

Review Paper

Problems of Public-private Partnership Development in Kazakhstan

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ABSTRACT

This paper analyses the development of public-private partnership in Kazakhstan, where for many years the authorities have been trying to establish relations with private entrepreneurs. Thus, the purpose of the study is to characterise the current state of public-private partnership in Kazakhstan, to describe the trends of its development and existing problems, based on international experience. The main method in writing the study is the analysis, based on a significant amount of processed statistical and theoretical data. The study found that the development of public-private partnership in the Republic of Kazakhstan is at the initial level. Nevertheless, there are positive trends in the introduction of new projects and their effectiveness. The most urgent problems for Kazakhstan were identified: the low level of qualified personnel involved in the development of public-private partnership in the country; too extensive regulatory framework for regulating the public-private partnership process and frequent lack of funding for projects already started. Based on observations and the experience of different countries, councils were formed to solve the problems described in the paper, which should help in the development of a subsequent policy for the development of public-private partnership. The paper gives an opportunity to take a different look at the current state of public-private partnership in Kazakhstan, and also brings new knowledge to improve the principles of public-private partnership development in developing countries.

HIGHLIGHTS

- The article aims to characterize the current state of public-private partnership in Kazakhstan, describe its development trends and existing problems based on international experience, highlighting the low level of qualified personnel, extensive regulatory framework, and funding issues, while providing recommendations for addressing these challenges and improving the principles of public-private partnership development.

Keywords: Developing Countries, Economy of Kazakhstan, Entrepreneurship, Political Economy, Regulatory Legislation

The modern development strategy of the Republic of Kazakhstan is based on the diversification of the economy and reduction of its dependence on energy exports, increasing the level of innovation among enterprises, trade liberalisation, and reducing the role of the state in the economy (Figus and Shaikin, 2019; Commander and Prieskienyte, 2021). Due to this, it aims to increase the investment attractiveness to increase the pace of its own economic development. All this makes the consideration of the development of public-private partnership especially relevant.

For writing the paper, the studies that analysed the development of public-private partnership based on the experience of other countries became important. Thus, S. Strasser *et al.* (2021) reviewed data on the impact of public-private partnership (PPP) on economic development in the context

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of the COVID-19 crisis and other modern shocks. In turn, N. Carbonara and R. Pellegrino (2018) conducted more specialised study, investigating the role of PPP for innovative development. K. N. Kartashov (2022) evaluated the statistical indicators of PPP in Kazakhstan, while forming conclusions about the development of this concept and pointing out shortcomings in the context of monitoring and regulation of public-private partnerships.

In addition, studies on the current state of PPP in the Republic of Kazakhstan became important. The specific features of public-private partnership in Kazakhstan were studied by A. Taubayev *et al.* (2018). The researchers came to the conclusion that there are systematic problems in the Republic of Kazakhstan that do not allow for the qualitative development of PPP. Nevertheless, researchers do not offer effective methods to solve them. H. Yizhong *et al.* (2019), as part of their own research, investigated methods for achieving sustainable development in Central Asian countries, including Kazakhstan. They describe what the authorities of the Republic of Kazakhstan have managed to achieve in this area of achievement and what problems they have encountered. Nevertheless, the paper lacks a detailed description of the methods of solving the difficulties faced by the country.

Thus, the purpose of the study is to show what problems exist in the modern development of PPP in Kazakhstan, what has been achieved, what are the prospects for development, and what can be done to improve the situation. In addition, the authors set the task of analysing international experience in the development of public-private partnership for its application in the realities of the Republic of Kazakhstan and other countries.

MATERIALS AND METHODS

The authors took a significant part of the information for writing the paper in scientific publications, since they allowed, in essence, evaluating the Western practice of establishing relations between the state and private enterprises. In addition, separate laws were used in the paper, which described the regulatory framework on public-private partnership in the Republic of Kazakhstan, for example, the Law of the Republic of Kazakhstan No. 379-V “On Public-Private Partnership” (2015). Statistical

data were used to analyse the effectiveness of the work of the Kazakh authorities in the field of PPP development.

The paper uses the indicator introduced by the authors, which is designated as E (Effectiveness), which implies the effectiveness of using the costs of developing innovative projects. The formula for finding this indicator can be denoted as follows:

$$E = \frac{V}{C}, \quad \dots(1)$$

where: V – volume of output of innovative goods and services; C – cost of producing innovative products of goods and services; E – effectiveness coefficient of the use of the funds spent. Thus, the higher the E indicator is, the more effective is the activity of innovative enterprises, and hence, the state policy in the field of innovative technologies.

The study consisted of several main stages. At the first stage, the main features of the development of public-private partnership in Kazakhstan were described, statistical data on the current state of PPP in the country were presented, the features of the functioning of the regulatory framework in the industry were described, and the experience of some other countries in the development of public-private partnerships was analysed. At the second stage, a more detailed examination of the results obtained was carried out, considering the developments of other researchers, based on their experience; the main tips for the subsequent effective development of public-private partnerships were formed.

RESULTS

First, it is necessary to evaluate the available data on the interaction of the state and the private sector in Kazakhstan. Information on the current number of PPP projects can be obtained from the official website of the Kazakhstan Public-Private Partnership Center (2022). So the number of PPP projects as of 01.07.2022 amounted to 1.361 with a value of KZT (tenge) 1353.7 billion. The number of PPP projects increase in 2020 and 2021, but in 2022 the number of projects decreased significantly. The main areas of activity in which PPP mechanisms have been applied over the past three years are healthcare and education.

However, since 2019, the government of Kazakhstan has announced a new policy in which the quality of projects is a priority, which is why reducing the number of PPP projects seems logical. Notably, in addition to the new policy, the Centre for PPP put forward the idea of using the concept of “PPP for the benefit of people”. The main goal of this approach is to link PPP activities with public needs and attract domestic investors to the provision of public services and cultural events, that is, to support the interests of the local population (Rivadeneira and Garin, 2019).

The study briefly considers the features of the regulatory framework governing PPP. Its creation was first undertaken in 2006, when the Law of the Republic of Kazakhstan No. 167-III “On Concessions” (2006) was adopted. Notably, of all the projects related to this Law, as of 2020, only 1 was successfully working: concessions were not popular due to excessive regulation by the legislation and long bureaucratic processes. Later the Law of the Republic of Kazakhstan No. 379-V “On Public-Private Partnership” (2015) was adopted, which was aimed at creating an extensive arsenal of measures of state support for investors of international and local investors. It can be considered the main legislative act that ensures the norms of cooperation between the state and private entrepreneurship.

The study considers the experience of other countries in the development of PPP. The UK’s experience can be exemplified by the “Private Finance Initiative” (PFI) program, active from 1992 to 2021. Its goal was to enhance public spending efficiency through private management (Barlow *et al.* 2010). While the program facilitated various successful projects, such as a waste recycling plant and a nursing home, it faced criticism for its substantial cost and budget implications, leading to its closure in 2021.

In France, a distinct approach involved the establishment of “mixed economy communities” with high state ownership, attracting private investment. The Public-Private Partnership Support Mission (PPPSM) was created to support and oversee these projects, approving their implementation and ensuring proper monitoring (Fabre and Straub, 2021). This policy demonstrated greater effectiveness compared to the UK model due to thorough project assessment and stricter control measures.

In Germany, the development of public-private partnerships (PPP) has been slower compared to other countries due to the country’s unique economic structure and the significant role of the state. However, Germany has established a comprehensive PPP support structure through decentralised entities serving specific functions. These include the project segment (supporting project preparation and organisation using PPP mechanisms), the consulting segment (providing consultation services to federal and local authorities), and the scientific and methodological segment (developing methodological recommendations for PPP models and project evaluation) (Sukhikh *et al.* 2013).

International experience has shown that the success or failure of PPP projects is often determined by errors in project structuring and management, underscoring the importance of quality management and personnel training on the part of the state (Belitskaya, 2010). The French model of PPP support, which emphasizes enterprise auditing and assessment, has been particularly effective. Efficient management is directly linked to the successful completion of projects, as well-trained personnel can accurately assess project benefits, risks, and economic viability. The design of the PPP support system also plays a crucial role. PPP serves as a promising tool for enhancing the investment climate in a country. The state has various means to influence investment projects, such as direct financing with designated funding limits, indirect financing through interest rate reductions or tax incentives, and providing guarantees to investors (Tuomi, 2012; Nianko *et al.* 2021). The competent utilization of these options in developing countries can enhance the efficiency of investment processes and ultimately improve the overall economic well-being. Kazakhstan has a positive balance of portfolio and negative direct investments in the country. This indicates that although the country’s investment policy is probably successful, it has its flaws. In turn, the S&P Global Ratings (2022) agency in its annual report on the credit rating of countries says about the improvement of the country’s investment climate, with the exception of 2020, when the country’s rating decreased from BBB to BBB-. Thus, although there is a positive trend in this area, which allows attracting more investments

in local enterprises, investors still require additional guarantees from the state to reduce their own risks. The development of PPP in Kazakhstan is also important in the field of innovation. Data of the Information-analytical system of the Bureau of National statistics of the Agency for strategic planning and reforms of the Republic of Kazakhstan “Taldau” (2022) shows that over time, the amount of costs for implementing innovations in absolute terms increases, and the volume of output of innovative products of goods and services decreases. However, considering inflation, both of these indicators show a negative trend in one volume or another. A decrease in the total volume of innovative products is certainly a negative indicator, but with the amount of costs for the production of innovative products, it can turn out to be both a positive and a negative sign. In order to assess this at least indirectly, it is proposed to introduce the indicator E. Thus, the value of this indicator has increased by about 2 times in comparison with 2017. This indicator reached the highest values in 2019-2020, which suggests that enterprises in the innovation sector were able to learn how to use their funds much more efficiently, which, in turn, is a positive indicator of development.

The legislation of the Republic of Kazakhstan is too voluminous and thus hinders the development of public-private partnership. In addition, it is worth mentioning the lack of legal regulation of the PPP process, the lack of incentives to increase the number of joint projects and their quality, the presence of bureaucratic and administrative barriers, and a catastrophic shortage of personnel (Legostaeva and Kusainova, 2015).

The Kazakhstan Public-Private Partnership Center (2022) serves as the governing body for the efficiency and development of PPPs in Kazakhstan since its establishment in 2008. However, international assessments indicate that the country is currently in the initial stages of PPP development, with limited realization of its potential (Domalatrov *et al.* 2018). This suggests that the efficiency of the Kazakhstan Public-Private Partnership Center may be relatively low. Various challenges confront the institution, including ineffective project management, inadequate state support, and the absence of clear and transparent financing models and partnership rules (Yeshimova and Nurpeysov,

2017). The Development Bank of Kazakhstan plays a significant role in financing infrastructure projects, including PPPs, while commercial banks may also have an interest in such funding (Rivadeneira and Garin, 2019). Additionally, obtaining reliable statistical information about PPP development in Kazakhstan poses a separate challenge as different sources may provide divergent data (Kartashov, 2022).

The financing that entrepreneurs receive for the implementation of joint PPP projects can be obtained from both the state and private individuals. Most often, they are banks, but they do not often have the desire to lend to such projects (especially if it concerns the construction of a school and kindergarten). There are several reasons for this. Firstly, at the investment phase, the bank is not protected from risks in any way, since they have the right to participate in the project only after the conclusion of the contract, and not at the planning stage. Secondly, the repayment formula most often suggests that this period is too long – about 8 years. Thus, to increase the amount of funding received, it is necessary to change the principles of participation of private structures in the design and development of projects, and reduce the payback period to 5 years (Kosenko, 2022).

As per the recommendations of the United Nations (UN) on effective PPP management, the regulatory framework should be flexible rather than restrictive, allowing parties to focus on achieving results within a broad framework for project formation and implementation (United Nations Economic Commission for Europe, 2008). Therefore, it is crucial for the development of PPP in Kazakhstan to review and enhance the existing legislative framework.

DISCUSSION

Researchers note that PPP plays a huge role in achieving the country's development goals. Thus, N. Carbonara and R. Pellegrino (2018) in their study consider how important the interaction of the state and entrepreneurs is for the innovative development of the state and its economy. Indeed, government support plays an important role for innovative enterprises, especially small and medium-sized ones, which may have difficulties finding funds

for research and development: if in the United States and other highly developed countries this happens at the expense of venture investors, then in countries with a lower level of development there is nothing left but to support the level of innovation of the country due to government intervention. As indicated by J. Fagerberg and M. Srholec (2010), the role of innovation in developing countries is associated with a high level of added value in the products created by the sector. Innovative development has a positive impact on the economic state of the country in other ways, creating jobs, diversifying the economy, etc.

Another role of PPP is to increase the efficiency of using budget funds for the development of public projects: thus, by transferring roads, hospitals or schools to private hands, the risk of corruption, the timing of the construction of the project and, probably, even its cost is significantly reduced. In addition, such joint work will be useful for achieving the Sustainable Development Goals (Strasser *et al.* 2021; Fell and Mattsson, 2021). According to S. R. Smyth *et al.* (2021), on a global scale, competent interaction between business and states will help overcome even food problems in some regions of the world.

As for the investment climate, researchers suggest that in the future, with the active participation of the state to provide additional guarantees to investors, investment inflows will increase (United States Agency for International Development, 2008). This is due to the significant potential of the country not only in the extractive industries, but also in other areas, for example, in the aspect of innovation discussed above. Nevertheless, given the current crisis in the world created by the pandemic and political instability in the world, Kazakhstan's investment attractiveness will remain at a fairly low level, which further increases the role of the state as a guarantor for attracting international investment.

The main disadvantage of the created system is its volume, which, although it may be useful in some situations, most often reduces its ability to adapt to the new realities of the functioning of the world and national economy. According to D.A. Yeshimova and A.K. Kapisheva (2015), the transfer of a detailed description of PPP processes to the subordinate level would lead to an increase in the "flexibility" of legislation, would allow more quickly resolve

emerging issues and problems, and reduce the administrative burden on interested state bodies. The probable effectiveness of this approach is also evidenced by international experience. Thus, in France, there is no single law regulating all forms of public-private partnership, and each of its forms has its own laws and regulations (Gladov *et al.* 2008). Thus, the simplification of the regulatory framework would probably be able to increase the efficiency of PPP in Kazakhstan.

It is important to increase the efficiency of the selection of potential projects that deserve funding. As follows from the study, it is noticeable that the authorities of Kazakhstan are trying to find new approaches and methods to PPP for maximum efficiency. Experts from the United States Agency for International Development also agree with these suggestions. They point to the role of involving international organisations in this process (United States Agency for International Development, 2008). The experience of Kazakhstan in the field of PPP work is also analysed by K.M. Tireuov *et al.* (2022). Their analysis is aimed primarily at the development of public-private partnership in the agricultural sector of the country, the work of which they note as promising for the subsequent development of the industry. In addition, researchers pay special attention to the National project for the development of the agro-industrial complex in 2021-2025: they believe that, based on the principles described in it, it is possible to create a high-quality regulatory framework for PPP that identifies existing barriers and risks and suggests ways to minimise them. In addition, they believe that with the help of this project, it is possible to significantly increase labour productivity, increase the export of the agro-industrial complex and provide income to more than 1 million people.

CONCLUSION

The paper examined the recent problems faced by PPP development in Kazakhstan. Currently, the country is in the initial stages of implementing the concept of "PPP for the benefit of people," which has shown mixed results. Despite these challenges, this approach has the potential to be effective in the long term. Kazakhstan encounters several significant issues in PPP development, as identified by the authors. Firstly, there are shortcomings in

the regulatory framework, characterized by its complexity and excessive volume. Secondly, there is a need to improve the quality and performance of civil service personnel involved in PPP projects. Thirdly, some government officials responsible for partnerships exhibit dishonest behavior. Lastly, there is limited access to affordable project financing and an inefficient monitoring model for PPP project implementation.

While these problems indicate significant inefficiencies in Kazakhstan's PPP landscape, there are proposed solutions. It is crucial to actively refine the regulatory framework to simplify its complexity. Additionally, raising the requirements for government employees involved in PPP projects, including project selection and partnership management, is necessary. Modifying the principles of attracting investments from individuals to make financing conditions more appealing to investors is also recommended. Promising areas for future research include studying international PPP experiences and adapting them to Kazakhstan's context, analyzing specific project implementations, and identifying areas of inefficiency.

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