

FINANCIAL FACTORS OF FORMING A FAVORABLE INVESTMENT CLIMATE IN THE REPUBLIC OF KAZAKHSTAN

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Abstract: An important place in investment processes is the identification of real factors that contribute to or hinder their implementation. The course of investment processes occurs under the influence of a combination of multidirectional and heterogeneous factors and conditions. Moreover, in addition to general approaches and factors determining the investment climate, there are also specific features of the territory, industry, and types of economic activity.

Keywords: Investment climate, investment potential, economic growth, financial factors, investment policy.

1 Introduction

Currently, the impact of individual factors of investment processes has changed, and unregulated external and internal transformation factors have appeared including the impact of globalization. This necessitates the government agencies' influence on rapidly changing factors of investment activity, and the formation of the country's investment potential.

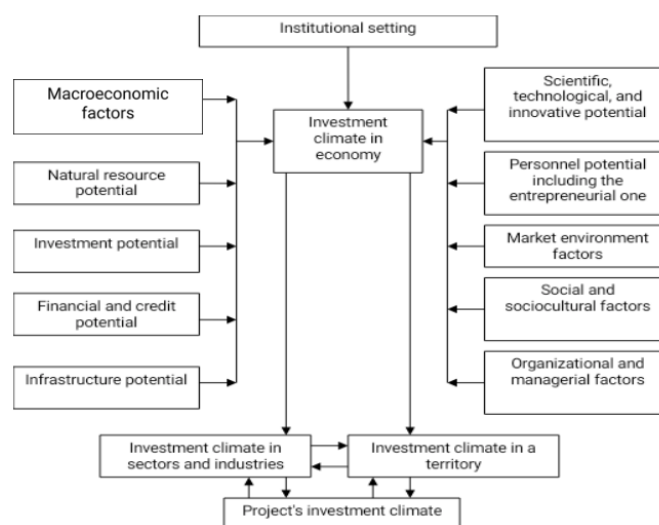


Figure 1. Factors which Impact on the Investment Climate

Source: V.A. Samarina. (1)

Given the economic situation, it is necessary to focus primarily on the mobilization model of increasing investment potential, not excluding more liberal financial and tax measures to

stimulate investment. The main directions of state policy in the field of managing the country's investment potential are presented in Figure 2.

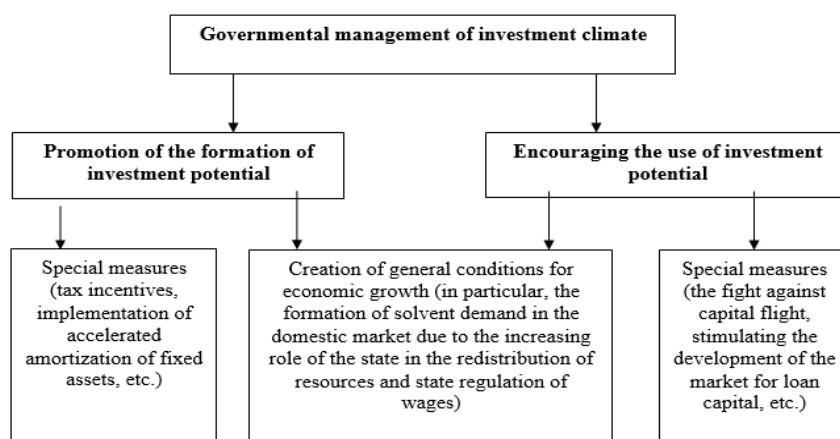


Figure 2. Principal Governmental Policies regarding Investment Potential Management of the Country

Source: V.A. Samarina. (1)

In the context of the modern economy of Kazakhstan, investments are the most important means of structural transformation of social and production potential. Since in the system of relations of expanded reproduction, investments fulfill the most important structure-forming function, the future structure of the economy depends on the fact in what sectors of the national economy funds are invested. Over a long period, the economy has developed rapidly, which contributed to the successful development of the investment climate of the Republic of Kazakhstan. A favorable investment climate in the country is a criterion for the maturity of market reforms, the confidence of the world community in the stability of property rights, and the situation in the country as a whole. (2)

Since 2005, the investment component of the state budget has been increasing, which is reflected as a change in the share of state budget expenditures on development programs. In the medium term, this trend will continue, and the share of the development budget will be in the range of 34.7 - 36% of total spending. (3-5)

The formation of the budget investment policy in 2020 will be carried out as part of the Medium-term plan and in accordance with the List of priority budgetary investment projects (programs) approved for the medium-term period. (6)

One of the instruments of state influence on the development of strategic sectors of the economy is the acquisition of financial assets, i.e. the acquisition of ownership interests and blocks of shares of juridical persons.

In the medium term, state policy in the field of state asset management will be aimed at regulating the development of strategically important sectors of the economy including by restoring and strengthening the system of control over the targeted and efficient use of state property and optimizing the structure of state property.

2 Materials and Methods

The acquisition of financial assets is one of the tools to establish proper state control over strategic sectors of the economy, aimed at ensuring the economic security of the country, as well as at their effective development. (7-8)

In 2007 - 2008, an increase in the authorized capital of state holdings and companies was aimed at forming their financial base for the further implementation of the tasks of modernization and diversification of the economy, increasing the number of science-intensive and innovative industries with high added value, and developing effective infrastructure. (9)

The increase in the authorized capital of KazAgro National Holding JSC is aimed at implementing a number of projects for

- The creation of feedlots with a developed export infrastructure;
- The construction of plants for the production of biodiesel and bioethanol;
- The construction of a wholesale marketplace for agricultural products in Astana, etc.

The increase in the authorized capital of Samgau National Scientific and Technological Holding JSC contributes to

- The increasing financing of projects related to priority, risky and proactive research and development with a comprehensive examination;
- The direction of additional funds for the formation and development of electronic services of government agencies within the framework of the State program for the formation of "electronic government".

The share of expenses on the acquisition of financial assets in the total expenditures of the national budget for development programs was 20.3% in 2008, 19.2% in 2009, and 18% in 2010. (10-11)

The following measures will contribute to improving the investment climate:

- The formation of a clearly defined state concept and, on its basis, the implementation mechanism. In order to stimulate the investment process, the state must protect foreign and domestic investors from risks;

- The creation of a modern industry infrastructure;
- Subsidizing interest rates on loans for industrial enterprises participating in the industry development program;
- The abolition of duties on the import of equipment and raw materials for enterprises of the real sector;
- The formation of a competitive business and technical infrastructure;
- The implementation of advanced technologies and effective innovative development of all industrial sub-sectors;
- The preferential treatment for banks investing in the development of manufacturing sector by providing for a system of state guarantees, investment insurance and the settlement of investment disputes.

A favorable investment climate can reduce uncertainty and risk; stimulate entrepreneurs to invest in the national economy, thereby contributing to the strengthening of economic potential. In order to ensure sustainable economic growth, an active

investment, industrial, structural, scientific, and technical policy is necessary.

In order to organize the investment and financial market, it is necessary to

- Develop domestic investment opportunities;
- Reduce the systemic and specific risk of investments;
- Increase the efficiency of the stock market;
- Modernize the risk management system for the implementation of investment policies;
- Increase government support for updating industrial infrastructure facilities;

- Develop national stock market institutions;
- Increase the efficiency of the economy as a whole, remove the property and structural imbalance in the development of regions and industries;
- Approve new procedures for the application of investment policy instruments, which reduce the analysis time of projects and increase the collegiality of their consideration.

The process of managing the formation of a favorable investment climate should be systematic and consistent (Figure 3).

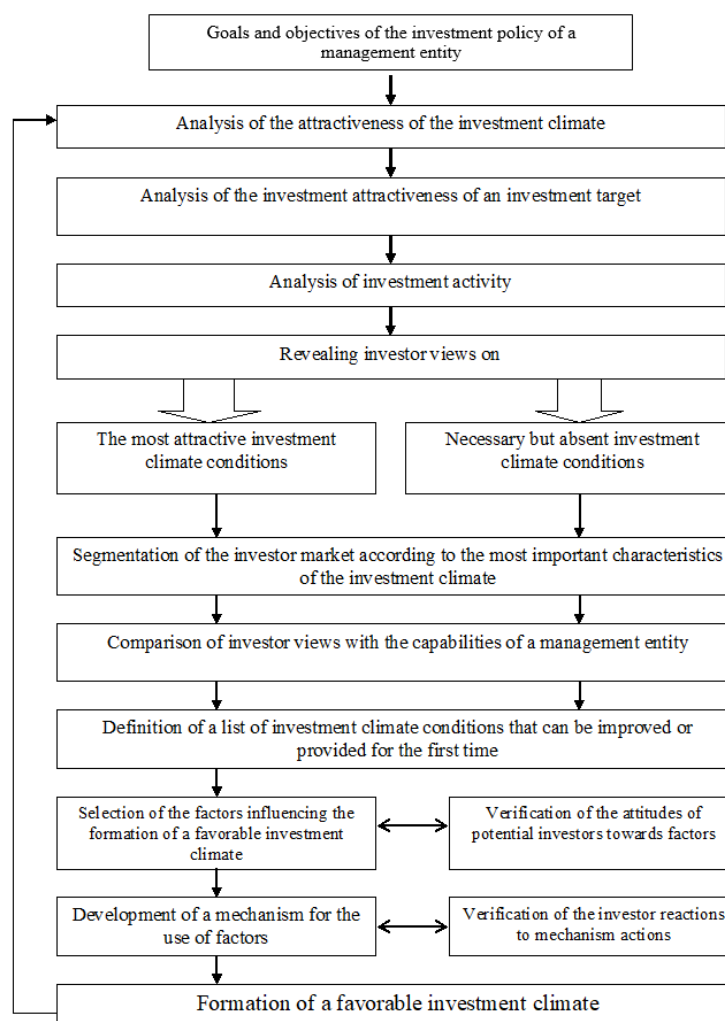


Figure 3. Stages of the Monitoring Process for a Favorable Investment Climate
Source: V.A. Samarina. (1)

If we analyze the factors of economic growth, it is obvious that the critical ones are determined by the favorable conjuncture of the commodity market. Economic growth in Kazakhstan is mainly associated with the rapid development of the commodity sector. It was oil exports that provided the bulk of foreign exchange earnings and contributed to the development of the entire industrial potential of the country. The government has focused investment activities on this achievement. (12-13)

3 Results and Discussion

Therefore, today in the Republic of Kazakhstan there is a certain uneven distribution of investments in the territorial, regional and sectoral context. Despite the development, the modern features

of the oil-producing regions have an insufficient socio-economic orientation of territorial development, primarily in terms of how they affect the level and quality of life of the population. The high industrial potential is combined with low indicators of living standards and the underdeveloped social sector.

In order to solve these problems, the Government has set a course for the development of the manufacturing sector of the economy. A number of measures have been outlined in this direction to develop private business, create “growth poles” and support small businesses.

If earlier the main task for Kazakhstan was to stabilize the economy through the targeted attraction of investments in the oil

and gas and mining sectors of the economy, today the priorities of economic policy have changed.

Today, Kazakhstan is still in the initial stages of accumulating competitiveness potential when the latter is ensured by basic factors (natural resources and cheap labor). (14) But now the objective need for clusters arises at other higher levels (modern infrastructure, highly qualified and educated personnel, scientific potential, and innovations), so there is a need to find ways to strengthen these very factors. Recently, a search has begun in the country for possible "points" for the appearance of clusters. A silicon cluster and a cotton cluster in Southern Kazakhstan have been outlined; an information technology park is being created in Alatau town near Almaty.

In order to develop the transport and logistics cluster, a highway should be built across Kazakhstan to connect Western Europe with Western China. It is also necessary to continue the implementation of the program to create a medical cluster in Astana on the basis of the newly implemented world-class national scientific innovative medical centers.

Today, the city of Almaty has the most favorable investment climate, which, despite the loss of its capital status, remains the undisputed leader in this potential. The city has the most powerful labor, consumer, and infrastructure potential, and is the financial capital of Kazakhstan. However, the excellent financial indicators of Almaty is largely based on the fact that the central offices and representative offices of the largest companies are located here. Real financial resources are invested in the regions where production is located. It is necessary to develop the integration of regional financial markets around the financial center in Almaty, to create commodity markets in the region based on modern technologies of international trade. In addition, the two most industrially developed regions have the investment attractiveness. These are Karaganda and East Kazakhstan regions, which are resource-providing and the most industrially developed. However, despite the attractiveness of these areas, the main disadvantage is the state of the environment, which needs to be improved. The Kostanay region, which has similar investment potential, has a high resource and raw material potential. It produces 100% of Kazakhstan's bauxite and 83% of iron ore, a great potential for the development of mechanical engineering.

Today, the issue of creating and developing a network of socio-entrepreneurial corporations (SEC) is particularly pressing. This activity involves the implementation of investment and innovation projects in the agrarian, transport, logistics and other sectors, taking into account the already established Saryarka SEC. Now the Government transfers the necessary state property and assets to the SEC and resolves issues of corporate development with the participation of entrepreneurs. Now the large business is concentrated mainly in large cities (Astana and Almaty). Therefore, these cities are most prosperous because large companies pay taxes to the local budget, create jobs, attract many small companies as contractors, and their highly paid employees spend money in these cities and again create opportunities for small businesses. Now large business represented by the SEC needs to be created in the regions so that the standard of living and development in different cities is leveled. The government should prepare specific proposals for the placement of industrial enterprises and industrial zones in these centers, taking into account plans for the development of industry, trade and high technology.

There is a direct link between the growth of investment resources and trade competitiveness. As Kazakhstan opens to the global economy, restructuring, rationalization and modernization of the existing industrial base must be constantly carried out so that Kazakh enterprises can, on the one hand, import and, on the other hand, expand further into export markets. If Kazakhstan wants to increase its trade competitiveness, then new investments are needed in projects with an effective extent and technology.

Changes in investment volume indicators show a clear improvement in the macroeconomic situation, increased business activity and increased confidence in Kazakhstan on the part of foreign and domestic investors. (15) The establishment of the Kazyna Fund played a role in improving the situation with the implementation of breakthrough investment projects. Kazyna JSC establishes a single transparent procedure for considering investment and innovation projects and makes financial decisions with the participation of state bodies and business associations. With its help, it is necessary to form a flexible and effective system for managing financial flows, which will allow directing resources to the most promising types of activities.

There is a very wide range of problems but the most important of them should be resolved as soon as possible. An absolute priority is the final streamlining of current tax legislation. Foreign companies do not attach particular importance to tax benefits when making decisions on investments and choosing a place for investment projects, as investors do not need privileged conditions and lower tax rates than international ones, but a reasonable, transparent and predictable tax system.

One of the top priorities is to streamline the work of customs authorities, in which, as many investors believe, arbitrariness and corruption reign. A necessary solution is a modernization of automated control systems in customs bodies, which contributes to Kazakhstan reaching the level of the advanced countries of the world and slowing down the development of the shadow economy.

The second wave of the financial crisis significantly slowed down the global economy and, as a result, reduced global demand for goods and services. This required the adoption of new additional measures to stabilize and improve the domestic economy. In this regard, in November 2008, the Government, the National Bank, and the Agency of the Republic of Kazakhstan on regulation and supervision of the financial market and financial organizations adopted a plan of joint actions for the stabilization of the economy and financial system for 2009-2010 aimed at mitigating the negative effects of the global crisis on the socio-economic situation in Kazakhstan and providing the necessary basis for future quality economic growth. (11)

In October 2008, President of the Republic of Kazakhstan N. Nazarbayev signed a decree on the merger of the two largest funds, the Kazyna Sustainable Development Fund and the Samruk Kazakhstan State Asset Management Holding, into the Samruk-Kazyna National Welfare Fund. State-owned blocks of shares of Kazatomprom, ENRC, Kazakhmys, Kazakhstan Mortgage Company, Kazakhstan Mortgage Guarantee Fund, and Zhilstroybank will have to be transferred to the new holding. In order for the new holding to actively carry out work in the regions, 7 social and entrepreneurial corporations were transferred to it.

It is necessary to create conditions as soon as possible to stimulate the influx of investments for the development of promising areas of the economy of the Republic of Kazakhstan. The use of promising areas for the development of the investment climate in the Republic of Kazakhstan will help us solve current economic problems and will accelerate the creation of qualitatively new conditions for the development of a favorable investment climate in the country.

Recently, corporate raids have become an urgent problem. Corporate raids are a chain of operations in order to gain access to the management or disposal of an enterprise's property by initiating a business conflict, usually involving forces of public order. Corporate raids significantly reduce investment attractiveness and harm the country's economy, hinder the development of medium-sized businesses and blocks the development of competition. Recent economic events show that this problem is pressing.

It should be noted that the problem of corporate raids in Kazakhstan has been little studied and in-depth analytical studies

have not been conducted. For example, the existing legislative acts of the Republic of Kazakhstan did not define corporate raids. Therefore, in the criminal law sense, corporate raids in Kazakhstan are absent and cannot be qualified as an independent type of crime. Measures aimed at suppressing and preventing corporate raids should be comprehensive and address issues of responsibility, both of the private sector and the state.

Investment experts agree that the costs of protecting trade usually outweigh trade benefits in terms of investment growth. While trade protection plays the role of an incentive for domestic-oriented investors, fiscal incentives are mainly aimed at export-oriented investors. The effect of protection on investment in a country depends on the type of investment. The protection stimulates supplies to domestic markets but reduces incentives for exports. Therefore, it favors investment seeking the domestic market but prevents investment in preparing an export platform. However, the impact of protection on investment is only part of the picture. Protection costs can be divided into static (resource allocation) and dynamic (productivity, investment, and growth effects). In order to assess the impact of lowering trade barriers on the incentive to invest in projects focused on the domestic market compared with export-oriented projects, it will be useful to re-examine the structure of the incentive system in Kazakhstan.

A prerequisite for a favorable investment climate is the availability of skilled labor. Quality of work is an important attractive factor. For this indicator, Kazakhstan still has a relative advantage. The workforce is not only professional but also considered easy to learn. However, there are concerns about the quality of the workforce in Kazakhstan in the future; in connection with this, there is a need to develop a training system in the country in accordance with international standards for the quality of training of specialists.

4 Conclusion

In order for Kazakhstani enterprises to be able to effectively operate both now and in the WTO membership regime, it is necessary to create equal conditions for domestic and foreign manufacturers, i.e. the conditions for the availability of financial and other types of resources and fair competition. (16-17) For this, first of all, it is necessary to carry out a number of targeted measures, which include

- Reduction of bureaucratic barriers, the fight against corruption and the creation of an equally favorable and competitive environment for enterprises and companies in order to stimulate innovation and entrepreneurship;
- Ensuring greater openness to foreign trade and investment in order to increase competition and increase the competitiveness of enterprises;
- Improving corporate governance of enterprises in order to improve their access to long-term loans and capital markets;
- Attracting private investment in infrastructure sectors in order to overcome problems in this sector and narrow the gap between regions in the quality levels of infrastructure services.

It is with the implementation of the above measures that it is necessary to begin at this stage the formation of a favorable investment climate in the Republic of Kazakhstan.

The investment climate determines the degree of attractiveness of a country for investment. The formation of a favorable investment climate is influenced by many factors, the main of which are political, economic and social. An important factor in improving the investment climate are legal mechanisms. The current legislation governing investment activities should create a solid legal basis for investment. It should be adequate to the level of economic reforms in the country. In addition, the legislative framework should contain mechanisms for protecting investors. World practice has developed various forms of legal cooperation between the host country and foreign investors.

Provisions and conventions on the avoidance of double taxation facilitate the creation of a favorable investment climate for the further attraction of foreign loans and borrowings. Therefore, Kazakhstan has signed relevant documents with France, Germany, Turkey, Switzerland, Canada, and other countries.

At the moment, huge efforts are being directed by the government of the country to create conditions that would consolidate the image of Kazakhstan as an attractive country for investment, with minimal risk for its promotion.

In the modern environment, for investors, for objective reasons, it is sometimes difficult to accumulate financial resources in the volumes necessary for the technical reconstruction of industry. The success of the planned reforms will largely depend on the creation of a mechanism of economic interest for investment participants. For their practical implementation, in our opinion, the following should be provided:

- A significant reduction in the tax burden on investors carrying out their activities in strategic projects, and the implementation of an accelerated amortization and revaluation of fixed assets for them;

- Expanding the practice of state guarantee and investment insurance (based on the state's available and additionally liquid assets involved in the economy). This would help to attract domestic and foreign financial and credit institutions to the real sector of the economy;
- The implementation, together with private capital, of investment programs for restructuring depressed sectors of the economy and the creation of favorable conditions for attracting domestic and foreign capital into these sectors;
- Pursuing a reasonable protectionist policy in articulation with the stages and programs of investment development of industries (mainly process manufacturing);
- The creation of an effective regulatory framework, organizational, and economic conditions for the activation of investment processes);
- The implementation of continuous monitoring of the factors of changes in investment conditions and their prompt adjustment by state regulation.

A clear action program is needed to attract foreign investment, and on the basis of this program it is necessary to create leverage to attract and stimulate external investment. This opinion is shared by many economists. It should not be missed that when creating a favorable investment climate, one should take into account not only internal but also external factors that can influence it, the general condition of the world capital market, and the fact that foreign investors expanding the scope of their activities prefer to deal with countries with stable political situation and similar socio-economic conditions.

Kazakhstan seeks to create a favorable social, financial, economic, and legal regime for the activities of foreign investors and an investment climate appropriate to their interests, at the same time solve its problems and achieve its goals.

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