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## **Socio-Economic Effects of National IPO Program in Kazakhstan**

### INTRODUCTION

There have been many post-Soviet Union countries that entered the path to market economy with a vast portfolio of state-owned companies. In case of the Republic of Kazakhstan, after almost 20 years of reforms and independence, the government decided to achieve a set of socio-economic goals using modern approach to national economy flagships, i.e. big and successful corporations. It was decided to privatize a group of companies via initial public offerings at the Kazakhstan Stock Exchange. This paper is intended to present the ideas associated with the National IPO Program in Kazakhstan, expected consequences for the national economy, companies involved, consequences for the national financial system, mainly the stock market, and impact on the underlying society.

As can be expected, the nation-wide privatization program in a form of the IPOs of large and successful companies that are responsible for generating substantial part of the GDP and employing big fraction of the labor force, has a tremendous influence on many interest groups, institutions and individuals. Therefore, working under the auspices of the holistic approach in economic analysis, it may be valuable to present and discuss possible and actual impact of this initiative on equalizing socio-economic inequalities in the strongest economy in Central Asia.

The aim of this paper is to offer a systematic and careful consideration of all socio-economic issues related to the National IPO Program in the Republic of Kazakhstan. It has been already several years of successful offerings of shares of the largest corporations in the national economy, and it becomes possible to observe tangible results obtained already by all agents involved. The method used for this holistic analysis starts with diligent description of the National IPO

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Program. We offer a review and a discussion of all socio-economic objectives intended by the government represented by the President of the RK. This review and following discussion allow for several meaningful conclusions and recommendations. The final part concludes and presents evaluation of the National IPO Program from the socio-economic inequalities point of view. Therefore, this paper may be a valuable resource and a reference for any other countries that plan to privatize its state sector, or those who try to mitigate socio-economic inequalities with modern and highly efficient methods.

### NATIONAL IPO PROGRAM EXPLAINED

When the government of the Republic of Kazakhstan formulated the National IPO Program in 2010, it was considered that it will:

- give citizens of Kazakhstan an opportunity to become shareholders of the largest enterprises of their independent country, making them more economically aware and more personally involved in the economic and financial success of the “flagships” of the national economy; it has been an indirect method for constructing national identity and national responsibility,
- allow to create a new instrument for investing domestic savings domestically, as dollarization or foreign portfolio investment abroad by the residents of the RK exercised a negative impact on development of the domestic financial market and created difficult environment for the national monetary policy and the exchange rate regime,
- stimulate development of Kazakhstani securities market (Kazakhstan Stock Exchange - KASE) via increased number of individual investors, higher capitalization, growing volume of trade, improved market liquidity, and higher market efficiency,
- encourage additional financing via the national stock market for the purpose of implementation of investment programs that would help in creation of additional workplaces and contribute to the GDP in the future.

It is a common problem for many national stock exchanges in the era of globalization that their capitalization and liquidity does not allow to fully contribute to the success of the national economy. As can be derived from the literature on financial market role in emerging economies, this part of the financial sector should be serving as an efficient vehicle of encouraging, mobilizing and providing domestic savings for viable business projects. However, there are some requirements on both sides of the market to achieve such role solution, in which a domestic stock market funnels funds from the society to corporations when their demand for capital exceeds amounts generated internally and offered by commercial banks. Obvious observations prevail in the domestic literature on the National IPO Program, with many authors concluding that the funds attract-

ed during the National IPO can be invested in the further development, acquisition of new assets, modernization and expansion of production by still partly state-owned companies [Gulkin, 2002, p. 17].

The stock market in Kazakhstan has been developing from the first years of independence. In spite of its successful history in achieving modern design and legal framework, it has been suffering from many deficiencies, including insufficient number of issuers. The National IPO Program has been intended to make a substantial improvement also in this regard. It has been offering not only many successful companies to join the main trading floor, but also a substantial improvement in the total capitalization, as the privatized group has been composed of relatively big companies. Currently, after completing the National IPO Program more than 100 issuers have their financial instruments listed at the KASE. This is a substantial change in comparison with the period before 2011. From the point of view of investors, institutional and individual alike, such increase in the available investment instruments allows for a better adjustment of their portfolios to their individual risk/return preferences, and facilitates diversification of assets' portfolios domestically.

It has been believed, and expected that the National IPO Program will promote development of the domestic stock market by many means. However, the single fact of giving the citizens an opportunity to buy shares of several leading enterprises would not be enough to convince for allocating their savings domestically instead of dollarizing, or investing them abroad. Therefore, along with each of the IPOs under the National Program, there has been an intensive marketing campaign. It has been informing, educating, and encouraging to invest in available shares. Another improvement comes from the theory of Finance. According to the literature on efficient stock market hypothesis, the efficiency of a market is strongly positively correlated with the number of active traders. The question in this particular case is about proper market valuation that is closer to the true value of an asset with a higher number of investors who analyze available information and make informed investment decisions. The National IPO Program has been responsible also for improvement in this regard.

According to the National IPO Program coordinating entity, the Samruk-Kazyna, it has been expected that, as a result of the Program, Kazakhstani stock exchange will receive funds for further development of the stock market. The stock market, in turn, will obtain benefits necessary for its successful existence, and the companies, whose stocks are offered, will become more transparent and effective. This in turn positively affects their attractiveness, as investment opportunities. They will also receive substantial liquid funds for implementation of favorable development projects [[www.samruk-kazyna.kz](http://www.samruk-kazyna.kz)].

The general conclusion about positive impact of the National IPO Program on development of the main stock market in Central Asia should be explained

from the economic theory point of view. This is formulated as achieving a more efficient allocation of scarce resources for the sake of the underlying society and the national economy. In turn, a more efficient allocation serves in mitigating many socio-economic inequalities discussed in the literature. Funds are transferred to most vibrant sectors and corporations, and scale of misallocation of land, labor (and capital) diminishes.

It should be noted that for individual investors holding stocks of successful enterprises offers citizens a direct share in profits generated by further development and growth. Benefits for investors, in general, can be decomposed into appreciation of stocks in portfolios and dividends paid out of profits. Both forms of benefits make people aware of the current situation of the national economy and of particular enterprises. Together this situation creates a much more market-oriented attitude in a convenient manner. This particular social feature should not be underestimated especially for all post-Soviet Union countries, where inertia of central planning approach creates a serious problem in developing a modern civil society. Socio-economic awareness and responsibility for one's fate is crucial for achieving fast catch-up process of all emerging economies. Market-oriented attitude and entrepreneurship allows the national economy for successful participation in global value chains. This is a key to accumulate national wealth in 21<sup>st</sup> century.

Concerning the necessity to increase economic and financial literacy along with offering new investment opportunities in Kazakhstan, the government developed an informational campaign on stock market and related issues. This is obvious for investors in developed countries that investment in a stock differs from a bank deposit in many ways. The main point is a risk factor involved. It should be understood properly to avoid problematic socio-economic consequences that would aggravate inequalities and discourage citizens from full participation in the national economy. For example, all companies that operate in the raw-materials extraction sector are strongly affected by contemporary volatility of crude oil, natural gas and other raw material prices. In case of the National IPO Program there have been few such companies (i.e. "KazMunaiGas" and "KazAtomProm"). However, there are other corporations in the non-tradables sector like "Kazpochta" and "Kazakhtelecom" for which revenue and profits do not depend on global markets' prices. Since they have been focused on domestic market, it has been less difficult to predict their future income or losses. As a consequence, risk associated with such investment is lower. Privatizing wide variety of companies operating in different sectors allows investors to enhance their knowledge and competence, which is another goal of the National IPO Program.

Another serious socio-economic problem dealt with by conducting the National IPO Program has been supplying pension funds with necessary assets for investment. Pension funds in the Republic of Kazakhstan control pension sav-

ings of about 8 million people. Part of these savings (about 7,2%) which are in investment portfolio of pension funds, has been invested in stocks with a total value of about 172 billion tenges. However, the upper limit for this form of investment is 20% of their respective portfolios. This level of 20% has never been reached due to lack of sufficient quantity of high-rating issuers. The National IPO Program eased this problem by offering additional stocks with acceptable risk level [Zhumabayev, 2002, p. 28].

Concluding on the gist of the National IPO Program, one should note that it has created opportunity to own stocks of the largest domestic companies, to diversify investors' portfolios, and to attract domestic savings by creating additional investment opportunities domestically, to develop and expand KASE, to create modern investment culture in securities market, to increase transparency in business, to improve efficiency and increase competitiveness of the largest companies in Kazakhstan.

There are also some effects of an adverse nature. One could observe excessive volatility of stock prices following their IPOs. In fact, in many cases it was in a form of substantial fall of the stock price that generated losses for nonprofessional individual investors who believed in marketing campaign slogans and decided to purchase stocks offered with their savings. In such cases one could suggest an investment strategy with the long-term horizon of investment in order to insulate portfolios from seasonal and cyclical economic downturns. It should also be advised to continue campaigns aimed at increasing financial literacy and awareness on stock market functioning.

### COMPOSITION OF NATIONAL IPO PROGRAM

Prior to the first National IPO issue, the central government estimated available savings in the national economy dividing them into three categories that could be used by citizens for purchasing stocks offered. A pool of money expected to be available for the National IPO Program consisted of:

- current net income - US \$ 240 - 1 100 million;
- the second level bank deposits – US \$ 730 - 1 300 million;
- individual savings outside financial sector – US \$ 900 - 1 700 million.

There is another interesting study on the potential availability of funds for the National IPO Program in Kazakhstan by an external independent institution. According to the sociological research conducted by the Center of Strategic and Political Researches and the Fund for Democracy Development of the USA, only 20% of the population of Kazakhstan was ready to invest in stocks offered under the National IPO Program. According to this research, funds that were in fact potentially available for the National IPO Program could range from US \$ 110 million to 230 million.

In the autumn of 2012 the largest Kazakhstan oil-transporting company "KazTransOil" conducted its IPO that allowed to gather capital of around 427 430 000 KZT which was about \$2.329 million. It was a case of a fully successful offering with individual investors competing for shares available. After this successful IPO many other followed, including such locally recognizable companies as:

- "KEGOC",
- "Air Astana",
- "KazTransGaz",
- "Kazmortransflot",
- "Samruk-Energo",
- "Kazakhstan temir zholy",
- "Kaztemirtrans",
- National Company "KazMunaiGas" and
- "Kazatomprom".

The whole privatization program has been designed, coordinated and supervised by a special entity – the Board of Directors of the JSC “Samruk-Kazyna”. It means that all decisions concerning the price and the number of stocks offered and choosing the state-owned companies for privatizing have been formulated by the Board of Directors of Samruk-Kazyna and then approved by the Government of the Republic of Kazakhstan.

There have been several rounds of IPOs under auspices of the National IPO Program with an average of three companies per year offered. These were: KazTransOil”, “KEGOC” and “Air Astana” in 2011, then JSC “KazTransGaz”, JSC “KazMorTransFlot”, JSC “Samruk-Energo” in 2012 and “Kazakhstan Temir Zholy”, JSC “KazTemirTrans” in 2013. Until the end of the Program two more companies will be privatized by the means of IPO: “KazMunaiGas” and “KazAtomProm”. Further plans available in the web suggest that state blocks of stocks of the “KazakhMys” and ENRC companies will be offered next. The “National IPO” program has been designed to be concluded by 2015. After 2015 probably other Kazakhstani extracting companies will enter the IPO [Nurgaliyeva, 2011, p. 6].

**Table 1. Basic economic data on the National IPO companies**

Company	employees ('000)	total sales (mln USD)	total assets (mln USD)	operating cash flow (mln USD)
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
KazTransOil <sup>1</sup>	8.18	1133.19	3210.35	514.99
KEGOC JSC, Kazakhstan Electricity Grid Operating Company <sup>2</sup>	4.67	512.86	3015.78	101.07
JSC "Samruk-Energy" <sup>3</sup>	23.57	976.61	5233.94	306.02

<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
JSC "NC "KTZ" Kazakhstan temir zholy (National Railways Company) <sup>4</sup>	158.88	4832.72	15549.51	1140.87
The Atomic Company KAZATOM-PROM <sup>5</sup>	27.34	1769.92	3652.30	254.86
Air Astana <sup>6</sup>	4.48	918.58	889.52	130.08
Joint Stock Company KazTransGas <sup>7</sup>	13.83	2171.06	749.79	-95.56
The "National Maritime Shipping Company "Kazmortransflot" <sup>8</sup>	0.22	230.76	112.98	22.75
"Kaztemirtrans" JSC <sup>9</sup>	1.62	2419.00	584.46	24.85
JSC NC "KazMunayGas" <sup>10</sup>	90.00	4847.18	17476.08	1472.34

Source: author on the basis of:

<sup>1</sup> <http://www.kaztransoil.kz/doc/en/888.pdf> [accessed on 06 June 2015],

<sup>2</sup> <http://www.kegoc.kz/en/shareholders-and-investors/reporting/financial-statements/> [accessed on 06 June 2015]

<sup>3</sup> <http://www.samruk-energy.kz/images/31.12.2014en.pdf> [accessed on 06 June 2015]

<sup>4</sup> [http://www.railways.kz/sites/default/files/consolidated\\_financial\\_statements\\_2014\\_ktzh.pdf](http://www.railways.kz/sites/default/files/consolidated_financial_statements_2014_ktzh.pdf) [accessed on 06 June 2015]

<sup>5</sup> <http://www.kazatomprom.kz/sites/default/files/96422.pdf> [accessed on 06 June 2015]

<sup>6</sup> [http://airastana.com/Portals/2/About%20Us/CorporateGovernance/Financial%20Statements/Air%20Astana%20IFRS%202014%20-%20USD\\_final%20issued.pdf](http://airastana.com/Portals/2/About%20Us/CorporateGovernance/Financial%20Statements/Air%20Astana%20IFRS%202014%20-%20USD_final%20issued.pdf) [accessed on 06 June 2015]

<sup>7</sup> <http://www.kaztransgas.kz/images/ktg-fo-2014.pdf> [accessed on 06 June 2015]

<sup>8</sup> <http://www.kmtf.kz/gallery/godovoj-otchet-za-2014-dlya-sajta.pdf> [06 June 2015]

<sup>9</sup> <http://kazcargo.kz/upload/iblock/0f1/0f1a996dbec201cfbc74fc5ed6726d15.PDF> [accessed on 06 June 2015]

<sup>10</sup> [http://www.kmg.kz/upload/corporate\\_management/equity/2014/B2.pdf](http://www.kmg.kz/upload/corporate_management/equity/2014/B2.pdf) [accessed on 06 June 2015]

Concerning the scale of this form of privatization, the National IPO Program has been intended to offer from 5% to 15% of share capital of state-owned companies to individual investors and pension funds in Kazakhstan [The research devoted to the IPO questions ([www.ey.com/global/contentnsfirussia](http://www.ey.com/global/contentnsfirussia))]. As such, it should not be perceived as a full-scale privatization, observed in other emerging economies in Central and Eastern Europe. However, even such a modest scale should be appreciated. The government assumed a policy of small steps that, if decisions are incorrect or results are adverse, allows for corrections at relatively low costs.

## PROBLEMATIC ISSUES OF NATIONAL IPO PROGRAM

The National IPO Program has been carried out with full transparency, offering equal access to shares of privatized companies for all Kazakhstani citizens. According to the legal framework that has been created for the purpose of this initiative, any citizen of the Republic of Kazakhstan who has reached the

age of 18 can take part in the National IPO Program. For this purpose it has been necessary to:

- sign a contract directly with a broker or dealer organization or through a transfer-agent (for example, through a regional branch of “Kazpochta”), if an individual investor has not signed such contract before;
- fill in and submit a client order to broker or dealer for purchasing stocks that are offered under the National IPO Program;
- provide sufficient amount of money at the time of assigning purchased stocks.

The process of distributing shares offered under the National IPO Program has been based on book building at the Kazakhstan Stock Exchange. This is a standard method used at other stock markets. However, in case of privatizations conducted in other emerging economies variety of forms have been used so far. Organizing distribution of shares via a book building process gives an opportunity to the issuer to shape the structure of the final placing, including the volume of placing and distribution of shares between different types of investors. It allowed also for avoiding submission of repeated applications from the same person. A modern book-building process during the National IPO Program has revealed investors characteristics [Pak. E., 2010, p. 30]. It allowed for a better match between demand for shares and preferences of each issuer covered by this form of privatization.

Individual investors represent a small share in the stock market in Kazakhstan. On the 1<sup>st</sup> January, 2011, according to internal data of JSC “Central Securities Depository” about 10 thousand sub-accounts were opened by brokers on behalf of natural persons. On the 1<sup>st</sup> June, 2011 natural persons held shares and bonds of non-state issuers of the market value of 80 billion tenge, or 0,65% of total amount of the listed stocks and bonds of non-state issuers.

The main reasons for low investment activity of the population have been [Approved Resolution by the Government the Republic of Kazakhstan September 8<sup>th</sup>, 2011, No. 102]:

- under-development of Kazakhstani stock market in terms of limited number of high rating issuers, illiquid main trading floor; these features led to discouraging individual investors and shifting demand for assets towards non-financial assets such as real estate and to simple financial instruments, such as bank deposits;
- low interest of the population in stock acquisition because of low level of awareness on mechanisms of securities market functioning, lack of specialized skills and knowledge on estimation of share value, high risk resulting from volatility of stock prices and other risk factors.

The expected volume of investment in available shares, when carrying out the first IPO, from pension funds of Kazakhstan amounted at US \$150 - 300 million. This forecast depended on the following factors: (1) market conditions



during carrying out the first IPO process, (2) a position of liquidity, (3) internal investment limits of each separate pension fund and (4) quality of a company privatized.

There was another issue, purely technical, concerning infrastructure necessary to provide the society of Kazakhstan with equal access to shares offered in the National IPO Program. It should be highly appreciated that infrastructure of securities market and its participants had been ready to offer to new investors modern services in line with global standards already before the first IPO. The main participants of the securities market, whose infrastructure had to be provided for the first IPO, were JSC “Kazakhstan Stock Exchange” (KASE), broker companies, transfer-agents, JSC “Central Securities Depository” (CSD) and registrars [Azhikhanov, 2011, p.59-73]. The key role in the course of initial public offering plays a trading floor. It serves various markets, including stock markets, corporate and government bonds market, foreign currency market, future contracts market, direct and automatic repurchasing agreement (REPO) market in state and corporate securities. Currently in the third quarter of 2014, about 337 securities are listed at KASE. About 90 of them are stocks of 66 issuers. Out of the 66 issuers only 9 are included in the top-quality category and only 16 belong to the second-best company category. The main requirements for these types of issuers have been:

- availability of audited financial statements according to the International Financial Reporting Standards;
- the amount of the first and the second category of issuers' equity capital has to be at least 13 billion tenges and 259 million tenges respectively;
- the nominal amount of the first category issuers net profit has to be not lower than 129 million tenges for the last three years, and for the second group this amount has not been set.

Participation of broker companies in the National IPO Program was very important for the success of the whole project by ensuring proper stock purchases and their subsequent sale. According to the official data, on the 1<sup>st</sup> July, 2011, there were 71 organizations that possessed a license for offering broker and dealer services. These entities included banks of the second level – 24; pension funds – 6; special pension fund managing entities – 2. However, most of the broker offices are located in two main agglomerations: the city of Almaty and the capitol - Astana. Such situation imposed some problems for accessing broker services by interested investors from other regions of Kazakhstan [Pak, 2010, p. 28]. As can be concluded, the geographical features of Kazakhstan created substantial impediments for the National IPO Program to serve in mitigating socio-economic inequalities. What is more, due to restricted access to financial services, the Program could aggravate and increase inequalities. It could have promoted wealthy citizens in big cities thus conserving low-income rural areas

without an option for diversification of assets held in their portfolios. The government solved this problem by providing shares of privatized companies via a much more accessible network of the National Post (Kazpochta) already in 2012. It turned out to be an efficient way to mitigate the problem of geographically restricted access to financial services, by using transfer-agency services. This solution worked by accepting and passing the documents from clients to actual brokers.

There are 3 companies in Kazakhstan having the license for rendering transfer - agency services. These are the JSC “Kazpochta”, already mentioned above, and the “National Bank of Kazakhstan” and LLP “DOS Finance”. These entities performed excellent in serving as intermediaries. They made the National IPO Program fully accessible for all citizens of Kazakhstan, no matter their residence. As such, it can be concluded that even with a vast territory and population dispersed among small and remote settlements, the privatization process became common with equal access for everyone, as intended by the government.

The main problems regarding readiness of infrastructure for implementation of the National IPO Program have been recognized as follows:

- low-quality personnel of financial intermediaries involved in distribution of stocks of privatized companies, unable to process large volume of orders from individual investors;
- concentration of specialized financial services in one agglomeration – the city of Almaty;
- underdeveloped network of registrars on the territory of Kazakhstan, and low reliability degree of existing service systems at a high number of orders;
- lack of possibility to execute electronic orders as well as no automated system of their processing at registrars.

According to the KASE, the trading system existing already in 2010 utilized only 1% of its capacity. It was planned to use a separate server for serving additional individual investors under the National IPO Program [Azhikhanov, 2010, p. 43–48]. It can be concluded in late 2014 that technical infrastructure required for successful execution of the privatization via IPOs met all the requirements and did not create any problems for successful provision of shares to interested individual investors.

## PROCEDURE OF CHOOSING COMPANIES FOR NATIONAL IPO PROGRAM

The process of privatizing state-owned companies in Kazakhstan was well-prepared and planned with due care and diligence. It started with an initial analysis of companies that were candidates for the National IPO Program. Out of a group of available enterprises for privatization only those that passed three stages of selection process were accepted. There was a scorecard system used to

evaluate and order companies that are put on sale under the National IPO Program auspices. There were six criteria used for evaluation, covering quality of strategic plans, financial position, and economic stability after the IPO, size of the IPO, and technical readiness.

**Table 2. Results of a scorecard analysis of the Companies-candidates that passed all three stages of selection**

Company- candidate	Strategic plan clarity	Financial position		Stability after IPO	Volume of IPO	Listing re-quirem.	Tech-nical readiness	Total number of points
		Past	Future					
AirAstana	2	2	2	1	2	2	2/2	15
KazTransOil	2	2	2	2	2	2	1/2	15
KEGOC	2	1	2	2	2	2	1/1	13
KazTransGaz	1	2	2	2	1	2	1/1	12
KazMorTransFlot	2	2	2	1	1	1	2/1	12
Samruk-Energo	2	1	2	1	1	2	1/1	11
KazMunaiGaz	1	2	2	0	0	2	1/1	9
KazAtomProm	1	1	1	0	0	2	1/1	7
KazTemirTrans	1	2	1	1	1	2	0	8
KazakhstanTe-mirZholy	1	2	1	1	0	2	0	7

Source: Author on the basis of The Program of transfer of shares of subsidiaries and affiliates JSC "National Welfare Fund "Samruk-Kazyna".

The available scores were as follows: 2 points if a company fully meets the required level of a particular criterion to be privatized via the IPO; 1 point if a company is currently a candidate but does not meet the required level of a criterion due to problems that can be readily solved, and there is a plan of action for achieving the necessary characteristics; and 0 points if a company does not meet the required level of a criterion at the time of evaluation and achieving the necessary characteristics requires more time and effort. [The Program of transfer of shares of subsidiaries and affiliates JSC "National Welfare Fund "Samruk-Kazyna"] Basic facts and figures concerning the actual scores at the onset of the National IPO Program in 2011 are presented in table 2.

Summarizing, as can be derived from the total score obtained by companies assessed for the National IPO Program, only few of them were ready to be put on sale in 2011. Most of them required time to reform and improve their characteristics. As such, it does not offer a positive impression of state-owned companies, as they did not represent attractive investment opportunities. There were, however, some positive features of the enterprises listed in the table 1 that made them successful during the IPOs. One could point out the following facts that increased attractiveness of the first few new entrants to the KASE [Samruk-Kazyna 2011]:

- JSC “KazTransOil” is the biggest operator of oil pipelines in Kazakhstan; it is responsible for transporting about 60% of the oil production and has a stable business environment;
- JSC “KEGOC” provides main services in operating electricity grid; it is a transparent and honest business, which possesses many advantages, including a monopolist position.
- JSC “AirAstana” holds a leading position in the fast-growing air transportation market in the CIS region, and operates a modern fleet of aircraft, being the only Kazakhstani airline allowed to enter the European Union air zone.

In spite of a still vast portfolio of state-owned corporations in Kazakhstan, it was not an easy task to choose financially sound enterprises that attract interest of individual investors domestically. Finally, only ten companies were included in the National IPO Program. However, after several years of conducting this original form of privatization, we can conclude that all of the placements were successful and delivered the expected socio-economic results by achieving desired goals. As a consequence, even with such modest scale of privatization, social inequalities were mitigated directly by offering ownership of national economy “flagships” and indirectly by improving legal framework and infrastructure to decrease social exclusion of groups living in remote locations far from the financial center.

## CONCLUSIONS ON EFFECTS OF NATIONAL IPO PROGRAM

Socio-economic inequalities in emerging economies of the post-Soviet Union countries draw attention of governments and international organizations alike. Problems of social inclusion of groups living in remote locations, far from administrative centers, are of no small importance. The case of Kazakhstan is a prominent one, when discussing social exclusion. This is due to a de-facto mono-center design for administration and single center of the domestic financial sector. With a vast territory and highly dispersed population, along with the city of Almaty that serves as a financial center, Kazakhstan is naturally domestic investor unfriendly. In order to mitigate problems resulting from geographical features of the country and to achieve a multitude of socio-economic goals, the government decided to conduct a privatization at a modest scale. With its National IPO Program every citizen of the Republic of Kazakhstan, no matter the actual place of living, could become a shareholder of the biggest, the most successful and therefore the most attractive state-owned companies. In spite of many technical and institutional impediments faced by the Program of privatization, we can conclude that it was a fully successful initiative on the way to a civil society. It involved a wide-range information campaign aimed, not only at advertising, but also at increasing financial literacy and social awareness. This process of privatization represented a very strong impulse and a motivating fac-

tor for state-owned companies to improve their economic and financial standing, to become transparent and to meet global standards that allow to be listed at a regulated stock exchange. Benefits of this National IPO Program have been numerous. They are not restricted to individual investors, or companies that offered their shares. It should be noted that the whole financial sector benefited from intensified privatization process. It was due to improvements in services offered and through the development of distribution networks for financial services via three agents (including the National Post). The benefits for the society included enhancing diversification of assets' portfolio, and improving management of pension funds that suffered from insufficient investment instruments available domestically. Social goals that were achieved included a systematic construction of a civil society in the Republic of Kazakhstan. Creation of a national identity was achieved by encouraging people to invest domestically and associate personal financial success with the "flagships" of the national economy.

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- [www.samruk-kazyna.kz](http://www.samruk-kazyna.kz)

#### Summary

This paper is an attempt to present the gist and consequences of a specific privatization program implemented by the government of the Republic of Kazakhstan. We are currently at the final phase of the National IPO Program in late 2014, so first evaluations of socio-economic effects of this initiative are possible. Employing a holistic approach in the analysis of the process of privatizing the biggest and the most successful state-owned companies in Kazakhstan delivered several interesting insights into benefits obtained by the RK citizens and institutions. First, the National IPO Program offered numerous incentives in the process of creating a modern civil society, based on inclusion, awareness and responsibility for one's fate and for fellow citizens. Second, the privatization was a transformation factor that motivated state-owned companies to improve their

financial standing and implement global standards in management and communication with investors and with other stakeholders. Third, the domestic legal and institutional framework was adjusted for a modern form to allow for involving society in financial market transactions. One can conclude that the government of Kazakhstan has been fully successful in achieving a set of socio-economic goals with this original form of modest privatization. As such, this case could serve as a role model for other countries in Central Asia that still hold substantial portfolios of state-owned enterprises and are planning to share the national wealth with fellow citizens for the sake of the national economy. Due to many problems and missed opportunities associated with privatization plans implemented in Central and Eastern Europe we can issue a positive recommendation for this form of distributing ownership of state-owned companies among domestic investors. Not only it worked very well in mitigating the social exclusion in Kazakhstan, but also allowed achieving multitude of other goals that brought benefits for all stakeholders.

*Keywords:* IPO, privatization, Kazakhstan, stock market, socio-economic inequalities

## **Spoleczne i ekonomiczne skutki narodowego programu prywatyzacji w Kazachstanie**

### *Streszczenie*

Artykuł ten jest próbą przedstawienia istoty i konsekwencji specyficznej formy prywatyzacji zastosowanej przez rząd Republiki Kazachstanu. Znajdując się w końcowym okresie Narodowego Programu IPO w trzecim kwartale 2014 roku możliwe staje się formułowanie pierwszych ocen efektów społeczno-ekonomicznych tej inicjatywy. Stosując podejście holistyczne w analizie procesu prywatyzacji największych i najznamienitszych przedsiębiorstw państwowych w Kazachstanie dostarcza interesujących obserwacji o korzyściach uzyskanych przez obywateli i instytucje oraz całą gospodarkę narodową. Po pierwsze, Narodowy Program IPO dostarczył licznych przesłanek w procesie tworzenia nowoczesnego społeczeństwa obywatelskiego opartego na włączeniu grup obywateli w procesy gospodarcze, budowaniu świadomości narodowej i ekonomicznej oraz odpowiedzialności za własny los oraz współobywateli. Po drugie, prywatyzacja była czynnikiem wyzwalamym i motywującym przedsiębiorstwa państwowe do zmian poprawiających ich sytuację finansową oraz do wprowadzenia globalnych standardów w zarządzaniu i komunikacji z inwestorami oraz innymi zainteresowanymi grupami interesu. Po trzecie, krajowe ramy prawne i instytucjonalne zostały zreformowane i zmodernizowane w procesie dostosowania do nowoczesnych form zaangażowania społeczeństwa w transakcje na rynku finansowym. Można stwierdzić, że rząd Republiki Kazachstanu osiągnął pełen sukces realizując skutecznie założone cele społeczno-ekonomiczne za pomocą tej oryginalnej formy częściowej prywatyzacji. Przypadek ten może stanowić wzorcowe rozwiązanie dla innych krajów Azji Centralnej, które nadal utrzymują znaczące portfele przedsiębiorstw państwowych i planują doprowadzić do podziału bogactwa narodowego ze współobywatelami dla dobra gospodarki narodowej. Ze względu na liczne problemy oraz utracone możliwości rozwojowe związane z procesami prywatyzacji implementowanymi w Europie Środkowej i Wschodniej można wystawić pozytywną rekomendację dla kazachskiej formy dystrybucji prawa własności przedsiębiorstw państwowych wśród inwestorów krajowych. Rozwiązania kazachskie uporały się z pewnymi problemami wykluczenia społecznego, a także pozwoliły na osiągnięcie licznych celów niosących korzyści dla wszystkich zaangażowanych i zainteresowanych grup i podmiotów.

*Słowa kluczowe:* pierwsze oferty publiczne, prywatyzacja, Kazachstan, rynek giełdowy, nierówność społeczno-ekonomiczne

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