

Integration Processes on the Basis of State-Private Partnership (Following the Materials of the Republic of Kazakhstan)

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Abstract: The present work generalizes the advanced experience in the sphere of corporative governance, law and integration management on the basis of mergers and acquisitions (M and A). The microeconomic indicators of the Republic of Kazakhstan for the period from 2005 till 2012 are being analyzed; some conclusions and key takeaways on the reasons of changes in gross domestic product (GDP), the volume of production and investments are made. In connection with this the conditions for foundation and conduction of business on the territory of Kazakhstan as the basis of integration process are characterized. The integration of companies on the basis of merger and acquisition transactions (M and A) was examined as a special financial-economic tool. For deeper research we have made the review of professional literature which outlines the approaches to effective corporate governing in the sphere of business combination. The integration processes in the Republic of Kazakhstan are analyzed and the statistics on the state of economic concentration in the country for the period from 2007 till 2012 is given. The directions of liberalization of requirements for business integration at the legislative level which is caused by the openness of the borders of Kazakhstan economy for creation of alliances and joint companies on the basis of innovations are examined. The system of corporate governance of the Joint Stock Company Sovereign Wealth Fund “Samruk-Kazyna” was taken by us and analyzed as an example of corporative governance conducted by the unified state and private enterprises. In the present work we also gave some suggestions on the growth of corporate governance of integrated companies with regard to the own and international practice in the period of global crises overcoming.

Key words: Economic Integration • Corporate Governance • Mergers • Acquisitions • Investments • Europe • Asia • Kazakhstan

INTRODUCTION

The integration policy of Kazakhstan is based on the conation to the openness and safety for the inflow of private investments into the “Lean production” on production and processing of natural resources, into the machinery-producing industry and robotechnics, alternative energetics, chemical and petrochemical industry, information technology, education, agriculture, medicine and health care. Such policy is implemented with the direct participation of major national companies and enterprises which form the industry clusters.

The innovative activity of Kazakhstan enterprises depends on the dynamics of economic systems of macro-level development: the state of global financial system and global oil, gas, ferrous and non-ferrous metals market. This may be due to the fact that the main part of

the market participants of the Republic of Kazakhstan that have the modern technologies of management, the scientific-research complex and business-structures belong to the raw material industry sectors which provide the gross domestic product (GDP) growth.

The analysis of statistics for the period from 2005 till 2012 shows us that the level of the GDP growth and the volume of industrial production and investments is lower than it was before the world crises of 2007 (Table 1).

The growth of investments' volume in 2011-2012 is connected with the process of innovative projects implementation, including: the construction of Solar Electric Generating Stations (SEGS) (the city of Kapshagay, the power - 2 MW), the construction of wind power stations (the city of Yereimentau, the power - 45 MW with the prospect of expanding to 300 MW; the Shelek corridor in Almaty region, the power - 60 MW); the

Table 1: The dynamics of indicators of macroeconomic development of the Republic of Kazakhstan (in % to the previous year)

Indicator	2005	2006	2007	2008	2009	2010	2011	2012
Gross domestic product (GDP)	109.7	110.7	108.9	103.3	101.2	107.3	107.5	105.0
Industrial production	105	107	105	102	103	110	103.5	100.5
Capital investments	134	111	114	105	103	97	102.4	104

Note: compiled by the authors according to the source [1]

Table 2: Factors of improvement of conditions for business foundation and conduction in the Republic of Kazakhstan (2012)

Factors which conduce the optimization of conditions for business foundation and conduction in the Republic of Kazakhstan	The assessment of international experts from World Bank and International Finance Corporation
Simplification of a procedure of companies' establishment and elimination of requirements concerning the payment of the minimum capital during three months after the Company's registration.	The "Starting a Business" Value Improvement from 55 th place to 25 th place
Strengthening of rights of creditors' provision through the introduction of new groundings for relief from an automatic stay in rehabilitation procedures.	The "Getting Credit" Value Improvement from 97 th place to 83 rd place
The extension of terms of rehabilitation, the accretion of powers and increasing of qualification requirements for court-appointed trustees; the simplification of requirements to provide data on the bankruptcy and the extension of	The "Resolving Insolvency" Value Preservation (55 th place) rights of creditors.
Tax mitigation: the "Total tax rate" (% profit) indicator in Kazakhstan is one of the lowest among other 185 countries - 28.6% (Eastern Europe and Central Asia - 40.5%; in countries with the high income level consumption per head of population (OECD) - 42.7%). The effective tax rates in Kazakhstan had a huge influence onto this: "Corporate Income Tax" - 20%; "Individual Income Tax" - 10% (5% withholding tax); "Value Added Tax" - 12%; "Social Tax" - 11%; "Property Tax" - 0.1-1.5%	The "Paying Taxes" Value Improvement from 16 th place to 17 th place

Note: compiled by the authors according to the source [2].

development of new gold ore fields and the production of gold concentrate ("Eshkeolmes" field in Akmola region, "Predgorny Ketmen" field in Almaty region, "Shokpar", "Gagarin" and "Karatas-Maybulakskaya area" fields in Zhambyl region, "Progress" field in Karaganda region). The implementation of innovative projects is attended by the programs of state-private partnership, i.e. using the financing from private investors and from the state.

The favorable growth of capital flow is connected with conditions which are created by the mutual efforts of national and international entities. According to the "Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises" Report [2] published by the World Bank and the International Finance Corporation, the Republic of Kazakhstan has taken the 49th place and entered the list of the countries that have shown the significant improvements in easing business conduction in 2012. The factor characteristics of value improvement are presented in Table 2.

To protect the rights of investors and to reduce the country's risk the legislative framework which regulates the issues of state-private partnership is being improved. In contrast to the traditional approach when banks require only the "collateralized liquid" assets and guarantees, at the present time the investors have the right to raise the borrowed costs for the projects' realization under the future cash flows upon the project. Thereby the investor has a priority of creditors onto the repayment upon the condition of generation of income from the project being funded [3].

Such conditions have a favorable impact onto the attracting of direct foreign investments and integration processes in general. However, despite the efforts from the state and private entities the problem of negative trends overcoming is put point-blank and more specifically:

- The week economic diversification with the predominance of extractive industries;
- The lack of high-technology equipment and industries with high added value;
- The insufficient transparency and predictability of the business environment;
- The lack of direct foreign investments.

It is possible to overcome the structural deformations and to increase the innovative activity with the help of special financial-economic tools implementation among which there are: the integration at the level of companies with the help of merger and acquisition transactions (M and A) conduction and forms of international cooperation without the direct participation in capital (the Non-Equity Modes of International Production).

Methodology: The target purpose, objects and methods of the present research are described below in Fig. 1. The methodology is based on techniques of analysis and synthesis under the identification and classification of tendencies of M and A processes development.

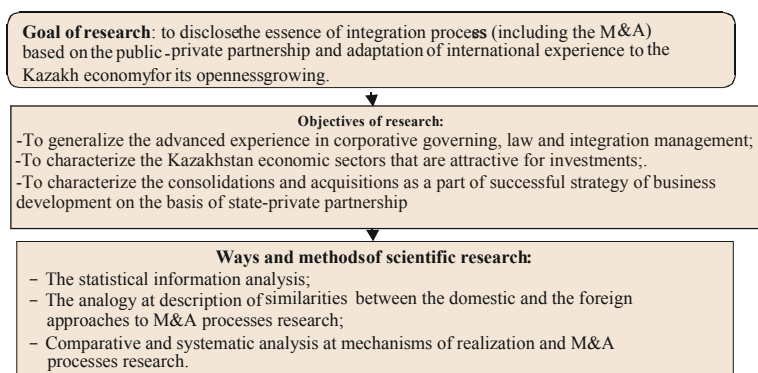


Fig. 1: The goals, methods and objectives of integration processes research (including the M and A)

The Essence of Consolidations and Acquisitions (M and A) as a Form of Business Integration: The scientific researches in the sphere of business integration, including the mergers and acquisitions of companies, consider the factors which help to give an accurate assessment of what had happened and what is happening in the business environment. As the analysis of professional literature has shown, the scientific developments are hurting the historical analyses and projected growth of the companies.

In particular, Richard A. Brealey, Stewart S. Myers and Franklin Allen in their work “Principles of Corporate Finance” are disclosing the essence of merger and acquisition transactions (M and A) as an economic category [4]. At the same time the statistics of the U.S.A. M and A market monitored during the 90th of the last century arouses the professional interest.

The special place in the M and A researches is given to the monitoring of the tendencies and ways of assessment, payment conduction, motives of sellers and buyers. Such scientists as Frank C. Evans, David M. Bishop [5] and Chris M. Mellen [6] are giving their interpretation to the term of “strategic synergism” and evaluate the objective and subjective factors of estimation of the synergy of merger and acquisition transactions.

Dr. Andreas Dahmen examines the merger and acquisition transactions from the position of strategic management determining the interrelation between the strategy, market structure and technologies as one of the key factors of M and A process [7].

The specialists who are dealing with the problems of assessment of sustainable development and investment attractiveness have a great opportunity to do the research works on the industry characteristics of M and A transactions. For example, S-O. Fridolfsson and J. Stennek [8] are suggesting the method of M and A transactions assessment depending on the level of the company’s

income and its share prices. T. Duso, D.J Neven and L-H. Röller are generalizing the European experience of M and A market state monitoring in the period before the global crises of 2007 [9].

As to our mind, in the disclosure of the essence of merger and acquisition transactions as the forms of business integration it is important to draw attention onto the economic and legal basis. According to the Law of the Republic of Kazakhstan “Concerning the Joint Stock Companies” the reorganization of Company can be conducted in the form of “merger, consolidation, demerger, spin-off and transformation” [10]. The merger of the Company is the “emergence of a new Company by transferring to it all the property, rights and obligations under the terms of Merger Agreement and in accordance with the Acts of transfer and acceptance of two or more Companies with the following termination of their activities” [10]. In addition to this the charter capital of the Company which was formed by the merger of companies is equal to the sum of stockholders' equities of the reorganized companies.

According to the international practice of M and A regulated by the International Financial Reporting Standards (IFRS) 3 “Business Combinations” under the term of business combination is defined as “the transaction or event as the result of which the buyer receives the control over one or more types of business” [11].

The inference should be drawn that the merger and acquisition transactions (M and A) as the form of business integration are determined by the interrelated set of activities and assets managed in order to provide the income to investors and/or other owners.

The Analysis of State of Integration Processes in Economic System of Kazakhstan: The economic concentration can act as the M and A market proxy.

Table 3: Information about the state of economic concentration in Kazakhstan for the period from 2007 till 2012 (according the data of Antimonopoly Agency of the Republic of Kazakhstan)

The index of economic concentration	2007	2008	2009	2010	2011	2012
The number of petitions about granting of consent for economic concentration	360	387	308	330	286	395
The number of issued permittances	210	224	134	151	120	138
The share of approved transactions in the total number of for economic concentration (in %)	58.33	57.88	43.51	45.76	41.96	34.94
The number of subjects in the State Register of market entities which are holding the dominant or monopoly position (as on the beginning of the period)	754	969	945	612	600	617

Note: compiled by the authors according to the source [12].

The analysis of the current situation of the business competition development in the Republic of Kazakhstan shows us that the number of sectors of Kazakhstan economy are excessively concentrated. In particular, such areas as railway, communication and connection, air transportation, petroleum, fuel and energy, pharmaceuticals and the areas with the state participation.

The analysis of the data of the Agency of the Republic of Kazakhstan for Protection of Competition (Antimonopoly agency) given below in Table 3 is setting forth the tendency of merger and acquisition transactions between the subjects of the market for the period from 2007 till 2012.

The fact that the potential number of mergers in 2012 has exceeded the level of the pre-crises indicators was stated. The number of petitions concerning the submission of consent for economic concentration in 2012 amounted to 395 (for comparison: in 2008 the number of such petitions was 387). The number of the actually approved transactions in 2012 amounted to 138 (in 2008 the number of such transactions was 224) and therewith the tendency of reduction of the percentage of the approved transactions in the total number of petitions for economic concentration can be observed.

At the present time we can see the expansion of the limits of business conduction with the participation of Kazakhstan companies within the boundaries of Europe and Asia: Custom Union, European Union, Shanghai Cooperation Organization, Common Free Market Zone and Eurasian Economic Community. The Companies are desiderating to create alliances within the boundaries of national and transnational companies, however they are apprehensive about the low efficiency of assets concerning the business combination as the potential monopolists.

That's why for the purpose of harmonization of the current legislation the project of the Law "Concerning the Introduction of Amendments and Additions to some of legislative acts of the Republic of Kazakhstan on the issues of business competition" was drafted and sent for

consideration to the Parliament Senate [12]. This projected law warrants the relief of norms for business combination (Fig. 2).

The norms are calculated using the coefficient of "monthly calculation index" (MCI) which is used for calculations of taxes and other payments in accordance with the legislation of the Republic of Kazakhstan. The amount of MCI from January 01, 2013 is 1731 tenge or USD 11.54.

The auxesis of the going concern is equivalent to the strong side of the business, economy of scale and market leadership.

It is revealingly that the transactions settled with the foreign companies are supported, which thereby increase the international status of the state represented by the potential investors.

The Prospects for Development of Integration Processes in the Republic of Kazakhstan on the Basis of Public-Private Partnership: Examining the Kazakhstan M and A market in the industry-specific view we can state the fact that the largest field of economy is the oil and gas sector. Among other fields of economy in which the large M and A transactions were made during 2009-2012 are the bank and ore mining and smelting sectors.

More than 500 of different in size and sectors companies which participated in M and A transactions have entered into the Joint Stock Company Sovereign Wealth Fund "Samruk-Kazyna". From the total number of companies 16 economic entities are the subjects of natural monopolies or are the dominants of service market. Giving the characteristics to the system of corporate fund governance we can mention the commitment to the principles of business combination with the object of their persistent value increase (Fig. 3).

The international experience shows the efficiency of the state policy concerning the management and control of state-owned assets on the basis of national companies. In particular, the experience of ore mining and smelting state companies like Codelco (Chile) and Antam

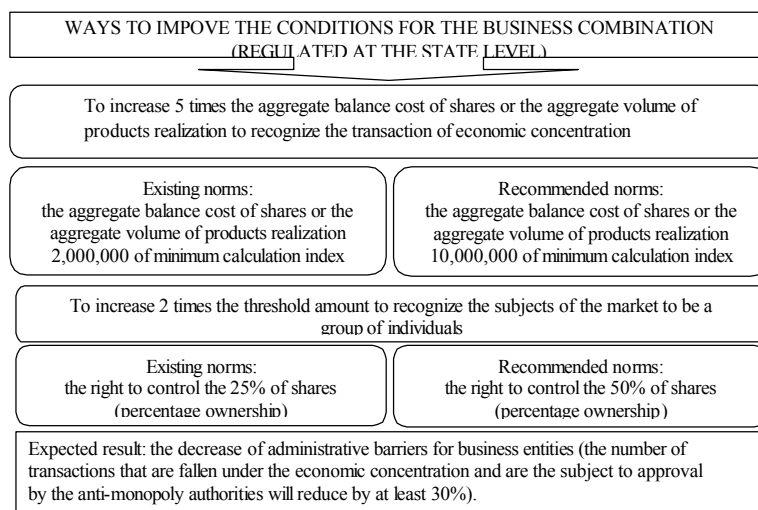


Fig. 2: The liberalization of requirements for business integration at legislative level (compiled by the authors according to the source [12])

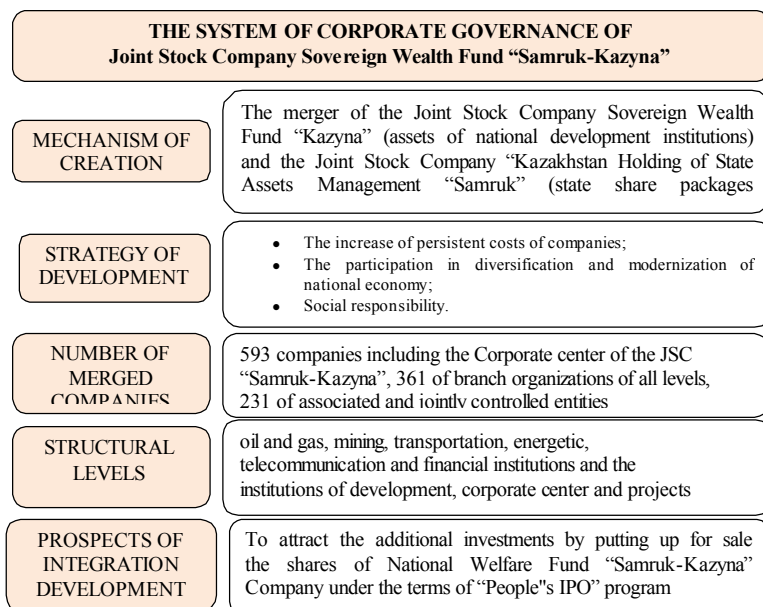


Fig. 3: The characteristics of the corporate governance system in the Joint Stock Company Sovereign Wealth Fund "Samruk-Kazyna" (compiled by the authors according to the source [13])

(Indonesia) have ensured the growth of the value of assets at the expense of a full investment cycle starting with the exploration and finishing with the production of the high value added products with the requirements of environmental safety [13].

The efficiency of the National Fund of Kazakhstan management is controlled using KMPG International Consulting Company services. During the period from 2009 till 2012 the independent monitoring of the corporate governance in "Samruk-Kazyna" and its companies was

conducted. A system of balanced indicators was used as a tool to monitor it: the labor efficiency; financial indexes (NI - net income, operational EBITDA margin, ROE - return on equity, ROA - return on assets and ROS - return of sales); social indicators (company's image, the level of personnel satisfaction); industrial-innovation indicators for the compliance with the priority sectors of economy. The results of the monitoring show us the positive tendency of corporate governance development in the integrated group of "Samruk-Kazyna" Fund and notably:

- The companies attract the Kazakhstan and foreign, state and private investments by the balanced borrowing of capital at international and domestic markets;
- The financing of projects of small and medium-sized business;
- The development of trans-regional economical affairs;
- The usage of leading experience of corporate governance in integrated structures.

With the purpose of searching for additional investments the managers of “Samruk-Kazyna” Fund have taken a decision to takeover a number of companies which correspond to the criteria of “slight dependence from the world prices on raw materials” out of the partial state control.

Among the first companies that fall into the program of “People’s IPO” (from English - Initial Public Offering) are the two corporations whose shares were tendered by the Kazakhstan Stock Exchange in 2012 [14]. The companies of the first line: “KazTransOil” JSC (oil transportation, export and import of petroleum and petroleum products); JSC Kazakhstan Electricity Grid Operating Company “KEGOC” (electrical power engineering). The companies of the second line: JSC Samruk-Energo - Holding on Management of power assets in Kazakhstan (heat power engineering and electrical power engineering); JSC “KazTransGas” (gas transportation systems and main pipelines); JSC NMSC Kazmortransflot (sea freight). The companies of the third line: JSC “NC” Kazakhstan temir zholy” (passenger, transit, cargo transportation); JSC “Kaztemirtrans” (freight rail); National Company KazMunayGas JSC (exploration, production, processing and transportation of oil and gas); National Company Kazatomprom JSC (import-export of uranium, rare metals, nuclear fuel for nuclear power plants, special purpose equipment, technologies and dual-use materials).

On the assumption of the above said we can state that the integration processes at the macro-economic level entail the need to develop a mechanism of integration at the level of organizations, including the introduction of effective models of corporate governance in integrated companies taking into account the own and international experience.

CONCLUSION

The global changes of international economy are the complicated process which develops under the influence of numerous socio-economical and political

factors. The advantages and disadvantages of this process should be taken into account at the level of transnational production, global finance system, international trade, labour forces movement and during the creation of technological and informational space. Thereby the key factor of economic growth of particular country is the investment attractiveness of fields of its economy, i.e. the quantitative and qualitative indexes of capital inflow and outflow which help to shore up its domestic and foreign socio-economic policy.

The measures to increase the investment attractiveness are the following: the formation of an effective integration policy; the development and implementation of special state programs on effective and competitive enterprises support; the reformation of out-of-date affairs; the identification of specific investment and innovation priorities; and the conduction of continuous monitoring of economy of the country.

The most important indicator of investment climate in any country of the world is the M and A transactions. Their types, quantitative and qualitative parameters and sectoral affiliation are coming laden with the objective assessment of state functioning from the side of strategic partners. The participation of the country in merger with private enterprises can reduce the risk of emergence of bankruptcy and the failure of fields of economy. That’s why the problems of interaction of private and public companies should be solved on a basis of achievements of global practice in the sphere of business integration and corporate governance in general.

Key Take Aways: The inference should be drawn that the merger and acquisition transactions (M and A) as the forms of business integration are determined by the interrelated set of activities and assets managed in order to provide the income of investors and/or other owners.

In the period of global economic crises overcoming the great social responsibility is rested on measures of state regulation of capital inflow and outflow.

The positive global experience in the sphere of integration of state and private companies used by Kazakhstan promote the successful development of the country and its business partners.

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