks usually wait for 2 days. At the parking lot there are about 100-150 trucks, their admission is also done electronically. Despite the fact that it is stated that the checkpoint operates at daylight hours, at 16.00 all the services of the checkpoint have already been closed. As it was said earlier at 11:00 there was a big line of buses with people and people (about 200-300 - Pakistani pilgrims come from Iraq), by 4:00 pm this queue was gone. It is unlikely that in 5 hours one can inspect and pass such a significant number of passengers and trucks.

Representatives of Pakistan also noted that Mirjaveh's working hours are shorter than at the Taftan checkpoint[1], in addition, the Iranian checkpoint does not work in connection with frequent state holidays. For Pakistan, as for the country that exports mostly perishable products (vegetables, fruits), the settlement of the hours and days of operation of the two border points is extremely important.

[1] *The note of the National Consultant of Iran: In accordance to Minutes of 8th Joint Road Committee signed between Concerned Authorities of Iran and Pakistan on 12 March 2014, and Minutes of 9th Joint Road Committee signed between concerned Authorities of two sides on 12 January 2017 both sides agreed to increase the working hours of their checkpoints from 7:00 to 19:00. The Iranian side fully respect all the agreements as far as working hours.*

The Iranian side does not trust the certificates (veterinary, phytosanitary, etc.) issued by the Pakistani side, therefore it carries out an additional check of cargoes of vegetable and animal origin, for this purpose special services are available at the checkpoint. There is no exchange of customs information with the Pakistani side.

Preliminary information[1] and declaration is not provided. Truck X-Ray Scanner has not been demonstrated. According to the statistics provided, the point passes about 100 vehicles a day, this is confirmed by a field research.

Serow Checkpoint (IRN) (Figure 15). The Serow checkpoint is located on the border with Turkey, the adjacent Turkish checkpoint Esendere. Offices located in Serow border terminal is 27 thou. square meters and includes areas for passport control, halls for passengers, office facilities of the border guard service and customs, customs warehouses. Also in the zone of the checkpoint are buildings providing various services, including Veterinary Quarantine and Plant Quarantine.

Figure 15. Photos of the checkpoint «Serow»

About 10 trucks were observed waiting. Despite the fact that it is said that the checkpoint is open 24/7, interviews with drivers revealed that they are trying to cross the border in the morning, since they will not be able to do it after lunch because of the completion of the work of the checkpoint. Truck X-Ray Scanner has not been demonstrated.

On average, the checkpoint crosses 60-70 trucks a day towards Iran and the same amount back. The peculiarity of this point (and the Esendere point) is that through them the cargo of cross-border trade is delivered to a greater extent (there is a bilateral agreement on a free economic zone in this region). Between the checkpoint and the city of Urumia there is a logistics center, where cars with cargo from Turkey are unloaded. Transit cargo mainly moves through other checkpoints - Gurbulak-Bazargan.

Registration of documents at this checkpoint is carried out according to the same principles as at Dogharoun. The exchange of customs information with the Turkish side is not carried out.

Serow is planning to build a new terminal and a road to Tehran.

Chabahar Port (IRN)[2] (Figure 16) is located in southeastern Iran, north of Oman Sea. One of the features that distinguishes it from other Iranian ports and ports in southern coast of Persian Gulf, is its access to international open seas.

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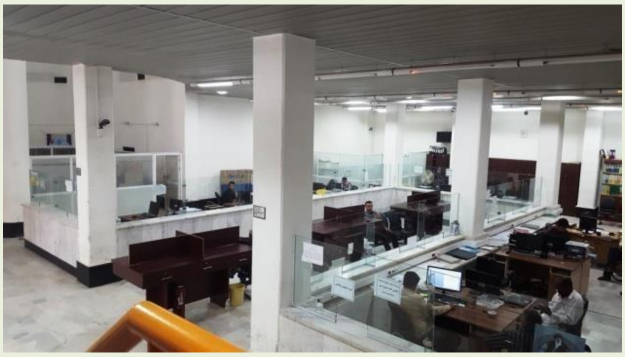
[1] *Preliminary information implemented is provided only for the TIR system*
[2] *http://chabaharport.pmo.ir*

Chabahar port development plan

Chabahar port

Customs terminal at Chabahar



Customs terminal hall at Chabahar

Figure 16. Photos of Chabahar Port

Currently, Chabahar port consists of two port complexes, named Shahid Kalantari port and Shahid Beheshti port. Generally, Shahid Beheshti port development plan consists of five main phases, to be completed by the 2024 and nominal capacity of 86 million tones. First phase was completed in 2017, increasing the nominal capacity to over 8,5 million tons annually.

Phases of port development plan:

Description	Deadline, Year	Phase
• Approximately 1650 m of breakwater extension, construction of two container berth(640m) and three multi-purpose berth (540m) • 17 million m3 dredging to(-16m) depth • Reclamation of 195 hectares by sediment	2017	I
Construction of a container berth(360m)	2018	II
Construction of an oil berth	2020	III
Construction of a multi-purpose berth	2020	IV
Construction of a container berth (360m)	2024	V

The Government of Iran pays much attention to the development of the transport network, which connects Chabahar to international routes and ensures the maximum use of the port, and increase of cargo traffic, as:

- The only oceanic port of Iran;
- More than 300 km marine border;
- Minimum transit distances to Afghanistan, Pakistan and Central Asia, and most economical port in commercial trade for these countries;

- the cost of handling cargo in the port is cheaper, compared to other ports in the region.

Currently, a terminal for liquid cargo is being built. All other goods can be processed.

Near the port there is a customs terminal. All functions for interaction between the port and customs authorities are automated.

100% of the document circulation of customs authorities are automated and processed in electronic form, including customs declaration. A unified customs information system is used, linked to Tehran.

Processing of consignments takes 4-5 hours. Animal & Plant Quarantine is conducted, and all other types of controls and inspections.

As it was noted in the course of the interview with the employees of the customs terminal of the port, the guarantee of payment of customs payments can be made by insurance[1]. There are 2-3 insurance companies operating in the market, which distribute so-called coupons for a fixed amount of coverage. Depending on the amount of the required guarantee, a different number of coupons is used (similar to insurance bonds used in Europe). Coupons of the transport company are available online.

Checkpoints of Turkey

Kapikoy Checkpoint (TUR) (Figure 17) is located on the border with Iran border crossing point Razi. At present, the checkpoint is only under construction, the passage of cargo transport through it is not carried out. The checkpoint is impressive in size and comparable to the Gurbulak checkpoint. It will also house cafes, shops, comfortable waiting rooms. The construction is carried out on the basis of public-private partnership.

Using the route through this checkpoint will shorten delivery distance to Tehran for approximately 73 km.

Earlier the construction of Kapikoy Checkpoint was planned to complete in August 2018 but then it has been rescheduled to 2019.

[1] *Only customs officials of Chabahar know about such a way of guaranteeing payment of customs payments, they did not know about other methods at the Iranian checkpoints. It is possible that customs officials confuse this type of insurance with cargo insurance.*

Figure 17. Construction of Kapiköy Checkpoint

Esendere Checkpoint (TUR) (Figure 18) is located on the border with Iran, adjacent to Serow checkpoint. This is a modern new terminal (commercial areas in the terminal of Esendere Customs Office are in operation as of February, 2017), there are places for shops, cafes, a recreation area, similar to the Gurbulak checkpoint, but at present the terminal is empty, only the terminal administration is located here. Perhaps this situation is due to the fact that the checkpoint has been recently built, the same reason may be the lack of a sufficient number of passengers.

Line of trucks

The modern terminal of the checkpoint «Esendere»

Figure 18. Photos of Esendere Checkpoint

As mentioned earlier the checkpoint serves largely for delivery of cross-border trading goods (there is a bilateral agreement on free trade zone in the region).

The Esendere checkpoint is well equipped, there is a Truck X-Ray Scanner, license plate recognition system and variety of technical equipment, the paperwork is automated. It is important to note that the scanning equipment is located away from the zone of entry / exit. Further from it there is also a hangar for unloading cargo, in case of need of full inspection. Thus, the scan (and all the more inspection with unloading) are not all the trucks, but only selectively those that caused distrust after a documentary check. This indicates that customs control methods are applied at the border crossing point in accordance with the Revised Kyoto Convention (RKC).

At the border crossing point TIR-EPD functions have been implemented under TIR to provide Green Lane, which considerably facilitates the processing of goods. Preliminary information is provided within TIR system.

At the exit of the checkpoint there was a line of about 50-60 trucks. Given that there are far less of them on the part of Iran, it can be assumed that the delay is the Iranian fault, possibly due to the lack of scanning equipment. Taking into account that 50-70 trucks a day pass through these points in both directions, the trucks are waiting for at least one day.

Checkpoints and port of Pakistan

Taftan Checkpoint (PAK)

Line of truck

Line of truck

to the right the logistic center, to the left the building customs terminal

National logistics center near checkpoint «Taftan»

Customs zone of checkpoint «Taftan»

Customs zone of checkpoint «Taftan»

Figure 19) is adjacent to the border with Iran border crossing point Mirjaveh (IRAN). Immediately to the left of the checkpoint there is a so called national logistics center, but there are few trucks and some boxes of cargo. It is planned to build another logistics center, but it’s not quite clear why, since even the current one is underutilized.

On the other hand, the customs terminal under construction (and, as mentioned earlier in the section on road analysis, the hostel is being built), however, it is obvious that the construction is frozen (as it was said in an interview since 2004).

The zone, where the customs inspection is anticipated, is located at a distance of one kilometer from the border crossing point. Trucks follow this zone without convoy. Customs officials indicated that cargoes from Iran often come without stamp (especially those from Bandar Abbas port)[1] and with forged documents. The main claims to CMR, which are issued without the Iranian customs authorities' stamp, without the carrier's signature, looks like a copy of the document (not the original one), (see the sample of the fake CMR at Figure 20). Often, the documents indicate the wrong weight. *90% of CMR, according to the Pakistani customs authorities, are counterfeit.* Obviously, the issues of filling in the CMR are necessary to discuss at joint meetings of the customs authorities of the two countries.

Line of truck

Line of truck

to the right the logistic center, to the left the building customs terminal

National logistics center near checkpoint «Taftan»

[1] *National consultant of Iran disagrees with this claim. In addition, this problem has never arisen by the Pakistani side during all Joint Road Committees between two countries*

Customs zone of checkpoint «Taftan»

Customs zone of checkpoint «Taftan»

Figure 19. Photos of Taftan Checkpoint

Given that the distance of 1 km trucks are moving along

territory of the country without customs control, it is quite possible to assume that the breakdown of seals and forgery of documents can be made by the drivers themselves on the way from the checkpoint to the customs zone without convoy.

The customs zone is relatively small, the cars on it are just around the corner, drivers waiting for their turn right at the trucks will organize a "halt" (they sleep and eat next to the truck).

The customs zone is not equipped with scanning equipment, so basically all trucks are inspected. Trucks belonging to companies that carry out cargo delivery relatively often may not be searched at the discretion of customs officials. A clear criterion, which trucks need inspecting and which do not was not provided during the interview.

There are also not enough computers in the office of the customs service. Animal & Plant Quarantine is not verified.

Figure 20. Sample fake CMR

As it was said in the course of the interview with the employees, customs clearance can be carried out in this customs area, while during the meetings in Islamabad it was said that the cargoes passing through Taftan to Islamabad should undergo customs clearance in Quetta. Cargo to the dry port of Quetta is moved with customs support.

There is a checkpoint and a customs zone in the daytime (about 12 hours), which does not coincide with the hours of work of the Iranian side (close at 16: 00-17: 00).

There is an electronic declaration system (www.weboc.gov.pk). 90% of the declarations are submitted electronically (as of June 2017). The system can only be used by brokers who have special license. The consignor (consignee) of the goods cannot use this system without a customs broker. Such a system is convenient for customs authorities, since this allows to bring broker to justice.

As it was noted as a guarantee of payment of customs payments among other methods, such as a deposit, a bank guarantee, TIR system, insurance can also be applied, but this information was not confirmed during the meetings in Islamabad.

The exchange of customs data between Pakistan and Iran for joint verification (EDI) is not carried out.

Port of Karachi[1] (PAK) is one of South Asia's largest and busiest deep-water seaports, handling about 60% of the nation's cargo (25 million tons per annum)[2].The geographic position of the port places it in close proximity to major shipping routes such as the Strait of Hormuz. The administration of the port is carried out by the Karachi Port Trust, which was established in the nineteenth century.

Karachi port provides 24/7 safe navigation to the port traffic, handles tankers, modern container vessels, bulk carriers and general cargo ships up to 75,000 DWT. The port has 30 dry cargo ships (13 in the Western part and 17 in the East) and 3 loading berths for POL & NON-POL products.

The port has also two private container terminals: Karachi International Container Terminal (KICT), and Pakistan International Container Terminal (PICT), which are fully equipped with modern technologies and facilities.

Karachi port annually serves around 1600 ships, at the same time, there is sufficient capacity to handle even more cargo, currently only 45% of the port's capacity is used.

The port is handling about 650,000 TEUs and 26 million tons of cargo per annum which includes:

CATEGORY	CAPACITY
UOM	MILLION TONS
Liquid Cargo	14
Dry Cargo	12

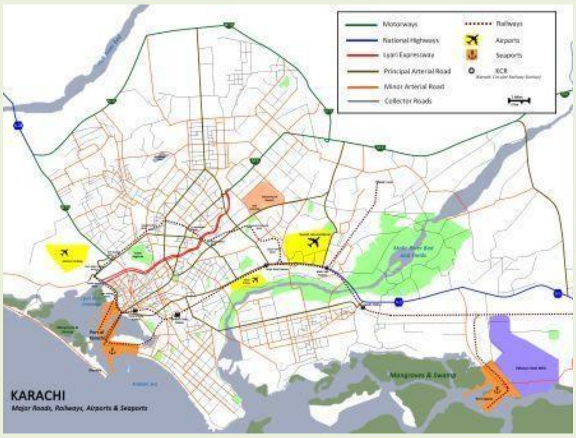
The port is also equipped with a backed up system with good transit and storage areas, with rail and road access roads necessary for handling, storing and unloading cargo. In general, the opportunities for the Karachi Port to simplify transportation and trade will include:

- Ship handling
- Discharging / Loading of cargo
- Storage of cargo
- Clearance of cargo

During the meeting in the port, it was found out that there were no problems with customs clearance, all procedures are automated. The main problems are the import / export of cargo to / from the port by road, because of the intense traffic in the city of Karachi, this can take a long time (from several hours to a day) (Figure 21). The port is in need of developing the railway furniture. China is also interested in this project, as the development of the railway furniture of the country as a whole and the port in particular will significantly reduce the way of delivering oil and gas from the Middle East and Africa to China.

[1] *http://kpt.gov.pk/*

[2] *Detailed port statistics are presented at the Annex II in the Table PAK 3*



Transport scheme Karachi city

view port «Karachi» from above

Figure 21. Photos of Karachi Port

Main conclusions

Basically there are bottlenecks at all ITI checkpoints:

- ☐ At Mirjaveh (IRN) and Taftan checkpoints (PAC), there are a number of reasons for the accumulation of vehicles, such as: a different work schedule for points, lack of scanning equipment at the "Taftan" point, application of various documents to registration, etc.
- ☐ At the Esendere border crossing point (TUR), bordering Serow (IRN), the congestion of vehicles due to low throughput on the part of Serow (IRN), including due to the lack of scanning equipment
- ☐ Checkpoint Kapikoy (TUR) does not let cargo pass because the terminal is under construction (the construction works are planned to complete in 2019).
- ☐ Data exchange between the customs services of neighboring countries is purely carried out: between the checkpoints of Turkey and Iran within the framework of the TIR system.

CHAPTER 7. CUSTOMS PROCEDURES AND DOCUMENTS

Procedures and documents required for the registration of international road transport of goods and related customs clearance in each of the ITI enroute counties are based on the requirements:

- ☐ Ratified international conventions and agreements in the field of road transport and customs and other related fields, it is important not only that the country has ratified this or that convention, but also how adequately these requirements are implemented in national legislation
- ☐ Bilateral (multilateral) agreements in the field of road transport and customs and other related fields;
- ☐ Requirements of national legislation.

These and other issues are discussed in this chapter, while this section does not address the issues of export-import (and transit) of specific goods, export and import duties and the specific documents required for this (determined by the HS of a specific product), as these issues are being addressed beyond the scope of this research.

International agreements and conventions

Within the framework of UNECE, which is one of the fundamental organizations for cooperation and security in the field of transport, has developed a list of 57 transport conventions and agreements (including for road transport)[1] recommended for accession. The list of conventions is divided into groups depending on the Regulatory objective.

12 of these conventions are the most relevant from the point of view of the implementation of ECO TTFA agreements in the field of road freight transport. In addition to UNECE conventions and agreements, the Revised Kyoto Convention[2] is also important from the point of view of harmonizing customs procedures, one of the main objectives of which is to reduce the number of inspections by customs through risk management.

Table 11 presents data on the ratification of ITI corridor counties of international conventions and agreements. From the presented data it can be seen that all of the listed conventions have been ratified only by Turkey.

[1] *http://www.unece.org/fileadmin/DAM/trans/conventn/agree_e.pdf*
[2] *World Customs Organization - www.wcoomd.org*

Table 11. International Agreements and Conventions

№	International Agreements and Conventions	Regulatory objectives	IRN	PAK	TUR
Main UNECE International Agreements and Conventions (Status at 01.06.2019)					
1	European Agreement on Main International Traffic Arteries (AGR, 1975)	Infrastructure networks			✓
2	Road Traffic (1968)	Road traffic and road safety	✓	✓	✓
3	Road Signs and Signals (1968)		✓	✓	✓
4	Agreement on UN Global Technical Regulations (UN GTRs) (1998)	Vehicles			✓
5	Convention on the Contract for the International Carriage of Goods by Road (CMR, 1956)	Other Legal Instruments Related to Road Transport	✓	✓	✓
5.1 *5.2*	*Protocol to CMR, 1978* *Additional Protocol to CMR, (e-CMR) 2008*		✓	✓	✓
6	European Agreement concerning the Work of Crews of Vehicles engaged in International Road Transport (AETR, 1970)				✓
7	Customs Convention on Temporary Importation of Commercial Road Vehicles (1956)	Border crossing facilitation			✓
8	Customs Convention on the International Transport of Goods under Cover of TIR Carnets (1975)		✓	✓	✓
9	International Convention on Harmonization of Frontier Controls of Goods (1982)		✓		✓
10	Customs Convention on Containers (1972)				✓
11	European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR, 1957)	Dangerous goods & special cargoes			✓
12	Agreement on the International Carriage of Perishable Foodstuffs (ATP, 1970)				✓
WCO Convention					
13	International Convention on the Simplification and Harmonization of Customs procedures (Revised Kyoto Convention) (2006)[1]	Simplification and harmonization of customs procedures	✓	✓	✓

In general, the countries of ITI corridor need to continue working on accession to the recommended international conventions and agreements, and the implementation of their requirements into national legislation.

To date, the only convention that all countries of the two corridors have joined is the TIR

Convention. The application of the provisions of the TIR system has been supporting trade and development for more than 70 years, by allowing customs-sealed vehicles and freight containers to transit countries with minimal border checks. Therefore, further action is needed to expand the application of this convention.

As the poll results show, the actual for today is the accession of Pakistan to the CMR convention and to the International Convention on Harmonization of Frontier Controls of Goods (1982).

In the era of technical progress, the main aspect of simplifying customs procedures should be their digitization. In this regard, the experience of implementing the e-TIR system is important. In 2016-2017 the e-TIR system was successfully implemented between Iran and Turkey. This experience can be used by Pakistan.

In addition, efforts should be made to introduce e-CMR in the enroute countries. To date, only Turkey and Iran have joined the Additional Protocol to CMR, 2008 (e-CMR).

Also, Iran and Pakistan need to consider the possibility of accelerating the process of accession to the ADR and ATP conventions.

TIR Convention

Brief information

Objectives:	Main principles:	Benefits:
▪ To secure the movement of goods in transit thanks to the main pillars of the TIR system related to secure vehicles, one harmonized guarantee and declaration document – TIR Carnet, mutual recognition of customs control, international guarantee chain, electronic risk management tools, etc. ▪ To facilitate the international carriage of goods by road vehicles/containers across borders through carefully designed border crossing procedures and an international guarantee chain, in cooperation with road operators, IRU.	▪ Secure, Approved vehicles or containers according to standards; ▪ International guarantee system for custom duties and tax; ▪ Mutual recognition of Customs controls; ▪ TIR Carnet: Customs and Guarantee document; ▪ Controlled access of operators. ▪ TIR IT tools allowing TIR data exchange in real time among all TIR actors	▪ Minimized inspection of goods at intermediate borders; ▪ No payment of taxes and duties enroute; ▪ Lower border delays, Lower transport cost; ▪ Lower import / exports costs; ▪ Increased competitiveness and growth.

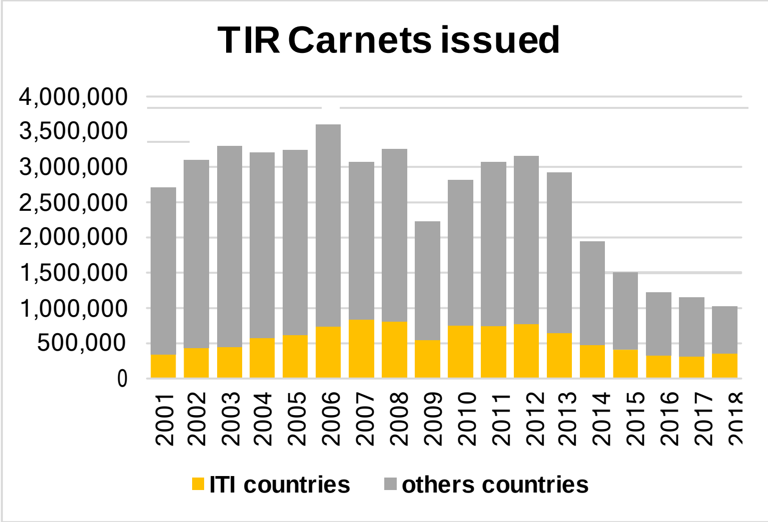
TIR Convention. TIR, an international customs transit system based on the UN Convention, operating at the world level within the framework of public-private partnership, provides an opportunity to create harmonized legislative conditions for the transport of transit goods in all corridors.

Statistics

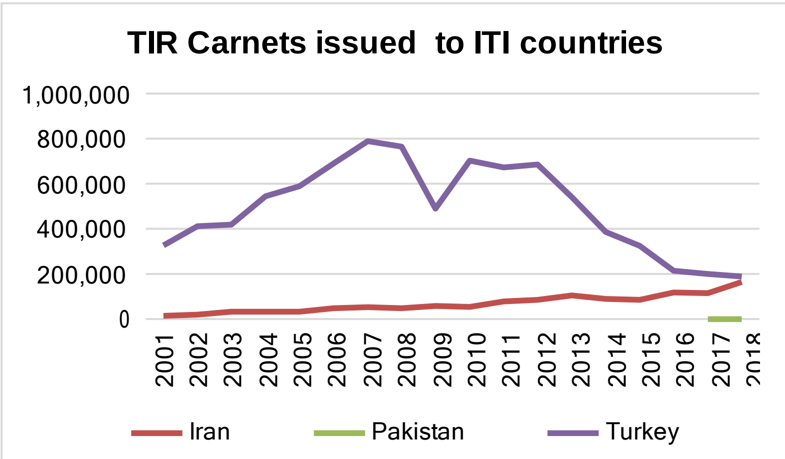
All ITI corridor countries joined the Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), while Pakistan became TIR operational on April 18, 2018.

Since 2001, as a whole, it has been issued 46.5 million TIR Carnets, where the share of ITI corridor countries amounted to 28% (more than 10 million)[1].

In the presented diagram it can be seen that a much larger amount falls on the issuance of TIR Carnets for Turkey, 19.2% (out of total) and 2.7% for Iran.



In general, the share of TIR Carnets released for the countries of ITI corridor has changed in proportion to the total number issued in all countries, at the same time:



- in Iran, on the contrary, the tendency towards increase of TIR Carnets was noted (in 2018, the number of carnets was 3 times more than in 2010).
- over the past 5 years in Turkey there has been observed a trend towards decrease in the number of TIR Carnets (in 2018 they were issued 3.7 times less than in 2010). According to IRU experts the main reason for that is the establishment of the customs union with EU and utilization of another guarantee system (NCTS[2] and comprehensive guarantee) for carriage of goods.

Pakistan. Currently, the Pakistan National Committee of the International Chamber of Commerce plays the roles of the TIR issuing and guaranteeing association in Pakistan. There is an equipped office, a modern server, the staff has been trained in handling TIR.

Pakistan was announced TIR operational on April 18, 2018 (see Figure 22). It was transportation from Iran to Pakistan, the Iranian association issued the TIR Carnet. TCS logistics is admitted to the TIR system and conducted the first TIR operations from Pakistan to Afghanistan and from Afghanistan to Pakistan in September-October 2018[3]. Three other applications are received by PNC-ICC and is under process.

Despite the achievements, for the development of the TIR system in Pakistan it is

[1] *http://www.unece.org/fileadmin/DAM/tir/figures/TIRCarnets2001-2017.pdf*
[2] *NCTS – New Computerised Transit System*
[3] *https://www.iru.org/resources/newsroom/pakistan-launches-first-outbound-tir-transport*

necessary to address a number of issues, which include the following:

- ☐ Making TIR more accessible and affordable by optimizing TIR admission procedure
- ☐ Revising bilateral transport agreements for removing current impediments to bilateral trade.

In addition, for the full operation of the TIR system it is required to:

- ☐ Equip the crossing points with the necessary facilities;
- ☐ Implement measures on renewal of trucks;
- ☐ Continue the process of acceding to conventions and agreements, especially to the CMR Convention.

TIR Carnet issued in Pakistan

Transportation using the TIR Carnet

Figure 22. TIR operational was announced in Pakistan

Iran and Turkey. Among all corridors only in Iran and Turkey all necessary TIR IT tools are in place and ready for digital TIR; e-guarantee pilot project between Turkey and Iran performed successfully.

CMR Convention

Brief information

Objectives:	Main principles:	Benefits:
▪ To facilitate international road transport through a commonly agreed transport contract, including contract document and liabilities	▪ Defines contract conditions and the document (The Consignment Note and information contained) ▪ Fixes carrier's liability limits in case of total or partial loss of goods or delay ▪ The e-Consignment Note is under consideration	▪ Fair competition between carriers ▪ Lower international road transport costs, including insurance costs

As of May 2019 Pakistan has ratified the CMR Convention and Protocol to CMR. Iran and Turkey have also ratified the Protocol to CMR (1978) and Additional Protocol to CMR, (e-CMR) (2008), which implies the possibility of using an electronic consignment note (e - CMR).

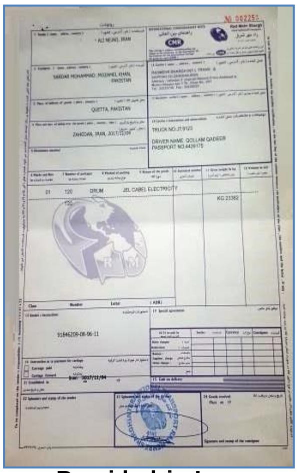
Some features and problems

At the same time, when crossing the border, the customs authorities of Pakistan pay attention to CMR documents issued in other countries. Since the checkpoints of Pakistan are not fully equipped with scanning and other facilities, these documents allow them to optimize their work, reduce the number of checks and the time to cross the border. At the same time, there is a disagreement in the corridor regarding the completion of this document.

For example, in accordance with the requirements of Iran's national legislation, a CMR Consignment Note is issued for all transportations from Pakistan filled by representatives of transport companies located directly at the checkpoints. Samples of CMR consignment notes filled in Iran (provided both in Iran and in Pakistan) noted the following (Figure 23):

- ☐ The column 22 is not filled in the Iranian samples (Signature and stamp of the sender). Since the carrier hired by the sender, during the international transportation the driver is his representative, the driver must sign the document. The absence of the signature of the sender (or his representative) in the CMR waybill makes this document not legally qualified.

- ☐ There are no stamps of the customs authorities on Iranian documents, while in other countries a stamp or calendar stamp of the customs authorities must be stamped (for comparison, look at the sample of the CMR invoice from Azerbaijan). Although there is no clear indication on the above, in most countries is introduced this requirement in the national customs legislation[1].



Provided in Iran

Provided in Pakistan

Provided in Azerbaijan

Figure 23. Photos of filled CMR forms

Since the CMR consignment note is one of the main documents of international trucking of goods, the question of the correctness of its filling requires additional research. This problem could be solved via e-CMR' (electronic consignment note) by Pakistan to the e-CMR protocol, which was added to the CMR Convention in 2008.

This protocol entered into force on 2011, and to date 17 countries have acceded including

[1] *Since transport documents, to which the CMR refers, are at least used to calculate customs duties*

Iran and Turkey[1]. e-CMR officially launched in January 2017 with the first ever border crossing to use electronic consignment notes between Spain and France, proving that the system works and is simple to implement and use.

It is advisable for Pakistan to consider the possibility of expediting the process of joining e-CMR protocol as well.

Carnet de Passage en Douane

The application of the Carnet de Passage en Douane is governed by the Customs Convention on the Temporary Importation of Commercial Road Vehicles (1956).

Brief information

Objectives:	Main principles:	Benefits:
▪ To facilitate temporary admission of commercial road vehicles registered in another country ▪ Through agreed procedures and in cooperation with road users associations, AIT/FIA	▪ Use of the Carnet de Passage en Douane as an International Customs Document, which guarantees payment of customs duties and taxes on the vehicle, if it is not re-exported ▪ Temporary importation procedures, including for claims, if there is no re-export of the vehicle	▪ Internationally agreed procedures ▪ No payment of vehicles imports taxes ▪ Lower border delays -Lower border costs ▪ Lower transport export / import costs

<u>Identified problems</u>

Pakistan. The following problem is revealed: even if customs clearance is carried out in Taftan (directly on the border), that is, the vehicle does not enter the territory of the country after the fact, the Carnet de Passage issued by another country is required, since Pakistan has not joined this convention).

In fact, customs inspection in Taftan starts with the verification of this document, the document is required for both loaded and empty trucks.

This may be due to the poor equipment of the checkpoint for other types of verification, except for documentary (as well as partial or full screening), a lack of documents due to non-adherence to the CMR Convention, an underdeveloped fleet of trucks in the country and other reasons.

Carnet de Passage received in Pakistan

According to article 15 of the TIR Convention, TIR trucks will not need carnet de passage which is a huge facilitation for transport and transit. After the launch of the TIR system in Pakistan, starting from April 18, 2018, the need to verify unnecessary documents will not be appropriate.

[1] *https://www.iru.org/innovation/e-cmr*

Placement of insurance stickers on the CMR form

As it was said earlier, insurance stickers (also called coupons) are used in Iran to ensure the payment of customs payments (possibly for cargo insurance or drivers' liability to third parties), which are glued to the CMR form (see photo). Since the interview revealed a misunderstanding of the difference between these types of insurance, it remains unclear what kind of insurance was performed using this sticker. These stickers are distributed through representatives of transport companies directly at Iranian checkpoints when they issue CMR for carriers from countries where CMR is not applied.

Sticker (coupon) about insurance on CMR form

Revised Kyoto Convention

Brief information

Objectives:	Key Provisions:	Benefits:
▪ To facilitate international trade through harmonization and simplification of customs procedures and rules	▪ Standardization and simplification of accompanying documentation and procedures for declaring goods ▪ The maximum use of Information Technology ▪ Using a Risk Management System and exercising control based on an audit ▪ Establishing partnerships between customs and business (the trade sphere)	▪ Transparency and predictability of customs activities ▪ Minimizing the necessary customs control to ensure compliance with regulations and rules

To date, all countries of ITI AI corridor counties have ratified this convention.

Some features and problems

One of the fundamental principles of this Convention is the use of the Risk Management System. At the same time, the research revealed that Pakistan's checkpoints are not equipped with non-intrusive equipment, which practically excludes the effectiveness of using this system. The system of preliminary informing the customs authorities also requires improvement which is one of components of risk management system.

Bilateral and Multilateral Agreements

Table 12 presents data on bilateral and multilateral agreements between ITI corridors countries in the field of road cargo transportation.

Table 12. Bilateral and Multilateral Agreements[1]

Agreement countries	Agreement countries	
	IRN	TUR
PAK	Agreement on Bilateral Road Transportation of Goods between the Government of the Islamic Republic of Pakistan and the Government of the Islamic Republic of Iran, 1987 Agreement between the Government of the Islamic Republic of Pakistan and the Government of the Islamic Republic of Iran on International Transport of Passengers and Goods by Road, 2007	Bilateral Road Transport Agreement between the Government of the Islamic Republic of Pakistan and the Government of the Republic of Turkey, 2003
IRN		International Road Transport Agreement between the Government of the Republic of Turkey and the Government of the Islamic Republic of Iran, 1980

In addition to the agreements listed in the table, all countries are parties to the TTFA (ECO) the multilateral agreement. Iran and Turkey are also participants in the "Basic Multilateral Agreement on Development of International Transport Corridor “Europe-Caucasus-Asia " (TRACECA).

Permits for road transportation (permissions)

Requirements for the need to obtain a permit allowing to travel across the borders are determined on the basis of agreements signed between the countries of ITI Corridor (see Table 12). In spite of the current multilateral agreement TTFA, for today such permits are not required only for two pairs of countries (Iran and Turkey, Kyrgyzstan and Tajikistan).

In most cases, one permit is used for one border crossing. In order not to receive permits every time, transport companies acquire them with a margin, and then underutilize. In addition, as it turned out in the course of the research, in a number of countries there are problems associated with obtaining these permits.

Visas for drivers

Table 13 provides information on the need to obtain visas for drivers (terms and costs) of ITI corridor countries.

The data presented demonstrate that only Iran and Turkey have valid arrangements for visa-free entry, including for drivers of international vehicles.

According to Article 12 of the TTFA, the countries participating in this agreement undertake to provide drivers and persons involved in international transport transit operations with multiple entry transit visas valid for one year with the right to stay in the territory of each country for 15 transit days for each trip and up to 5 days at the place of loading and unloading. Despite this, obtaining visas for drivers is still a significant problem, which is a deterrent to the development of ITI corridor and needs to be resolved as soon

[1] *https://tadb.unescap.org*

as possible.

Based on the experience of various regional associations, such as the EU, SAAARS and the Black Sea Economic Cooperation Organization (BSEC), the ECO Secretariat proposed a mechanism for facilitating visas for ECO-Visa Sticker Scheme for drivers[1]which is based on the following basic principles:

- The ECO Secretariat (special department) shall produce and issue ECO Visa Stickers to the ECO member states in half a year, be responsible for consolidating all information on the issue of ECO visa stickers and sending information to the ECO member states.
- The ECO member states shall agree on the number of ECO visa stickers to be exchanged with other ECO member states, and the quantity can be revised on the basis of consensus among the ECO member states. Also, the ECO Member States due to serious security problems, etc. may stop the issuance of ECO visa stickers for some time informing the relevant ECO country and the ECO Secretariat accordingly.
- The issue of ECO visa stickers for drivers shall be carried out by the Ministry of Foreign Affairs of each of the ECO countries that are citizens of that country.
- The ECO member states will exchange a list of transport companies and drivers (with the necessary information) who are entitled to receive ECO visa stickers. This list will be reviewed and agreed from time to time.

Table 13. Information on obtaining a visa for drivers[2]

COUNTRY APPLICANT>>	IRN	PAK	TUR
COUNTRY ISSUING VISA			
IRAN			
not required			✓
on entry			
duration of obtaining, days			
cost, $ US		90	
duration of stay		30	90
PAKISTAN[3]			
not required			
on entry			
duration of obtaining, days	7		7
cost, $ US	94		290
duration of stay	15		30
TURKEY			
not required	✓		
on entry			
duration of obtaining, days		*	
cost, $ US		*	
duration of stay	90	*	
EU			
not required			
on entry			

[1] *ECO Senior Visa Consular Meeting dated Oct 4th 2016*
[2] *Not all countries provided information, line indicated in “rosy color” should be filled in*
[3] *http://www.dgip.gov.pk/Files/Visa%20Categories.aspx#L*

COUNTRY APPLICANT>>	IRN	PAK	TUR
COUNTRY ISSUING VISA			
duration of obtaining, days	5	**	5
cost, $ US	80-100	**	80-100
duration of stay	10-90	**	10-90

- **Bilateral Road Transport Agreement with Turkey doesn't operational yet*
- ***No legal framework for transportation exists with EU Countries, therefore, no transportations*

In recent years, the ECO has repeatedly held discussions, including at the consular meeting of ECO senior officials, on the implementation of the «ECO-Visa Sticker Scheme for drivers but this scheme has not yet been implemented. Further efforts are required by ECO countries to implement, search other visa facilitation solutions for drivers.

Additional requirements, documents and expenses

As it turned out during the research, the following additional requirements apply:

Iran. As it was noted earlier (see the chapter Checkpoints and ports of Iran), in the course of transporting goods from countries that have not acceded to the CMR Convention (Afghanistan, Pakistan), a CMR is issued at the entrance to Iran. Insurance is also carried out (this was mentioned earlier). These documents are prepared by representatives of transport companies, which are located in the commercial hall of the customs authorities of the checkpoints (also of the port). The cost of all these services is 150-160 $ US.

Iranian Route Sheet

Also, in accordance with the requirements of the legislation, a route sheet shall also be issued for transit transport. (see photo). This function is performed free of charge by the road and city government departments located at the border checkpoints. The registration of route sheets is carried out on special forms that have secret protection. This document can be pink or blue, blue is used if the shipment is delivered from the ports.

Main conclusions

Based on the foregoing, the following conclusions can be drawn:

- To sum up, the active utilization of TIR carnets in the countries enroute ITI can be observed in the past 10 years. 10 years ago the share of TIR Carnets released in the ITI corridor countries accounted for only 25%, whereas in 2018 it has already reached 34.7% of the total number of TIR Carnets released in all countries. Pakistan has launched the TIR system in April 2018 which gives reason to believe for further increase of demands for TIR carnets in the corridor countries. The decrease in the issuance of TIR Carnets occurred only in Turkey due to its accession to the customs unions (Turkey to EU) where the use of TIR carnets is replaced by other tools (NCTS[1] and comprehensive guarantee).
- Given the worldwide trend of digitalization in customs, transport and trade, ITI corridors

[1] *NCTS – New Computerised Transit System*

need to continue to implement the e-TIR and e-CMR systems. *It is advisable to conduct a special research in the countries of ITI corridor to explore the possibilities of expanding the implementation of the TIR system and introduction of the e-TIR system;*

- The current situation on the ratification of international conventions and agreements by the countries enroute the corridors does not provide a harmonized legislative environment for unimpeded transportation. The countries of ITI corridor need to continue working towards accession to international conventions and agreements recommended by UNECE, as well as to other conventions. Drivers from countries that do not accede to such conventions as CMR, ADR, ATP, have to draw up the necessary documents along the way.
- Despite current bilateral and multilateral agreements between the ITI corridor counties and TTFA, only between Iran and Turkey is not required permits and visas for drivers. Often the procedures for obtaining these documents are complex and expensive.

CHAPTER 8. MOTOR VEHICLE THIRD PARTY LIABILITY INSURANCE

Data obtained

In accordance with Article 22 (and Annex V) of the ECO TTFA, the member countries of the agreement undertook to take reasonable steps to sign the Harmonization of Requirements regarding international road transport and facilitation of its operation under the international Motor Vehicle Third Party Liability Insurance (MVTPL) with using the Green Card. Until all countries join the Green Card system, ECO TTFA countries, in which the Green Card system does not operate (Pakistan), agreed to apply the ECO White Card.

In 2013, the Insurance Component research was carried out, in which the possibility of implementing the ECO White Card was analyzed in detail, a scheme for the operation of this system was proposed, drafts of documents required for countries to operate ECO White Card were prepared.

The purpose of this research was to monitor the current situation in the ITI corridor on the issue of MVTPL insurance. For a general understanding of the situation, we collected data on road accidents in the ITI corridor over the last 5 years (Table 14).

Table 14. Information on road accidents[1]

COUNTRY/ INDICATOR	2012	2013	2014	2015	2016
IRAN					
number of road accidents	**116 403**	**112 114**	**102 275**	**101 161**	**101 792**
number of people injured in accidents	318 802	315 719	304 485	313 017	333 066
number of dead people in accidents	19 089	17 994	16 872	16 584	15 932
PAKISTAN					
number of road accidents	**9 140**	**8 988**	**8 359**	**7 865**	**9 100**
number of people injured in accidents	5 174	5 104	4 859	4 651	5 509
number of dead people in accidents	3 966	3 884	3 500	3 214	3 591
TURKEY					
number of road accidents	**1 296 634**	**1 207 354**	**1 199 010**	**1 313 359**	**1 182 491**
number of people injured in accidents	268 079	274 829	285 059	304 421	303 812
number of dead people in accidents*	3 750	3 685	3 524	3 831	3 493

From the presented statistics on road accidents it can be seen that:

- □ In general, the number of road accidents in the last 5 years in the studied countries remained at the same level.
- □ The data of some countries are questionable, thus given the size of the population and the number of trucks (for example, in Iran and Pakistan), it is unlikely that the number of road accidents in the tens (in Pakistan hundreds) is less than in Turkey.

[1] *Data have been provided by the national consultants from the sources: IRN - www.ramto.ir, PAK - Provincial Police Department and Islamabad Police, TUR - www.tuik.gov.tr/PdfGetir.do?id=24606*

It is likely that the statistics of accidents in these countries are based on different principles than in Turkey.

In addition, the national consultant of Turkey provided some interesting statistics that can be used to argue the countries' decision to implement the White Card system (Table 15).

Table 15. Information on the amount of premiums and payments under Green Card system of Turkey[1]

Name of the indicator	2013	2014	2015	2016
Amount of MVTPL insurance premiums (in the country), thou. $US	2 321 226	2 141 900	2 344 468	3 504 637
Including in the «Green Card» system, thou. $US	30 260	28 408	27 440	27 582
% from volume of MVTPL insurance premiums (in the country)	1,30%	1,33%	1,17%	0,79%
changes to previous year, %		-6,12%	-3,41%	0,52%
Amount of payments for insured accidents, in «Green Card» system, thou. $ US	23 117	18 509	17 614	17 610
% from volume of MVTPL insurance premiums (in the country)	1,00%	0,86%	0,75%	0,50%
Change to previous year, %		-19,93%	-4,84%	-0,02%

This information in more detail can be analyzed only by specialists in the insurance business. At the same time, these data demonstrate that the size of the deposit, about 12 thousand US dollars, which each of the insurance companies participating in the "Green card" system, is fully justified. However, for countries where international cargo traffic is not so significant compared, for example, with Turkey, such deposit is too big.

In addition, a small questionnaire was developed in the framework of this research, which was completed by national consultants. Also, during the visits to countries, interviews were held with the main participants of international transport and insurance companies. The data obtained during the research on the current situation on the MVTPL issue are presented in Table 16.

[1] *https://www.tsb.org.tr/en.aspx?pageID=914#*

Table 16. Common information on MVTPL insurance

Country	Participation in «Green card» system	Legislative acts on compulsory MVTPL scheme	Is MVTPL insurance for foreign trucks available at border?	Major challenges for introduction of «White card»	Remarks and other information
IRN	YES	▪ Act on Compulsory MVTPL insurance 1968 and amended in 2009	YES	▪ Ready for implementation of "White card" ▪ Sanctions, complicate the possibility of mutual settlements on insurance payments in foreign currency	Central Insurance of the Islamic Republic of Iran (Bimeh Markazi Iran) (http://iraninsurance.ir)
PAK	NO	▪ The Motors Vehicle's Act, 1939 ▪ The Provincial Motor Vehicles Ordinance, 1965 ▪ National Highway Safety ordinance 2000 (NHSO 2000)	NO	▪ The lack of understanding of the mechanism ▪ Insurance companies have not yet examined the market and cannot decide ▪ Absence of payment mechanism of insurance payment by non-residents ▪ Legislation and training are required	Companies, possessing capacity to be involved in the project: National Insurance Company Limited (NICL) (**http://www.nicl.com.pk**) 38 insurance companies have been registerd in Pakistan
TUR	YES	▪ European Convention on Compulsory Insurance against Civil Liability in respect of Motor Vehicles Strasbourg 1959, ▪ Insurance Law No: 5684, ▪ The Road Traffic Act, 1983 ▪ Regulation On Working Principles and Procedures of the Turkish Motor Insurers' Bureau (https://www.tsb.org.tr)	YES	▪ With the "Green Card" there is no need for a "White Card", but the concept of interaction between the two systems can be worked out ▪ Very different insurance business mentalities and MTPL legislations of the involved countries.	13 insurance companies in the "Green card": Allianz Sigorta - www.allianzsigorta.com.tr Anadolu Sigorta - www.anadolusigorta.com.tr Ankara Sigorta - www.ankarasigorta.com.tr Axa Sigorta - www.axasigorta.com.tr Bereket Sigorta - www.bereketsigorta.com.tr Doga Sigorta - www.dogasigorta.com Ergo Sigorta - www.ergosigorta.com Eureko Sigorta -

Country	Participation in «Green card» system	Legislative acts on compulsory MVTPL scheme	Is MVTPL insurance for foreign trucks available at border?	Major challenges for introduction of «White card»	Remarks and other information
					www.eurekosigorta.com.tr Groupama Sigorta - www.groupama.com.tr Gunes Sigorta - www.gunessigorta.com.tr HDI Sigorta - www.hdisigorta.com.tr Mapfre Sigorta - www.mapfre.com.tr Turk Nippon Sigorta - www.turknippon.com

Main conclusions

Comparing the data of the previous research on the issue of introduction of the «ECO White Card» system and the information obtained during this research, it can be noted that a tangible progress in the formation of the ECO White Card system in the ITI corridor over the past five years failed to be achieved.

As some of the countries pointed out during the research, among the constraints on the formation of the ECO White Card system are the following:

- ☐ Insufficient understanding of the White Card mechanism;
- ☐ Imperfection of the national insurance legislation: In Pakistan, there are legislative requirements for compulsory MVTPL insurance, but their requirements do not apply to foreign vehicles.
- ☐ Great risks due to poor technical condition of vehicles in their country, as well as foreign vehicles carrying out transportation through the territories of these countries;
- ☐ The amount of the deposit to participate in the ECO White Card system is too large.

Despite the identified constraints, there are prospects for implementing the White Card system, for this, at least it is necessary:

- ☐ To research in more detail, the model and mechanism of the White Card system, where to determine the role and sequence of the actions of each participant, not only insurance organizations, but banks, border service employees, etc.
- ☐ Analyze in more detail the current national legislation in Pakistan and determine the needs for its improvement, not only on issues related to insurance activities and the legal requirements for MVTPL, but also in terms of:
  - Recognition of the White Card as a valid insurance document by border and transport authorities;
  - Providing possibility to make money transfers for payment of insurance payments between countries;
  - Recognition that the country's insurance limit will apply;
  - Other issues.
- ☐ Assist the insurance business of Pakistan in developing the required legislative documents (or amendments to current legislation);
- ☐ Consider the possibility of applying a differentiated deposit, the amount of which should be determined for each country (possibly for each insurance company) on the basis of a comprehensive analysis based on an assessment of such indicators as:
  - capacity of the MVTPL insurance services market for international transportation of goods in the country;
  - volume of insurance of a company for this type of insurance

  - the probability of risks determined by such indicators as the technical condition of the truck fleet, the quality of the roads, the complexity of the route (for example, in the highlands), etc.
- ☐ Provide explanatory work and conduct agitation of Pakistani insurance companies, assist them in the development of business plans;

It seems possible to conduct a special research to put all aforementioned in the right track. It also seems advisable to define a responsible structure (organization, division) or individuals within the ECO who will deal with this issue on a regular basis, since conduction of a research once in five years cannot provide the conditions for the launch of the White Card system.

CHAPTER 9. TTFA COMPLIANCE ANALYSIS

Data collected in the course of the research has been summed up and given in the table below which correlates with provisions of TTFA.

ARTICLES/ ANNEXES TO TTFA	COMMENTS
Article 5. Customs duties, taxes and other duties and charges	Despite the fact that under the TTFA countries have pledged not to charge, with the exception of specific services, including toll roads, the research revealed the following: ▪ In Iran, when arriving with trucks from countries not participating in the CMR convention, a fee is charged for issuing CMR, as well as the cost of cargo insurance services
Article 6. Designation and technical characteristics of road, rail and inland waterways *Annexes II*	During the application of the procedures for monitoring the roads ITI corridors, as well as conducting interviews with road transport participants, it was possible to find out: ▪ In Pakistan, in the section of Taftan-Quetta there are sections of a bad road; ▪ In Iran and Turkey, the quality of roads is good. In all countries projects on road development, development and rehabilitation are being implemented. The European Agreement on Main International Traffic Arteries (AGR, 1975) was ratified only by Turkey.
Article 9. Measures to accelerate the clearance of transit cargo *Article 29. Facilitation and harmonization of Customs procedures*	Unfortunately, the majority of the researched checkpoints do not provide for the passage of transport (Green Lane). Green Lane is available at border crossing points of Turkey. Some checkpoints do not have scanning equipment, the opening hours of border checkpoints are not coordinated, there is no exchange of data between the customs of neighboring countries, at most checkpoints there are queues from trucks. Currently, only Bazargan and Gurbulak are working relatively well (this conclusion is based on the results of the interview). Also, a number of uncoordinated actions between the customs authorities of Iran and Pakistan on affixing customs signatures and stamps in the CMR waybill have been noted, there are cases of disruption of customs seals in the territory of Iran.
Article 10. Safety of Transit Traffic *Article 14.* Traffic Regulations	All ITI corridor countries have ratified the Road Traffic (1968) and Road Signs and Signals (1968) conventions and fulfill their safety requirements.
Article 12. Multiple Entry and Transit Visas	▪ There is no parity in the cost of obtaining visas between Iran and Pakistan, the cost of visas in Pakistan is higher. ▪ It does not require visas only for Iranian drivers in Turkey (and vice versa).

ARTICLES/ ANNEXES TO TTFA	COMMENTS
Article 15. Permits for road transport	▪ Bilateral Road Transport Agreement between Pakistan and Turkey does not operational.
Article 17. Temporary import of means of transport	Basically, the requirements of this article are being met In Pakistan "Carnet de Passage " is being asked for import of means of transport . Usage of TIR system , eliminates the need in Carnet de Passage (except the entry of empty trucks).
Article 18. Technical requirements for vehicles and Annex IV	In Pakistan, trucks are used to carry out intra-republican traffic, exceeding the weighty standards. At the same time in the territory of other countries, Pakistani trucks with exceeding weight standards were not identified.
Article 19. Provision of fuel and lubricants	It was revealed that, due to the cheaper price of fuel in Iran, the fuel tank of Turkish cars at the entrance is sealed, refueling is difficult. At the same time, vehicles from Pakistan can be refueled at Iranian cost but strictly in the amount necessary for transportation through Iran.
Article 20. Mutual recognition of driving licenses	▪ Pakistani trucks do not perform transportation, for example, to Turkey, despite of existing Bilateral Road Transport Agreement between Pakistan and Turkey. Perhaps, the problem may be solved once the TIR system is launched in Pakistan.
Article 21. Mutual recognition of certificates on the technical condition of vehicles	
Article 22. Scheme of insurance of motor vehicles in third-party liability and Annex-V	Over the past 5 years, significant progress has not been made in meeting the requirements of this article: ▪ Iran and Turkey are participants of the Green card system "and carry out for drivers from countries not participating in this system directly at checkpoints. ▪ Pakistan does not implement MVTPL insurance at the border/ ▪ The previously planned measures to create a "Wait Card" have not been implemented.
Article 27. "Rules for the carriage of goods by road" (Annex VI TTFA)	▪ Pakistan has acceded to CMR Convention (1956) and Protocol to CMR (1978Turkey and Iran ratified the Protocol to CMR (1978) Additional Protocol to CMR, (e-CMR) (2008), which allows them to use e-CMR
Article 28. Establishment of a customs transit system	In general, the share of TIR Carnets released for the countries of ITI corridor has changed in proportion to the total number issued in all countries, at the same time: ▪ in Iran increased by 3 times (in 2018 than in 2010); ▪ in Turkey decreased by 3.7 times less (in 2018 than in 2010); utilization of NCTS[1] and comprehensive guarantee for transportation of goods. ▪ In Pakistan the TIR system has been launched since

[1] *NCTS – New Computerised Transit System*

ARTICLES/ ANNEXES TO TTFA	COMMENTS
	18.04.2018.
Article 18. "Transport of dangerous goods" Annex VII TTFA	To date, only Turkey has ratified the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR, 1957). To carry dangerous goods through the ITI corridor and from countries that did not accede to this agreement, it is necessary to obtain appropriate permits, which greatly complicates the transportation or makes it impossible.

Based on the conducted analysis of compliance with TTFA requirements, it can be concluded that measures are required to further implement this agreement. Actions on the further formation of the ITI corridor are also needed. Recommendations will be proposed in the next section.

In general, the share of TIR Carnets released for the countries of ITI corridor has changed in proportion to the total number issued in all countries, at the same time.

Section 2

J.I.S project Evaluation based on ECO member countries

CHAPTER 10. Project evaluation: Critical factors of participation

ECO member states have their own priorities and development plan that are compatible with their economic prospects. Cultural and social commonalities and common geographical boundaries as a stimulus can influence other factors and increase the economic incentives of participation. Therefore, the formation of an economic cooperation framework has many requirements that should be given special attention as critical factors for the success of this joint action plan. Any states can participate based on economic output and development potential for the following reasons.

According to the studies conducted in the regional partnerships in the world and the economic corporation formed, a set of diverse factors that justify the participation of a country in the economic corporation were categorized in the form of critical parameters of participation.

1. Forming a joint action plan has a direct role in the economic growth of that country.
2. The financial benefits resulting from it, directly and indirectly, have the financial justification.
3. Participation in joint action creates suitable development leverage in line with the country's development plans.
4. Projects and joint action plans do not have a significant conflict with the regional role and long-term interests of that country, and security issues and protection of national interests are included in it.
5. Fairness in utilization of project outputs and interests via Balancing in participation

Based on the special situation of the ECO region, a small Delphi group was formed to investigate the main factors of success in the ECO regional partnership, and by examining each of the factors, we reached the following 5 summaries. Each of the factors plays a special role in decision-making and regional participation and can be defined as profit (benefits) and loss (risk) resulting from any participation in ECO region.

- **Benefits and profits from participation**
  1-Economic growth
  2- Investment return
  3- Development leverage
- **Risks and losses resulting from participation**
  1- Conflict of interest
  2- Fairness in participation

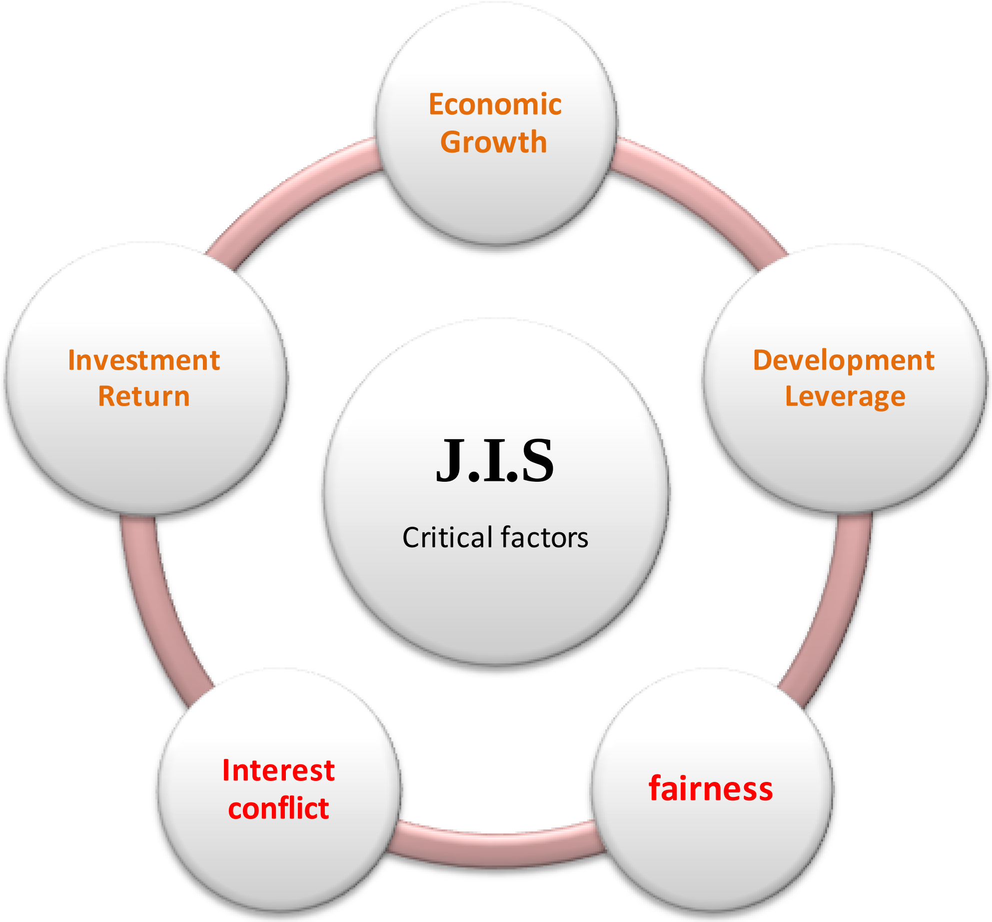
After quantifying these parameters, the profit and loss model of ECO members' participation can be summarized in the form of the following model.

Each of the factors has sub-indices that every joint investment project must have a balance between the benefits and risks mentioned in each of the member countries so that the participation of that country can be justified. Each of the above parameters can be measured based on various indicators, but in short, in order to measure the profit and loss or the benefits and risks of each country in participating in regional projects, the following indicators can be used as the basis.

	factors	Sub-factors
1	Economic Growth	Investment- trade balance - employment
2	Investment Return	IRR- ROI
3	Development Leverage	Reinforce the advantage - competitiveness
4	Interest conflict	National interest- security
5	fairness	Exploitation of benefits - partnership balance

By examining each of these indicators, it is possible to provide a correct definition of projects and the way countries participate in joint ventures, and in general, to what extent each country is involved in the benefits and risks of joint ventures in the form of J.I.S.

Critical success factors of ECO J.I.S



The formation of any institution or joint action plan must first be able to provide an appropriate response to the aforementioned factors. Addressing the above issues in the initial stages of formation and during operational institutionalization will be an integral part of the success of the joint action.

Afghanistan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Azerbaijan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Iran (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Direct impact based on amount of domestic and foreign investment	Positive impact via facilitation of import-export	Direct Positive impact based on implementation of project	Based on amount of investment	Based on amount of investment	Positive impact via transit and export facilitations	Export facilitation, reduction cost of transportation	Alignment with national interest	High engagement Based on amount of participation directly and indirectly	Based on project domestic share

Kazakhstan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Kyrgyz Republic (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Pakistan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Direct impact based on amount of domestic and foreign investment	Positive impact via facilitation of import-export	Direct Positive impact based on implementation of project	Based on amount of investment	Based on amount of investment	Positive impact via transit and export facilitations	Export facilitation, reduction cost of transportation	Alignment with national interest	High engagement Based on amount of participation directly and indirectly	Based on project domestic share

Tajikistan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Turkey (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Direct impact based on amount of domestic and foreign investment	Positive impact via facilitation of import-export	Direct Positive impact based on implementation of project	Based on amount of investment	Based on amount of investment	Positive impact via transit and export facilitations	Export facilitation, reduction cost of transportation	Alignment with national interest	High engagement Based on amount of participation directly and indirectly	Based on project domestic share

Turkmenistan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Uzbekistan (J.I.S project Evaluation)

Factors / projects	Economic Growth			Investment Return		Development Leverage		Interest Conflict	Fairness	
	Investment	Trade balance	Employment	IRR	ROI	Reinforce Advantage	Competitiveness	National interest	Exploitation of benefits	Partnership Balance
PROJECT FOR DEVELOPMENTOF (ITI) ROAD CORRIDOR ISLAMABAD - TEHRAN - ISTANBUL	Indirect- based on participation of development project to connect to the ITI	Positive impact via connect to the EU and See ports	Positive via development project to connect to the ITI	Based on amount of investment	Based on amount of investment	Positive impact via connect to the EU and See ports	Export facilitation, reduction cost of transportation	No evidence, should be evaluated	Based on amount of participation directly and indirectly	Based on amount of participation directly and indirectly

Appendix.1

Project Proposal (Bankable Project)

A. GENERAL PROJECT PROFILE

ROJECT TITLE:	PROJECT FOR DEVELOPMENT OF ISLAMABAD - TEHRAN - ISTANBUL (ITI) ROAD CORRIDOR
oject Location	PAKISTAN-IRAN-TURKEY
oject Category	ECO Transit Transport Framework Agreement (TTFA)
oject Duration	5 to 10 years
plementing agent(s)/ entity(entities) and key partners	• States bodies • private sectors • joint ventures • ECO J.I.S
rget Beneficiaries	to facilitate the implementation of transit and transport and commercial potential within the framework of Transit Transport Framework Agreement (TTFA) and the concept of the development of road transport ITI corridors.

B. PROJECT EXECUTIVE SUMMARY

The Project for Development of ITI Road Corridor (hereinafter - the Project) has being implemented under the authority of the Economic Cooperation Organization (ECO), an inter-governmental regional organization putting the countries from Europe, Caucasus and Central

Asia, Middle East and South Asia together. The general purpose of the Organization involves the sustainable economic development of its Member States and the Region in the whole.

Now ECO unites 10 member states: Islamic Republic of Afghanistan, Republic of Azerbaijan, Islamic Republic of Iran, Republic of Kazakhstan, Kyrgyz Republic, Islamic Republic of Pakistan, Republic of Tajikistan, Republic of Turkey, Turkmenistan and Republic of Uzbekistan. Seven of these countries are land-locked therefore the social well-being and economic prosperity directly depends on the level of development of the transit-transport potential in the countries of the ECO region, both along these countries and in the ECO region in the whole. The achievement of objective has been carried out in virtue of Transit Transport Framework Agreement (TTFA) focused on the formation of ECO Roadway Network and ECO Railway Network.

In the framework of this project, the ITI road corridor, constituting a part of the ECO Roadway Network, are essential due to the provision of transportation between six countries of the ECO region, as well as alternative trade routes between East and West.

The ITI Road Corridor: Pakistan, Iran, Turkey to EU runs along the route:

- Pakistan: Islamabad, Dera Ismail Khan, Zhob, Lorallai, Quetta, Dalbandin, Taftan (Mirjaveh, IRN);
- Iran: (Taftan, PAK) Mirjaveh, Kerman, Yazd, Qom, Zinjan, Tabriz, Bazargan (Gorbulak, TUR);
- Turkey: (Bazargan, IRN) Gurbulak, Erzurum, Amasya, Duzce, Istanbul, Edirne, Kapikule.

The purpose of this research is to facilitate the implementation of transit and transport and commercial potential within the framework of Transit Transport Framework Agreement (TTFA) and the concept of the development of road transport ITI corridors.

According to a stated objective, as well as in accordance with the task order hereto, the major objectives of the research were the following:

- Evaluation of the current cargo traffic on the routes of two road corridors and the prospects of its further increase;
- Data collection and analysis on road and roadside furniture on the routes of two corridors, as well as on the fleet of trucks in the corridors to determine the requirements for their further development;
- Research of checkpoints operation, identification of bottlenecks and development of recommendations for simplification of border crossing procedures;
- TTFA implementations considerations, affiliating with international conventions and

agreements in the field of cargo carriage by road transport mentioned in the TTFA, as well as compliance with these conventions to determine measures on efficiency improvement and TTFA implementation;

- Development of proposals for monitoring of work and operational coordination of ITI road corridor.

In the course of research, all objectives set by the project including IRU's component of Model Highway Initiative (MHI) have been fulfilled, recommendations on simplification and harmonization of border crossing procedures, increasing the effectiveness and implementation of the TTFA have been developed as well as a mechanism for monitoring the work and operational coordination ITI road corridor. All findings are presented in this report. Thus the recommendations have been elaborated based on the research findings and the identified issues.

The research has been conducted under direct supervision of the ECO Secretariat and in close cooperation with IRU. The national consultants (contacts of national consultants are indicated in the Annex VI) specified for contributing the national inputs have provided an invaluable help in organizing and carrying out of the field research, as well as the collection of required information.

C. PROJECT BACKGROUND/RATIONALE

The Economic Cooperation Organization (ECO) was founded in 1985 by Iran, Pakistan, and Turkey, as a successor to the Regional Cooperation for Development (RCD), which had been established in 1964. Since then, the ECO has expanded its membership to include seven additional countries: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The main objective of the organization is to promote economic, technical, and cultural cooperation among its member states, fostering sustainable development and enhancing the region's overall prosperity. During the past decade the Economic Cooperation Organization (ECO) has in collaboration with its partners strived to initiate and successfully implement regional studies aimed at facilitating the movement of goods across the region's borders. As a result we have been able to prepare time-bound action plans which in turn require effectiveaction at a national and regional level.

The ITI and KTAI field studies, conducted in partnership with International Road Transport Union (IRU) address the various aspects of road transportation and related provisions of ECO Transit Transport Framework Agreement (TTFA) and other international legal tools. Intra-regional trade indicates a great potential for increasing freight flows along ITI where TIR Carnet is a facilitative international tool for trucks carrying goods through the region.

Another promising development has been the introduction of the eTIR, an international paperless transit system which based the provisions of the TIR Convention seeks tosecure the exchange of electronic data between national customs systems for the international transit of goods, vehicles and containers. TIR Contracting parties within the ECO region have taken the first step towards implementing the eTIR system worldwide. The launch of paperless TIR procedures between the Islamic Republic of Iran and Turkey has allowed real-time exchange of data on declarations and the status of the guarantee through Bazargan-Gurbulak border crossing points. Recent eTIR transports between Iran and Azerbaijan is another example of the efficiency of the digital TIR within a real transit environment. I am also pleased to announce plans for the digitalization of the ITI

Corridor in the near future and the expansion of digital TIR to other corridors of the region and beyond.

As all but one of ECO Member States are contracting parties of the Convention on the Contract for the International Carriage of Goods by Road (CMR), the CMR consignment note is among main documents concerning their transportation of cargo by road within the region. The implementation of the e-CMR protocol, which allows national and international transports to be done with digital consignment notes, will allow the region and beyond to profit from simplified processes

At the Economic Cooperation Organization (ECO) we are determined to the realization of a Digital Free-Trade Area (DFTA). This will complement the ongoing efforts on enhancing economic integration at a regional and international level in a time when the worldwide adoption of digital technologies, has resulted in rapid transformation within the global trading environment. Furthermore, the project will contribute to the broader goals of the ECO by fostering economic cooperation and integration among its member states.

In addition to the direct benefits for the four target countries, the project will also serve as a valuable learning experience for other ECO member states, offering insights into the challenges and opportunities. The lessons learned from this project can be applied to similar initiatives in the future, enhancing the overall capacity of ECO member states to engage in international trade and cooperation.

Last but not least - the findings of the project will also inform the decisions of the ECO secretariat and Member State on ECO's future work. The recommendations delivered in the report will also serve as potential leads and ideas for projects similar to this one.

In summary, this project is of vital importance for the ECO member states and the project will contribute to their long-term economic growth and integration into the global economy, while also promoting the broader goals of the ECO in fostering economic cooperation and sustainable development among its member states.

D. PROJECT GOALS AND OBJECTIVES

The purpose of this research is to facilitate the implementation of transit and transport and commercial potential within the framework of Transit Transport Framework Agreement (TTFA) and the concept of the development of road transport ITI corridors.

According to a stated objective, as well as in accordance with the task order hereto, the major objectives of the research were the following:

- Evaluation of the current cargo traffic on the routes of two road corridors and the prospects of its further increase;
- Data collection and analysis on road and roadside furniture on the routes of two corridors, as well as on the fleet of trucks in the corridors to determine the requirements for their further development;
- Research of checkpoints operation, identification of bottlenecks and development of recommendations for simplification of border crossing procedures;
- TTFA implementations considerations, affiliating with international conventions andagreements in the field of cargo carriage

by road transport mentioned in the TTFA, as well as compliance with these conventions to determine measures on efficiency improvement and TTFA implementation;

- Development of proposals for monitoring of work and operational coordination of ITI road corridor.

1. Desk research & preparation of questionnaires/ Focus group workshops/Carrying out the questionnaires/ Analysis and reporting:

The following three main approaches have been used to complete project objectives, datacollection, review and analysis:

- Desk research and data collection from reliable sources;
- Data collection from the national consultants;
- Data collection during field research;

Desk research

In the course of the desk research, the following available materials used to write this report have been collected: statistical information, information on joining the conventions and agreements, data on the national legislation of the countries studied, etc. The following has been used to collect these data:

- Data bases of WB, UNESCAP, WTO, TRADE MAP[1], UN, IRU and others[2];
- Official websites of ministries, agencies and databases of legal documents of the countries participating in the research.

The procedures of data collection from the national consultants

In order to obtain systematic data, the questionnaires and tables/templates have been designed which correlate with the technical task and the project objectives, in particular:

The questionnaire:

- Data collection 14 tables/templates;
- Data collection table for third-party liability insurance of truck carriers (two versions: for countries using the Green Card system and for countries where this scheme is not available).

Data obtained from national consultants are presented in Annex II.

Field research procedures

Data collection included three parts:

- ☐ on-site inspection and monitoring of roads and roadside furniture;

- on-site inspection of checkpoints (practically in all corridors);
- interview of the main participants of international cargo road transportation.

The route, facilities as well as the schedule of the field research has been elaborated by ECO's TC Directorate (*Figure 1*). The national consultants of the corridors accompanied the international consultant and facilitated data collecting.

The field research provided an opportunity to visit and evaluate road segments, roadside furniture facilities, border crossing stations and weighing points.

<u>On-site inspection and monitoring of roads and roadside furniture</u>

In order to carry out on-site inspection and monitoring of roads and roadside furniture, an international consultant has developed a special procedure that during the trip along road segments allowed to record such indicators as: road quality, difficult areas limiting traffic, problems such as pits, rockfalls, etc., as well as to fix truck hauling density of traffic.

To collect this data, manually filled table has been designed and then processed. The results of data processing are presented in *Annex 4.2.*

<u>Counting campaign, monitoring of roads and roadside furniture, checkpoints, weighing points</u>

During the field research, 5 checkpoints have been examined:

- Mirjaveh (IRN)/ Taftan (PAK);
- Kapikoy (TUR), Esendere (TUR)/ Serow (IRN).

The main attention was paid to examining the schemes and technology of operation, the availability of furniture and equipment, automation of the technological process, schedule of work, congestion, availability of queues from trucks, the average waiting time of one truck and other indicators.

During the research, two ports of Chabahar (Iran) and Karachi (Pakistan) have been visited.

<u>Interview with the main participants of motor transportation</u>

In the course of research, the representatives of customs authorities, national road transport agencies, border crossing points, transport companies (including ports), transport associations, insurance companies, insurance companies' associations of drivers of motor vehicles, etc. have been interviewed.

The interview was conducted in a form of conversation the results of which were recorded.

E. EXPECTED IMPACT/OUTCOMES/OUTPUTS

Based on the research conducted under the project on development of ITI road corridor, recommendations were made on the main identified problems and ensuring monitoring of the work and operational coordination of the ITI road corridor. However, in order to ensure the implementation of these recommendations, it is necessary for ECO to develop plans on their implementation, identify the sources of funding, authorities responsible for their implementation and executors.

1. Trading factors of corridor development

Due to the fact that the volumes of international cargo transportation are interrelated with foreign trade, and, in the course of the research, it was revealed that:

- in the countries of ITI corridor, there is commercial potential and, accordingly, the potential for growth of cargo flows, as in these countries the population is constantly increasing and GDP is growing.
- international trade between ITI corridor countries accounts for about 2,5-5% of the total trade volume of these countries with all countries of the world.
- Mainly traffic flows in the countries of concerned corridors are formed by the export and import of Iran and Turkey.
- due to the significant export and import activity of China, Turkey and Iran, the ITI corridor has a certain transit potential, since the use of this corridor for transportation can ensure the shortest distance to deliver goods in a number of directions.

A significant obstacle in the development of trade relations is the sanctions imposed on Iran in the conduct of trade operations in US dollars.

2. Assessment of cargo flows

In the course of the research, an algorithm was proposed to assess the cargo flows of the ITI corridors, which consisted in the fact that it is sufficient to analyze the statistics of the work of the key checkpoints of Iran.

Analysis of the statistics of the work of these checkpoints for the last 4-5 years showed:

- ITI corridor traffic increases due to increased international trade between corridors. There are grounds to assert that the freight flows of the ITI corridor will increase in the future.

3. Time and cost of delivery of goods

The CPMM project data have been utilized in the present research (implemented by CAREC for CAREC corridors), which have been collected using the UN Speed-Cost-Distance procedures. Since some CAREC routes coincide with ITI corridor (and KTAI corridor), these data could be used to analyze their work, as it was done in the framework of this project. As a result of data analysis, it is revealed that:

- ☐ In a number of directions, operating costs such as: Customs Controls, Phytosanitary/Veterinary Inspection, Visa/ Immigration, Transit Conformity, GAI / Traffic Inspection, Police Checkpoint / Stop, Weight/Standard Inspection, Escort/Convoy, Loading/Unloading etc. exceed the transportation costs itself («Activities Cost») for 1,5-2 times;
- ☐ unofficial payments are being recorded;
- ☐ the delivery speed (taking into account the waiting time at the border, andother delays) on the routes of Pakistan is very low and is only 6-9 km/ h.

4. Roads

In the course of the research, a special monitoring procedures was developed and applied to research the conditions of the roads along the Corridor. As a result of full-scale research it is revealed that:

- ☐ In Iran and Turkey, the quality of the roads is very good.
- ☐ On the ITI corridor route there are difficult road sections in Pakistan on the Quetta-Taftan segment.

5. Roadside furniture

To research the roads along the ITI corridor, a special monitoring procedures was applied. As a result of full-scale research it was revealed that in Pakistan there are not enough developed places for rest of drivers and food places are of low level. TIR parking in Pakistan is not enough also. Information about them isnot provided to the IRU (and accordingly is not posted on the online IRU database "transpark-app").

6. Truck fleet

The research revealed that:

- ☐ Truck park practically in all countries (except for Turkey) is outdated.

Recommendations

- ☐ It is necessary at the national level to develop and implement measures to attract investments in truck fleet renewal through preferential taxation, leasing, favorable credit conditions, etc.

7. Checkpoints

One of the main constraints for development of the ITI corridor are the situation at checkpoints, where there are significant delays for a number of reasons: the capacity of the furniture is inconsistent with the current freight flow, insufficient equipment, inefficient technology of work, etc. Almost all examined checkpoints (except for Turkey) were observed as "bottlenecks".

The main reasons for the delays are: non-coordination of the work of checkpoints with the working hours of checkpoints of neighboring countries; the capacity that does not correspond to the flow of goods, the lack of necessary equipment, undeveloped business processes, inadequate use of the capabilities of the TIR system, TIR IT tools, TIR Green Lane and other problems mentioned in the report.

8. Charging for execution of documents at the border

Notwithstanding the provisions of Article 5 of the TTFA:

In Iran, a fee is being charged for the CMR clearance for the arrival of transport from non-CMR countries. The cost of CMR clearance is quite high considering that there are problems with the circulation of foreign currency in Iran, this fact complicates the transportation.

9. International conventions and agreements

To date, all countries of the ITI corridor have acceded to four conventions: Road Traffic (1968), Road Signs and Signals (1968), TIR Convention (1975) and Revised Kyoto Convention (2006). The current situation of accession to the recommended conventions does not provide a harmonized legislative environment in the ITI corridors for the smooth carriage of cargo by road.

10. Entry permits

Despite the current multilateral agreement, TTFA, for today:

- ☐ Only for Iran and Turkey such permits are not required.
- ☐ despite the current bilateral agreement on road transport between Pakistan and Turkey, Pakistan's trucks have not been observed entering the territory of Turkey.

11. Visas

Only Iran and Turkey have arrangements for visa-free entry, including for drivers of international vehicles. Bilateral agreement between Pakistan and Turkey is not implemented. The issue of obtaining visas for drivers still has some difficulties and their cost is quite high. Between Iran and Pakistan parity conditions for issuing visas are not observed.

Difficulties in obtaining visas are a significant deterrent to the development of ITI corridor and need to be resolved as soon as possible, therefore, based on the analysis of the experience of other regional organizations, the ECO Secretariat proposed the ECO-Visa Sticker Scheme for drivers which was repeatedly discussed within the ECO, however, this scheme has not yet been launched.

12. ECO White Card scheme

Over the past five years tangible results on the formation of the ECO White Card system in the ITI corridor have not been achieved due to the following main reasons:

- The Green Card system has been introduced in Iran and Turkey, and therefore, justifiably, in these countries there is no sufficient interest in introducing a White Card system;
- the study revealed that in Pakistan there is not enough understanding of the ECO White Card mechanism, representatives of insurance companies and ministries often do not understand what is the difference between cargo insurance and MVTPL insurance;
- In Pakistan the national requirements of MVTPL, what is an insurance case, the size and mechanism of insurance payments etc. vary significantly from Turkey and Iran
- In Pakistan there was revealed non-availability of the insurance business to introduce a new service due to insignificant market capacity and high risks associated with poor technical condition of trucks, a large amount of the ECO White Card deposit, underdeveloped mechanism of payment to non-residents, impossibility to make money transfers to pay off insurance payments between countries etc.;
- Economic sanctions imposed on Iran may cause difficulties in the course of settling payments in the foreign currency between the countries under the insurance system.

F. Monitoring and operational coordination

One of the objectives of this research was to develop proposals for monitoring the work and operational coordination of the ITI transport corridor.

Researches

In the course of the implementation of this project, a need for a number of studies aimed at a more detailed research of current problems has been identified to:

- examine the work of checkpoints in order to develop minimum standard requirements for furniture, equipment, technology of work, depending on the current and prospective traffic flow and elaboration for each checkpoint measures on its infrastructural, technical and functional development,

- □ determine measures to expand the use of the TIR system, assess the feasibility of e-TIR and e-CMR implementation in Pakistan, and provide technical support in all corridors.
- □ define minimum standards for supporting road furniture facilities and design country development programs for Pakistan.
- □ develop and establish a model of the "ECO White Card" (or “Green Card”) system in Pakistan, including: necessary measures to improve legislation on insurance activities and regulation of all involved entities, training, development of business plans

Monitoring

To monitor the work of ITI corridor, a number of tools were proposed during the research:

- □ an algorithm for analyzing the work of "key" checkpoints to assess the flow of goods;
- □ utilization of CPMM CAREC data obtained by the Cost-Time-Distance method for estimating the cost and delivery time, as well as the reasons of time delays in transit and related costs (including unofficial ones)
- □ a method on a visual inspection of the process of filling in of the templates (there is no need for frequent collection of such data) for assessing the quality of roads and roadside furniture.

In addition, the research proposed a number of forms for the collection of statistical data on the work of corridors, which were filled in by national consultants. All received data are presented in the annexes. Depending on monitoring needs, information can be provided by national consultants on the proposed forms.

Operational coordination

In order to increase the efficiency of the work of the corridors it is required to ensure the implementation of the functions of operational coordination. These are the following functions:

Collection and analysis of information on the work of ITI corridor (including the proposed methods and algorithms), elaboration of proposals for improving their work;

Informing all involved participants about the rules in force in each country, at each border crossing point, the required documents, the current problems, including operational ones. Performing these functions can be provided through the website. However, the responsible personnel must collect and update these data; Rapid response and solution of the problems. Most probably it may require organizing the work of the "hot line".

It is entirely possible to authorize this body the work on issuance, determination of quotas, distribution of ECO permits among countries, and monitoring.

It is rather difficult to propose a mechanism for the operational coordination of the work of ITI corridors, since any operational activity and prompt response to theproblem that arises requires presence of the staff and funding in order to establish such a center and ensure its work, as well as a website, a hotline.

In this connection, it may be proposed:

- □ the creation of a federation, which will include transport associations and large companies of corridors, whose executive direction will solve operational problems;
- □ the creation of a joint venture of a number of large transport companies of different countries, monopolization of the market is not excluded. Besides, in most countries there are practically no large road transport companies;
- □ The ECO secretariat will take over the operational management function, which will require additional funding on the part of the business industry,obtaining solid agreements with the involved agencies.

G. PROJECT BUDGET

NOTE: All activities under this project will be held online. No travel is foreseen. The trainings, facilitation of focus group meetings, preparation of questionnaires, reporting and presentations will be delivered by the Consultants, who are remunerated according to the number of working days allocated to the project activities.

ACTIVITY	WORKING DAYS	AMOUNT
Desk Research and Questionnaires	90	35,000 USD
Focus Group Workshops	180	60,000 USD
Analysis & Reporting	60	40,000 USD
		TOTAL: 135,000 USD

H. ROJECT STAKEHOLDERS/PARTNERS

The project's success will rely on the collaboration and support of various partners, each contributing their unique expertise and resources. The selection of project partners is based on their relevant experience, skills, and knowledge in the field of trade, investment and economic cooperation. The following partners have been chosen to participate in the project:

1. ECO Secretariat: The ECO Secretariat, as the central coordinating body of the organization, will play a pivotal role in the project's implementation. The Secretariat will be responsible for facilitating communication and cooperation among the project stakeholders, providing administrative support, and ensuring the project's alignment with the broader goals and objectives of the ECO.
2. National Bodies (NBs) of the ECO countries: The NBs of the ECO Countries will be key partners in the project, as they possess extensive knowledge and experience in their respective countries' infrastructure. Their involvement will be crucial in providing accurate and up-to-date information, as well as implementing the recommendations resulting from the project.
3. Other relevant stakeholders: Depending on the specific context and challenges faced by each target country, additional stakeholders such as industry associations, regulatory authorities, and international development organizations may be involved in the project. These stakeholders can provide valuable insights and support in addressing the unique challenges and opportunities in each country's infrastructure.

These partners have been selected based on their capacity to contribute meaningfully to the project's objectives and their ability to provide the necessary support and resources for its successful implementation. By working together, the project partners will ensure that the project delivers the desired impact and outcomes, contributing to the overall goal of fostering economic cooperation and integration among the ECO member states.

I. PROJECT TEAM

The wider project team comprises:

- **The ECO Secretariat** and resource staff who will supervise the Consultants and also act as intermediaries for communication and administrative purposes.
- **The Consulting Team**, comprising two senior level consultants to be contracted under this project, who are responsible for carrying out the work defined in this document.
- **Partner Country Resource Persons**, who will be the main focal points of each partner country, participate in the focus group meetings and coordinate the participation from relevant institutions from the partner countries.

J. DECISION ON THE PROJECT

The project needs development phase to update data and allocating budget.

ANNEXES:

1. PROJECT WORK PROGRAM

The Project Work Programme including the breakdown of the four main activities, is provided below:

Title of Project	WEEKS											
	1	2	3	4	5	6	7	8	9	10	11	12
Kick-off and Inception												
Activity 1:												
1.1 Identification and analysis of...												
1.2 Preparation of draft questionnaires												
1.3 Desk Research Report												
Activity 2: Focus Group Workshops												
2.1 Invitation to focus group meetings												
2.2 General focus group meeting												
2.3 Focus group meerting -												
2.4 Focus group meeting –ECO Member States												
2.5 Focus group meeting -												
2.6 Focus group meeting -												
2.7 Focus group meeting reports												
Activity 3: Carrying out the questionnaires												
3.1 Finalisation of questionnaires												
3.2 Distribution of questionnaires to country focal points												
3.3 Collection of quesitonnaires and responses												
Activity 4: Analysis and reporting												
4.1 Analysis of the questionnaire responses												
4.2 Reporting (one general report and ECO country reports)												

2. PROJECT BUDGET COST BREAKDOWN/ SOURCES

ACTIVITY	WORKING DAYS	AMOUNT
Desk Research and Questionnaires	90	35,000 USD
Focus Group Workshops	180	60,000 USD
Analysis & Reporting	60	40,000 USD
		TOTAL: 135,000 USD

The methodology of payment and criteria for re source allocation under SW/NDFs will be recommended for consideration.

3. PROJECT IMPLEMENTATION SCHEDULE

The project's implementation period is approximately 12 months (50 weeks), from the kick-off meeting to the delivery of the final report.