



Innovative development of entrepreneurship in Kazakhstan within the framework of the Public-Private Partnership (PPP)

Desarrollo innovador del espíritu empresarial en Kazajstán en el marco de la Asociación Público-Privada (APP)

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ABSTRACT:

In recent years, more attention has been paid to the problems of the development of the PPP sphere in Kazakhstan. The necessity to further expansion of PPP and increase in the attractiveness of private capital to this sphere were repeatedly highlighted at the state level. In this article, a literature review of domestic and foreign authors, which carried out research in the field of public-private partnerships that enhance the effectiveness of innovative management, is conducted. In this article, the authors studied the features of the functioning of the public-private partnership system in the Republic of Kazakhstan, the organizational, legal and economic conditions and prerequisites that stimulate the development of partnership practices; development of perspective innovative forms and mechanisms of partnership. The problematic issues of cooperation between the state and business in the development of entrepreneurship were shown. Entrepreneurial risks were determined. As a result, conclusions were drawn.

Keywords: Public-private partnership, the Republic of Kazakhstan, economics, politics, investment projects, concession, risks

RESUMEN:

En los últimos años, se ha prestado más atención a los problemas del desarrollo de la esfera de las Asociación Público-Privada (APP) en Kazajstán. La necesidad de una mayor expansión de la APP y el aumento del atractivo del capital privado para esta esfera se destacaron repetidamente a nivel estatal. En este artículo, se realiza una revisión de la literatura de autores nacionales y extranjeros, que llevó a cabo investigaciones en el campo de las asociaciones público-privadas que mejoran la efectividad de la gestión innovadora. En este artículo, los autores estudiaron las características del funcionamiento del sistema de asociaciones público-privadas en la República de Kazajstán, las condiciones organizativas, legales y económicas y los requisitos previos que estimulan el desarrollo de prácticas de asociación; Desarrollo de formas innovadoras de perspectiva y mecanismos de asociación. Se mostraron los problemas problemáticos de la cooperación entre el estado y las empresas en el desarrollo del espíritu empresarial. Se determinaron los riesgos empresariales. Como resultado, se sacaron conclusiones.

1. Introduction

In Kazakhstan, the mechanism of public-private partnership (PPP) is becoming more and more popular every day. In modern conditions of economic development, the PPP mechanism is based on long-term relations between the private and public sectors to attract private financing and management of social infrastructure. If considered in terms of legal orientation, then the country's legislation until recently assumed only one instrument of PPP - a concession.

The joint-stock company "Kazakhstan Center for Public-Private Partnership" was established in accordance with the Resolution of the Government of the Republic of Kazakhstan dated July 17, 2008, No. 693 "On the Establishment of a Specialized Organization on Concession Issues".

JSC "Kazakhstan Center for Public-Private Partnerships» works on the development of the structure of contracts and the creation of an effective system of interaction between the public and private parties.

Currently, taking over the international experience and acquiring its own, the state passes to the next level, which includes the development of new PPP models, the expansion of the PPP market, the stimulation of new sources of financing and the improvement of the system for estimating risks.

In this connection, in world practice, PPPs are being used as an effective alternative for the creation and reconstruction of the necessary infrastructure and the provision of public services. Thus, according to the World Bank, more than 134 developing countries in the world use PPPs, providing 15-20% of additional investments in infrastructure (2014). In addition, it should be noted that PPP is considered not only as an innovative tool to attract investment in infrastructure but also as a tool to improve the efficiency and quality of public services.

By considering the above, this caused the undoubted interest of the authors of the article for carrying out research work in this context.

2. Literature Review

The analysis of publications on the development of public-private partnership in modern conditions has shown that the management approaches used in international practice are quite diverse and specific for each individual branch of the national economy. Therefore, it is of interest to carry out an author's research on this topic.

Domestic and foreign scientific literatures reflect the key directions of the introduction and development of innovative activities of state-business cooperation, and in this connection, to a certain extent, is innovative in the conduct of public-private partnership.

As pointed out by Delmon J. (2010), Hodge G. (2006), Villisov M.V. (2006), Varnavsky V.G. (2011), Gerrard M. B. (2001), Cruz C.O and Marques R.C. (2011), which examined the specifics of the development of cooperation between the state and business, focused on the structures that make managerial decisions when sharing risks with one slogan: "Do not accentuate all risk on the private sector." Usually, this is not efficient, expensive and makes the project excessively sensitive to changes and crisis.

Scientists-economists, Dmitrik E.G. and Vasilyeva I.N. (2014), proposed a methodology for calculating the economic effect of state support for innovative entrepreneurship.

Despite the research was conducted by economists from theoretical and methodological aspects, the study of problems of public-private cooperation in the competitiveness of national economies is insufficiently studied and creates a wide range of opportunities for further research.

3. Methods

To calculate the indicators of innovative public policy measures in the PPP system, the following formula can be used:

$$E = [(G1+S1)g - (G2+S2)]H2,$$

where $G1, G2$ - certain government expenditures for innovative development of entrepreneurship respectively in the base and in the analyzed periods, per unit of entrepreneurial activity, in million KZT.

$S1, S2$ - average capital investments of one unit of entrepreneurial activity into fixed capital objects, respectively, in the base and in the analyzed periods, including the purchase of equipment and technologies, patenting, as well as costs for personnel training and market research, carried out at the expense of the own funds of economic entities, in million KZT.

g - the coefficient of renewal of capital stock,

$H2$ - the quantity of economic entities of non-state ownership in the economy in the analyzed period, thousand units.

Achieving a positive result, i.e. economic effect will be achieved by reducing the specific government costs for innovative development of entrepreneurship, due to the growth in the quantity of business entities and the growth of the renewal of fixed capital. Obtaining a positive value of the effectiveness of innovation policy implementation will witness the increase in the number of business entities, an increase in investment in fixed assets and innovation, which can be achieved only in a favorable business environment based on democratic principles and freedoms of a market economy (Martynova & Sazonova, 2018).

4. Discussion

Institutional development of PPP in Kazakhstan is characterized by the ambition to build a system that operates on the principle of "one window" in order to create conditions aimed at qualitative and accelerated preparation of PPP projects and their effective implementation.

The point of the "one window" principle is the preparation and maintenance of all PPP projects at the request of government agencies in a single center, as well as in providing advice to investors on PPP projects through centralized provision of services and information on possible projects.

Nowadays, consultative advisory groups attend the domestic institutional system of PPP. In this way, by the Decree of the Government of the Republic of Kazakhstan dated December 20, 2012, No. 1633 for the prompt consideration of issues of PPP development in the republic, the Coordination Council for PPP was established.

The main PPP operator at the republican level is the PPP Center (KCPMP) of Kazakhstan, established in the form of a joint-stock company under the Ministry of National Economy of the Republic of Kazakhstan. The competence of this center includes conducting economic expertise at all stages of preparation of a concession project that is worth more than 4 million MCI, as well as developing recommendations for improving the legal and institutional base of PPPs.

In March 2014, with the participation of the JSC "NMH Baiterek" and the KCPMP, a PPP Project Support Center was established, which later was determined by the GRK Decree No. 428 of April 30, 2014, as the legal entity for the consultative support of the republican and local concession projects (if other is not established by the local executive bodies' decision). The task of the project support center of PPP is rendering assistance to the state bodies on the advisory support of the republican and local projects.

The formation of a regional network of specialized organizations on PPP issues makes it possible to ensure the following:

- implementation of a unified policy in the development of PPP and standardization of projects;
- reducing administrative barriers and improving the quality of project preparation;
- real marketing in the development of regional PPP projects;

- implementation of the project management system in PPP at the regional level.

In order to solve the concession projects' financial issues, the Foundation for Infrastructure Projects (FIP) with the joint participation of local and foreign institutional investors such as Macquarie, IFC, EBRD, ADB, etc. was established on the base of JSC "Kazyna Capital Management".

Priorities for FIP investment are the projects in the sectors of the economy of the Republic of Kazakhstan, defining its infrastructure and having social significance: energy, transport, urban infrastructure and housing and communal services, health and education, housing construction, as well as tourism and sports (Martynova et al., 2017).

The establishment of such a fund allowed to:

- reduce the dependence of the implementation of PPP projects on budget opportunities;
- create additional sources of financing for socially significant infrastructure projects and integrate capitalization in infrastructure;
- provide a lower cost of financing for infrastructure projects;
- ensure long-term investment and financing of asset creation. The task of FIP is to invest in the following types of projects:
- projects at the initiation stage, in which there is a detailed feasibility study (FS), but there is no necessary investment to launch the project;
- projects of the early life cycle that are either started but do not generate sufficient cash flows due to various reasons (shortage of working capital, significant amount of debt owed to creditors, etc.) or are at the stage of completing preparatory work before launch.

The withdrawal from the projects is carried out through the sale of the formed shares of FIP in the projects of strategic investors or other private equity funds ready to invest in the further implementation of projects.

Therefore, the institutional base, formed nowadays in Kazakhstan, is a set of state and quasi-state organizations at the national and regional level.

One of the significant internal problems is the poor quality of documentation and long planning procedures. Given the low qualifications of government employees and lengthy procedures for the preparation and examination of projects, unfortunately, some PPP projects do not reach the stage of development of a feasibility study and a tender.

Considering the above, the reasons for the weak development of PPP at the regional level in Kazakhstan are the following systemic issues:

- underdevelopment of the system of long-term financing of PPP projects;
 - low level of trust between potential participants in PPP projects;
 - low interest of state bodies in the implementation of investment projects under the PPP scheme;
 - low level of knowledge in the field of PPP, which leads to poor-quality selection and preparation of PPP projects, as well as their further management.
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5. Results

The creation of an appropriate legislative framework in 2006 led to the activation of the mechanism of concessions in the republic. So, for a five-year period after the adoption of the Law of the Republic of Kazakhstan "On Concessions", 6 more concession agreements were concluded. The highest peak is in 2007.

The implementation of the first concession projects identified a number of problems related to both regulatory aspects and practical implementation.

In particular, the concession agreement was signed in 2005 on the first pilot project "Construction and operation of the new railway line" Shar-Ust-Kamenogorsk station ". In order to finance this project, infrastructure bonds, which were secured by government guarantees, were issued, and this gave to such securities the highest rating.

Simultaneously, in the process of implementation of this project, a number of problems arose related to the placement of issued bonds and the rise in construction costs, which led to the necessity for additional government support for this project. Moreover, the high level of inflation in 2007, which amounted to 18.8% (2009), forced the concessionaire to default on

the coupon payment on infrastructure bonds. Subsequently, the concessionaire repeatedly made a default due to accumulated problems.

The railway station "Shar-Ust-Kamenogorsk" was put into temporary operation in September 2008. In August 2013, the first launch complex of the new railway line "Shar-Ust-Kamenogorsk station" was accepted for permanent exploitation.

By the project of construction of inter-regional power transmission, the problems of the line "Northern Kazakhstan - Aktobe region" arose at the stage of allocation of land plots, because of which the land plot was allocated only in December 2006, i.e. a year after the signing of the concession agreement. Accordingly, construction work began later than the planned time.

Except the resolvable nature of the project, the cost of the project has increased, and, as well as the project "Construction and exploitation of the new railway line "Shar-Ust-Kamenogorsk station", due to impairment of the macroeconomic situation in the country, the debt load on the project has sharply increased. However, the concessionaire - JSC Batys-Transit did not allow a default due to additional injections from shareholders to save the project.

Therefore, after the measures taken, the situation on the project was fixed. After three years of unprofitable activity, starting in 2012, the concessionaire went on a break-even activity (2014).

In 2014, this project was awarded the title of "Best Public-Private Partnership Project".

The project "Construction and operation of the railway line Eralievo-Kuryk" also caused a problem with the allocation of land. In particular, the act on the right of temporary gratuitous land use was received on January 15, 2009, whereas the concession agreement between the Ministry of Transport and Communications of the Republic of Kazakhstan (now the Ministry of Investment and Development of the Republic of Kazakhstan) and the concessionaire was signed on December 14, 2007. In addition, the implementation of this project was postponed because of the delay in the development of the port of Kuryk.

The implementation of the project "Construction and operation of the new Korgas-Zhetygen railway line" under the concession scheme did not take place due to the inconsistency of the positions of the concessionaire and the operator of the mainline railway network.

According to the project "Electrification of the railway section of Makat-Kandyagash", the endorsement represented by the Ministry of Transport and Communications of the Republic of Kazakhstan (now the Ministry of Investment and Development of the Republic of Kazakhstan) initiated the procedures for termination of the concession contract due to failure by the concessionaire to perform contractual obligations.

Under the project "Construction and operation of the passenger terminal of the international airport of Aktau" the construction is completed, the facility is put into exploitation. The construction of a new passenger terminal was completed in 2009. The terminal's capacity is 450 passengers per hour, the total area is 13,400 square meters, including the area occupied by VIP and CIP - halls. The terminal is equipped with all modern facilities, including security and safety, and the latest electronic and electromechanical systems.

In 2009, the Airport became the winner in the contest "The Best Airport of the Year in the CIS" in the nomination "Intensively Developing Airport of the CIS Countries" for 2008, and in May 2010 Aktau Airport was recognized as the most "Promisingly Developing Airport of the CIS Countries" in 2009.

Currently, Aktau airport is in the third place in the Republic of Kazakhstan in terms of traffic, after the airports of Almaty and Astana. The airport serves Kazakh and foreign airlines, which operate flights to 8 domestic and 16 international destinations (2013).

Under the project "Construction and operation of a gas turbine power station in the city of Kandyagash", the concession contract was terminated due to the unresolved financing issue and the delay in the construction of the facility for more than 4 years. This led to a significant violation of the terms of the agreement, as well as the loss of relevance of data on the cost of construction and payback of the project.

According to the project of construction and operation of a complex of kindergartens in the city of Karaganda, the concessionaire - the Turkish company "7 piramit" - could not realize in connection with the problems of attracting financing. In addition, since the adoption of the Law of the Republic of Kazakhstan "On Concessions", attempts have been made to implement other concession projects primarily in the road sector (Table 1).

Table 1
Pilot concession projects in the road industry

№	Name of the project	Cost	Capacity
1	Reconstruction of the highway "Almaty-Khorgos"	385 700 million KZT	301 km, 6-lane road of the 1st category.
2	Reconstruction of the highway "Almaty-Kapshagai"	140 900 million KZT	104 km, 6- and 4-lane road of the 1st category
3	Reconstruction of the highway "Astana-Karaganda"	262 000 million KZT	238 km, 4-lane road of the 1st category
4	Construction of the highway "Big Almaty Ring Road"	238 239 million KZT	65 km, 6-lane road of the 1st category

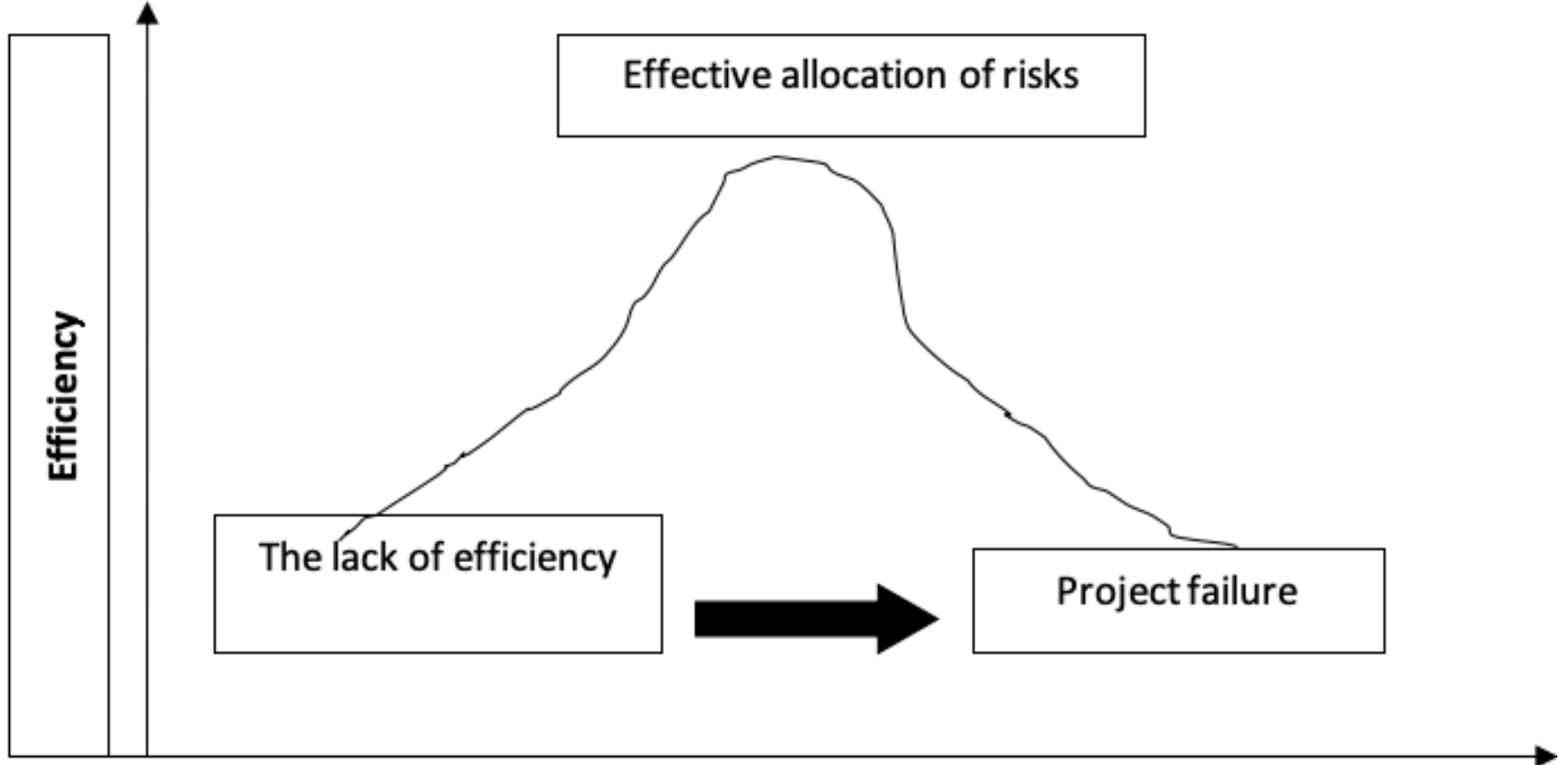
However, for various reasons, concession agreements have not been signed for these projects. For example, during the period from 2009 to 2012, a number of competitions were held on the concession projects "Almaty-Kapshagai" and "Astana-Karaganda" to identify concessionaires, which for various reasons did not take place.

In addition, one of the main reasons to note is the high capital intensity of projects, the long duration, the low traffic intensity and high operating costs for road maintenance in Kazakhstan.

As practice shows, the majority of failures in the implementation of PPP projects are due to the absence of special arrangements for the allocation of possible risks between the parties and the desire of each of the participating parties to shift responsibility for risks to each other.

The scientific literature on project financing and PPP often refers to the approach to the so-called effective risk allocation, which consists in placing each risk on the side that is better able to manage this risk (see Figure 1).

Figure 1
Effective allocation of risks



However, this statement is only a rough simplification, since the risk must also be borne by the party that is interested in actively managing it; has or will have the resources necessary to address risk issues as they arise in order to reduce their impact on the project; has access to the necessary technologies and resources for risk management when it is manifested; can manage risk at the lowest cost and can provide an optimal price-quality ratio.

Practice shows that the state seeks to shift all risks (in the form of obligations prescribed in the contract) to a private partner, which contradicts the concept of economic efficiency. This statement confirms the domestic experience in the implementation of PPP pilot projects, in which the main problems in their implementation are related to the imbalance in the distribution of risks towards the concessionaire.

Therefore, the achievement of a low level of risk is possible only through the implementation of two basic principles of risk sharing.

First, the number of risks assumed by the partner must be in proportion to the benefits that he can derive from the project.

Secondly, the risks must be transferred to the party that can cover them with the least cost. At the same time, the state should also assume a certain share of responsibility for possible risks and facilitate their mitigation for the private sector on the basis of mutual support (2015).

Considering that the parties involved pursue different interests and goals, effective distribution of risks is an important part of development process of the project documentation and an essential condition for the success of the PPP project.

6. Conclusion

For this moment, the issues of modernization of transport, energy and social infrastructure are relevant both at the national and regional levels. The need to increase energy efficiency, restore and develop the road network, housing and utilities is constantly growing. At the regional level, budgetary constraints become a barrier to the modernization of threadbare infrastructure.

Deficiencies of regional budgets, reduction of transfers from the republican budget directed to the implementation of investment projects in the regions of Kazakhstan, the need to modernize obsolete facilities lead to the search for extrabudgetary funding, which in world practice is implemented on the basis of PPP mechanisms. The implementation of infrastructure projects using PPP mechanisms is able to provide each region with economic growth, attracting investments, creating new jobs. In turn, the developed infrastructure

significantly increases the investment attractiveness of the region, creates a basis for the implementation of business projects and, finally, a steady increase in the incomes of the population and regional budgets.

Undoubtedly, certain prerequisites and specific actions of akimats of oblasts are being observed for organizing a system of interaction at the regional level for the implementation of priority investment projects, which includes both the organization of interaction of government, business and public organizations, the creation of regional competence centers on PPP issues, and integration financial resources of the republican and regional budgets, funds of national companies and development institutions, private investors' funds, attract borrowed resources.

PPP is an approach to the delivery of infrastructure services that is fundamentally different from traditional public procurement. Projects using the PPP mechanism should be strategic priority projects that are part of the sectoral strategy and economic policy. The state plays a key role in ensuring the proper implementation of the project, monitoring the activities of private investors and promptly responding to any emerging changes or conflicts in order to avoid potential disputes. Compared to the countries where PPP has rich experience and is steadily used by the state as an alternative to the implementation of infrastructure projects, Kazakhstan's experience is not yet great enough. Simultaneously, the high demand for the implementation of infrastructure projects contributes to the adoption of the policy of creating the necessary legislative and investment conditions for the development of PPPs in the Republic of Kazakhstan.

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