



PPP IN KAZAKHSTAN

Kazakhstan – General economic overview



Kazakhstan has the largest economy in Central Asia and one of the fastest-developing economies in the CIS region

- Low unemployment rate (a stable level for many years)
- During the past decades Kazakhstan demonstrated strong real GDP growth rates of 6.4 % on average (1998-2017)
- GDP growth rate in 2018 is 4,1%

Land	2,7 mln km ²
Capital city	Astana
Currency	Tenge (KZT)
Population (as of 01/09/ 2018)	18,3 mln
Unemployment rate	4,9%
GDP annual growth rate, 2017	4,1%
GDP, 2017	162,9 bln USD
GDP per capita, 2017	9 031 USD

Source: Ministry of national economy of the Republic of Kazakhstan Committee on statistics

Kazakhstan for Investment

Investment climate: a set of systematic measures have been implemented to improve the business environment to reach 36th position in Doing business rating by 2018

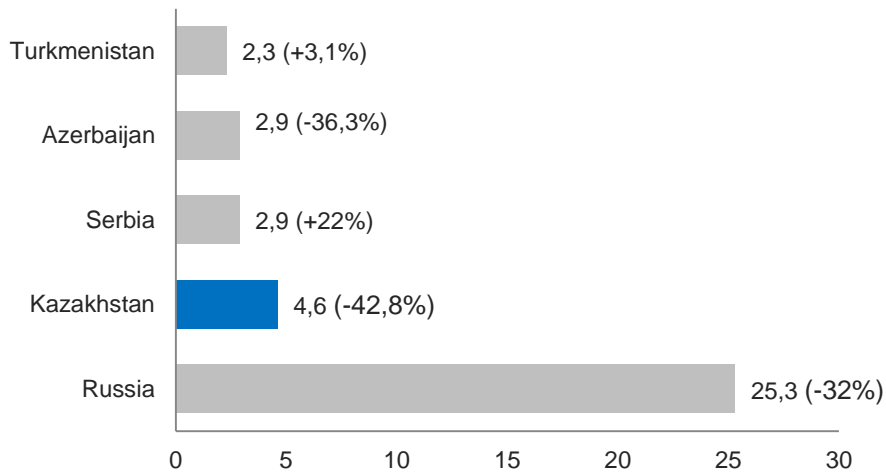
Doing Business 2018

Economy	Global Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Protecting Minority Investors	Paying Taxes	Enforcing Contracts	Resolving Insolvency
New Zealand	1	1	3	1	2	9	21	32
Singapore	2	6	16	19	4	7	2	27
Denmark	3	34	1	11	33	8	32	7
Korea, Rep.	4	9	28	39	20	24	1	5
Hong Kong SAR, China	5	3	5	55	9	3	28	43
...
Russian Federation	35	28	115	12	51	52	18	54
Kazakhstan	36	41	52	17	1	50	6	39
Azerbaijan	57	18	161	21	10	35	38	47
Turkey	60	80	96	46	20	88	30	139
Uzbekistan	74	11	135	73	62	78	39	87
Kyrgyz Republic	77	29	31	8	51	151	139	119

Kazakhstan for investment

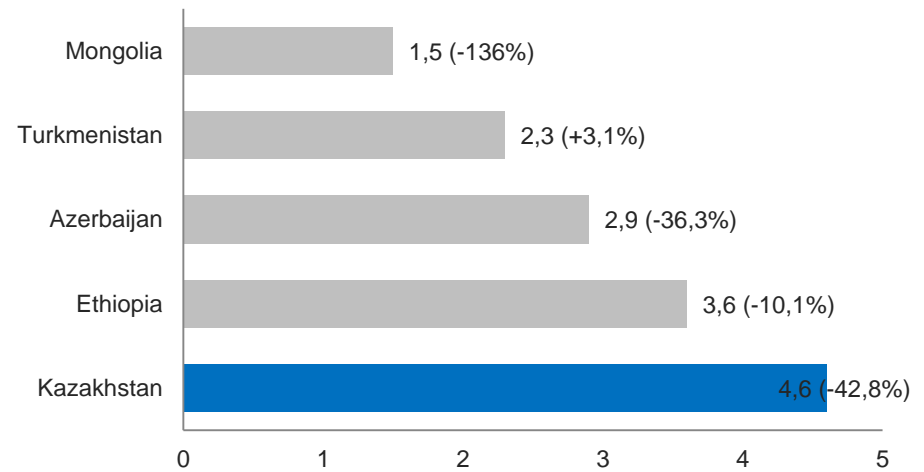
TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2017
\$ bln. (change)



LANDLOCKED DEVELOPING COUNTRIES

FDI flows, top 5 host economies, 2017
\$ bln. (change)



According to the UNCTAD Kazakhstan has entered top 5 host economies for FDI inflow among transition economies and became the largest FDI recipient in the landlocked developing countries group in 2017 .

How Kazakhstan supports investors

INVESTMENT PREFERENCES INCENTIVES

Tax benefits

- Corporate Income Tax (CIT) – **0 % 10 years**
- Land tax – **0% 10 years**
- Property tax – **0% 8 years**

Investment cashback

Up to 30% cashback for construction and installation works and equipment

Migration benefits

The right to employ foreign labor without quotas and permits
 Visa-free travel for citizens of 19 OECD countries

Stable legislation

Stability of tax legislation for all taxes except VAT and excise (subject to investment contract)

Customs privileges

Exemption from Customs duties 0% on the import of:

- equipment and its components,
- spare parts,
- raw materials and supplies.

State in-kind grants

Land plots, buildings, machinery and equipment in property.

SPECIAL ECONOMIC ZONES (SEZ)

Tax benefits

CIT – **0%**
 Land tax – **0%**
 Property tax – **0%**
 VAT – **0%** (on all goods completely consumed in the production process)

Other privileges

Providing the land in the territory of the SEZ for a period of up to 10 years
 Simplified procedure for foreign labor recruitment

Customs privileges

Exemption from customs duties for goods imported into SEZ territory



The "One-Stop-Shop" support for investors

Assistance in obtaining the required approvals and permits

Provision of services to foreign investors and representatives of Kazakhstan business

Information, consulting, organizational and other assistance to the investor

Support for investment project until the start of production



PPP is a mutually beneficial cooperation of the state and private sector in industries traditionally related to the state responsibility under conditions of a balanced risk allocation, benefits and costs, rights and obligations defined in the relevant agreements.

PPP in Kazakhstan: legislation aspects

CONCESSION LAW (since 2006)

The law defines legal terms of concession, the concessionaire types of state support and regulates public relations arising in the process of conclusion, execution and termination of concession agreements.

MAJOR AMENDMENTS TO THE CONCESSION LAW (2013-2017)

- Availability payment, off-take contract
- Long-term rates for PPP projects
- The minimum share capital reduced to 10% of the cost of concession project
- Direct agreement, step-in-rights
- types of contracts (BOT, BOO, O&M, DBFO etc.)
- Transparency of procedures: a two-stage tender
- Institutional support for PPP projects was developed and divided into National level (Kazakhstan PPP center) and regional level (regional PPP centers)

SUCCESSFUL PROJECTS:

- Construction and operation of the new railway line "Station Shar - Ust-Kamenogorsk" (contract term 2005-2028 yy.)
- Construction and operation of the new passenger terminal of Aktau International Airport, (contract term 2007-2037 yy.)
- Construction of an automobile checkpoint and transport and logistics center on the Almaty-Khorgos road section of the international transit corridor "Western Europe - Western China"(contract term 2017-2025 yy.)
- Electric transmission line 500 kwt North Kazakhstan - Aktobe region
- The project of construction and operation of the motor road "Big Almaty Ring Road (BAKAD)" (contract term 2018-2037 yy.)

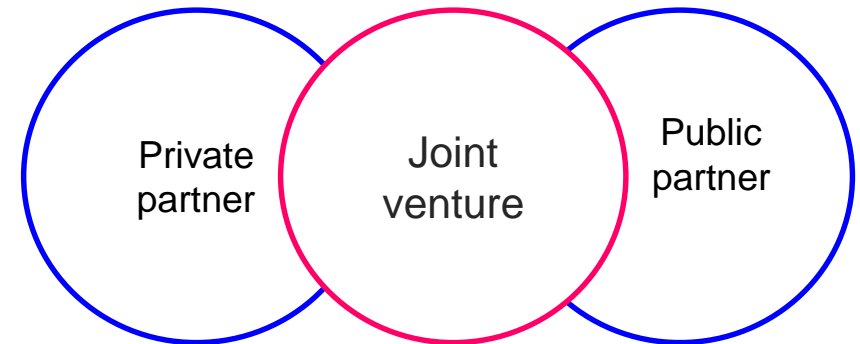
PPP in Kazakhstan: legislation aspects

PPP LAW (since 2015)

CONTRACTUAL PPP

- ▷ Concession contract;
- ▷ Trust management contract;
- ▷ Leasing
 - long-term lease of private property;
- ▷ Lifecycle contract
 - entire life cycle of the project (roads, railway transport);
- ▷ Service contract;
- ▷ Other contracts
 - corresponding to the characteristics of public-private partnership.

INSTITUTIONAL PPP



- ▷ Alternative to state entrepreneurship
- ▷ Public and private partnership form up equity for lenders
- ▷ Mechanism of withdrawal of the state from the project

PPP legislation: Difference between Concession law and PPP law

PPP law

- ▷ PPP contract can be multilateral;
- ▷ state partners - there can be not only state bodies, but also subjects of the quasi-state sector;
- ▷ development of the investment proposal is not required;
- ▷ one-stage, two-stage, direct negotiations (PFIs), a simplified, closed tender

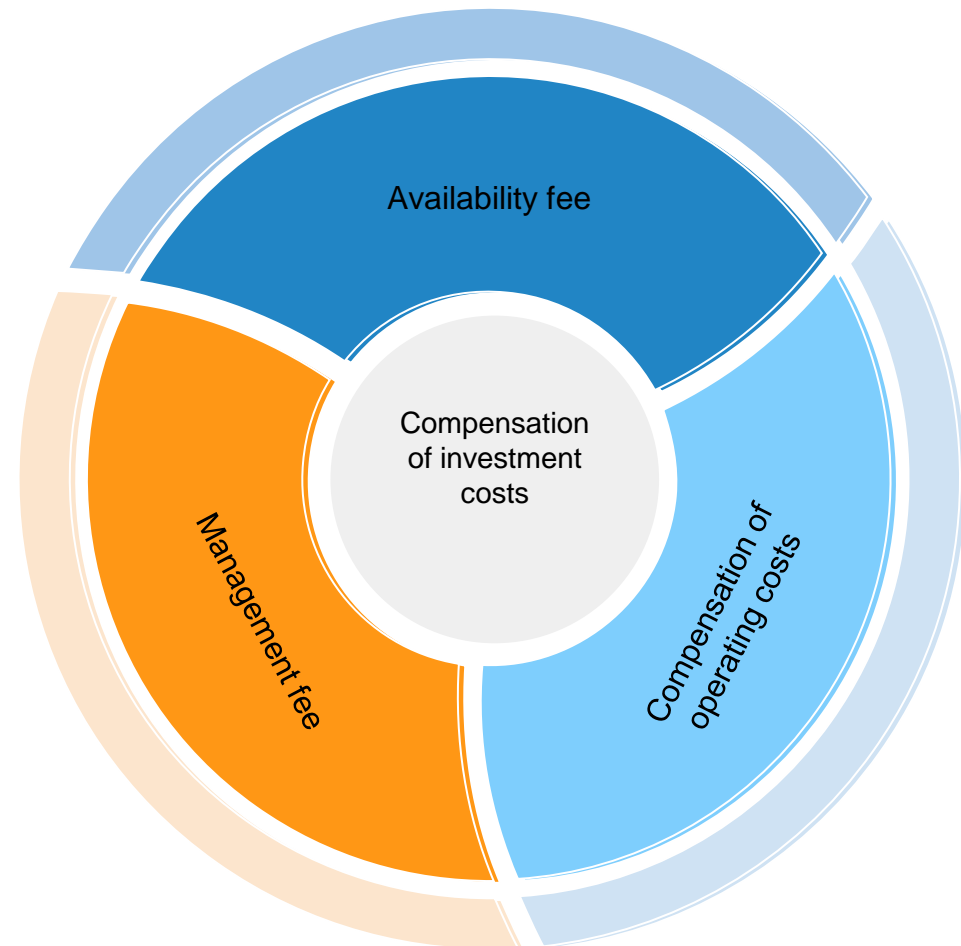
Concession law

- ▷ the concession agreement is strictly bilateral;
- ▷ government partners (grantors) only;
- ▷ government agencies;
- ▷ development of investment proposal is required;
- ▷ only one stage and two stage tenders

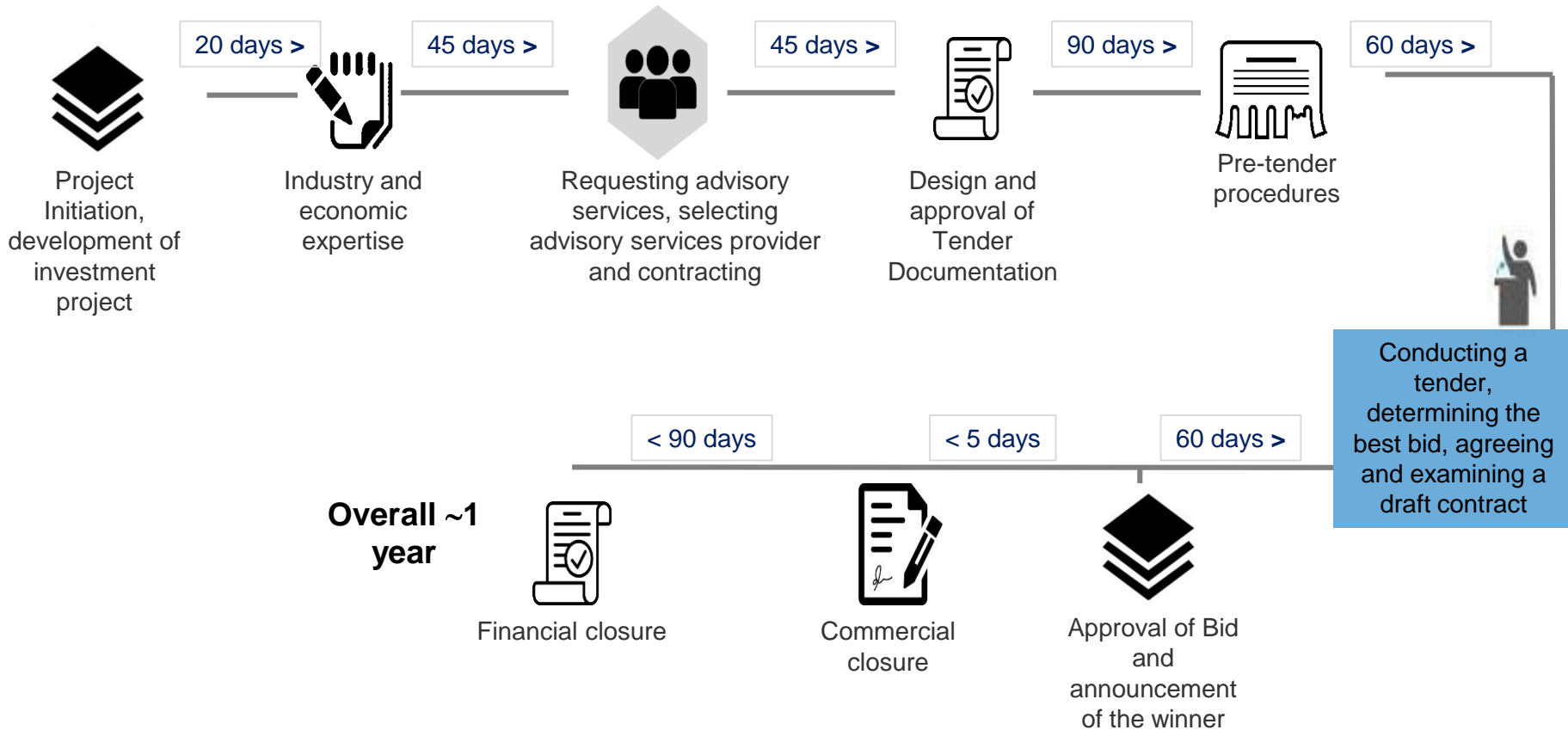
State support for PPP projects

- Guarantees of the state on infrastructure bonds
- Granting natural grants
- Co- financing from state
- Open and transparent 2-stage tender
- Currency risk compensation (only for projects of special significance)
- Availability payment
- Minimum equity request is decreased to 10% of the cost of concession project
- guarantees of consumption by the state of a certain volume of the goods, works and services made during implementation of public-private partnership projects.)

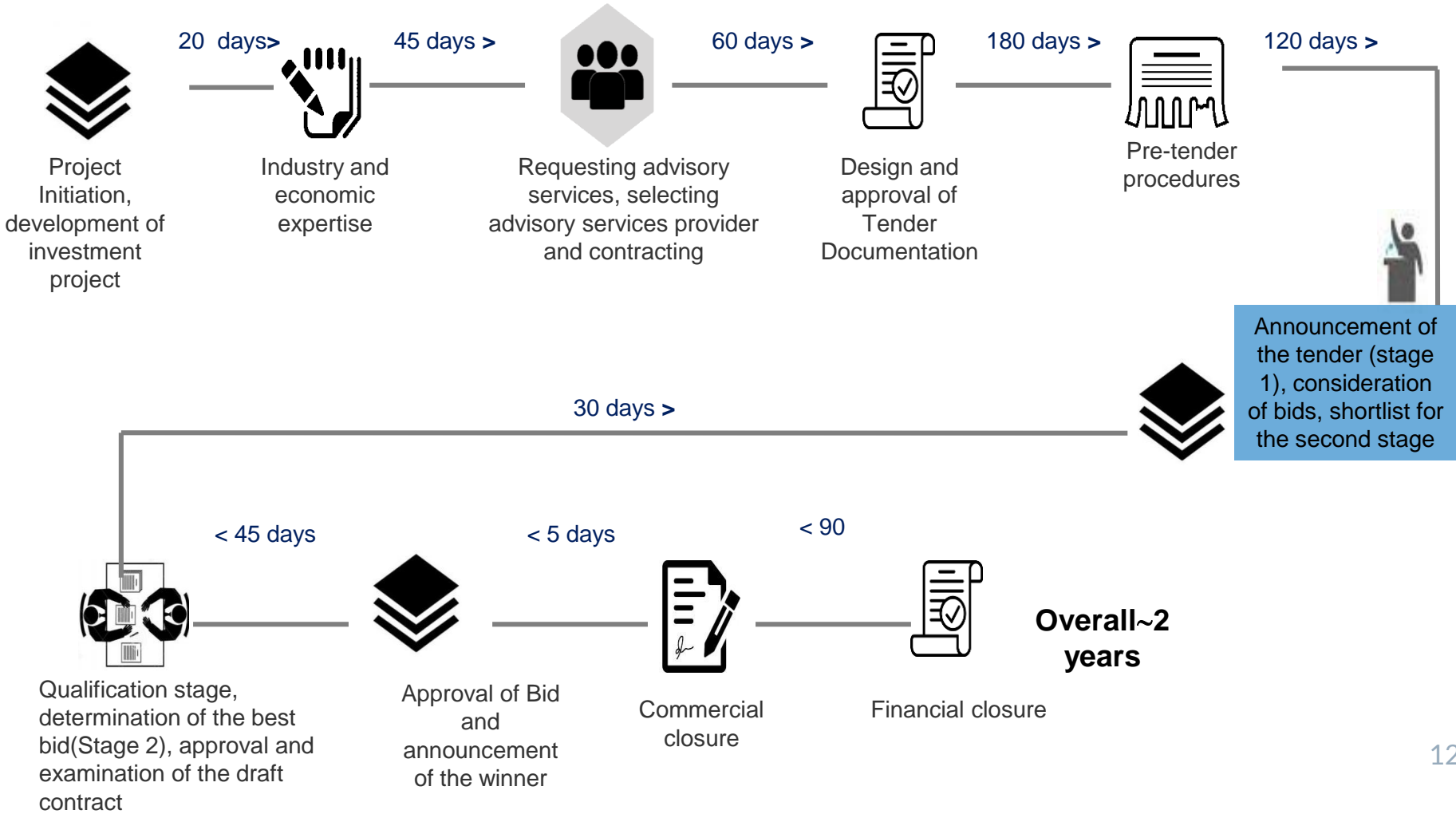
Sources of cost recovery and income of the concessionaire:



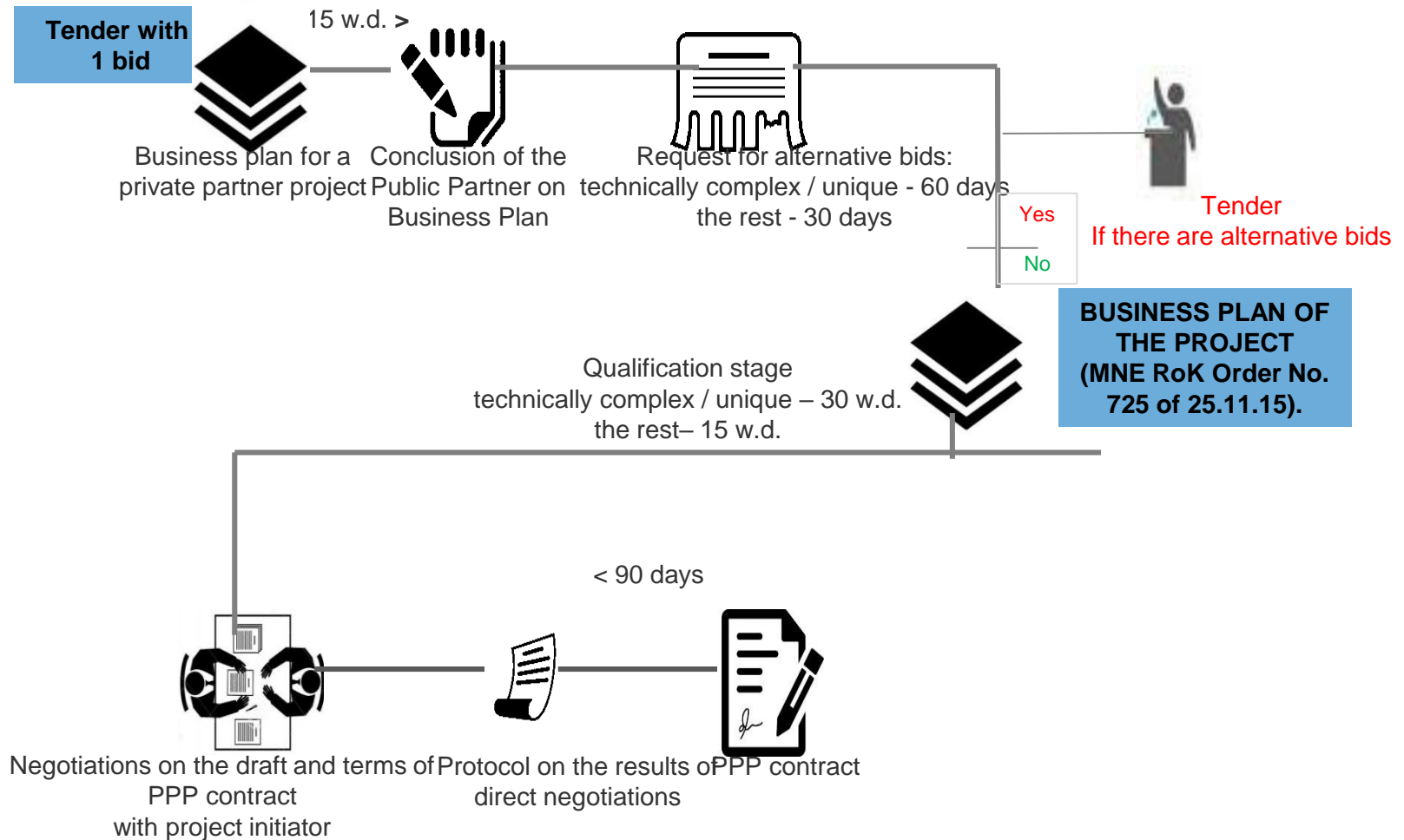
PPP models: 1 stage tender process



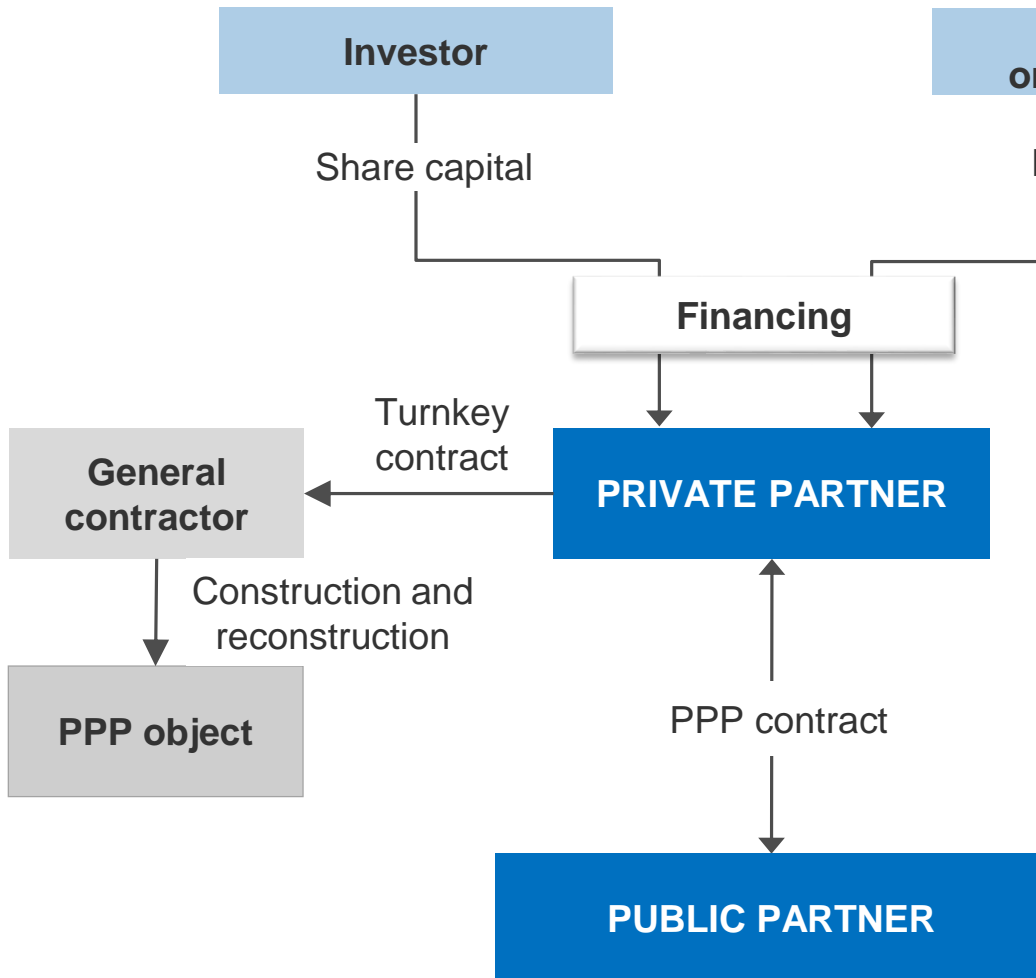
PPP models: 2 stage tender process



PPP models: Private Finance Initiative



PPP project: interaction of the parties during investment period



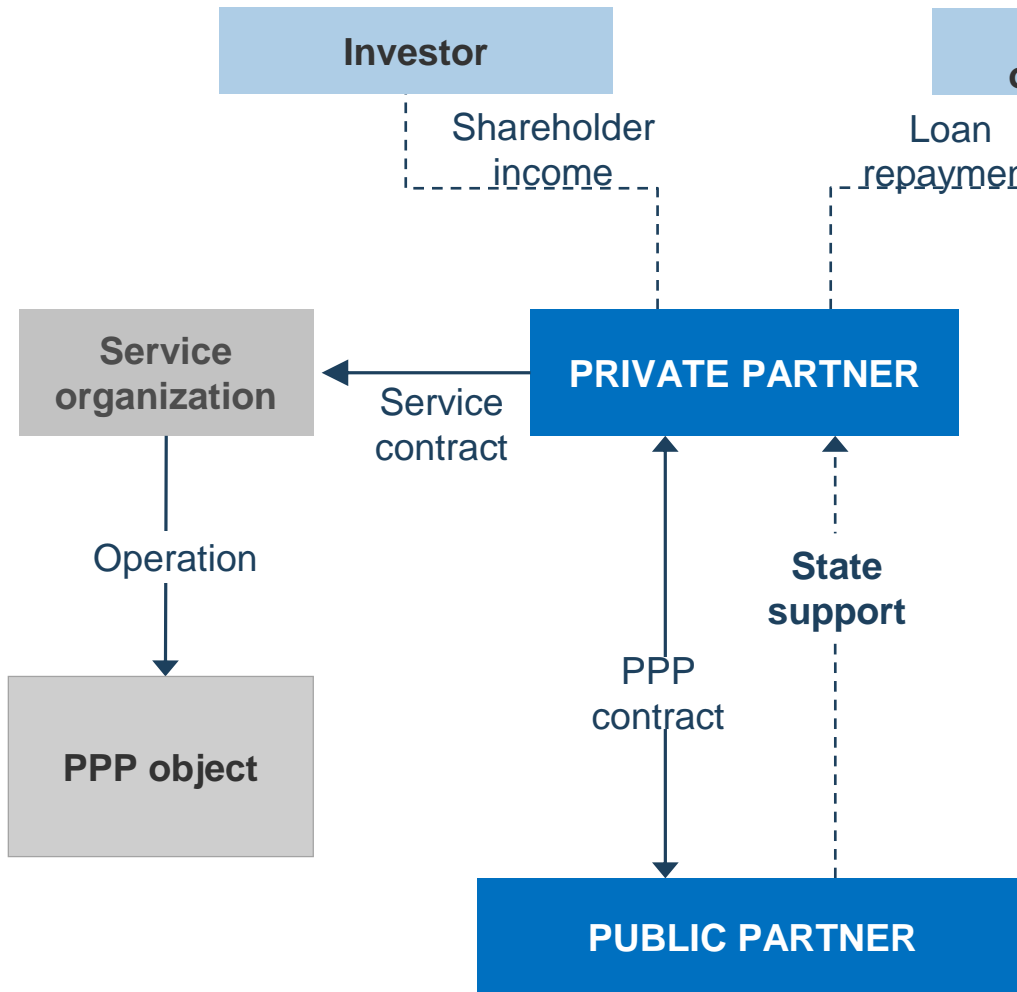
State partner obligations:

- ✓ land provision;
- ✓ external infrastructure;
- ✓ provision of design and estimate documentation with reference (if any)

Private partner obligations:

- ✓ financing;
- ✓ construction / reconstruction;
- ✓ transfer of the object to state ownership after completion of construction or at the end of the term of the PPP contract.

PPP project: interaction of the parties during post-investment period



State partner obligations:

1. State support measures:
 - ✓ compensation of investment costs;
 - ✓ compensation of operating costs;
 - ✓ payment of management fees;
 - ✓ other measures in accordance with the law.
2. Monitoring the implementation of the PPP contract.

Private partner obligations:

- ✓ Operation and management of the PPP facility according to the terms of the PPP contract;
- ✓ Repayment of the loan

PPP projects since 2006

 **≈3 bln \$**

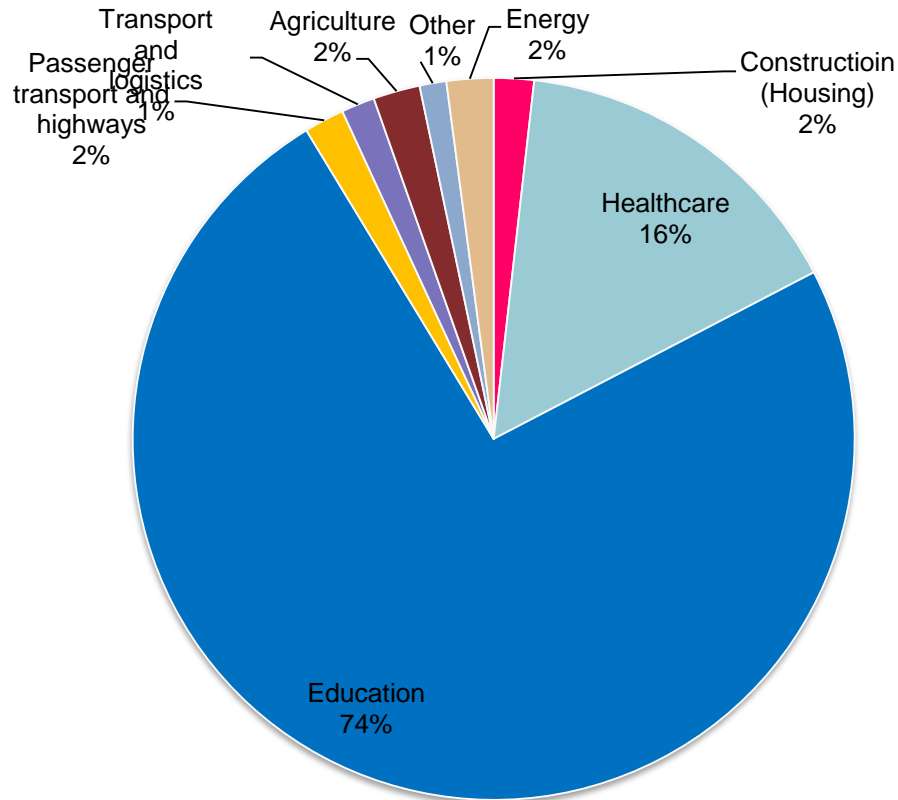
1096,2 bln KZT for PPP projects (1 USD= 368KZT)

 **443 / 449 PPP
contracts / objects**

 **275 (61%) Commissioned
facilities**

174 facilities are under construction

PPP projects by sector

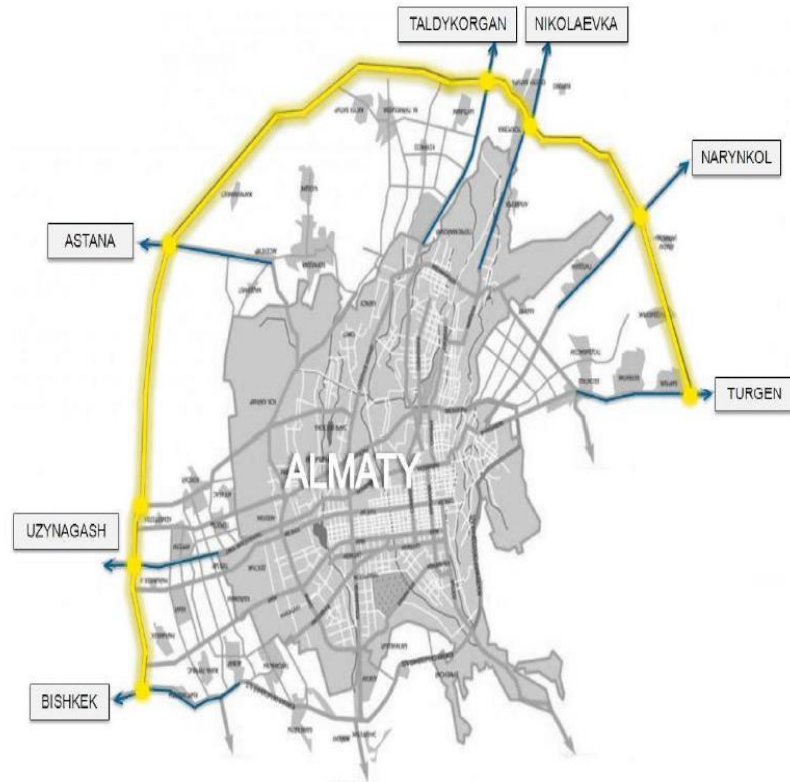


Education	<ul style="list-style-type: none"> • Construction and operation of kindergartens; • Construction and operation of residence halls; • Technical management of schools;
Healthcare	<ul style="list-style-type: none"> • Construction and operation of health facilities
Housing and utilities	<ul style="list-style-type: none"> • Water supply and wastewater disposal; • Municipal solid waste treatment; • Reconstruction and operation thermal generation capacity and distribution networks;
Energy	<ul style="list-style-type: none"> • Construction of power plants (renewable energy); • Maintenance of electric distribution networks;
Transportation	<ul style="list-style-type: none"> • Construction and operation of roads; • Construction (reconstruction) and operation of railway, bus and airport terminals; • Construction of parkings.

Source: Kazakhstan PPP center

Almaty Ring Road PPP (BAKAD) project case

- Part of the “Western China – Western Europe” transnational highway
- Population served¹ – c. 2,000,000
- **Greenfield bypass toll road**
- **Length – 66 km** (4/6 lanes)
- **CAPEX – est. \$680m**
- Remuneration based on **availability payments**
- **Currency risk** mitigation mechanism
- Other standard project finance features (incl. termination, arbitration, step-in provisions, etc.)



[1] Includes Almaty and three neighbouring districts.

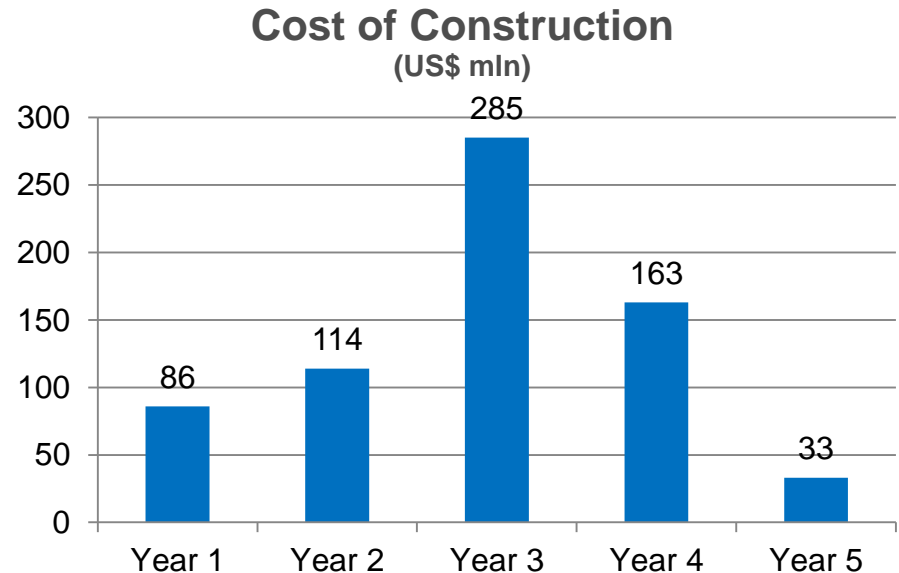
Technical Parameters: CAPEX

- Estimated cost of construction: **US\$700 m***
- CAPEX estimated by GoK's* advisors based on:
 - Detailed design
 - Local methodology for cost estimation
- Approved by Gosexpertiza
- Bidders allowed to review CAPEX estimates during bidding process
- 20-years BTO
- Traffic revenues collected by concessionaire and transferred to GoK
- Concessionaire remunerated through **front-loaded availability payments**
- Paid in local currency but government to compensate for **currency fluctuations**

**Defined as sample amount*

GoK – Government of Kazakhstan

Gosexpertiza – State Expertise Authority



Compensations

Investment cost compensation – Fixed

- Cost of construction including interest during construction (LIBOR + 3%) and other elements
- Paid during first years of operation (to mimic debt repayment schedule)

Compensation of other costs– Fixed

- OPEX, REPEX, tax, cost of capital and other costs
- Paid during operations period

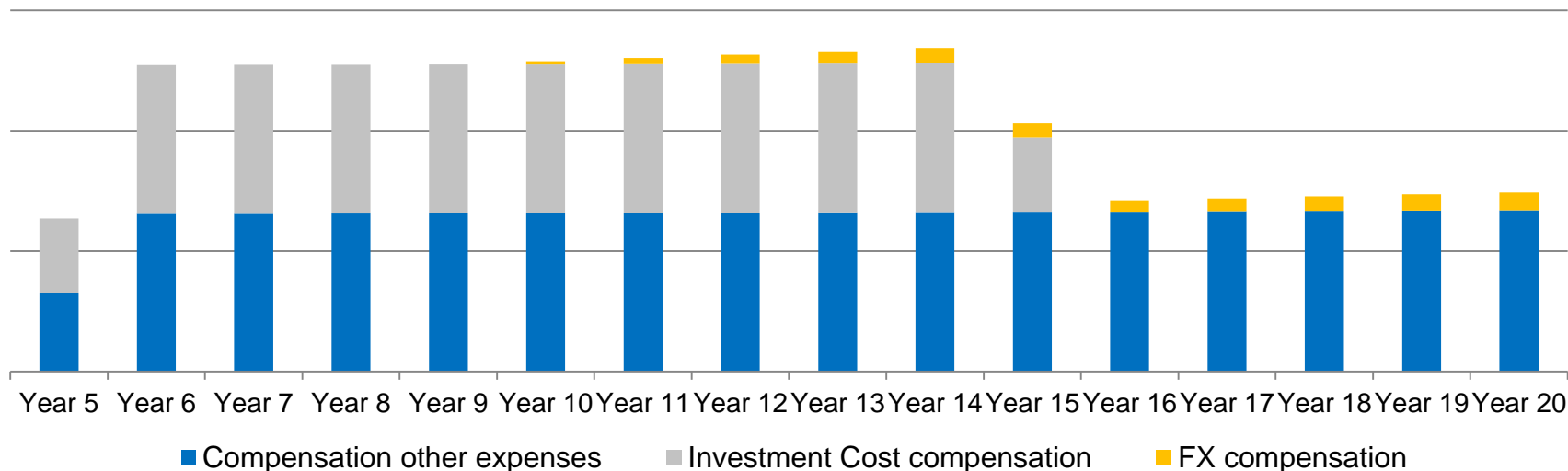
Currency risk compensation – Variable

- Additional public subsidy to compensate for any devaluation-depreciation of KZT Vs US\$ above 5% (cumulative)

Credit rating Kazakhstan: **BBB+** (S&P), **Baaa2** (Moody's)

Strong interest from lenders: IFC, EBRD and ADB

Availability Payments (illustrative)



Legal & Institutional Framework

BAKAD project awarded in the form of a concession by Order of the Government of the RK No. 1518 dated 31/12/2013. Recognized as a **project of special importance** (Order of the Government of the RK No. 1060 dated 7/10/2014)

Established investment protection (against illegal acts of state bodies, against nationalization and requisition, right to use and dispose of revenues)

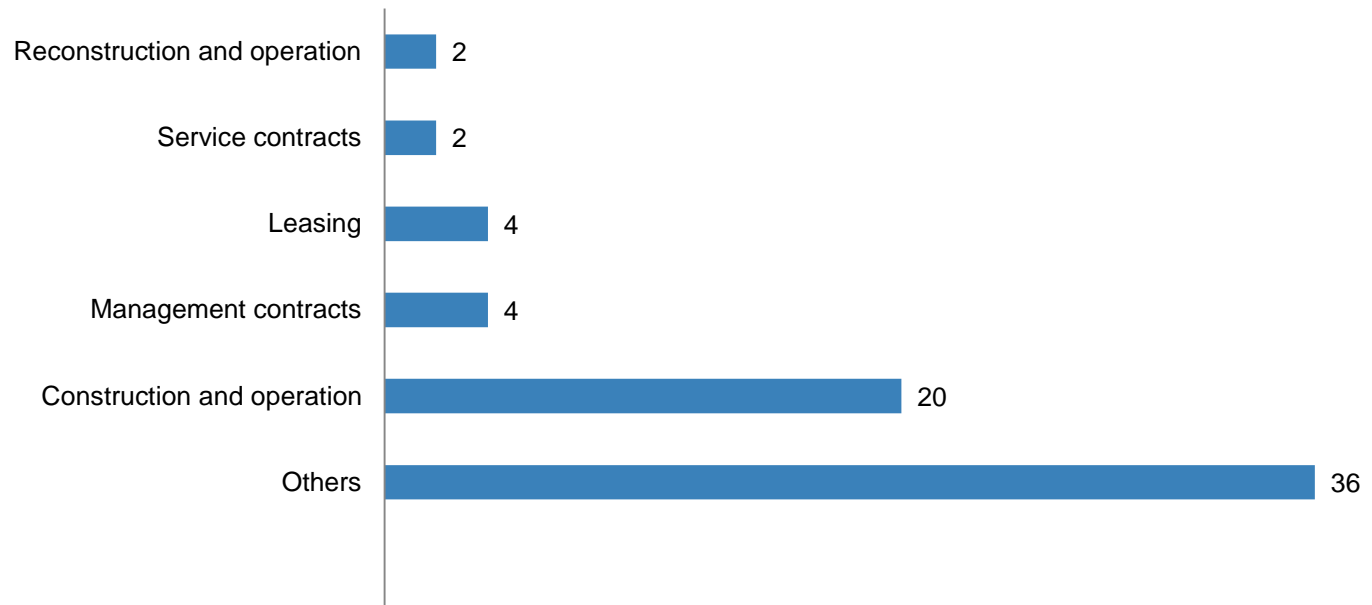
Enhanced attractiveness of the Kazakh legal and regulatory framework, according to recent amendments allowing:

- Signing of the concession agreement by the SPV itself
- Conclusion of a **direct agreement**
- **International arbitration** in case of a dispute between resident entities
- **Mitigation of FX risk** through adjustment of availability payments
- Provision of **termination payments** in line with best practices

PPP projects in healthcare

▷ 68 PPP projects, 36,1 bln KZT (approx, 134,7 mln USD)

PPPs in healthcare



PPP projects in healthcare

Karaganda University Hospital PPP 300 beds*

Infrastructure Model (Limited Service) – Concessioner transfers ownership of concession facility/hospital at time of completion and provides “Technical Operations” only (e.g., Facility Management) but has no obligation to provide clinical/medical service

Proposed **preliminary structure** of the transaction*:

- 20-years BTO
- Concessionaire remunerated through **front-loaded availability payments**
- Paid in local currency but government to compensate for **currency fluctuations**

Demand risk taken by the Ministry of Health, concessionaire will be remunerated through **Availability Payments (investment costs, operation costs, management fee)** which are **independent to demand risk**

Estimated CAPEX – \$120m, including:

- Building works, including preliminaries
- External building and engineering works
- Project and design team fees
- Design development & construction contingencies

*Tender documentation is being prepared by MoH jointly with ADB

Recent amendments in PPP legislation

1. PROCESS OF PLANNING PPP projects is reduced from 5 to 3 stages by eliminating the project concept and examining the draft PPP contract

Terms of preparation of PPP projects reduced from 7 to 3 months

2. LONG-TERM CONSUMPTION GUARANTEES FOR PPP PROJECTS

The provision of a guarantee of consumption of goods, works and services on PPP projects for a period of 3 years is fixed. → Investors are able to plan long-term investment

3. PLANNING OF STANDARDIZED (HOMOGENEOUS) PPP PROJECTS IN GOVERNMENT PROGRAMS, without additional expertise. Ex, MoH jointly with ADB preparing standardized PPP contracts and FMs for primary care facilities

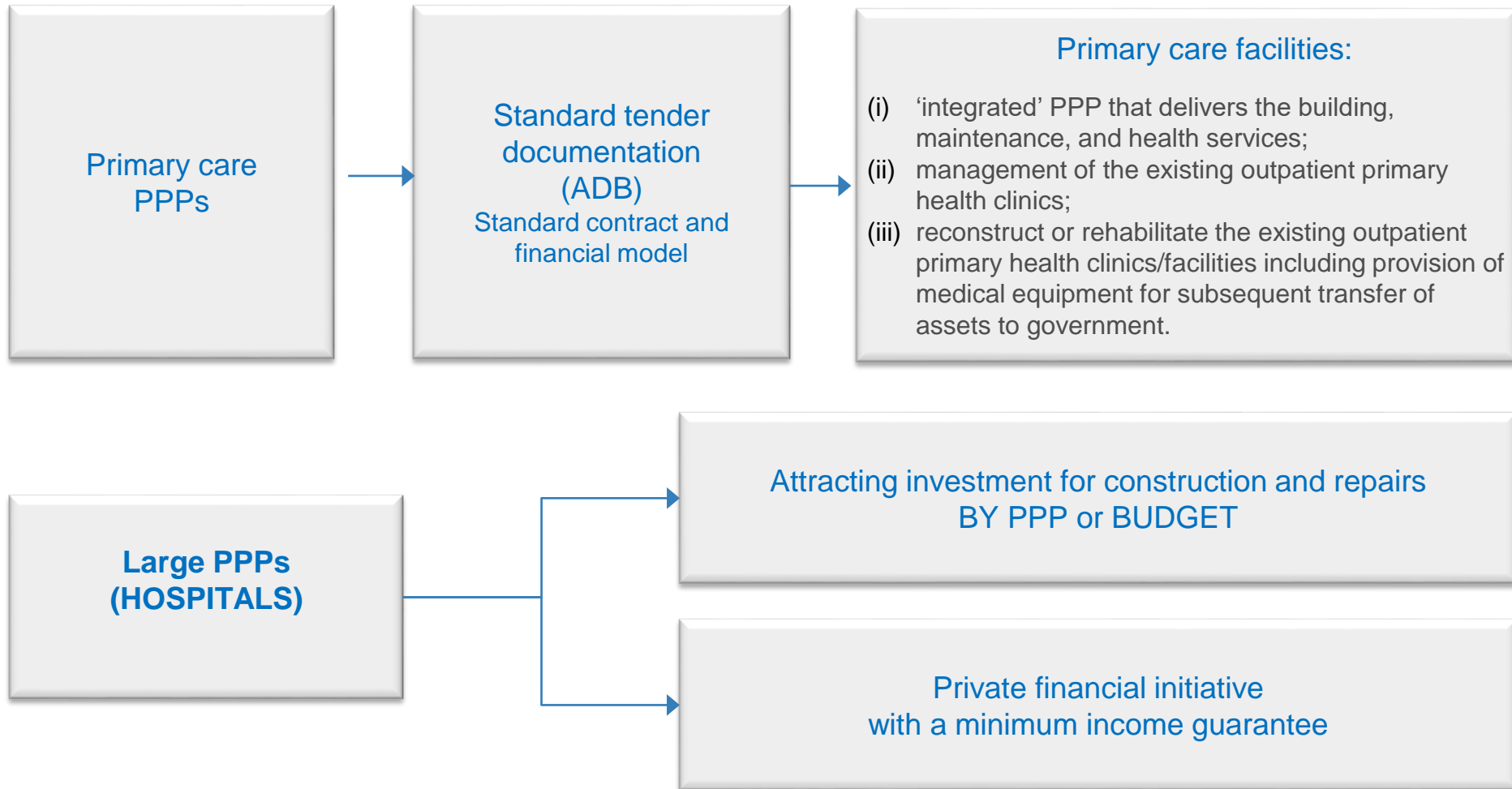
4. Empowering industry authorities to develop and approve standard tender documentation and draft PPP contracts within the scope of competence

5. REGISTRATION OF PPP CONTRACTS with treasury

7. Change of the notion “STATE PARTNER”

The amendment expands the range of potential state partners at the expense of state enterprises

Planned PPP program for primary care and hospital sector



Thank you!
Any questions?

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