

Effective Privacy Management in Kazakhstan: Privatization or Nationalization?

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Abstract

The change in the structure of ownership in the economic system is capable of determining the vector of economic development for a long time, since ownership of property brings relatively higher incomes than other types of activity. Privatization and nationalization are instruments that influence this structure. To date, the available empirical data are important, but they are diverse, many conclusions have been obtained on a very limited number of factors, are reliable mathematically, prove to be inauthentic in content, and are found in the same economy, completely incorrect, for example in Kazakhstan or other CIS countries. The purpose of this paper is to show how these two instruments were realized in the example of Kazakhstan, as the country in the shortest time carried out the reform of the transformation of the central management system and how effectively the established theories of property management in the economy.

Keywords: Privatization; Nationalization; State ownership; Efficiency; Property management; State.



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1. Introduction

Problem of privacy is the main issue of economic analysis from the very beginning of economy as a science. Change in privacy structure can determine direction of economic development, because privacy owning itself brings relatively high income in comparison with other activities. Nationalization and legalization can be considered as tools that can affect this structure. One of these instruments was used during different stages of economic development, and there is a stereotype, that both cannot be used simultaneously. Despite the empiric data on privacy structure change and on privatization and nationalization, matter of theoretical principles, criteria of control of privatization and are still not found in economy as a science. Empiric data is important, but they are very factor-oriented, because they are conducted on critically low number of factors, mathematically correct, but are not reliable by content, also, the conclusions obtained from the data of one economy are completely not valid while applied to another. Purpose of given article is to show the realization of above-mentioned instruments by the example of Kazakhstan, because given state realized transformation of system of central government planning in short-term, and how effectively theories of privacy control work in economy (Dyachenko, 2014); (Sharipov, 2010).

2. Privatization

Sukharev O.S. in his survey underlines two variants of implementation of privatization that identify its reasons, consequences and efficiency (Sukharev, 2013). The first option is privatization in the capitalist economic system. The main objectives are: the need to intensify the work of the private sector, stimulate rivalry, replenish the budget, counteract crises in selected sectors of the economy with high share of public sector, reduce public sector management costs and reduce the level of inefficiency, solve the task of managing structural changes in order to increase structural efficiency, as well as to stimulate investment activity. The second option is privatization in an economic system undergoing transformation, for example, from the central type of management to market management. The main motive for privatization is the creation of a private sector as an effective private owner. The author describes the model of an effective owner, which cannot be disagreed, namely: that the owner is effective, which ensures the creation of the highest possible value added from the asset acquired, while not suffering losses, but using the asset until its complete depreciation. Simultaneously, this asset should contribute to the growth of other assets, the creation of new assets, that is, to increase capital, and the purchase of it must be repaid after a certain period of time (Sukharev, 2014); (Dyachkov and Dyachenko, 2016).

As we see, goals and tasks may be different, depending on the economic systems, where the privatization is carried out. This should determine the scale and speed of privatization, the formed price of assets and the total revenue that the state will receive. At the same time, the transformation costs from privatization may be large, so the

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effectiveness of privatization will be extremely low. In the course of privatization, an inefficient structure of the economy may develop, losses of certain types of assets are possible, the functioning of individual sectors of the economy are impossible to imagine without it. And this must be taken into account by the state.

The development of the theory of privatization is conducted in two directions, the first one compares the effectiveness of state management and private persons acquiring state property, and the second one explores the question: does privatization lead to restructuring. Sappington-Stiglitz theory can be considered as the fundamental theory in the first direction, which states that the form of ownership is not essential if one assumes the neutrality of private agents to risk and the perfection of competition of agents for the property being sold (Sappington and Stiglitz, 1987). If these requirements do not meet, privatization can lead to an inefficient solution, that is, if private individuals are characterized by risk aversion, while production risks are high, then privatization does not provide efficiency. The second direction is based on the connection of employment, privatization and restructuring. In this case, the decision to privatize is made between politicians and managers, the first seeks to maintain the level of employment, and the latter to restructuring, which stipulates the dismissal of employees (Lakonishok *et al.*, 1994). Even if the company is fully or partially privatized, politicians may bribe managers to avoid restructuring, but also managers of politicians, which also leads to inefficient distribution of property.

Many supporters of privatization approve of given theory. Namely, attention is drawn to the conflict of interests, that is characteristic for the public sector: the state simultaneously acts as the owner, manager and regulator. The state creates a favorable environment for state enterprises, supporting them in all respects, which leads to weak competitive incentives. Inefficiency is generated by several mechanisms (Draskovic *et al.*, 2017):

- patronage of the state, which protects the state enterprise from competitors, leads to hiring less qualified managers, which leads to low efficiency;
- interest in the success of an enterprise is characteristic of a private person, but not for the state, since state enterprises are not controlled by the owners of capital as opposed to an individual, which means that the quality of public administration is much lower;
- decrease in quality is due to the lack of information about the enterprise from government agencies, which opens up opportunities for managers to manage in their own interests;
- state property is poorly protected from abusers;
- during competition, state enterprises use their administrative and political relations, which reduces the incentives of private companies, hampering their development;
- management of state property requires expenditures that are financed from the budget and are not reflected in the cost of the enterprise.

Privatization has a number of positive aspects, one is the development of the enterprise through the investments of a private owner. The private owner must have special circumstances in order to benefit from the funds invested. These circumstances need to be identified in the privatization process in order to increase the probability of profit. As practice shows, the state makes private enterprises, that require huge investments for uninterrupted operation and further development, over to private owner.

In most cases, the state at the expense of privatization adds additional funds to its budget, while getting rid of unprofitable enterprises that require subsidies and hang ballast from the state.

Many studies in the field of privatization confirm the effectiveness of its conduct, as in the work of Boardman, who conducted his study on the example of privatization in Canada, it is argued that after privatization, profitability and productivity increase and debt reduces (Boardman *et al.*, 2003). You can also note the results of the study by Souza and Megginson, who substantiated the effectiveness of privatization on the basis of a comparison of the characteristics of 85 companies in different countries, before and after the full sale of their shares (D'souza and Megginson, 1999). The authors concluded that privatization is effective.

3. Nationalization

Nationalization is aimed at consolidating state property and is associated with the costs of the state budget to purchase property from private individuals. Sukharev O.S. distinguishes the following tasks of nationalization :

- need for nationalization is associated with the conduct of hostilities or the confrontation with natural disasters;
- solves the problem of the security of a particular asset or sphere of activity that can disappear being a property of a private person. As you know, a private form of competition can easily eliminate certain types of activities and even industries that can be important in the reproductive economic cycle. Therefore, the continuance of personnel and resources in these types and industries can become a task of the state.
- solves the problem of consolidation and development of the public sector, increasing its effectiveness. In general, the process of nationalization and privatization can improve the efficiency of both the public and private sectors, not only in quantitative terms, but also in the set of qualitative indicators that will determine the future prospects for the development of these sectors.
- can act as an instrument to confront crisis phenomena in the economy. State can rely to nationalization, and also on privatization, as the main instrument for reforming the economy during worsening of the indicators of social and economic development.
- starting point of the state of the economy is important for the process of nationalization, as well as privatization. If state property share exceeds the property share of the private sector, then the probability of using privatization is much higher than nationalization. Probability in favor of nationalization is higher in the opposite ratio.

We must not forget that value of the asset involved in the process of nationalization or privatization is an important aspect, revenue side of the budget is replenished through. If the real value of the asset is higher than the established price, then the asset is undervalued, and in this case, nationalization brings additional yields to the state, and privatization - losses. In case the price is higher than the real value, the privatization deal may not take place, since an individual will not acquire an asset at an overpriced price. In this case, nationalization will bring losses to the state, and privatization - additional revenues. The state can receive revenues or losses from the use of a particular instrument, and it is important, whether it is guided in the decision-making only on its own interests or takes into account the interests of other agents, since the right to apply these instruments belongs only to the state.

Thus, owner of the asset is better informed about its real value. The balance of benefits is important for the ratio of the price for each asset, when there is a desire to decide on its privatization or nationalization. At the same time, an asset owned by the state can only be privatized, and it can be nationalized as property of an individual. Concerning private person, profit should be tangible in order to induce him to be freed from a certain asset.

4. "Privatization Nationalization" Cycle

As practice shows, privatization occurred more often than nationalization, although it could be less massive than nationalization. Privatization and nationalization are aimed at changing the structure of property in its content. And this is their common goal. This goal can be called long-term. The change in the structure of ownership leads to a change in investment flows, the investment portfolio varies both with the individual and with the state. Concerning the short-term goal, one can name the goal of forming the state budget revenue. In this regard, both privatization and nationalization have a serious impact as means of economic policy on social institutions, economic structure and further prospects for economic development. If the state fails to manage its assets, it can initiate privatization and oppose nationalization, as an additional burden on management. As noted above, privatization as a management tool was used more often than nationalization, it can be concluded that the state created assets, increased them, and then was released from these assets, acquiring a certain income from their sale.

There are cycles of strengthening and weakening of the role of the state in the economy observed in the history of many countries, including a change in the policies of nationalization and privatization (Chua, 1995). Some Latin American countries have experienced such five cycles, for example, Mexico built market relations in the period 1867-1910, then nationalization of 1910-1940, followed by privatization of 1940-1958, then a new wave of nationalization from 1958-1983, replacing it in 1983 with another privatization. Similar cycles were also observed in Brazil, Peru, Chile, Uruguay and Argentina. This cycle is due to several hypotheses, the one relates cycles to global events, for example, the Great Depression or the collapse of the socialist system, another hypothesis associates it with the public mood, where the public goals or the private interest periodically dominate. According to Chua, nationalism is the main reason for the cyclical nature, as privatization and the associated policy of openness lead to the domination of foreign firms, and this provokes a protest and causes another coup. To prevent this, Chua proposed several measures during privatization, such as imposing restrictions and special conditions for foreign investors, setting a limit for the share from the shareholder and improving public administration. Of course, some of these measures can reduce short-term efficiency, but they are necessary to achieve long-term efficiency.

Decision to privatize in most cases in developed countries was made under the influence of ideological fashion, a belief in greater effectiveness of private property compared to the state (Bortolotti and Pinotti, 2003). In addition, there were two main reasons, the first, due to the proceeds from privatization, the state expected to cope with economic difficulties, and the second, privatization was an instrument of political struggle. For example, conservative parties sought to win the majority of voters by selling shares of privatized companies at reduced prices or under special programs. Left-wing parties may also be interested in privatization, using the money received for sale for social purposes, preferring as a buyer of a strategic investor. As concluded, the differences in the political orientation of power are manifested in the methods of privatization they prefer.

Thus, further efforts are needed to determine how ideological motives are combined with the economic and social causes of cyclicity.

5. Kazakhstani Experience

Twenty years have passed since Kazakhstan became independent and was recognized by the whole world. During this time, Kazakhstan rebuilt its economy from an administrative-commandant to a market type. And this process was not easy for the state, and for the people as a whole. One of the main signs of market relations is the existence of private property, which is not known in the planned economy. And the first step in reforming the country's economy was mass privatization.

The choice of the socio-economic model of Kazakhstan's development largely depended on the fact that a person with a post-Soviet mentality cannot adopt private property and entrepreneurship as their ideals at the same time. In this regard, the state authorities sought to comply with the measure of a reasonable combination of personal initiative and social guarantees of the individual, bringing the society to a market economy and democracy. As a mechanism for overcoming the class opposition of society was considered the consistent formation of a broad layer of owners, which is the real pillar of the modern economy.

During the economic transformations of the 1990s, Kazakhstan did not pay due attention to the adaptation of enterprises to market conditions and direct regulation of production. These functions were left to private owners, who privatized state-owned enterprises. At that time, the main objectives of privatization were to create a stratum of private owners, increase the efficiency of enterprises, attract foreign investment, create a competitive environment

and demonopolize the economy. Privatization was conducted in all sectors of the economy, for example, small enterprises were sold on the basis of an auction or calls, and medium and large enterprises solely through conversion to joint-stock companies. Privatization took place in several stages, we sooner discuss each of them.

6,198 public property objects were privatized during first stage (1991-1992), namely, they were objects of trade sector 38%, communal services - 29%, agriculture 10%, industry 9%, etc. The state treasury received 4144.2 million rubles (Spechler and Spechler, 2010). The results of the first stage of privatization gave rise to the formation of private property and the development of entrepreneurship in the country.

National program of denationalization and privatization for 1993-1995 was adopted in the second stage of privatization, taking into account the existing experience. According to the program, all objects were divided into three groups and implemented in three directions: small privatization, mass privatization and privatization of large and unique property complexes. Privatization warrants were used in the country to participate in small-scale privatization, guaranteeing every citizen has the right to receive a certain share of state property. There were two kinds of warrants: housing and investment. Housing warrants could be used not only for housing repurchase, but also as a mean of payment at auctions and small-scale privatization calls. And investment warrants were used in the process of mass privatization by investing them in investment privatization funds, which acquired shares of enterprises. Mass privatization made it possible to acquire practical experience in dealing with capital issues. Individual projects of privatization made it possible to create the optimal organizational structure of the basic enterprises of the main branches of the national economy. In total, about 10,000 objects were sold during this period, 6789 objects of which were in the small-scale privatization, 1,776 objects in mass, and 5 objects were sold on individual projects, 44 objects were transferred to trust management, 12 out of which were transferred to foreign entities. Treasury of the state was replenished by 2515.9 million KZT as a result of the second stage of privatization.

Program of Privatization and Restructuring of State Property of the Republic of Kazakhstan for 1996-1998 was adopted at the third stage. The main goal is to achieve and consolidate the predominance of the private sector in the economy by completing the privatization process. Restructuring of objects of strategic importance can be called a distinctive feature of this stage, such as oil and gas industry, energy, etc., a special program on object-oriented privatization was developed for each industry, thereby the government pursued the goal of attracting institutional investors capable of providing the necessary restructuring of objects and inflow of financial resources. Since 1996, the sale of property was made only by cash and direct selling method was introduced. During this period, 11883 objects were privatized for a total of 154730 million KZT [Statistical book «Kazakhstan's independence 1991-2009» - Astana, 2010, p.35].

The next stage of privatization (1999-2000) is characterized by a division of powers between the levels of public administration and management of state property. Division of state ownership into republican and communal ownership began from this period. 4042 objects were sold during this period, which brought 58679.9 million KZT to the treasury of the state (Spechler and Spechler, 2010).

Concept of State Property Management and Privatization was approved in 2000, two programs were adopted and implemented to improve the management and privatization of state property for 2001-2002 on its basis, and then for 2003-2005. In order to strengthen the state management of strategic sectors of the economy, Law of the Republic of Kazakhstan "About the state monitoring of property in the industries of economy having strategic importance" was adopted in 2003. Thus, legal framework in the field of state property management was established.

4,420 property objects, 3693 objects with participation interest and 91 objects for individual projects totaling 320.6 billion KZT were sold to the private sector during 14 years (1991-2004). Table 1 shows the results of the first wave of privatization in Kazakhstan.

Table-1. Results of privatization in Kazakhstan from 1991 to 2004

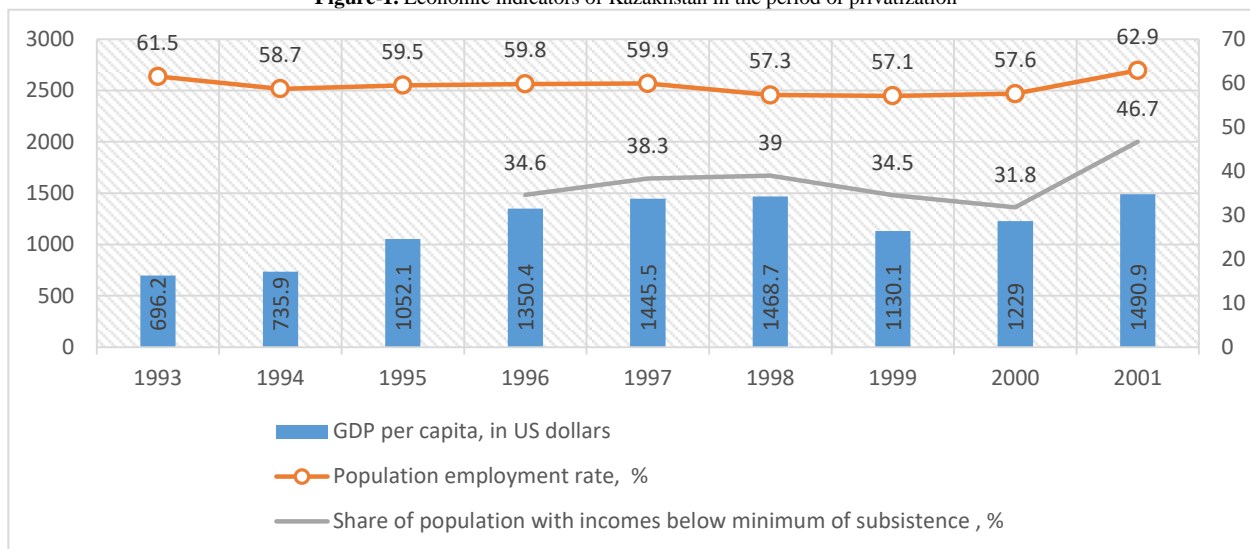
Year	Privatization of property complexes, real estate and other, units	Privatization of state assets in JSC and LLP, units	Privatization of individual projects, units	Income from privatization, thousand KZT
1991-1992	6198	-	-	165
1993	2691	-	-	542639
1994	4171	-	-	590219
1995	3143	385	5	1383141
1996	3526	889	27	31105565
1997	5641	1315	48	56459249
1998	2716	513	11	67138804
1999	2318	162	-	36631980
2000	1724	93	-	22048029
2001	2059	146	-	16583078
2002	1756	67	-	19340183
2003	2041	65	-	60127949
2004	2036	58	-	8600547
Бcero	40020	3693	91	320551548

Note: conducted based on statistical data of Committee on statistics of MNE RK

The development of Kazakhstan's economic policy in 1991-1997 took place in a difficult period, under the conditions of the formation of a sovereign state. During the privatization period, GDP per capita increased 2.07 times

from 696.2 to 1445.5 US dollars. The same cannot be said about the number of employed people, the level of employment in the country was 57-60%, with each year the number of unemployed increased by an average of 70.0 thousand people during this period. Accordingly, percentage of the population with income below the subsistence minimum increased, their share in the whole population was 31.8-46.7%. The dynamics of these indicators are shown in Figure 1 (Spechler and Spechler, 2010). All this is due to the fact that the new owners of enterprises in the economic downturn faced a lack of money to revitalize the enterprise, with its own insolvency, inability to adapt to market relations, and as a result, enterprises become bankrupt and workers are unemployed.

Figure-1. Economic indicators of Kazakhstan in the period of privatization



Source: Data from Kazakhstan Committee on Statistics

Economists-scientists of Kazakhstan associate the negative consequences of privatization with the protracted process of adaptation of enterprises to market conditions in the hands of new owners. Thus, the process of privatization is characterized as following: the first stage, a sharp decline in production, the growth of hyperinflation, mass unemployment; after that, in order to support the reform of industry and development of entrepreneurship, state interference in the process of overflow of financial resources began; also, the basic principles and mechanism for the withdrawal of enterprises and the economy as a whole from the crisis, its stabilization and recovery were identified. It should be noted that Kazakhstan has achieved real achievements as a result of the completion of privatization, as evidenced by the following: a change in the approach to property; development of private property; transfer of land for use by citizens; transfer of housing to citizens; improvement of legislation in the field of economic policy; development of the foundations of entrepreneurship; change of people's outlook towards market relations.

Nationalization in Kazakhstan was conducted, but not as much as in other foreign countries. This process encompassed strategically important industries, for example, energy and oil and gas industry. During the privatization these objects were sold from despair and for a few percent of their real value: the state could not cope with either management or development of the field, and as you know, these industries are distinguished by very expensive fixed assets. The main mechanism for the return of property was amendments to the legislation on taxes, on subsoil and subsoil use, on the environment. These include: the right of the state to the half the share in each new project and on secondary markets, the prohibition of reselling subsoil use licenses for 2 years, the mandatory requirement to develop "Kazakhstan content", as well as the use of the national security factor as a reason for refusal to grant a license for subsoil use. For example, one of the first steps of Kazakhstan on the return of energy assets was the nationalization of the uranium industry in 1997.

Later, new amendments were introduced to the Law "On Subsoil and Subsoil Use", which gave the government the right to unilaterally change or cancel contracts to protect national interests and ensure economic security of the country. At that time, investors' fears about the state's desire to take control of the entire market economy were groundless, since the state has the right to return the assets transferred to investors only in the following cases:

- if the privatization of objects was carried out with serious violations of the law;
- if the objects were sold by the state to the relevant persons at a reduced price;
- if the owners of the facilities do not fulfill the obligations stipulated in the contracts.

Undoubtedly, "nationalization" will be selective, and owners of nationalized objects will be paid compensation. Otherwise, will begin the mass exodus of investors from Kazakhstan, and the country will not be able to develop its own resources only on its own. Especially considering the fact that many fields are very difficult to operate and have poorly developed infrastructure for a number of parameters.

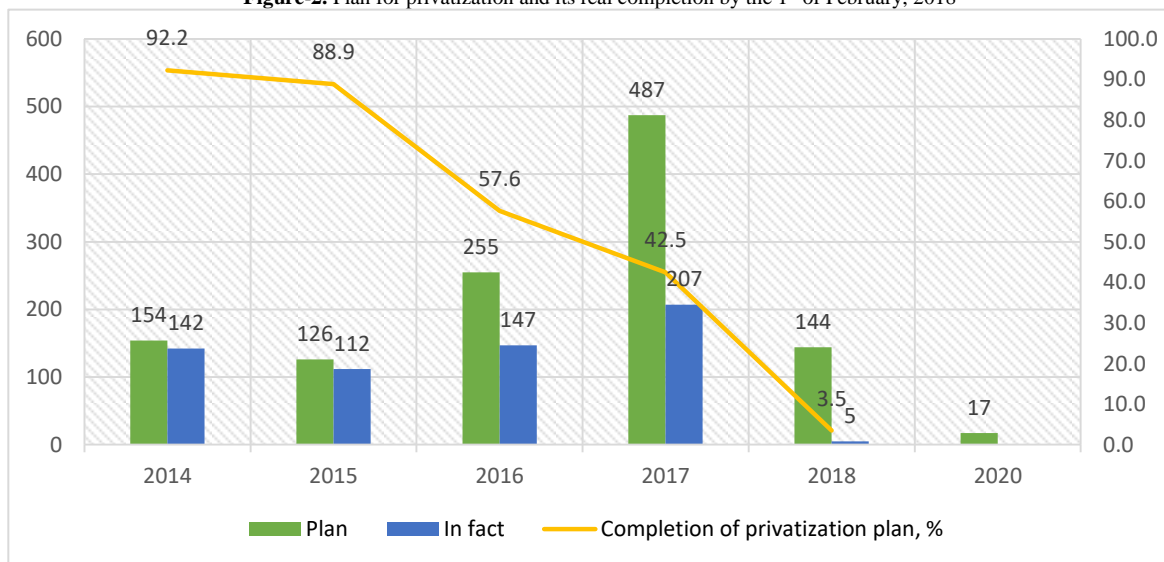
As foreign experience shows, the market begins to lose its best qualities that determine the efficiency of the economy, with 30-40% of state property. Kazakhstan has set a goal to reduce the state's participation in the economy to 15-20%, thereby increasing the efficiency of the country's economy, in this regard, a large-scale second wave of privatization was launched.

At present, the second wave of privatization, announced with the adoption of the "Comprehensive Privatization Plan for 2014-2016" in accordance with the Decree of the Government of the Republic of Kazakhstan dated March

31, 2014 No. 280, is being held in Kazakhstan (Spechler and Spechler, 2010). Objects are selected according to certain criteria in given privatization program, and not so chaotically as during the first wave, when the state began building a market economy that was accompanied by privatization. These selection criteria include: non-compliance of the asset with the core business profile; presence on the market of other private enterprises that carry out similar activities; absence of strategic importance and influence of the asset on issues of national security of the state; the lack of public significance of the asset when the state performs the functions of social support of the population. As we see, the state approached this privatization in a more organized way than with the first privatization.

Paying attention to the figures, it is planned to transfer 1183 objects of state property to the competitive environment for the period 2014-2020, including 56.3% of the objects of the republican and municipal property, 28.1% of the assets of national holdings and 15.6% of the assets of national companies. As of February 1, 2018 726 objects were put up for sale, 613 objects of state property were sold, which is 84.4%. The total amount received from the sale is 799.9 million US dollars. The results of the second wave of privatization of Kazakhstan yearly are shown in Figure 2.

Figure-2. Plan for privatization and its real completion by the 1st of February, 2018



Source: <http://privatization.gosreestr.kz/>

Share of actual sales decreases every year as can be seen from Figure 2, and in 2017 it was only 42.5% of the plan. This is due to the fact that more than half of the exhibited objects belong to the communal property with very low commercial attractiveness for the investor, and these objects were withdrawn from the auction after exhibiting their put 3 times, many of which were later liquidated. Under the privatization program, the main key state property objects related to large companies in the country's priority sectors will be implemented starting from 2018 through the stock exchange both domestic and international. These are companies like Kazakhstan Temirzholy JSC, KazMunayGas JSC, KazAtomProm JSC, Samruk-Energy JSC, Tau-kenSamruk JSC, Kazpost JSC and Air Astana JSC. The investment attractiveness of these facilities is very high, and the government attracts foreign investors in the form of strategic partners. 17 properties for a total of \$ 248.4 million were sold to foreign buyers by January 1, 2018, namely, France, Romania, the Russian Federation, Ukraine and Kyrgyzstan (Aswath, 2002); (Sharp, 1964).

Kazakhstan conducts privatization, when the assets of Kazakhstani economic players as a result of the crisis have strongly subsided, financial indicators have decreased, due to this they cannot fully compete for assets put up for sale. In this case, attracting foreign capital plays a significant role, but will the situation of the 1990s reoccur when foreign investors had acquired significant assets in the country and will the share of foreign assets in GDP become high. And as you know, economic influence is also political.

Unlike the privatization of the 1990s, this time the state hands over a ready-made business with production capacity, demand in the market, consumers, human resources, etc. to private hands. The new owner only needs to continue to conduct business effectively and develop it. But in most cases, as practice and the results of the study of economists show, the improvement in indicators is observed one year before privatization or the same year (Sharipov, 2010), after privatization the indicators deteriorate significantly, remaining still better than several years before it. This effect is called the "threat of privatization", that is, when managers learn about privatization, they start to work better not to be fired or get compensation, but the option is also possible when the state aspiring to raise the price of property stops using it as an instrument of social or industrial policy.

Due to the reorientation of the released resources for commercial effect, the characteristics of the enterprise are improving, and there is a possibility of their deterioration after privatization. Time shows what will be like in Kazakhstan, but many enterprises now that are subject to privatization, carry out the state order directly, and moved into private hands, will they be able to find customers in the market environment. It is here that all the capabilities of an effective manager, the hope of which the state is entrusting, should be manifested in the second wave of privatization in Kazakhstan.

6. Conclusion

Thus, the effectiveness of privatization and nationalization and the efficiency of the enterprise are two different types of efficiency. They can be related, but the presence of factors that do not coincide and determines the effectiveness of different systems in different ways. For example, if the property is received at a lower price, then the state suffers losses from privatization, and the individual benefits, but the entrepreneurial motive for it with respect to this property may change, which leads to a change in the mode of property use, redesigns it, so it is pointless to talk about efficiency. Efficiency can only be compared in an equivalent way: if the asset was used for one purpose and stopped being used for it, then the fact of such a change says that the efficiency is different, and cannot be compared with the efficiency of previous use. It is necessary to compare types of assets of equivalent use. In Kazakhstan, as mentioned above, one of the mandatory conditions for the acquisition of property during privatization is the continued retention of the company's profile by the private owner, in this case it will be possible to determine the effectiveness of management by the public and private owner.

The effectiveness of privatization or nationalization can be determined by the following criteria: the scale and interval of implementation, the effectiveness of existing basic institutions, mentality and education of the population, specific asset, the competitiveness of production and industry, the effectiveness of management decisions and motives that need to be stimulated.

The second wave of privatization in Kazakhstan is taking place during crisis, and what should be privatized or nationalized in this case? Given that the crisis disorganizes the economy and markets, it is more advisable to nationalize or implement both strategies for different types of assets in different sectors of the economy with increased governance from the state and supporting aggregate demand, as well as maintaining technological level. Privatization can be used to support private initiative, increase investment with economic growth.

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