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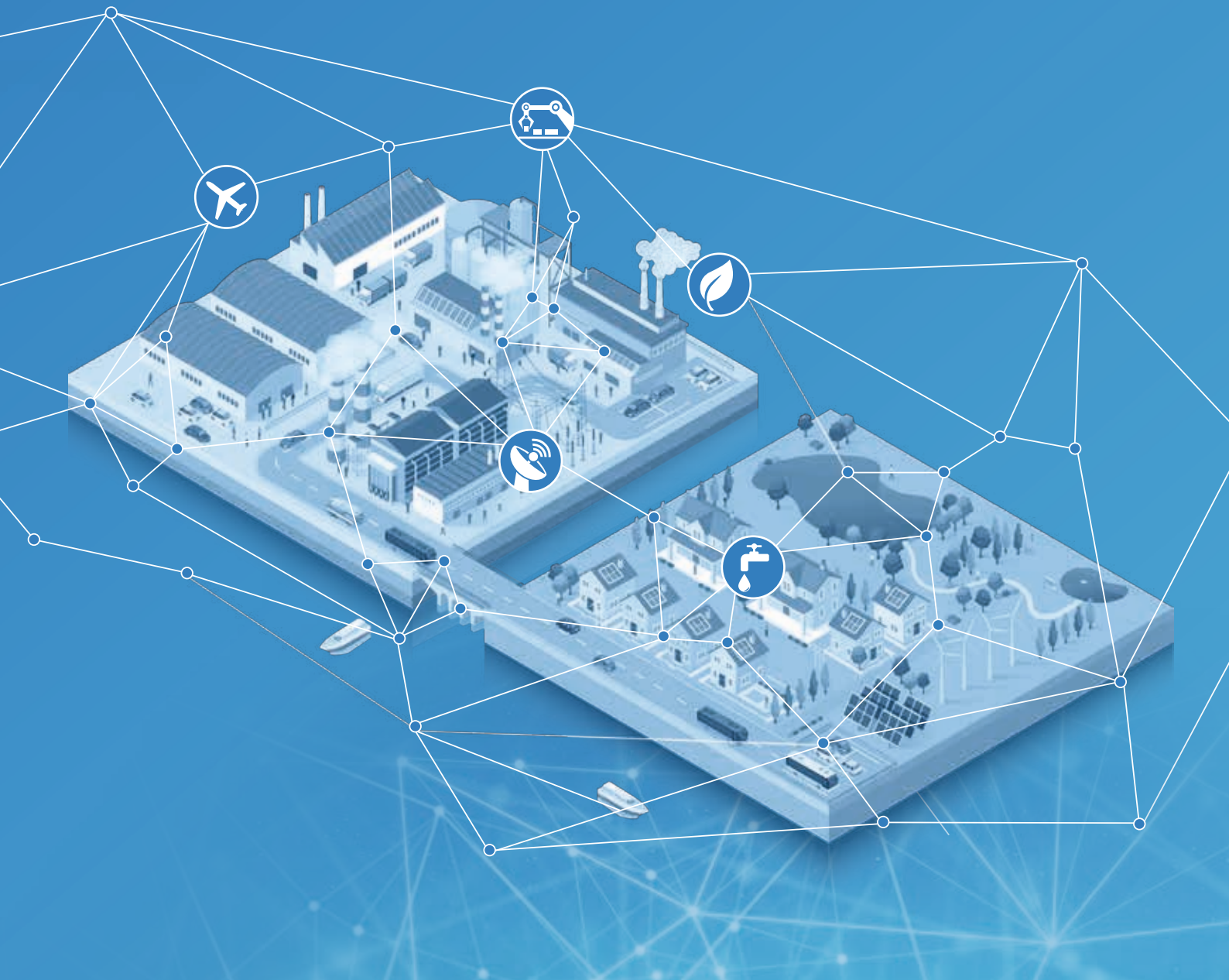


Funded by the
People's Republic of China

ACTION PLAN

FOR THE SECOND PHASE OF THE NSREB PROJECT

Establishing smart and sustainable industrial parks, zones and cities





CONTENTS

1. Background	3
2. Proposed Plan	6
3. Regional project on capacity building to establish industrial parks in Central Asia	9
4. Country projects	12

1. BACKGROUND

The UNIDO project on “Fostering inclusive and sustainable industrial development in the New Silk Road Economic Belt (NSREB): Leveraging potentials of industrial parks, zones and cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan”, funded by the People’s Republic of China, highlights the importance of inclusive and sustainable industrialization for the Central Asia region and demonstrates a commitment to realizing the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) using parks and zones as an instrument of special industrial and economic policy. In SDG 9, the international community recognized the nexus of industrialization, infrastructure and innovation. Industrialization is important because of its multiplier effect on all economic sectors, on boosting trade, innovation and job creation. SDG 12 aims to ensure sustainable consumption and production patterns. Inclusive and sustainable industrial development is the key to promoting sustainable economic growth, employment and decent work for all, preconditions for realizing SDG 8. Industry is fundamental to end poverty in all its forms everywhere and is a precondition for realizing SDG 1.

The UNIDO project was developed in parallel with an Asian Development Bank (ADB) funded project focusing on Kazakhstan and Kyrgyzstan. Both projects shared the same objectives, methodology for collecting and analyzing information, and approach to working with counterpart institutions in the countries of coverage. The purpose of the projects was to foster regional economic cooperation among the six Central Asian countries connected by CAREC Corridor 2. The findings of the two projects were presented and discussed at regional workshops as part of the knowledge sharing platform on best practices in establishing and managing parks and zones. In addition, policymakers received state of the art guidance on a new generation of industrial parks and zones.

The project is a successful example of cooperation and partnership between UNIDO and ADB.

The output document of the project—the strategic and operation framework—incorporated relevant sections from all UNIDO publications on industrial parks and zones, including the recent guidelines on Eco Industrial Parks.

Building on the achievements of the project and its partnership with the **Asian Development Bank**, UNIDO intends to initiate a **second phase** that will build the capacity of stakeholders in Central Asia to leverage the potential of a new generation of smart and sustainable industrial parks, zones and cities for realization of the 2030 Agenda for Sustainable Development and the SDGs, and to respond to the client countries’ demand to design and implement concrete technical cooperation projects for establishing new, or transforming existing, smart and sustainable parks, zones and cities.

The second phase would also seek to maintain the networking and knowledge and experience sharing platform, designed for policymakers, practitioners and academics to better understand the role of new technological trends shaping the digital economy and how these technologies can be leveraged for the formation of the new generation of smart and sustainable industrial parks and zones.

As part of the project’s first phase, UNIDO prepared a diagnostic study, based on information compiled through desk review, structured interviews with national stakeholders and on-site visits. The study sought to understand special economic zone (SEZ) strengths and weaknesses and suggest measures for improving their effectiveness, aligning them to global best practices and thus making them a tool for economic and industrial development.

The diagnostic study found that zones and parks could play a key role helping to attract investment and improve the business environment. Special economic zones, industrial and technology parks and other special development policy instruments are entry points to approach wider issues of institutional reform and improvement of domestic investment and innovation climates. They are commonly identified as major tools to attract foreign investments, create new jobs, and boost exports and industrial growth, especially in developing countries and transition economies.

To maximize their impact for sustainable and inclusive industrial development, zones and parks must become creative and knowledge driven spaces supporting the development of industrial clusters, business incubation, start-ups, venture capital and various business support

services provided by intermediary organizations, such as technology centres and research institutes, and avoid the risk of creating isolated domestic tax off-shores.

The development of such local systems for enterprise and technology upgrade should form the core of any government strategy.

The diagnostic study concluded that, except in a few cases, the four project countries are in the initial phase of establishing or operating zones and parks. The countries have shared many crucial aspects that can be summarized as follows:

- Full concepts of organized economic zone and related development strategies and road maps have not been fully designed.
- Legal frameworks governing SEZ establishment and operation are not complete. They are fragmented and without sufficient guarantees to protect investment. The implementation of rules is not monitored.
- Legislative/administrative powers are centralized and powers delegated to local authorities are limited.
- Coordination among the institutions involved in zone establishment and operation is unsatisfactory for relevant institutions/stakeholders.
- Rules on zone activities are fragmented among legal documents.
- There is a strong need for an autonomous single authority to supervise the activities of all organized zones, as frequently suggested by the countries' public institutions.
- Certain administrative procedures remain burdensome.
- Even though three of the four countries (Azerbaijan is the exception) have laws and regulations on public-private partnerships (PPPs), the overall legal framework governing PPPs is unfit to regulate such complex transactions.

The study highlighted major gaps and constraints in SEZs planning and development, namely:

- The role of the private sector is still limited and, in the majority of cases, SEZs have been created with limited consideration of the designated location's actual and entrepreneurial potential.
- The potential role of SMEs and of some promising sectors, such as agriculture and tourism, should be more carefully considered for the creation of new SEZs, or reorienting existing ones.
- SEZs are usually managed by public officials and lack private business culture. The management function often overlaps with the supervision functions. Zone marketing should be improved and increased.

The diagnostic study included a list of general recommendations, including:

- Comprehensive improvement of the overall investment climate is needed in all countries of the NSREB project.
- Structural reforms designed to realise the main goals set by the governments in the region should be continued and strengthened, to implement sustainable industrial development.
- Attention must be devoted to: streamlining business regulations, introducing a single-window approach (one-stop-shop); providing necessary physical and business infrastructure; and involving the private sector in every phase of SEZ development and operation, while strengthening the institutional capacity of competent public authorities.
- Enhanced regional integration through promotion of regional value chains and trade to develop common market.

Cooperation between international development banks, in particular with the Asian Development Bank and the World Bank (WB), and UNIDO to create sustainable parks and zones can benefit the countries of the region by expanding the capacity of existing industries and strengthening local and regional value chains. The diagnostic studies conducted by UNIDO and ADB showed great interest and concrete measures taken by governments to develop various forms of parks and zones aimed at developing local and national production, creating jobs, combating youth unemployment, and promoting FDI.

2. PROPOSED PLAN

This Action Plan sets out the overall objective, outcomes, outputs and activities with the greatest potential to benefit the project countries during the project's second phase.

The **objective** is to improve the capacity of concerned stakeholders so that special policy instruments such as a new generation of zones and parks are effectively used for SME clusters and value chain development and for pursuing inclusive and sustainable industrial development in Central Asia.

The **outputs** would be: the formulation of national and local strategies; legal and regulatory frameworks;

systems, procedures and competences to plan and administer parks and zones; and trained stakeholders in the process of industrial park planning, development, management, and monitoring.

Beneficiaries of the next phase would be: representatives from governments at the national, provincial and local levels; industrial associations; chambers of commerce; industrial park planners, developers, operators and managers; national agencies on trade regulation and investment promotion; financial and research institutions; the private sector; and representatives from the surrounding areas of the industrial parks and zones.

Based on the objective and results of the project's first phase, and demand indicated by the project country counterparts, the following activities tailored to the countries' needs are identified:



1. UPGRADING EXISTING PARKS AND ZONES

Based on in-depth assessments of each zone or park, existing, planned, or in the process of being established, in each country, conduct:

- a. On-site visits and meetings with principal national and local stakeholders to map the situation in each zone/park, using a check list established for pursuing inclusiveness and sustainability through modern technology and business models.
- b. Prepare a detailed action plan for upgrading parks and zones.



2. PROVIDE ASSISTANCE TO GOVERNMENTS

in the design of a comprehensive strategy on coordinated development and effective operation of economic zones, involving national and local authorities, tailored to the country's specific needs and integrated with national development plans. The following actions could be designed for each target country:

- a. Set up working groups comprised of representatives from relevant institutions and private sector organizations to: a) share policy proposals; b) identify policy and legal/regulatory solutions; c) select focus on areas of particular interest such as SMEs and innovation or crucial economic sectors; and d) coordinate implementation of measures.
- b. Organise awareness raising campaigns and advocacy on the needs of local authorities and private sector in SEZ creation and management.
- c. Define a common strategy/road map and action plan in line with international best practices and tailored to each country's needs.



3. PROVIDE ASSISTANCE TO COMPETENT INSTITUTIONS TO CARRY OUT, COMPLETE, OR ADVANCE LEGAL AND REGULATORY FRAMEWORK REFORM

The following actions could be designed for each target country:

- a. Under the guidance of a local legal expert and with the support of international legal experts, define a checklist of legal/regulatory areas to be reformed or improved in each country.
- b. Accompany local institutions in the process of reform, including implementation phase, by way of ad hoc on the job training; secondment of experts; study tours for high level officers; and seminars for public legal officers.



4. PROVIDE ASSISTANCE TO COMPETENT INSTITUTIONS TO DEFINE AND ORGANIZE JOINT TRAINING PROGRAMMES TARGETING PUBLIC OFFICERS INVOLVED IN THE ESTABLISHMENT AND OPERATION OF SEZs

to define and organize joint training programmes targeting public officers involved in the establishment and operation of SEZs. The following actions could be designed for each target country:

- a. Design, organization and supervision of training courses targeting specific areas of expertise and different competencies for institutions involved.
- b. Design and organization of working groups, seminars and international conferences with participation of local and international experts.
- c. Build capacity of stakeholders in Central Asia to establish a new generation of industrial parks through a series of training workshops designed to lead the participants through the process of industrial park planning, development, management, and monitoring. Arrange exchange/internship programmes with international/foreign financial institutions.



5. PROVIDE ASSISTANCE TO GOVERNMENTS TO ENHANCE THE PARTICIPATION OF ALL STAKEHOLDERS

especially the private sector, business intermediary bodies such as business associations and chambers of commerce, and civil society organizations in SEZ establishment and operation. The following actions could be designed for each target country:

- a. Identification of relevant stakeholders at national and local level and of existing organizations representing private sector constituencies within the countries to prepare an updated map of entities to be considered.
- b. Support public authorities in the definition of suitable tools for private stakeholder involvement in the entire process, including reforms to be made to the legal/regulatory framework to boost private sector participation.
- c. Organization of high level training courses on PPP modalities for private sector representatives; exchange/internship programmes targeting private sector /business intermediaries' representatives to allow exposure to international/foreign institutions.



6. PROVIDE ASSISTANCE TO GOVERNMENTS IN PILOTING SMART INDUSTRIAL AND TECHNOLOGICAL SPECIAL ECONOMIC ZONES AND PARKS

either by upgrading existing ones or by identifying new ones. The following actions could be designed for each target country:

- a. Creation of a working group coordinating and monitoring project implementation.
- b. Identification of relevant locations for parks or zones with the support of international expert/s seconded to the key institution coordinating the project.
- c. Technical assistance to counterpart institutions during the implementation phase.

3. REGIONAL PROJECT ON CAPACITY BUILDING TO ESTABLISH INDUSTRIAL PARKS IN CENTRAL ASIA

COUNTRIES: AZERBAIJAN, TAJIKISTAN, TURKMENISTAN, UZBEKISTAN, AND KAZAKHSTAN

PROBLEM/RESEARCH ISSUE TO BE ADDRESSED:

Countries in Central Asia require new industries and technologies to modernise, diversify their economic base, create new activities and jobs and realize inclusive and sustainable industrialization (SDG 9). At the same time, these economies face various market and institutional barriers and imperfections preventing firms from easily accessing information, new technological knowledge and finance. Weak infrastructure, institutions and a lack of regulations can increase transaction costs and the risks of doing business, thus inhibiting progress towards realising sustainable development goals and targets.

Small and medium-sized enterprises (SMEs) are the most dynamic firms in emerging countries and their role in the economy cannot be underestimated. This has been confirmed by a number of researchers, (i.e.: Beck et al.) who have found that SMEs constitute over 60% of total employment in manufacturing in most developing countries.¹ In 2012, SMEs accounted for 99.8% of companies in the EU and provided 67.4% of jobs.⁴ According to the National Bureau of Statistics of China, in 2005 SMEs accounted for 59% of GDP, accounted for 60% of total sales, and 68.85% of total imports and exports.⁵ Micro, small and medium-sized enterprises (MSMEs) contribute 50% of total employment in Tajikistan, and provide 51% of added value to the economy in Uzbekistan. Empirical evidence collected by the International Finance Corporation and World Bank implies that SMEs and their clusters in the region need dedicated support to unleash their full potential as drivers of economic growth.

Industrial parks can be used to overcome the aforementioned challenges and accelerate economic development. A major advantage of industrial parks is that they provide an institutional framework, modern services and a physical infrastructure that may not be available in the rest of the country. Industrial parks use modern services, such as information and telecommunications, as well as extension services that are critical for innovation, technological learning and company growth. Costs are reduced through economies of

scale in the provision of common services and facilities. Buyers, producers, and suppliers can operate in the same location, thus cutting the transaction costs of economic learning while establishing new standards and norms of entrepreneurial behaviour. Firms located in industrial parks often use the services of local companies, creating not only backward and forward linkages, but also diffusing economic learning to the wider business community. A concentration of certain types of companies attracts innovation and investors and may facilitate the development of clusters. Indeed, from the outset industrial parks should be linked to clusters in the regional innovation system. Successful industrial parks can, therefore, become growth hubs, creating high growth regions and directing national economic development. A new generation of industrial parks are increasingly used as an instrument to build more resilient economies and achieve social, economic and environmental objectives. They can set minimum requirements or sustainability performance standards, covering legal compliance as well as social, economic and environmental aspects, against which existing, or planned new parks can be assessed, with the objective of fostering inclusive and sustainable industrialization in the country.

The proposed project thus aims at rising awareness of the evolution of the concept of industrial parks over time and building capacity of stakeholders in Central Asia to leverage the potential of a new generation of industrial parks for pursuing inclusive and sustainable industrial development. The project would be the logical continuation of the UNIDO project on "Fostering inclusive and sustainable industrial development in the New Silk Road Economic Belt (NSREB): Leveraging potentials of industrial parks, zones and cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan". The project would also build on results generated from series of Europe and Central Asia Regional Conferences on Industrial Parks, held from 2010 to 2015 in Azerbaijan, Slovenia and Belarus, which facilitated networking, knowledge and experience sharing among policymakers, practitioners and academics to better

understand the role of a new generation of industrial parks for innovation, job creation and economic development, as well as to contribute to capacity building of public and private stakeholders to design, establish and manage industrial parks and zones.

Towards the completion of the project it is expected that the acquired know-how and expertise of the respective stakeholders will result in a pre-feasibility study for establishing a park/zone and hosting SMEs for one country in the region.

EXPECTED TARGET BENEFICIARIES:

Representatives from governments at the national, provincial and local levels; industrial associations; chambers of commerce; industrial park planners, developers, operators and managers; national agencies on trade regulation and investment promotion; financial and research institutions; private sector as well as representatives from the industrial parks/zones' surrounding areas.

PROJECT OBJECTIVE:

The objective of this project proposal is to build capacity of stakeholders in Central Asia to establish a new generation of industrial parks through a series of training workshops designed to lead the participants through the process of industrial park planning, development, management, and monitoring.

The expected outcome of the project is the establishment and effective use of a new generation of industrial parks for pursuing ISID in Central Asia.

INTERNATIONAL DEVELOPMENT GOALS:

The project is expected to contribute to:

- SDG 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- SDG 9:** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- SDG 12:** Ensure sustainable consumption and production patterns.

IMMEDIATE OBJECTIVES AND EXPECTED OUTCOMES AND OUTPUTS:

Expected outcome:

- Enabling Central Asian countries to establish a new generation of industrial parks for SME clusters and value chain development.

Expected outputs:

- Output 1: Capacity building workshops designed and organized on best practices for industrial park establishment and financing.
- Output 2: Study tours, necessary for the development of industrial parks (sharing the knowledge and experience of Turkey) conducted.
- Output 3: Pre-feasibility study for the establishment of an industrial park in the selected country prepared.

Duration: 24 months

Country-level coherence:

This project is in line with the national development plans of the participating countries, including:

- Azerbaijan's Strategic Roadmap for Manufacturing of Consumer Goods at the Levels of Small & Medium Entrepreneurship and "State Program on the development of the industry in the Republic of Azerbaijan in the years 2015-2020";
- National Development Strategy 2016-2030 of Tajikistan;
- Turkmenistan's National Programme for Socioeconomic Development 2011-2030;
- Uzbekistan's Five-Area Development Strategy for 2017-2021;
- Kazakhstan's long-term strategic plan - The Environment and Natural Resources - until 2030 and Kazakhstan-2050 Strategy.

Country coverage:

The project country coverage includes Azerbaijan, Tajikistan, Turkmenistan, Uzbekistan, and Kazakhstan.⁹

Kazakhstan

Kazakhstan is located on the crossroads between China and South Asia and of Russia and Western Europe. Kazakhstan transformed from a lower-middle-income to an upper-middle-income country in less than two decades. It is also a regional leader in energy production, with sizeable oil, natural gas and coal deposits. The country exports about 80% of its oil output, and is a net exporter of the gas.

In 2012, the Kazakhstan-2050 Strategy was introduced, aimed at economic diversification. It establishes several long-term goals that include the creation of new sources of economic growth by producing goods that are competitive in global markets, creation of a favourable investment climate, and development of an effective public-private partnerships and private sector.¹⁰ It also envisages transitioning to a knowledge-based and green economy by the development of innovative industries, as well as making Kazakhstan a transportation and trade hub.

The Joint Declaration on Cooperation between UNIDO and the Government of Kazakhstan, signed on 2 May 2014, aimed to promote cooperation between parties in the priority areas pertinent to Kazakhstan's priorities, including industrial modernization, industrial energy efficiency, trade capacity building, industrial statistics, technology foresight, resource efficient and cleaner production, water management and renewable energy, and others.

Kazakhstan has established 10 special economic zones, including those with specific and mixed industry focus, and has 42 industrial zones, many of which are not yet operational. Special economic zones (SEZs) provide a number of benefits to residents, including a free land plot for the entire period of existence, simplified procedures for foreign labour employment, and various tax incentives. According to the ADB, SEZs may also be used by Kazakhstan to mitigate the adverse trade effects of the Eurasian Trade Union (EAEU).

4. COUNTRY PROJECTS

In consideration of the above-envisaged plan, examples of possible projects identified according to country specific needs are briefly described below, along with a brief overview of each country's economic profile and experience of parks and zones.

AZERBAIJAN

Azerbaijan is an upper middle-income country that has enjoyed rapid economic growth thanks to its oil and gas reserves. In the coming years, output from the oil and gas sector, which accounts for 50% of GDP, is set to decline whilst the global oil price is likely to continue its downward trend. To ensure future sustainable growth, the government has prioritised modernization of the oil and gas sector and the petrochemical industry, economic diversification, alternative and renewable energy sources, expansion and development of trade and types of services and improvement of the foreign trade and investment structure.

Like other countries rich in natural resources, Azerbaijan has not escaped the impact of the global economic downturn and low oil prices. To mitigate the negative effects of the international financial crisis, Azerbaijan has adopted a strategic road map for the economy and its key sectors to promote industrial and economic

diversification and modernization, towards the development of a sustainable and competitive non-oil sector. Industrial development is to be guided by the "State Programme on the development of industry in the Republic of Azerbaijan 2015-2020". Key priorities are to increase competitiveness and support for industrial upgrading and diversification.

The establishment of various types of industrial parks, such as the chemical and high technology parks in Sumgait and Balakhany, and a number of regional industrial estates has been declared a high priority by the government. The creation and development of parks is part of a broader effort to enhance the potential of industry to diversify the economic base, bring about structural change, support private enterprises, and increase the manufacturing of competitive products from local raw materials.

During the first phase of the project the diagnostic study found the following gaps and obstacles hindering the potential of parks and zones to contribute to inclusive and sustainable industrial development in Azerbaijan.

- SEZs cannot be developed or cannot function without active participation of the private sector.
- There are no rules specifically governing PPPs, nor do public institutions have the expertise on supporting PPPs.
- Policymakers must strongly support the development of the PPP concept.
- It is vital that a strong legal and regulatory framework is established to attract private investment and other stakeholders' involvement.
- Given the nature and lengthy time frame of such projects, it is imperative that public and private interests are coordinated. An established legal framework governing PPP transactions creates an enabling environment for prospective investors.
- In 2014, a working group with representatives from manufacturing firms was established. Working groups on furniture production, light industry, textiles, construction materials, computers and electronics equipment were created to improve dialogue and cooperation between the government and private sector.
- An economic zone needs plenty of land, with easy access to on- and off-site infrastructure. The selection of the zone area is thus very important. The allocation of land to SEZ potential developers/investors is also crucial. The guarantee of the free use of the project's fixed properties for a reasonable period of time, based on legal title, must also be provided. The limit to foreign ownership can be then dealt with by making a long lease to developers/users a feasible option. This aspect needs consideration and must be addressed in

a proper way, given the complex land allocation process in the country.

- Foreign investors evaluate the level of protection of investments on the basis of key elements such as Alternative Dispute Resolution tools. The international arbitration regime needs serious improvements on the definition of general rules and implementation of awards.
- The right to dispose of assets at the end of the investment, or for other legitimate reasons should be guaranteed. Both aspects need improved regulation. Laws that impact on the right to freely dispose of assets at the end of the investment period, such as bankruptcy or liquidation laws, do not provide an adequate guarantee.
- The legal framework for SEZs is fragmented. Many institutions have expressed a need for better coordination among public entities supervising zones and envisaged the establishment of a single authority for all zone management and regulation.

Project 1. Provide support to the Government of Azerbaijan

in drafting a comprehensive strategy on SEZ/park development, addressing crucial issues such as delegation of powers to local authorities, strengthening zones dedicated to SMEs and the establishment of a single agency responsible for the monitoring and supervision of SEZ operations.

During the project's first phase, on-site visits to Azeri institutions highlighted the need to build local authorities' skills to allow them to better participate in the process of SEZ establishment and operation. The need for a single national agency to monitor and supervise all aspects of SEZ development and operation was also stressed.

Activities to be planned in this respect could be in line with those proposed in point 2 section B above:

- a. Identification of relevant stakeholders at the national and local institutional level and of existing organizations representing private sector constituencies to prepare an updated map of entities to be considered.
- b. Support public entities in the creation of a working group comprising representatives from different institutions and private sector organizations to: i) share policy proposals; ii) identify policy and legal/regulatory solutions; iii) coordinate implementation of measures, including legal framework reform; iv) conduct a feasibility study for a new SEZ agency structure, competencies and costs; v) supervise the implementation phase.
- c. Develop a cluster support programme in Azerbaijan to provide expert assistance to clusters and grants to assist the implementation of cluster activities.

Project 2. Promotion of private sector involvement in SEZ establishment and operation

Implement a public private partnership (PPP) project for SEZ/industrial parks and estates of Azerbaijan in order to establish better communication and cooperation between government institutions and private sector representatives. There is currently limited involvement of the private sector and civil society in the process of SEZ establishment and operation. The project would allow government agencies, industrial zone operators and residents to establish a long-term and fruitful PPP cooperation model. UNIDO would bring its PPP expertise for better implementation of cooperation between industrial zones operators and private sector representatives.

Activities in this respect could be in line with those proposed above:

- a. Support public entities in defining the most suitable tools for private stakeholder involvement in the entire process.
- b. Support the organization of awareness/information campaigns, or courses for private sector and civil society representatives.

Project 3. Technical assistance for the establishment of a complete set of rules

governing SEZ creation and operation, with a specific focus on funding mechanisms, and for the monitoring/supervision of the implementation phase.

The country has no law on PPPs. UNIDO can assist the government in drafting relevant rules. Further assistance is needed for complete reform of the legal framework governing SEZs, thus improving investment attraction.

Activities could include:

- a. Assessment of legal framework governing SEZ establishment/operation and PPP regulation to identify gaps.
- b. Support existing working group on PPPs already active on this issue.
- c. Support legislative drafting to complete/reform legal framework in the critical legal areas.
- d. Training of public officers to increase institutional capacity to deal with complex transactions.
- e. Organization of internships/trainings of public officers at foreign/international institutions/organizations.
- f. Support the organization of awareness/information campaigns for private sector and financial/banking community on complex transaction management.

TAJIKISTAN

Tajikistan has the lowest GDP in Central Asia, as well as one of the lowest GNI per capita. Despite real GDP growth (around 6% in 2013—the fifth highest rate in the region), Tajikistan remains a low-income country. Industry consists mainly of small obsolete factories in food processing and light industry, substantial hydropower facilities, and a large aluminum plant, which currently operates well below capacity. Less than 7% of Tajikistan's land area is arable and cotton is the most important crop. Despite a domestic economy that is heavily reliant on its agricultural sector, which accounts for 20% of the country's GDP and over half of its domestic employment, Tajikistan is a net agriculture importer and imports approximately 70% of its food supplies.

The priorities of the National Development Strategy 2016–2030 are: energy security and energy efficiency; improved communications and repositioning as a transit country; food security, nutrition and improved public access to quality food; and creation of jobs

through increased private investment, economic diversification, and competitiveness. The first phase of the Strategy includes the country's medium-term development programme designed for 2016–2020. The strategic directions of this programme include developing an institutional support system, improving the business environment for private sector development, and increasing human capital productivity.

The unfavourable business environment in Tajikistan, and barriers to foreign direct investment (FDI), do not help attract private investment and actually limit investment in the country. The key obstacles mentioned by local and foreign entrepreneurs are inadequate infrastructure (especially insufficient and unreliable energy), weak rule of law (especially for property rights), and tax policy and administration. To achieve higher economic growth, Tajikistan needs to implement deeper structural reforms aimed at increasing the role of the private sector by creating a more favourable business environment.

To address these issues, the government is planning the following initiatives:¹²

- Development of free economic zones through a PPP modality.
- Creation and development of agro-industrial cluster in Hatlon and Sugd regions.
- Development of industrial parks and incubators within free economic zones of the country.
- Creation of recreational zone in Gorno-Badakhshan in the southeast of the country.

During the first phase of the project, the diagnostic study found the following gaps and obstacles hindering the potential of parks and zones to contribute to inclusive and sustainable industrial development in Tajikistan.

- A fully organized, internally consistent economic zone concept has not yet been developed in the country.
- A consistent policy framework for improving the legal environment and promoting PPPs has not been identified in Tajikistan.
- Even though the most advanced free economic zones (FEZs)—Sughd, and Panj to a limited extent—are making progress, they are still far from being self-sustainable. The other zones are either only on paper, such as Ishkoshim, or at a very early stage of development, such as Dangara.
- Private investment should be encouraged, and this approach should build on the four special zones the government has created to increase exports, which otherwise risk becoming enclaves because of weak links with the local economy. A good management model and a well-structured central and local authority are still to be defined.
- The very different level of operation of Tajikistan's zones also depends on the uneven development of their geographical regions, and on profound differences in funding and government support. The quality and intensity of investment promotion activities and tools also varies.

Based on the government's priorities and identification of areas where technical assistance is required to support the development of sustainable zones, UNIDO could conduct the following activities:

Project 1. Technical assistance in piloting the establishment or upgrading of an innovative special economic zone

Planned SEZs have not developed according to expectations. According to the needs evidenced during project site visits, a pilot project focused on the operation of a zone, either new or to be revamped to improve performance, would be highly encouraged.

Planned assistance to the government of Tajikistan is divided into three phases. The activities of the first phase include:

- a. A review of SEZ strategy.
- b. Detailed assessment of general legal/operational framework governing SEZ establishment and activities and PPP regulation to identify gaps, potential problems to be faced, and issues to be addressed when starting new zone activities.
- c. Identification of a new pilot zone location.

The second phase of assistance envisages:

- a. Preparation of an action plan for new zone development, addressing problems and providing recommendations.
- b. Setting of terms and conditions for the completion of pre- and full feasibility study.

The third phase of assistance would involve:

- a. Organizing training courses to increase institution capacities to better deal with zone administration and management, including on PPPs modality.
- b. Organizing internships/training periods of public officers at foreign/international institutions/organizations.

Project 2. Establishment of Industrial park in Dushanbe city and in other regions of the Republic of Tajikistan

Project purpose:

Industrial and technology parks are key elements of the infrastructure supporting the growth of today's global knowledge economy. By providing a location in which government, the private sector and universities cooperate, these parks create environments that foster collaboration and innovation. They enhance the development, transfer and commercialization of technology. Although agriculture has led economic development, the government intends to increase the importance of the industrial sector. In order to facilitate diversification of the economy and development of the industrial sector, the government is planning to establish industrial parks and zones as a new model of economic policy. Four free economic zones have been established in different regions of the country with the aim of economic and regional development. The government intends to develop the industrial sector in order to attract investment, create new jobs, and develop regions around the park.

In light of the above, the establishment of an industrial zone in Dushanbe has been planned for the next years. However, there has been little progress to date. The Law on Industrial Parks was passed, but in practice plans to establish industrial zones in Dangara and Sughd remain in the early stages.

Baseline scenario:

Establishment of industrial parks and zones is the new economic policy tool of the government. The industrial zone project in Dushanbe is envisaged to attract investment and generate more than 500 jobs. Regional development, improvement of export opportunities, import substitution, and job creation will be the main policy directions of the industrial zone.

Main target groups:

Main target groups are government agencies, including the Ministry of Industry and New Technologies, industrial park and zone operators, residents of industrial zones, and business associations.

Sustainability strategy:

The new industrial zone in Dushanbe will be an example of successful communication and cooperation between government institutions and private sector representatives, and would allow government agencies, industrial zone operators and residents to establish a long-term and fruitful cooperation model in the country. In the future this model could be successfully used in planned industrial zones in Danghara and Sughd.

Project 3. Development of public private partnership for industrial zones in Tajikistan

Project purpose:

Support public private partnership (PPP) for industrial zones in Tajikistan in order to establish better communication and cooperation between government institutions and private sector representatives.

Rationale:

All FEZs in Tajikistan have been established and are run by the government. However, residents of these zones are private sector representatives and more business representatives seek opportunities to be part of FEZs due to favorable investment incentives.

Taking into account the abovementioned, private sector participation in the establishment and management of the Industrial Zones in Tajikistan is possible. However, to date such efforts have been limited and mainly government leads such initiatives. It is possible that the private sector may run industrial zones with more business oriented and efficient means.

Further the sector could benefit from managerial support from the private sector especially participation of the business in the formation, operation and manufacturing process would contribute positively to the economic development of the country as well as regions.

Baseline scenario:

Establishment of the Industrial Zones is a new economic policy tool for Tajikistan government. It is possible to establish 3 Industrial Zones in Tajikistan nowadays. After successful completion of all projects it is envisaged that investments will be put to the country economy through Industrial Zones which may generate more than 1000 jobs. Regional development, improvement of export opportunities, import substitution, job creation and industrial take-off are main policy directions of the Industrial policy of the country.

In this regard, government will allocate some tax, customs and other incentives to the private businesses wanting to take part in such zones. However, there is a need to strengthen public private policy dialogue and cooperation in order to get fruitful results.

Main target groups:

Main target groups are government agencies including Ministry of Industry and New Technologies, Ministry of Economic Development and Trade, Industrial Zones Operators, residents of the Industrial Zones, and business associations.

Sustainability strategy:

Implementation of the Support Public Private Partnership (PPP) project for Industrial Zones of Tajikistan in order to establish better communication and cooperation between government institutions and private sector representatives would allow government agencies, industrial zone operators and residents to establish a long-term and fruitful PPP cooperation model in the country in order to develop sustainable industrial production.

TURKMENISTAN AND UZBEKISTAN

Turkmenistan

Turkmenistan is an upper middle income country. Since 1998, the economy has enjoyed nearly two decades of economic expansion, although, in line with trends experienced by most oil-exporting countries, GDP growth has slowed in recent years, to 6.5 per cent in 2015. Turkmenistan is attempting to diversify the economy through state-led industrialization and private sector development. However, the private sector remains closely regulated by the state and the planned programme for privatization of large-scale enterprises is still in the nascent stage.

A resource-rich country, Turkmenistan has issued several national programmes aimed at economic diversification, and social and economic development:

- National Programme for Social and Economic Development of Turkmenistan in 2011-2030.
- State Programme for Manufacturing Import-Substituting Products in Turkmenistan.
- State Programme for Enhancing the Volumes of Export of Products Manufactured in Turkmenistan.
- State Programme for Establishment of Enterprises Manufacturing Electrical Equipment in Turkmenistan. Action plan of this state programme for 2016-2020.

The government is prioritizing key sectors—oil and gas, electric power, chemicals, construction, transport and communications, light industry, food processing, textiles and agribusiness—with the aim of boosting growth in the non-hydrocarbon economy and in hydrocarbon processing. Industrial policy (import substitution and non-hydrocarbon export promotion) is gradually helping to promote non-hydrocarbon economic activity.¹⁵

Turkmenistan has initiated several huge energy and transport projects, including the construction of a gas pipeline to China, the Ashkhabad-Meshkhed railway, and the new north-south transport corridor, Kazakhstan-Turkmenistan-Iran. The aim of these infrastructure investments is to enhance trade between neighbouring states. The government's vision is that through the development of transport infrastructure, implementation of large industrial projects, and the creation of a business-enabling environment attracting domestic and foreign investment, Turkmenistan will further integrate in the global economy. The government intends to establish hi-tech parks, and new free economic and special economic zones, and will have a particular emphasis on industrial development at the sub-regional level.¹⁶

During the first phase of the project the diagnostic study made the following conclusions and recommendations for Turkmenistan:

- Increase awareness of the importance of the private sector for economic growth in general and for the diversification of the economy.
- The PPP legal and operational framework needs to be rationalized and improved for internal consistency. Since PPPs imply complex transactions, the capacity of government to design, package, manage and monitor complex deals must be strengthened.
- The overall business regulatory environment should be carefully reviewed and improved.
- A phased, pragmatic approach, strongly supported by all institutions involved should be followed, because the projects to be launched must be attractive for zone developers/investors, and a good legal and financial structure must be put in place, especially in sectors in which foreign investors have interest.
- The increased transparency of procedures for business activity should be established and be strongly pursued, given its impact on attracting investment.
- Coordination among institutions involved in zone development approval and service provision should be improved.

Uzbekistan

Uzbekistan is a lower middle-income country with the third lowest GDP per capita in the region, above Kyrgyzstan and Tajikistan. The government is pursuing growth by expanding public investment in infrastructure and industry—partly financed by the Fund for Reconstruction and Development (FRD). Transport infrastructure and the energy sector are also targets for state-backed investment.¹³

Uzbekistan's Five-Area Development Strategy for 2017–2021 aims to improve competitiveness at local and foreign markets through deepening of structural reforms, modernization and diversification of its leading industries and development of high-tech industries.

During the first phase of the project the diagnostic study found the following gaps and obstacles hindering the potential of parks and zones to contribute to inclusive and sustainable industrial development in Uzbekistan.

- Although a PPP law (on concessions) was enacted in 1995, Uzbekistan does not have a policy/institutional framework for improving the legal environment and for promoting PPPs. Nor does it have detailed regulations on selection processes for PPP projects.
- The PPP law defines a concession as an authorization "for the performance of a certain kind of economic activity connected with the granting to such investor of property, plots of the land and subsoil based on the conclusion of the concession agreement." In addition to being vague in a number of important areas, the law appears to be discriminatory against domestic investors. Overall, its scope and relevant sectors remain unclear.
- The bureaucracy of procedures for establishing a zone is excessive. In particular, there are complex and often formal procedures for reviewing and approving projects by responsible ministries and departments, including on the allocation of land to participants inside the zones.
- FDI and state guarantees for investment are in short supply, or absent, as seen in the very few projects involving foreign investment in Urgut, Kokand, Gijduvan and Khazarasp FEZs, and in pharmaceutical FEZs.
- Access to basic utilities and infrastructure has issues. There are problems in the stable and timely provision of electricity, natural gas, water and other engineering and communication networks to zones.

The development and upgrading of zones is a priority for Uzbekistan. The following areas have been identified for potential technical assistance:¹⁴

- a. Improving the activity of existing zones
- b. Establishing a qualification in administration of zones
- c. Strengthening the role of state bodies in attracting FDI and supporting zones
- d. Using new digital technologies in zones
- e. Creating new zones for tourism and fishery sectors
- f. Creating technoparks
- g. Learning from international experience
- h. Adapting and transferring international experience to the local context

Project 1. In-depth assessment and drawing of SEZ map

Given limited access to data and information provided by the country, the collection of additional information and the government's full support to define possible projects is required. Activities to be planned should be the following:

- a. Prepare a detailed map of zones.
- b. Full review of legal and institutional frameworks.

Upon analysis of the status of parks and zones in the two countries, project concepts could be developed in coordination with national counterparts and based on national economic development priorities.

- 1 <http://www.smefinanceforum.org/>
- 4 <https://www.cfapubs.org/doi/pdf/10.2469/cp.v31.n3.17>
- 5 <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4455895/>; Pissarides, F. (1999). Is lack of funds the main obstacle to growth? EBRD's experience with small-and medium-sized businesses in Central and Eastern Europe. *Journal of Business Venturing*, 14(5), 519-539; Beck, T., Demirguc-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty: Cross-country evidence. *Journal of Economic Growth*, 10(3), 199-229.
- 9 Country information on Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan is presented under country projects
- 10 <http://carnegieendowment.org/2013/02/21/undefined/fis2>
- 12 Tajikistan country presentation, NSREB Final Conference, Shanghai, 18 April 2018
- 13 <http://www.uzdaily.com/articles-id-22401.htm>
- 14 Uzbekistan country presentation, NSREB Final Conference, Shanghai, 18 April 2018
- 15 World Bank in Turkmenistan: Country Snapshot. October 2017.
<http://pubdocs.worldbank.org/en/352771508051221145/Turkmenistan-Snapshot-Fall2017.pdf>
- 16 Turkmenistan country presentation, NSREB Workshop, Dushanbe, Tajikistan, 27-28 April 2017



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