

Recalibration of public-private partnership policy in Kazakhstan — what to expect?



KAZAKHSTAN

By Shaimerden Chikanayev

In 2020, Kazakhstan faces a hurricane in the form of the impact consequences of the COVID-19 pandemic and the plunge in the price of oil to a 20-year low, including, among others, decreased economic activities, devaluation of the local currency (tenge), reduced foreign direct investments in risky markets and shrinking state budgets.

Still, the need to attract investments in deteriorating public infrastructure remains acute and the government of Kazakhstan will now be even under more pressure to find quick answers to hard questions about maintaining public services and therefore, immediate actions are needed by the Kazakh government to recalibrate the public-private partnership (PPP) government policy.

By the end of 2018, it became apparent to all relevant stakeholders, including the government of Kazakhstan, that PPP was developed in the wrong direction in the country and that the current PPP policy model that enables exponential growths of local-level PPPs is set to wipe out Kazakhstan's state budget and bring the country's economy to the point of collapse.

To address these issues, in May 2019 the government of Kazakhstan declared a new PPP policy with 'quality' PPP projects as a priority, whereas the 'quantity' of PPP projects was an unofficial priority for PPP developments during the previous stage.

In addition to the aforementioned new PPP policy goal of 'quality instead of quantity', the PPP Center of Kazakhstan came up with an idea to use a new concept initiated by the United Nations Economic Commission for Europe called 'People First PPPs' for the development of regional PPPs and local infrastructure in Kazakhstan.

It is yet to be seen whether a new PPP policy developed by the PPP Center and the Ministry of National Economy in 2019 would be successful; however, it is already clear that this new PPP policy was not thought through well enough.

First of all, it seems that neither the PPP Center nor the Ministry of National Economy clearly understands what they mean by 'quality' PPP projects. As for the 'People First PPPs' concept, it seems to be just a declaration.

The current position of the PPP Center and the Ministry of National Economy is, apparently, that Kazakhstan as a developing country does not need and cannot afford large-scale infrastructure projects by means of PPP and, therefore, the PPP strategy shall be to implement many small-scale and service-type (such as without capital investments) local-level PPPs like kindergartens, sport facilities, etc, that do not require any financial support from the state.

This 2019 PPP policy, therefore, will likely jeopardize attracting foreign investments by means of PPPs in Kazakhstan in a much-needed upgrade of, inter alia, the healthcare, utilities and energy sectors that require a lot of capital investments and, generally, cannot be implemented without additional payments from the state budgets as compensation of certain investment expenses.

For instance, the increase in tariffs for utilities services is considered as a politically sensitive issue that can trigger riots and therefore, there is a need for fundamental reforms of Kazakhstan's tariff methodology and pricing generally in sectors where monopolies naturally occur and particularly in utilities.

As the coronavirus outbreak spreads across the world, it is clear that many existing PPP projects in Kazakhstan will experience considerable revenue-generating challenges. The time has come to revisit the existing 2019 state policy for PPPs in Kazakhstan. There should be more real infrastructure PPPs at the national level with the involvement of international financial institutions, including Islamic finance banks, and foreign investors and fewer local-level 'fake' small-scale service-type PPPs. ☹

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