

**NEWS**

**OF THE NATIONAL ACADEMY OF SCIENCES OF THE REPUBLIC OF KAZAKHSTAN**

**SERIES OF SOCIAL AND HUMAN SCIENCES**

ISSN 2224-5294

<https://doi.org/10.32014/2019.2224-5294.139>

Volume 4, Number 326 (2019), 74 – 80

UDK 330.332.011

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**INVESTIGATING CLIMATE INVESTMENT IN THE REPUBLIC  
OF KAZAKHSTAN AND EVALUATION OF THE VOLUMES AND  
STRUCTURE OF INVESTMENTS IN THE REAL ECONOMY SECTOR**

**Abstract.** The article is devoted to the study of the investment climate in the Republic of Kazakhstan. The article analyzes the impact of the fuel and energy complex on the development of other sectors of the real economy, examines the structure of the fuel and energy complex, prospects and problems of its development. The main problem that humanity will face in the near future is the limitations of non-renewable energy sources. Therefore, one of the main directions of development of the energy industry is alternative energy sources that require further study and investment. Considered the country's investment policy aimed at attracting both domestic and foreign investment, and also considered measures of state support of investment activities aimed at its intensification in the real sector of the economy. The net inflow of direct investments in Kazakhstan was assessed and the reasons for its volatility were identified.

**Keywords:** investment climate, public investment programs, renewable and non-renewable energy sources, foreign direct investment, net direct investment inflow.

**INTRODUCTION**

When deciding on the appropriateness of investments, investors need to take into account several fundamental factors, including the investment climate of the country, which is a basic characteristic of the investment environment that has developed within the state, a particular region or a particular sector of the economy. Therefore, at present, research and evaluation of the attractiveness of the investment climate in the country is an extremely important issue.

In the study of the investment climate, all sectors of the economy are subject to assessment, however, one of the fundamental complexes is the fuel and energy sector. The UN Department of Economic and Social Affairs noted in its assessment of the global energy potential that the energy system has a multifaceted connection with various aspects of economic, environmental and social development not only of individual regions and countries, but also of the world community as a whole.

To meet the needs of society, sustain economic growth and create the conditions to combat poverty around the world, the availability of energy potential is one of the basic conditions. The determining factor in the nature of the functioning of the energy sector is the policy implemented both in this sector and in the context of the country's economy. The efficiency of production, distribution, use of energy services, as well as related marketing procedures depend on a number of such factors, the fundamental of which is the functioning of organizations and institutions that go beyond the energy sector in its usual sense [1, p. 11].

**MAIN PART**

In 2017, the insignificant growth rates of the world economy, characterized by weak demand and investment spending, low inflation rates and high unemployment, had a negative impact on most economies of the world.

For commodity states, such as Kazakhstan, this had the most negative economic effect. Thus, the significant volatility of world oil prices, as well as the fall in world prices for metals and other types of exported products, led to a significant weakening of the economy and national currency. In 2016, the weighted average cost of Brent crude oil was about \$ 44.1 per barrel [2, p.208]. Along with this, internal factors also had a negative impact, such as: a decline in industrial production; depreciation of the national currency, which largely determined the rise in prices in the domestic market.

From the second half of 2016, a slight growth was achieved, albeit a slight, but still positive. So, already by the end of 2016, the growth of gross domestic product (hereinafter - GDP) was 1.1%. This fact testified to the gradual adaptation of the national economy to new macroeconomic conditions.

Kazakhstan's economy, being energy-intensive and energy-intensive, determines the rules of the game in many markets. So, its competitiveness depends on the price of electricity, which in share terms is about 10-40% of the cost of purchasing electricity in the cost of certain types of products of manufacturing industrial enterprises [3, c.101].

Finding ways to improve energy efficiency in the production of goods becomes important in solving the problems of reducing costs in the production of goods.

However, an important indicator, in our opinion, is that with an increase in the volume of production in the manufacturing industry, there is a reduction in the volume of electricity consumption in the industry, which is reflected in Fig. one.

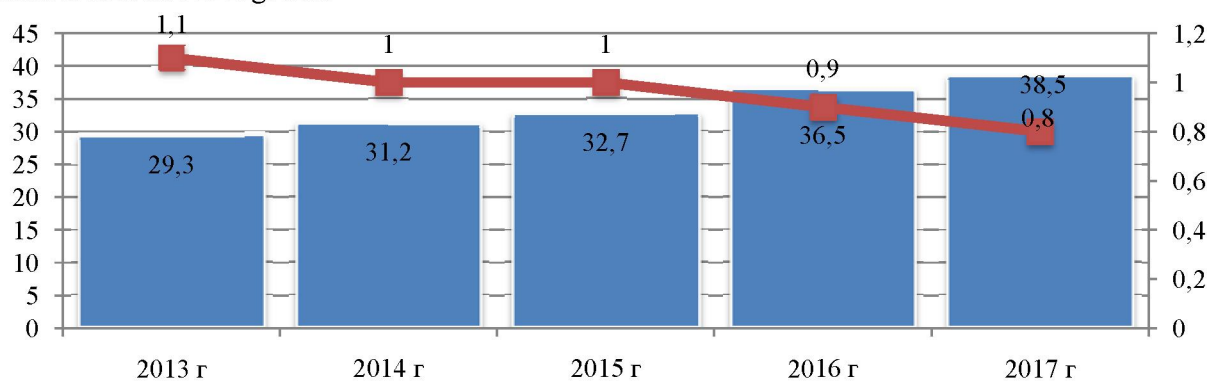


Fig. 1 - Energy intensity of the manufacturing industry of Kazakhstan

Thus, for the production of manufacturing industry in the amount of \$ 32.7 billion, in 2015, 34.3 billion kWh was required. In 2016, for the production of manufacturing industry in the amount of \$ 36.5 billion, it took 34.6 billion kWh. In 2017, we are seeing an increase in manufacturing output to \$ 38.5 billion with energy consumption of 31.4 billion kWh. From the above analysis it can be concluded that the energy intensity of the manufacturing industry is decreasing.

We consider it necessary to note that, despite the decline in the investment attractiveness index, the Republic of Kazakhstan continues to demonstrate high rates in attracting foreign direct investment. This is especially clear in the extractive industries sector. For further implementation of the country's large-scale plans aimed at diversifying the economy, we consider it necessary to attract not only domestic, but also foreign direct investment, aimed not only at investing funds, but also transferring knowledge, high-tech equipment and providing opportunities for developing human resources.

Existing investors operating in the country assess the degree of success in achieving the business goals of their projects in Kazakhstan in accordance with fig. 3

A significant part of investors, about 76%, had a successful investment experience. This indicates a fairly high level of attractiveness of the investment climate in the country. The overwhelming number of the total number of respondents, but assessing their investment experience in the Republic of Kazakhstan as satisfactory or unsuccessful, explain this by the impact of the global economic downturn.

It should be noted that the investment potential and investment attractiveness of the Republic of Kazakhstan differs by region and industry. In addition to Almaty, which has the most favorable investment climate, other regions of the republic were divided into three main groups, each of which is distinguished by the peculiarity of the investment climate.



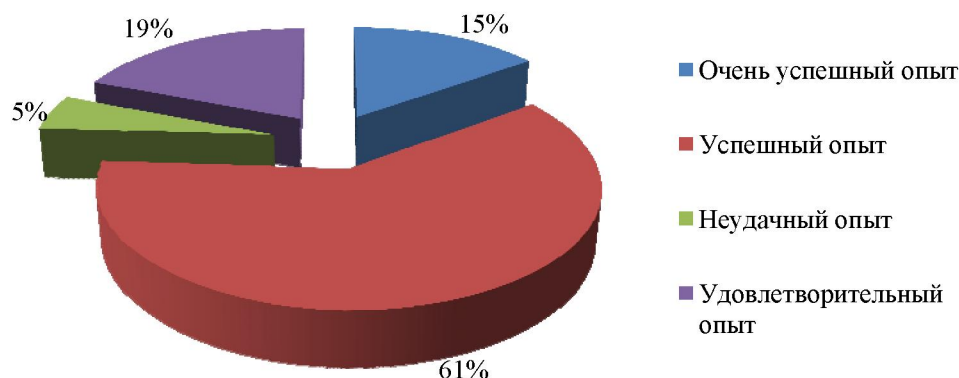


Fig. 2 - Evaluation of investment experience in Kazakhstan

The most attractive sectors of Kazakhstan's industry include: metalworking; chemical materials; agriculture and processing of agricultural raw materials; secondary processing and environmental technology; information technology / telecommunications; Construction Materials; pharmaceutical products, infrastructure; medical service; hotel sector and services.

However, despite the growth of investment attractiveness of industries and regions of Kazakhstan, some problem areas of the investment policy still exist.

In order to increase the investment attractiveness of the Republic of Kazakhstan as a whole, as well as its individual industries and regions, the government should take advantage of the current opportunity to implement strategic reforms and create the basis for economic diversification and development of non-commodity sectors. We offer special attention to the following areas:

1. a transparent regulatory and legal framework, which involves the use of principles of equity in relation to the rights of investors, the creation of an independent judiciary, changes in legislation, including regulating investment activities;
2. development of personnel potential, which will create conditions for raising the skills of workers to the required level of training, simplifying the procedure for attracting foreign specialists;
3. development of infrastructure, especially transport and telecommunications;
4. a stable and stable financial system, including the improvement of corporate governance in the banking sector and in the activities of companies;
5. stimulation of investors, both domestic and foreign;
6. support for entrepreneurship. It is necessary to develop support for entrepreneurship in order to stimulate the initiative of entrepreneurs.

These areas are the most relevant and require a speedy solution, since the states with which the Republic of Kazakhstan is competing, especially in attracting foreign investment and improving the investment climate, are also looking for ways to optimize business conditions. The Republic of Kazakhstan has begun to actively implement a policy of attracting foreign investment, but it is important not only to keep up the pace, but also to expand it without losing competitive advantages.

The development of the real sector of the economy, including the domestic fuel and energy complex (FEC), is one of the priority sectors of state policy and plays a significant role in ensuring sustainable economic growth in the country.

The stable and efficient functioning of the energy sector, as well as the stable supply of consumers with electric and thermal energy, is the basis for the development of the country's economy and is an essential factor in ensuring civilized living conditions [4].

The general state strategy for the development of the energy sector is aimed at ensuring the energy security and independence of the country, creating a reliable energy base for further sustainable economic growth.

The development of the energy industry is now of great importance for the country. In order to objectively assess the state of energy today and determine the direction of its development, it is necessary to realize what mistakes have been made in the past.

The power industry has experienced far more than one reform, but the effective level of its development and the solution of some fundamental problems remain in question.

The legacy of the centralized economy of the Soviet Union, which went to modern Kazakhstan, was the fact of the development of production and infrastructure in the framework of separate territorial-industrial complexes, which were formed taking into account the exclusively union needs. As a result, the country received three fairly autonomous economic zones: the Western region, the North and Central region, and the South region. Atyrau, Mangistau and West Kazakhstan regions are united by a common electrical network, and the energy sector of the Aktope region works in isolation. Until recently, the northern and western regions did not have a common ligament and each was in its own way, but connected with Russia.

The resource for cheap electricity is running out, and the question of the need to use alternative sources of electricity generation is now facing the country. The Republic of Kazakhstan has the world's largest reserves of energy resources, such as oil, gas, coal, and uranium. The main source of energy in Northern Kazakhstan, which produces the lion's share of export electricity, is the Ekibastuz coal deposit, which provides the regions with cheap coal. But coal and gas are exhausted, and, therefore, someday will end [5, c.87].

The modern commodity problem of the electric power industry must be viewed through the prism of heritage for future generations. Thus, the raw materials for the production of electric energy in Kazakhstan are represented by: mineral fuels; mineral resources; ore minerals and nonmetallic minerals.

It must be borne in mind that at current energy consumption rates, the resources listed above will last a maximum of one hundred years. However, they, for the most part, are irreplaceable, which becomes a real problem. Not less significant problem in the field of electric power industry is the energy problem. Since at present fuel resources are becoming more expensive, the characteristic of the economic and energy autonomy of any state is presented by the problem of renewable energy sources.

It follows that even with the existence of a sufficient number of alternative energy sources, their main drawback is low efficiency, which suggests the limited potential of the above-mentioned types of energy. Kazakhstan's growing need for energy can be covered in three principal ways, shown in Figure 4, which are summarized below. In real life, of course, only a combination of these three directions can give the expected result.

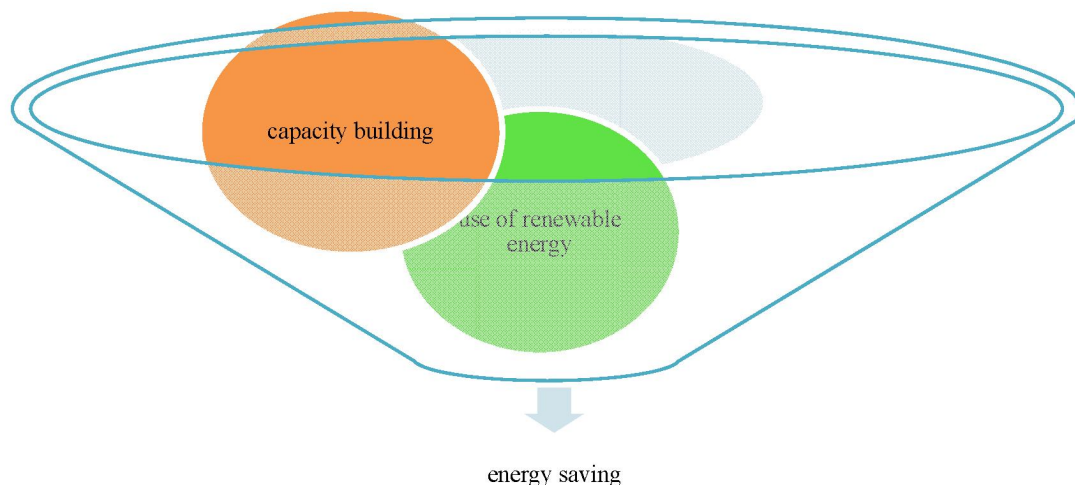


Fig. 3 - Directions to meet increasing energy demand

A vivid example of existing, but not used reserves in the matter of energy saving are, for example, losses in the transmission of electricity through an existing network. They account for up to 30% of the generated electricity and, thus, are several times higher than the technically inevitable level. Reducing these losses to a technically possible level can probably negate the need for the planned construction of a new nuclear power plant.

We propose measures to support renewable energy in Figure 5.



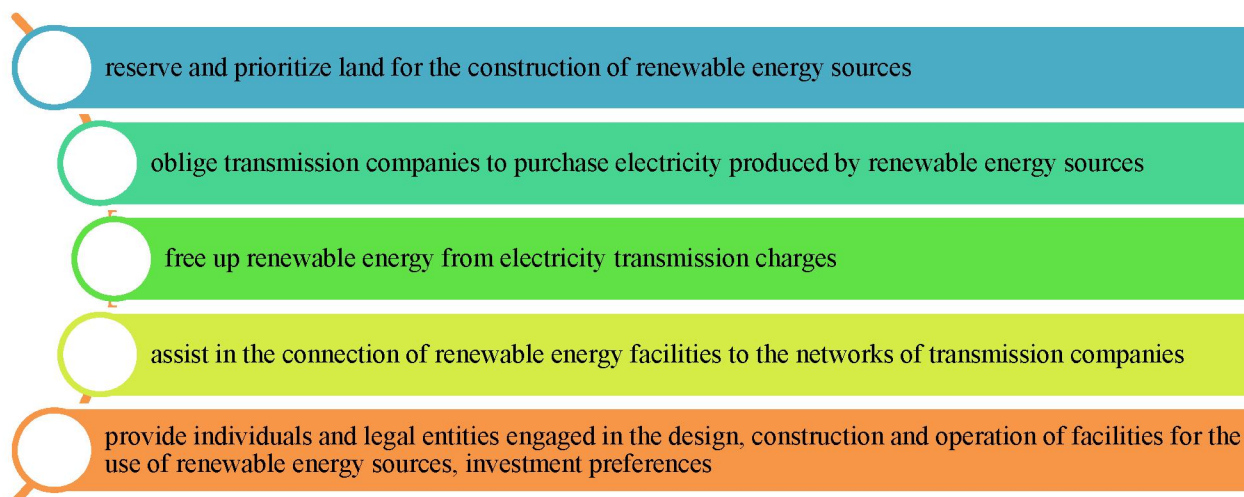


Fig. 5 - Measures to support the development of renewable energy

The fulfillment of the goals set is achievable, provided that renewable energy sources are involved in the energy balance.

The projected growth of the economy of Kazakhstan, accompanied by the indispensable growth in the number of different growth of production, requires a constant increase in the amount of generated electrical energy. This, in turn, requires the simultaneous development and implementation of a set of measures, both legislative, programmatic and practical. The main objectives of the measures taken should be: restructuring of the economy with a focus on energy-efficient industries and sectors; changing attitudes towards energy in society; actual update and reconstruction of existing ones. For these purposes, it will be necessary to define a clear, directed long-term state policy, in which the priority directions will be given to the directions of economic development both in the regions and in the whole country [6, p.241].

At the same time, it is necessary to meet the needs of the economy and the population for electricity at priority rates, for which it will be necessary to clearly define the main priorities for the development of the electricity industry.

The current state of the power industry, as expected, had a negative impact on the development of other sectors of the economy.

The results of this negative impact include:

- backwardness and energy-intensive industries not only industry, but also housing and communal services;
- the lack of motivation to save energy has led to an excess of the specific energy intensity of the economy of Kazakhstan by two to three times compared with global figures.

Currently, the problem of reducing the profitability of the country's energy complex is a priority.

We believe that there is an urgent need to revise the main directions of reforming the industry. In our opinion the most priority are:

- development of measures aimed at reducing the costs of energy production. As part of this problem, it is necessary to ensure: a reduction in the cost of resources (fuel) and an increase in the level of labor productivity, including by optimizing the number of employees and introducing new technologies;
- development of measures to reduce production losses, and during transportation, distribution and final sale of electricity and heat. The main directions here can be: conducting a technical audit and preventive repairs; improvement of accounting systems; organization of control checks of final consumers, etc.
- updating the state investment policy, which should ensure the division of the industry into natural monopoly, which is characterized by transmission and distribution of energy, and competitive, engaged in the direct production and sale of electricity.

The implementation of the proposed measures should ensure the creation of competitive conditions that will stimulate energy companies to improve efficiency through the development of modern technologies, more efficient use of raw materials and detailed planning of production activities [7, p.81].

Increasing the investment attractiveness of energy companies will contribute to the growth of turnover not only of the electric power industry itself, but also related industries, as well as industries related to the production of power equipment, metallurgy, construction, gas industry, etc. In addition, competition within the industry will stabilize electricity prices for end users at an acceptable level.

These measures will help to ensure a reduction in the share of electricity costs in the cost of industrial products, which will make it possible to predict the positive dynamics in the development of the entire industry of Kazakhstan and the decline in the energy intensity of GDP.

The issues of creating a favorable investment climate as a factor stimulating the inflow of direct foreign and domestic foreign investment in the country's economy are the top priority of the state policy of the Republic of Kazakhstan. Thus, the purpose of the State Program for the Industrial-Innovative Development of the country is to stimulate the competitiveness of the manufacturing industry, which is aimed at increasing the level of labor productivity and the growth of exports of already processed goods. One of the key roles in achieving this goal is the attraction of external investments.

In the Republic of Kazakhstan, a number of steps were taken to create a favorable investment climate. The main results include: improvement of national legislation; introduction of a simplified tax regime; expansion of investment preferences. Also for investors implementing investment projects in priority sectors of the economy, the stability of tax legislation is ensured.

The Republic of Kazakhstan is conducting large-scale transformations in order to create a favorable investment climate that meets the requirements of the standards of OECD countries.

Since 2005, the country has attracted more than \$ 250 billion in foreign direct investment. At the end of 2017, 15.7 billion US dollars were attracted. In the context of global financial instability, our investment climate and the macroeconomic situation in the country remain stable and inspire confidence among investors. The main recipients of FDI are the mining industry, geological exploration and survey activities and manufacturing. With a view to the gradual development of industrial policy, on August 1, 2014, by the Decree of the President of the Republic of Kazakhstan, the State Program of Industrial-Innovative Development of the Republic of Kazakhstan for 2015-2019 was approved. The program is a logical continuation of the SPAID for 2010-2014 and takes into account the experience of its implementation.

## CONCLUSION

In most cases, the achievement of favorable results in Kazakhstan in the field of mobilization of foreign investments was due to the implemented measures of state support and legislation of the republic on investment activities. According to the assessment of international experts, the Law of the Republic of Kazakhstan "On Investments" in the modern edition is one of the most effective laws among the post-Soviet countries regulating investment activities.

Thus, the current investment climate in Kazakhstan can be considered as favorable. However, the subsequent improvement of the investment climate, assessed according to the OECD standards, which are recognized by many world communities, will be a fundamental task, indicated in the framework of the GPIID program and implemented by state support tools.

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## ИССЛЕДОВАНИЕ ИНВЕСТИЦИОННОГО КЛИМАТА В РЕСПУБЛИКЕ КАЗАХСТАН И ОЦЕНКА ОБЪЕМОВ И СТРУКТУРЫ ИНВЕСТИЦИЙ В РЕАЛЬНЫЙ СЕКТОР ЭКОНОМИКИ

**Аннотация.** статья посвящена исследованию инвестиционного климата в Республике Казахстан. В статье проводится анализ влияния топливно-энергетического комплекса на развитие других отраслей реального сектора экономики, исследуется структура ТЭК, перспективы и проблемы ее развития. Основная проблема, с которой столкнется человечество в ближайшее время, - ограниченность невозобновляемых источников энергии. Поэтому одним из основных направлений развития энергетической промышленности являются альтернативные источники энергии, которые требуют дальнейшего изучения и вложения инвестиций. Рассмотрена инвестиционная политика страны, направленная на привлечение как отечественных, так и зарубежных инвестиций, а также рассмотрены меры государственной поддержки инвестиционной деятельности, направленные на ее активизацию в реальном

секторе экономики. Проведена оценка чистого притока прямых инвестиций в Казахстан и выявлены причины его волатильности.

**Ключевые слова:** инвестиционный климат, государственные инвестиционные программы, возобновляемые и не возобновляемые источники энергии, прямые иностранные инвестиции, чистый приток прямых инвестиций.

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### ҚАЗАҚСТАН РЕСПУБЛИКАСЫНДАҒЫ ИНВЕСТИЦИЯЛЫҚ АХУАЛДЫ ЗЕРТТЕУ ЖӘНЕ ЭКОНОМИКАНЫҢ НАҚТЫ СЕКТОРЫНА ИНВЕСТИЦИЯЛАРДЫҢ КӨЛЕМІ МЕН ҚҰРЫЛЫМЫН БАҒАЛАУ

**Аннотация.** Мақала Қазақстан Республикасындағы инвестициялық ахуалды зерттеуге арналған. Мақалада отын-энергетика кешенінің экономика секторының басқа салаларына даму әсерін жөнінде талдау жүргізіледі, ОЭК құрылымы, оның даму перспективалары мен мәселелері зерттеледі. Жақын арада адамзат тап болатын негізгі мәселе- жаңартылмайтын энергия көздерінің шектеулілігі. Әрі қарай зерттеуді және инвестиция салуды талап ететін энергияның баламалы көздері болып табылады, сондықтан бұл энергетикалық өнеркәсіпті дамытудың негізгі бағыттарының бірі. Еліміздің отандық және шетелдік инвестицияларды тартуға бағытталған инвестициялық саясаты қаралды, сондай-ақ инвестициялық қызметті экономиканың нақты секторында жандандыруға бағытталған мемлекеттік қолдау шаралары қаралды, сондай-ақ инвестициялық қызметті экономиканың нақты секторында жандандыруға бағытталған мемлекеттік қолдау шаралары қаралды. Қазақстанға тікелей инвестициялардың таза ағынын бағалау жүргізілді және оның құбылмалылық себептері анықталды.

**Түйін сөздер:** инвестициялық климат, мемлекеттік инвестициялық бағдарламалар, жаңартылатын және жаңартылмайтын энергия көздері, тікелей шетелдік инвестициялар, тікелей инвестициялардың таза ағыны.

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