

New PPP approach in Kazakhstan: contract arrangements

Private public partnership (PPP) is being practiced all over the world, and Kazakhstan is not an exception. Not long ago President of Kazakhstan Nursultan Nazarbayev delivered his annual State-Of-The-Nation Address where declared about the necessity of development of public- private partnership as mechanism of unloading budget expenditures and also about working out additional measurements to encourage private investment into priority sectors of economy. In the context of current economic situation, procurement method is no longer optimal way for the economy of Kazakhstan; therefore PPP became a new trend.

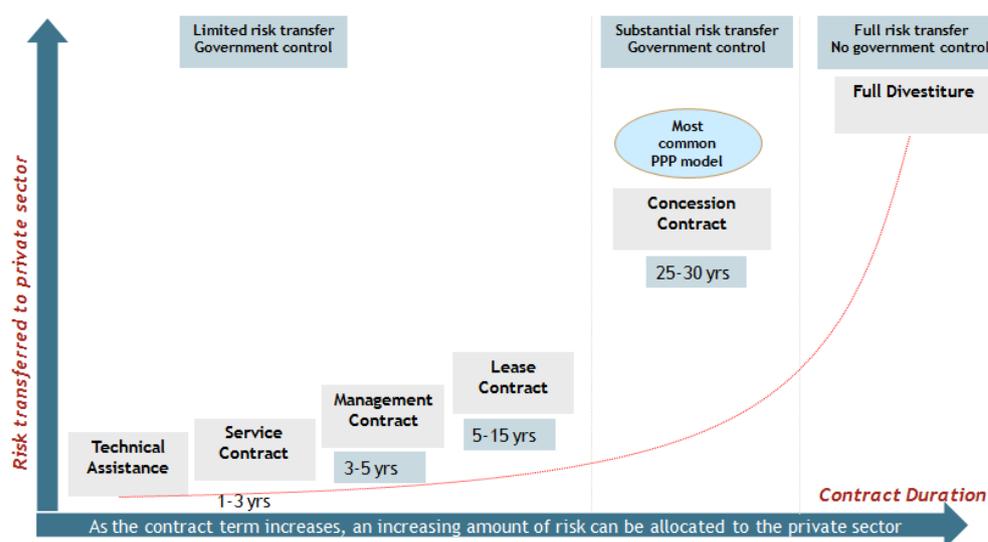
Why PPP is recognized as an efficient approach in financing public facilities? Let's apply to the definitions about PPP:

Business dictionaries define public - private partnership as a medium or a long – term relationship between the state and private companies for solving socially important issues on mutually advantageous conditions. What are those conditions? For the state, private companies ease the financial burden which is on the state's shoulders, for the private companies, it is the platform for the investments which will bring high returns. Public – private partnership offers both state and private companies a tool through which they will interact with each other – contracts. These contracts assist in the establishment of the mutually beneficial relations between the sides considering rights of the parties, payments and risk guaranties.

Worldwide experience demonstrates the efficiency of public private partnership practice: numerous examples of building public facilities, their operation and maintenance (O&M) by private organizations confirm that it is Pareto efficient for both sides. For instance the building of a new public hospital is an issue which lies on the state, nonetheless, the state can shift its responsibility to the private company which will design, build the hospital at their own expenses or through creditor, then transfer the ownership to the state, instead receiving guaranteed subsidies and payments for the operation and maintenance of the hospital. These actions will be written on the DBFT contract (Design – Build – Finance -Transfer).

Different types of contract reflect different needs of the state and the conditions on which private company agree. This model of business relations is popular in rapidly developing and developed countries as they realize the efficiency of such an approach for solving the funding problems.

For the public – private partnership to be implemented in national economy the legitimacy is needed. The government of Kazakhstan adopted an upgraded law on PPP on November 2015 which allowed the diversity of the contracts between state and private partners to be legally permitted. If before only concessions were allowed now service contracts, lease contracts, operate & maintenance contracts and others are allowed. The difference between the concession and these contracts is in the duration and value. The concession is a long term and expensive, on the other side “service, lease and O&M” contracts are easier to be implemented as they could be medium – term, require less financing and therefore less risks as it is seen in the graph below.



Source: International Finance Corporation, 2015, “Options for Private sector participation” presented on the 1st Istanbul PPP Week (Nov, 2015)

Let’s look what these contracts can offer in deep:

In service contract private partner provide different kind of services to the state partner for the period of at least 3 years, management contracts provide the operating and maintenance of the facility. In lease contracts the private partner can lease the facility to the state with the following redemption of the facility by the state. As the duration of the contract is growing, risks and value of the contract rise.

The legitimacy of these contracts which was given by the law on November 15 prepared the platform for the implementations of numerous projects in Kazakhstan. Public Private Partnership recently attracts significant attention of the governmental officials as its implementation demonstrates high political will and facilitates to the active participation of investors into public sphere. Due to the budget limitations which government of Kazakhstan experiences now, in connection with the world economic and political crisis, therefore in the context of the current situation PPP becomes the key element which will sustain the economy and infrastructure on the optimal level. Those private companies who see the

development of PPP in Kazakhstan understand the influence of it; they see it as a brand new trend.