

Investment Activities of International Financial Organizations and Their Contribution to the Sustainable Development of the Republic of Kazakhstan

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Abstract

The article examines the basic directions of cooperation of the Republic of Kazakhstan with the leading financial and economic institutions. The authors analyze the activities of the major active organizations that fall within the scope of "international" institutions. Based on the survey of respondents, the study assesses the performance of the republic's international organizations. This is followed by the analysis of attracting direct investments into the country with the help of international financial institutions. Furthermore, the study identifies the key factors of investment attractiveness of the Republic of Kazakhstan along with the relevant negative aspects. In the end, the authors give concrete proposals on improving the investment climate to attract foreign direct investment, which would ensure the country's sustainable development.

Keywords: Sustainable development; International financial organizations; Financial institutions; Investment; Investment climate; Investment attractiveness.



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1. Introduction

One of the important conditions for sustainable economic growth of the country is the state's interaction with the leading financial and economic institutions of the modern world (Antonov, 2016). Participation in the activities of such structures contributes to strengthening of its positions in the world market and enhancing foreign trade. Moreover, it improves the prospects for the flow of financial resources to the country to resolve the problem of external debt and to stabilize internal monetary circulation (Lyubetskii, 2013). Involvement in the common framework for regulating international economic relations also allows accumulating useful experience of foreign economic cooperation in the context of the generally accepted international community norms and rules (Chebotarev, 2016).

When it comes to financing economic reforms, obtaining loans and credits for implementation of special projects to develop individual sectors of the national economy, Kazakhstan assigns a primary role to cooperation with such international organizations as the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank and the Islamic Development Bank.

Furthermore, Kazakhstan has accumulated impressive positive experience in cooperation with the Davos World Economic Forum, focusing on active communication on the international investment cooperation, transport, energy, finance and management, environmental protection, information technology, natural resources and security in a global context (Kaldiyarov *et al.*, 2017).

2. Methods

Fundamental research in the area of activities of international financial organizations and their contribution to sustainable development, works of the leading domestic and foreign scholars on the subject under study, regulatory and legislative acts regulating investment by international financial organizations that contribute to the sustainable development of the country's economy became the theoretical and methodological basis for the study. In the course

of data processing, study and analysis of the accumulated materials, the authors used the following methods of economic research: monographic, economic and statistical, abstract-logical, etc.

3. Results

There are several large active organizations in Kazakhstan that fall under the category of "international". These are various financial institutions, international funds, UN agencies, etc. All these organizations share the same type of activity aimed at helping the republic in the form of loans, subsidies, grants and advisory services. Those organizations have representation in Kazakhstan, mainly in the city of Almaty (*Kredity mezhdunarodnykh finansovykh organizatsii i finsektor RK, 2017*). The attractiveness of Kazakhstan for international organizations is explained by a relatively stable political and economic situation in the country, the availability of significant potential for further development, since it is no secret to anyone that, for example, financial organizations will not invest in unpromising countries (*Sotrudnichestvo Kazakhstana s mezhdunarodnymi finansovymi institutami, 2014*). Kazakh public is familiar with the names of many international organizations (*Mnogostoronnee ekonomicheskoe sotrudnichestvo, 2018*). However, to determine public awareness of those organizations, to identify what different public categories know and how they access their activities, the authors have conducted an expert survey in six major cities of Kazakhstan: Almaty, Astana, Atyrau, Kokshetau, Kyzylorda, and Ust-Kamenogorsk. The survey polled representatives of authorities, nongovernmental organizations, scientists, cultural workers, and businesspersons. The authors interviewed 93 people.

The popular international organizations named by the experts spontaneously were The International Bank for Reconstruction and Development (51.8%) and the Soros Kazakhstan Foundation (50.6%). The United Nations Organization was the second most popular organization (28.0%), followed by the IMF (25.9%). Twenty experts named the Asian Bank for Reconstruction and Development (ABRD), 18 – United States Agency for International Development (USAID), 15 – the EBRD, 12 – the European Union's TACIS program. The respondents also named various UN agencies, international public organizations, and even foreign commercial companies, which indicated the lack of established understanding of the term "international organizations".

4. Discussion

The largest among the international financial institutions are the development banks: International Bank for Reconstruction and Development (IBRD), EBRD, ABRD, IMF, etc. The IBRD was the most famous; it was spontaneously named by 51.8% of the experts surveyed. When the survey participants were asked to name specific international financial institutions, IBRD was recalled by 78.5% of the respondents.

The main form of IBRD assistance was the provision of credits (according to 91.5% of experts); which, moreover, was recognized as the most effective type of assistance (by 36.6% of respondents). Furthermore, experts named such types of assistance as consulting services (37.9%), provision of technical assistance and grants (28.8% each), organization and financing of educational programs (23.7%), subsidies (13.6%). The forms of IBRD assistance named by experts (they were asked to recall all the forms of assistance that the IBRD used and then choose the most effective one) are presented in [Table 1](#).

Table-1. Forms of assistance of the IBRD (*Sotrudnichestvo Kazakhstana s mezhdunarodnymi finansovymi institutami, 2014*)

	Applied forms of assistance		Most effective forms	
	Absolute	Relative	Absolute	Relative
Credits	54	91.5	34	36.6
Grants	17	28.8	10	10.8
Subsidies	8	13.6	2	2.2
Consulting services	20	33.9	1	1.1
Technical assistance	17	28.8	6	6.5
Educational programs	14	23.7	3	3.2
Not sure	1	1.7	3	3.2
No answer	34	-	34	36.6
Total	131	222.0	93	100.0

On top of that, 41.9% of the interviewed experts were familiar with the projects implemented by the IBRD, while representatives of authorities turned to be the most informed category of experts (50.0%).

About half of the interviewed experts knew or heard about the activities of the Asian and European Banks for Reconstruction and Development in Kazakhstan (50.5% and 48.4%, respectively). The main form of the ABRD assistance was the provision of credits (according to 89.4% of experts who responded to that question); which, moreover, was recognized as the most effective type of assistance (by 28.0% of respondents). Consulting services and technical assistance turned out to be the second most popular form of assistance (44.7% each), followed by the allocation of grants (31.9%).

According to experts, the forms of assistance of the EBRD were somewhat different. Most often, the experts named the provision of consulting services (60.0% of the respondents). The allocation of grants was indicated by 48.6% of the responding experts, technical assistance – by 45.7%. Moreover, 30.1% of experts suggested that the EBRD should allocate loans for greater efficiency (this form of assistance was not named at all) ([Table 2](#)).

Among other forms of assistance for both banks, there were the organization of educational programs and the allocation of subsidies.

Table-2. Forms of assistance of the ABRD and the EBRD (Kazakhstan's cooperation with international financial institutions, 2014)

	Applied forms of assistance		Most effective forms of assistance		Applied forms of assistance		Most effective forms of assistance	
	ABRD				EBRD			
	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.	Abs.	Rel.
Credits	42	89.4	26	28.0	-	-	28	30.1
Consulting services	21	44.7	-	-	21	60.0	-	-
Grants	15	31.9	10	10.8	17	48.6	7	7.5
Subsidies	7	14.9	2	2.2	9	25.7	1	1.1
Technical assistance	21	44.7	5	5.4	16	45.7	-	-
Educational programs	9	19.1	1	1.1	10	28.6	3	3.2
Not sure	1	2.1	3	3.2	2	5.7	6	6.5
No answer	46	49.5	46	49.5	75	214.3	45	51.6
Total	116	246.8	93	100.0	58	428.6	93	100.0

The IMF is another well-known financial institution (Supporting the Development of More Effective Tax Systems, 2011). Its activities were familiar to 59.1% of the respondents, though only 25.8% of experts named the IMF spontaneously (Table 3).

According to experts, provision of loans was the main form of the IMF assistance to Kazakhstan, which was also the most effective one. The second place could be attributed to the provision of consulting services and grants, the third – to the organization of technical assistance, educational programs, and subsidies. Furthermore, the effectiveness of these forms of assistance was evaluated in approximately the same sequence.

Table-3. Forms of assistance of the IMF named by the experts (Sotrudnichestvo Kazakhstana s mezhdunarodnymi finansovymi institutami, 2014)

	Applied forms of assistance		Most effective forms of assistance	
	Abs.	Rel.	Abs.	Rel.
Credits	50	90.9	25	26.9
Consulting services	23	41.8	5	5.4
Grants	21	38.2	10	10.8
Technical assistance	17	30.9	5	5.4
Educational programs	16	29.1	-	-
Subsidies	14	25.5	4	4.3
Not sure	1	1.8	6	6.5
No answer	38	40.9	38	40.9
Total	142	258	93	100.0

It is also worth noticing that due to timely measures, Kazakhstan is the leader in attracting direct investments in Central Asia. The investor interest is explained by the fact that Kazakhstan confidently ranks 36th among 190 countries in the World Bank's Doing Business rating.

Over 2005-2017, Kazakhstan has attracted 264.4 billion dollars of gross foreign direct investments, including 20.8 billion dollars of investments attracted to the country in 2017.

It should be noted that the targeted industries under the Industrialization Program are becoming attractive for investments. Over 8 years (2010-2017), the processing industry has attracted over 29 billion US dollars of foreign direct investment.

In 2017, the share of processing industry in gross foreign direct investment increased from 19% to 25%. At the same time, the share of investments in the non-raw-materials sector was 51.6%.

For today, the country's two main objectives are further improvement of the investment climate and the proactive role in attracting investment.

Upon the results of the previous year, Kazakhstan has become an associated member of the OECD Investment Committee. At the same time, the national company "Kazakh Invest" was established. The National Investment Strategy was developed and adopted in cooperation with the World Bank, the major objective of which is to create a favorable investment climate and attract investment aimed at improving efficiency. This year, Kazakhstan has moved to the active phase of implementing the Strategy with over 45 events scheduled.

As for the results of the first quarter of this year, in March, the Government of Kazakhstan signed an agreement with the UAE on promotion and mutual protection of investments. The agreements with more than 20 countries are currently being drafted.

Within the framework of project management, the Ministry together with the JSC "NC" KAZAKH INVEST has developed the respective approaches and formed a basic list of 658 investment projects (59.2 billion US dollars)

for 2018-2020. Those included both projects with foreign participation and projects with domestic (Kazakhstan) participation (140 projects with foreign participation – 43.8 billion US dollars, and 518 projects with Kazakhstan participation – 15.4 billion US dollars).

5. Conclusion

Current and potential investors assess the attractiveness of the country differently (Altomonte *et al.*, 2013). Those who already work in Kazakhstan first appreciate the high level of economic, political and social stability in the country, along with relatively low tax rates for business (Global Financial Flows, 2013).

Potential investors are still insufficiently aware of these advantages of Kazakhstan, while among the main advantages they note the salary level and the culture of entrepreneurship (Fuest *et al.*, 2011).

However, both operating and potential investors note the high level of telecommunications infrastructure and the size of the consumer market.

Areas for improvement are as follows:

- Transport and logistics infrastructure. Current and potential investors suggest the need to improve national transport and logistics infrastructure.
- Open and flexible trade policy. Due to its strategic location between Europe and Asia, Kazakhstan has a huge transit and trade potential. However, the country needs more open trade policy for its successful implementation.
- Administrative environment. Despite the high level of political stability, Kazakhstan faces such problems in public administration as corruption and bureaucracy.
- Flexibility of labor legislation and a simplified procedure for granting work permits. Many investors urge Kazakhstan to facilitate the procedure for attracting qualified foreign personnel to the country, the procedure for hiring and firing workers, and to determine the length of the working day.

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