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Privatization in the Republic of Kazakhstan

Warsaw, June 1996

This paper was prepared for the educational project concerning reforms in post-Soviet countries financed by ***the Stefan Batory Foundation***, Warsaw.

ISBN 83-86296-87-9

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1. GENERAL INFORMATION

In 1991 the Kazakhstan government has embarked on an ambitious economic reform program, in which privatization would be both the driving force and an important component for the successful transformation of the Kazakh economy. A fast transferal of government-owned assets and services to the private sector was regarded as the key to the success of all these transformation efforts.

To achieve this was not easy. In 1991 state enterprises accounted for 87 per cent of Kazakhstan's employment. Because the public sector employment subsequently contracted over 12 per cent, state enterprises employed some 75 per cent of the work force. The remaining 13 per cent of population was employed in the cooperatives, which only formally differed from the state sector. The historical book value of the state enterprises' physical assets at the end of 1991 totaled close to 200 billion rubles, or 11 thousand rubles per citizen. Of those, 141 billion rubles were fixed assets at mid-1980s prices, approximately $70 billion. The fixed assets per capita in 1989 were about 70 per cent higher than in other Central Asian republics and higher than in the Ukraine and Caucasus, but they were some 20 per cent lower than in Russia or the Baltic republics. Thus, it can be said that Kazakhstan's economy was relatively capital intensive, and its privatization required more restructuring efforts.

Early in 1991, just before the program started, the number of wholly state-owned enterprises was reported at 21 thousand. If broken down into establishments without separate accounting, the number might be nearly to three times higher. Approximately three and half thousand enterprises (3,473) were designated for privatization in the first years of nineties, and 17.5 thousand enterprises as small service oriented firms (table 1).

By employment, the SOEs employed 83 per cent of the work force; small firms one fifth of that, 17 per cent.

There is no reliable data available on the branch structure of the state enterprises sector. A rough estimate made on the basis of data available is presented in table 2.

Industry, including energy, accounted in 1991 for about 2,458 establishments (73% of all SOEs), with 1,320 thousand employees (26% in SOEs), 41 per cent of the net material product, and 38 per cent of assets in the economy. Assets per employee in industrial sector were almost twice as high than in the average in the whole economy. Clearly, Kazakhstan economy has been predominantly heavy, highly concentrated, and state owned. The largest industrial facilities were based on the country's rich natural resources like iron, coal, copper, leads, crumbed, lime, and phosphate. Mining, metallurgy, and chemical plants together accounted for 57 per cent of the fixed assets in 1991 manufacturing. State enterprises accounted for about 90 per cent of industrial output. The remainder were enterprises under collective ownership, lease contracts, or public organization, and special funds. The private entrepreneurs accounted for less than 1 per cent of recorded output.

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The government's original privatization program envisaged a three-stage program for commercialization and privatization of virtually all enterprises. Phase I (1991-1992) was to establish the locus of ownership of all state property, the agent of the owner, and an administrative framework for delegation of ownership rights. Phase I also envisaged the privatization of 50 per cent of small and medium-size industrial and agricultural enterprises, as well as most small shops and trade and service establishments. Phase II (1993-1996) had to focus on the privatization of medium-sized and large enterprises. Phase III (1997-2000) would complete the process.[1]

In reality the phases were shortened. Only the first one lasted, as was assumed, until the end of 1992. The second phase lasted until the end of 1995, and the third one was proclaimed for the years 1996-1998.[2]

During the first half of the nineties, several basic legislative works have been undertaken to create the legal basis for functioning the private economy. These works included preparation of:

a) new property law, in order to prepare the legal base for a market economy (Kazakhstan Law on Property from 1990 with amendments made in 1993);

b) corporate law, defining operation principles for business entities (the Kazakhstan's Corporate Law from 1995);

c) civil and contract codes to define the relationship between the market players (the Civil Code accepted in 1994);

d) bankruptcy law (accepted in 1992 with amendments made in 1995);

e) anti-trust law (The Kazakhstan's Anti-Monopoly Law from 1994);

f) securities law, defining principles for the functioning of a stock market (Securities and Stock Exchange Law from 1994);

g) labor law, to define the functioning of a labor market, (accepted in 1991 with further amendments);

h) foreign investment law (accepted in 1993).

These laws created basis for the functioning of the Kazakhstan's economy.

2. THE PHASE I OF THE KAZAKHSTAN'S NATIONAL PRIVATIZATION PROGRAM

2.1. Description of the National Privatization Program

The first privatization efforts were undertaken under the Presidential Decree on the National Privatization Program on June 21, 1991. This decree was followed by the

[1] The concept of the second phase of privatization was prepared in collaboration with international donors. In September 1992 a joint mission of World Bank, EBRD, and USAID working in close co-operation with the GKI and various other agencies proposed a detailed program of privatization in Kazakhstan.

[2] The third phase of privatization program was prepared by the GKI in close co-operation with the group of consultants on privatization from the United Nations Development Program. The authors of this paper were very actively involved in the preparation of the program for this phase.

Law on Destatization and Privatization in June 1991. This law also established the institutional framework responsible for privatization.

The institutional responsibility for management and privatization in the Republic of Kazakhstan rested exclusively on the State Property Committee, the GKI. The GKI bore responsibility not only for the course and results of the privatization processes (i. e. for their speed, scope, observance of laws, and procedures) but also for the activities of enterprises being in the course of privatization. It was responsible both for the management of state owned-enterprises (especially for the part which was transformed into joint stock companies) as well as for the privatization process. The Chairman of the GKI, according to the law, supposed to be a Vice-Prime Minister simultaneously. This concentration of all responsibilities gave the GKI enough power to fulfill all the functions envisioned in the law.

At the oblast level the GKI organized its own offices called territorial committees (tercoms) which represented the central GKI in contacts with state-owned enterprises.

The Law on Destatization and Privatization also provided three privatization methods: leveraged buy-out by workers, auction, and tender. A strong preference was given at that time to worker collectives of respective enterprises. The collectives or other groups of workers within an enterprise could at any time submit a plan for privatization to the GKI, a solution very similar to the Russian one. Only when the workers of an enterprise did not express an interest in purchasing the enterprise, the GKI or the local tercom designated it to the auction or tender.

According to the program, the GKI, upon receipt of a collective's plan, organized a special commission composed of representatives of the buying workers' group, a banker, an auditor, and other persons the GKI deemed appropriate. The commission's role was to value the tangible assets of the enterprise, largely on the basis of book values with some adjustment for inflation. If the enterprise was to be purchased by its own collective, the social assets of the enterprise (day care centers, vacation property) were gifted over and a discount of 30 per cent was taken off the value of fixed assets. The sale price was calculated as a sum of the balance plus the value of financial assets minus the value of the enterprise's debt. The collectives were expected to pay a minimum of 20 per cent of the sales price with the balance due over a period of up to ten years (usually without indexation). The GKI, at the same time, retained some rights to direct the activities of the enterprise until the balance was paid. Upon privatization, the shares of the joint-stock companies or partnerships were distributed among the employees according to the duration of their employment and other criteria.

The GKI was entrusted with representing the state's ownership interests in privatization. With the worker collectives initiating the divestitures, however, and with the valuation methods legally predetermined and tied to book values, the GKI's real influence has been limited. Much of the GKI's attention was focused on ensuring the continued production or distribution of certain goods by the enterprises, through careful segmentation of larger firms and state retention of those important components, or through contractual agreement with the privatizing collective about the “production profile” of the firms for years to come. The GKI's authority was also weakened after a December 1991 resolution that divided state property between the republic and the oblasts, depending largely on whether a firm made most of its purchases and sales within or outside its oblast. Moreover, all divestiture revenue was collected in a special "privatization account" intended to be allocated as directed by the parliament, without even a small fee going to the GKI for the funding of costly studies, audits, transactions, or public information.

In the second quarter of 1992, the authorities introduced a legal framework for incorporating medium-sized and large state enterprises as joint-stock companies. In recognition of the common deficiencies of corporate governance in majority employee-owned large enterprises, the new provisions were more careful not to give worker collectives the share majority in large enterprises. Upon corporatization, the collectives of employees (and retirees) received shares up to the total of 25 per cent of the company's equity. The remaining majority of shares was earmarked for different categories of external stakeholders: for suppliers and clients of the firm, for foreign investors, also for future distribution among citizens and for retention by the state.

This fixed distribution scheme, unfortunately, prevented any one shareholder or shareholder group from controlling the majority of shares. This affected governance and discouraged foreign or local investors. By the end of August 1992, some 205 SOEs were transformed into joint-stock companies (table 3). Commonly, only the employee shares and sometimes the shares earmarked for suppliers or clients were allocated, which means that the state through the GKI still held the majority of shares in these corporations. Thus, they were still state owned.

The privatization schedule was refined again in April 1992, and its ambitious objectives were even increased. Its goal was to privatize these areas in 1992:

a) 70-80 per cent of the small enterprises in the fields of retail trade, restaurants, and services — an increase from 50 per cent in the original plan;

b) 50 per cent of all SOEs;

c) most housing.

It was assumed that by March 1, 1993, all small and medium-size enterprises, all housing, and all agricultural enterprises would be privatized.

2.2. Results of the Phase I

All these plans and assumptions appeared to be very unrealistic. Despite the extraordinary efforts of the GKI, by the end of the Phase I in 1992, the GKI counted 6.2 thousand enterprises whose ownership had been transformed. This constitutes approximately one third of all the business units, below the original plan, which was 50 per cent (table 3). In the 18 months of the first stage, the main effort was put on small-scale privatization. It must be said that nearly all of the privatized firms were department stores (trade), service establishments, and catering (cafes and restaurants). Ten per cent of the establishments came from the agriculture area and 8 per cent from industry.

Many privatized units were, however, only parts of larger enterprises. The assets of all transformed or privatized units, according to their 1991 book value, amounted apparently to 30 billion rubles or 15 per cent of the net assets of state enterprises in 1991.

Most of these transformed enterprises were engaged in trade, catering, and services (63.8 per cent). Some 77 per cent of all transformed units were local rather than republican property which indicates that the enterprises were commonly small ones with few fixed assets. Agriculture, industry, and construction account for only mere ten, nine, and five per cent of the transformed units respectively. On August 31, 1992 (only available data) 1,261 enterprises, or 34 per cent of the total had been genuinely sold to non-collective, non-state private entities. As many as 57 per cent of the enterprises had been transferred to their employee collectives. Some six per cent, remained as joint-stock companies with commonly 25-30 per cent of the shares transferred to their employee collectives and the share majority with the state.

In summary, it can be said that roughly 35.4 per cent of the mostly small state-owned establishments were transferred to private hands. The Phase I privatization did touch the medium-size firms only partially and left untouched the large firms. Additionally, the first phase of the privatization efforts was strongly biased toward employee ownership and collective structures on the one hand and unaccountable nomenclature-led group structures on the other. Both biases tended not to generate effective control by the owners which would maximize long-term value, and both were seen as unfair by the population. The performance of assets of thousands of state enterprises deteriorated further. Their restructuring was led not by owners but by the state managers operating within soft budget constraints. The property rights remained very unclear.

3. THE PHASE II OF THE KAZAKHSTAN'S NATIONAL PRIVATIZATION PROGRAM

On March 5, 1993 the Kazakhstan's government adopted its second privatization program which outlined the principal objectives of privatization in the period 1993-1995. The program envisaged four primary mechanisms of privatization:

1. Small Scale Privatization (SSP).
2. Mass Privatization Program (MPP).
3. Case by Case Privatization (CbC).
4. Agricultural Privatization (AP).

Small-scale privatization encompassed small enterprises employing fewer than 200 employees. The case-by-case privatization in turn was reserved for the privatization of very large enterprises employing more than 5 thousand persons. The mass privatization program was designed for enterprises employing 200-5,000 employees. The agricultural privatization focused on state-owned farms.

3.1. Small Scale Privatization

The small scale privatization program involved the rapid sale of small establishments' assets such as shops, restaurants, and trucks, through municipal auctions or tenders against cash and unused housing vouchers. Reliable data on the total stock of eligible establishments is unavailable, but it can probably be estimated that after Phase I, more than 11.3 thousand of establishments were still in state hands.

There were two specific sub-programs in the framework of SSP: a small establishment privatization program that covers facilities in trade, service, etc., and the trucks' privatization program involving 20 per cent of the trucks operated by firms outside agriculture, railways, and defense (about 25,000 trucks out of the national fleet of about 346,000).

In the small establishment sale held during the thirty-three months from January 1993 until September 1995, 4,477 entities were sold at 744 auctions. From the auctions 3,366 establishments were fully sold, for amount of 1,399,328,306 tenges. This was less than originally scheduled because 4,528 of the enterprises offered for sale remained unsold due mainly to lack of demand and to after-sale profile restrictions (table 4). In the framework of the trucks sale, of almost 600 auctions, 7,541 trucks were sold (at the value of 264,792 thousand tenges) and 4,500 were sold in 1994. It is interesting that each truck was sold at a price that was an average of ten times higher than one enterprise privatized in the small-scale privatization program. The next observable phenomenon is slowing down of small-scale privatization. In the period from January to September 1995, 1,450 establishments were sold, half of that sold during the whole year of 1995.

Some interesting processes appeared. First, in each period a lower share of firms was sold. If in 1993, during the pilot period, 94 per cent of the firms were sold, then in 1995 only 38 per cent of these firms offered for sale were sold. Second, the collection of payments shows a similar tendency. If in 1993 approximately 60 per cent of a firm's value was paid in full, then in the year 1995, the situation was quite the opposite. Only 22.3 per cent of the firms were paid in full. Third, at first glance an increase in the average price of firms offered and purchased seems to be a positive sign. If in 1993 the average sale price was 210.9 thousand tenges, then in 1994, it was more than twice as high (457.8 thousand tenges), and in 1995 nearly five times as high at 1,925.2 thousand. At the same time, however, the value of the tenge inflated more than ten times (6.31 tenges per dollar in December 1993 to 64 tenges per dollar in December 1995). As a result, 1995 prices of firms sold were 50 per cent lower than the average prices in 1993. Fourth, the number of bidders for state small scale establishments seemed also to be lower than in 1993. If in 1993 the prices paid were more than ten times higher than the starting price, then in 1995, it was only 2.8 times higher.

Summing up, it can be said that by the end of the Phase II, approximately 10,765 (63 per cent) of all small firms are sold. The goal of privatization for remaining 6.8 thousand establishments is still a long way to go.

3.2. The Mass Privatization Program (MPP)

The Kazakhstan's Mass Privatization Program developed by the GKI and its advisors from the World Bank and the USAID is a “state-of-the-art” voucher distribution and share auction scheme. The program successfully blends the features of other mass privatization schemes currently being introduced in other post-socialist countries in its main assumptions.

The MPP calls for the mandatory corporatization of enterprises and the subsequent sale of shares through specialized auctions. The MPP mandates that coupons representing symbolic (non-monetary) privatization investment points (PICs) be distributed to all Kazakh citizens. These coupons are not tradable, and must be allocated to one or more of the licensed privatization investment funds (PIFs). The investment points have to be allocated by participating Kazakh citizens, prior to each of the several waves of privatization, to one or more licensed PIFs. Individuals allocating their PICs in PIFs receive in return shares in these funds. The PIFs subsequently bid these PICs, during the coupon auctions, for shares of joint-stock companies. The investment funds are expected to play an important role as outside shareholders in the future corporate governance of their holdings.

We will discuss the features of the Kazakh MPP from three points of view: from the demand side, the supply side, and the distribution mechanism.

3.2.1. Demand Side

The distribution of coupon books has achieved a substantial penetration in most regions of Kazakhstan. The task was enormous. Kazakhstan is one of the world's largest countries in land mass, and its population is very dispersed. The administrative machinery for the distribution of coupon books was the branches of the State Savings Banks; to supplement this machinery, some selected larger firms were also enlisted to distribute coupon books.

The coupon books were given free to achieve the greatest public participation. They were registered in the name of the recipient and were not tradable. Only Kazakh nationals were eligible to receive coupon books. Citizens in urban areas received an equal number of 100 investment points; citizens in rural areas received 20 per cent more of the normal allotment (120 points). These citizens, however, did not have the right to receive 10 per cent of company's shares as employees do. Investment points may be only allocated to licensed PIFs: there is no other permitted use. The Kazakh coupon book distribution scheme is tightly controlled to prevent fraud.

Until the end of the Phase II, 1,846 million of coupons were issued. 1,171.6 million of them (63.5%) were used in coupon auctions (table 5). Until the end of September 1995, the deadline for coupon allocation, approximately 65 per cent of all coupons were allocated in investment funds; remaining 35 per cent stayed in the citizens' ownership and became invalid.

The citizens were expected to visit the branches of savings banks several times — first to receive coupon books, second to invest coupons among different investment funds. Citizens were initially restricted to allocating no more than 25 per cent of their investment points, and then were subsequently permitted to allocate the remaining investment points as everybody gained more knowledge and experience with the conduct and performance of the various PIFs.

The system of PICs allotment control was very centralized. The branches of Saving's Bank (Narodny Bank) collected data on point allotment, and subsequently submitted these data to the central database at GKI. The GKI informed the PIFs how many points they had collected and showed how many of them they could invest during auctions.

3.2.2. Supply Side

Formally, all state-owned enterprises with employees numbering between 200 and 5000, not excluded from privatization, were eligible for participation in the MPP. In practice for the MPP went total 3,473 companies. Each firm has to be corporatized, it means to assume the JSC status and issue shares. Under the Kazakh mass privatization program, 51 per cent of the shares of each enterprise should be designated for coupon auction, 39 per cent for cash auctions and 10 per cent should be given away for a nominal fee to the workers at each enterprise.

After 22 auctions (see tables 6 and 7), the shares of 1,666 JSCs (48% of all companies designated for privatization) were on sale with the total value of 5.454.688,9 thousand tenges (30% of all value). Some 1,560 of them were completely sold; more than half of them participated in two or three auctions. According to the Kazakhstan law, JSCs can participate only three times in the auctions. Then they the are designated for bankruptcy. In fact, some JSCs have participated in those auctions four or five times.

After difficulties with the organization of the first few auctions, there has been progress made in stabilizing pipeline management and making the auction process more transparent for privatization investment funds. PIFs have been provided with a final auction list and a database of 33 financial indicators on each company 40 days before each scheduled auction, giving the PIFs more time to prepare for auctions and to plan investment strategies. Furthermore, the PIFs receive information from the GKI on the number of PICs they hold at least once a month which also enables better long range investment planning by the PIFs. Also the number of firms at coupon auctions increased. If in the first auctions approximately 50 were involved, then in the last seven auctions this number increased to above 150 firms.

In the first wave — a framework of thirteen auctions — which lasted from April 1994 to April 1995 it was anticipated that approximately 2,000 JSC would be included in the MPP program. In reality only 730 firms participated in auctions in this wave, one-third of those assumed (the total number was higher and amounted 1,013 firms because some of them participated in two or three auctions — see table 6). The second wave essentially encompassed auctions 14, 15, and 16, from May 31 to August 1, 1995. In this wave enterprises of the agro-industrial complex and ten per cent of the equity of JSCs designated to the case-by-case privatization were included for the first time. Instead of 600 enterprises, in reality 247 firms were included in this wave as first offerings (434 including firms with second and third offerings). The third wave lasted from August to November 1995. The GKI prepared a list of 301 enterprises from which 26 enterprises are to be privatized in the case-by-case method [Ïåðå÷åíü, 1995]. Up to ten per cent shares of those firms were auctioned. The fourth wave list includes 400 enterprises and only two auctions 21 and 22 organized by the end of January and the beginning of February 1996 where 250 were offered for sale. After four waves of the Mass Privatization Program, more than 1,700 JSCs should participate, a half of those planned.

The majority of companies auctioned is very small with the number of employees not exceeding 200 (see table 7). This small size is reflected in the average value per firm which amounts 13,085,708 tenges ($195,000). If during first thirteen auctions small companies constituted 33.7 per cent of all the firms, then later during next auctions 61.9 per cent of auctioned firms were small companies, with employment lower than 200 workers. This reflects a qualitative shift in the mass privatization program towards small-scale companies and an insufficient number of larger companies (3,000 employees) available in the program. Fewer than 2 per cent of the companies privatized employ over 3 thousand people.

Additionally, during the first nineteen auctions for sale were designated firms operating in a very inefficient and outdated construction sector of the economy (50% of all firms). From the sale were excluded very attractive firms from the trade and chemical industry (they constituted 0.2% each), transportation (2.3%), and machinery industry (5.3%). Those proportions have changed during the last three auctions (table 9).

The next phenomenon is that rather small packages of shares were designated for auctions — from 1 to 15 per cent of all shares. If in the first 13 auctions these firms constituted mere 6.4 per cent (4.7%+1.7%), then in the later auctions (14-20) they constituted 49.7 per cent (39.6%+10.1%) of the entire sample. A majority of 51 per cent and more shares in the first round were sold in the case of nearly 62 per cent, in the later auctions only in the case of 32.2 per cent (18.8% + 13.4%) of the firms. In the last two auctions (21 and 22) the situation was totally different: the goal of the GKI was to sell as many shares as possible in order to finish the implementation of the Phase II of the privatization. Thus the packages of shares designated for these auctions were substantially bigger: the firms with packages of shares exceeding 50% constituted 65% of the whole offer. The rest of packages were mainly shares not sold during the previous auctions. In order to sell as many shares as possible, packages of shares were often sold below their initial price. That made it possible to sell almost 100% of all shares offered in the last, 22nd auction.

3.2.3. Distribution mechanism

Investment funds

The Privatization Investment Funds play crucial role in the process of shares' distribution. The structure of the Privatization Investment Funds resembles the western structure of investment institutions. Investment fund has its own management group, fund management (FM). It has own shareholders which are divided into two groups: the investment fund founders, which contributed founding capital, and shareholders which contributed their PICs. Additionally, each investment fund is expected to have own custodian. The Privatization Investment Funds and Funds Management are licensed, and their operation is overseen by an Interdepartmental Commission on Licensing Investment Funds and Fund Managers (the Inter-Departmental Commission). 169 investment funds have been licensed. The Inter-Departmental Commission has also the authority to audit PIFs including (a) their charter capital, (b) licensing fees, and (c) founding agreements and charters, in accordance with the applicable law and regulations.

Unlike Central European countries with mass privatization programs that permit investment funds to act as intermediaries — most notably the Czech Republic — Kazakh chartered banking institutions may not fund PIFs in accordance with the applicable Kazakh banking laws and regulations. Likewise, Kazakh institutions in which the state holds an ownership share in excess of 30 per cent may not found PIFs.

Foreign entities are also prohibited from founding PIFs. This does not rule out the role of foreign investment company's expertise. A foreign investment company may elect to establish a Kazakh subsidiary that would be eligible to retain or become a licensed FM and thereby enter an investment advisory contract to manage a PIF.

In all cases, each PIF and it's affiliated FM must compete in the market to persuade citizens to allocate their investment points to that particular PIF. The number of investment points obtained by a PIF directly correlates to the purchasing power of this fund at the share auctions. To eliminate fraud, the GKI and Interdepartmental Commission issued anti-fraud and truth-in-advertising regulations to control the advertising campaigns of the PIFs.

From the analysis shown in table 10 presenting the participation of PIFs in the nineteen auction's results (only these data were available), that never more than three-fourth of all PIFs (77.5%) send their orders. 21 investment funds did not participate in any of the auctions or participated only once. 77 of investment funds acquired less than 8 per cent of investment coupons (table 11). Some of them did not acquire any shares waiting for the last three auctions.

Another problem is the number of Privatization Investment Funds. Based on practical experience, it can be assumed, that a fund is viable if it has invested in more than 30 large companies (i. e. over 200 employees) which reduces portfolio risk. An analysis of the last auctions indicates that a fund would need an average of 350,000 – 500,000 coupons in order to purchase 10 per cent of the shares in such a company. Therefore, in order to implement an optimal investment portfolio, funds have to accumulate 10-20 million coupons. Thus, a realistic number of viable and stable funds is about 23, or less than one-sixth of the existing funds in Kazakhstan.

Investment funds can make a profit in two ways: by collecting dividends from companies' shares they own, and by trading shares, being in their portfolios. Both ways are, however, very problematic. Collecting dividends is difficult due to the fact that the majority of privatized companies cannot assure the payment of dividends due to the difficult financial conditions in which they find themselves. It seems that the second way is more proper, by the participation in the secondary market. In this way the PIF could sell its shares or trade shares with other investment funds to increase its shareholdings in a particular JSC and, accordingly, to increase interest for investing in these JSCs. However, participation in the secondary market in Kazakhstan, due to the underdeveloped capital market infrastructure, is an extraordinarily complicated problem for investment funds.

There are many reasons for that. The Central Asia Stock Exchange (CASE) commenced operation in the first half of 1995. There are presently a limited number of securities available, and this presents the largest problem for CASE. It is unlikely that any PIF could meet the formal listing requirements for a number of years although it is possible that these requirements will be relaxed to allowed some of the larger PIFs to be traded.

Furthermore, under Kazakh law, there is no secondary trading of shares allowed until companies complete the share registration process. This process was previously carried out by the Ministry of Finance. Now, it has been transferred to the new National Securities Commission (NSC).

To assure dividends to be paid to individuals allocating their PICs in investment funds, the rule was imposed that 90 per cent of fund's profits have to be distributed in form of dividends among PICs' investors.

Coupon auctions

Of the 22 coupon auctions completed by the end of Phase II, 20 of them had a closed character, and one of them had an open character and one was joint auction combining two auctions. During the closed auctions, interested investors sent orders for a particular number of shares in some selected firms. At the same time, they offered the price which they were ready to pay for these shares. The GKI, or later the State Privatization Committee (SPrivC), compared the number of shares and number of orders, and in the case when the demand expressed in orders was lower than the supply, all shares were distributed among all the interested PIFs. The situation is more complicated when the number of shares is lower than the number of orders. In this case, the SPrivC prepares a ranking list from the highest bidders to the lowest, and subsequently distributes the shares to the highest bidders. Those which offer a lower price receive nothing. In this system the real winners are not those bidders who purchase shares at all but those who purchase shares at the lowest accepted price. They purchase the desired number of shares for the lowest possible price, which saves them PICs for other auctions.

This closed auction mechanism leaves much room for inside trading. Research conducted after the first few auctions suggests that only a small group of PIFs have the lowest acceptable prices indicating they knew the marginal price before the auction. The foreign consultants pushed very strongly for open auctions where all potential bidders could be present in the auction room, and in an open bidding process, fight by increasing the offered prices for shares. The GKI organized one such open auction, the seventh auction on September 28, 1994, which was officially of an experimental character. The results of this auction were surprising. The prices of shares increased an average of seven times leading to the faster usage of PICs for a lower number of shares.

After this auction, the GKI conducted a survey asking the PIFs what type of auction they prefer. In the survey 50 PIFs took part from which a majority preferred the closed auction over the open auction. The main argument was that the open auction leads to an inflation of coupons and thus to a lowered purchasing power of PICs, and this is against the interests of simple shareholders. The GKI returned to the concept of closed auctions.

During twenty-two coupon auctions 1,666 joint stock companies were designated for sale, from which about 50% were not sold during the first offering and were offered for the second (and sometimes for the third) time in the subsequent auctions. Therefore the total number of firms designated for sale in all the consecutive auctions amounted to 2,658. The total number of the shares designated for sale in the framework of the auctions is approximately 175.5 million, 35 per cent of all shares. From this number 111.2 million shares were sold (63% of all auctioned shares) (table 12).

Starting price of shares auctioned was approximately more than one-third of the nominal value of an average share (36%). This price rose along with that auctions, similarly like the nominal price of shares submitted to actions. The only exception is the seventh auction (open) when starting price exceeded the nominal price.

Apparently, the auction organizers presumed high growth of prices during the open competition for shares.

In 1994-1995, final prices exceeded two times the starting prices but still were lower than the nominal prices. In the last two auctions, held in 1996, the starting price was fixed at extremely high level. Despite that fact, final prices were much lower than in preceding auctions. The lowest average final price was reached in the last, 22nd auction, which ended the second phase of privatization (table 13).

In the organization of auctions it was assumed that the relationship between one coupon and the price expressed in tenges would be about 1:5. In other words, one coupon would acquire state property at a value equal to five tenges ($0.08) or half of nominal value of share, which should at that time universally cost 10 tenges. In the first auction the final price of one share was 3.76: for one share one had to pay nearly four coupons. At the same time the purchasing power of one coupon was 3.58, which was 28.4 per cent less than assumed. At the seventh auction one coupon could acquire only one-fourth of tenges (0.01 share), which practically means that for one share one had to pay 67 coupons. On the average, after twenty auctions the purchasing power of each coupon is less than 2.76 tenges (0.09 share); for one share one must pay more than twelve coupons. This also means an abrupt devaluation in the accumulated coupons belonging to the population; six times more than assumed at the beginning of the MPP (table 14).

Cash auctions

On January 1995, the Cabinet of Ministers approved regulations governing the sale of state held shares in enterprises within the mass privatization program. These shares include an average 39 per cent stake that had been excluded from the coupon auctions as well as all the shares that had not been sold during the coupon auctions.

The main goal of cash auctions is to create a strategic investor who would be in a position to take a lead in restructuring the privatized enterprises, to secure the inflows to the state budget, and to create a securities market. In the period from May to September 1995, three acts were signed by the Chairman of the GKI to regulate the sale of the state owned packages of shares. According to these acts, the shares of 569 JSCs would be provided for sale for cash. It is estimated that in 1995 the GKI will sell shares for 100 million tenges and in 1996 for 1.5 billion tenges. The forecast is based on actual prices.

To accelerate the process of the sale for cash of the remaining in state possession shares, an agreement was signed by the Cabinet of Ministers that allows for a 40%-30% and a 30% split in the proceeds of the cash auctions. Under this decree, 40 per cent of the proceeds goes to the national budget, 30 per cent goes to the enterprises allowing for some initial recapitalization, and the other 30 per cents goes to the local government entities for paying a one-time “golden hand-shake” to dismissed managers, for supporting divested social assets of the enterprises, and for financing other local expenditures. In this way the social assets of enterprises can also be segmented from the enterprises and taken over by local governments with the initial funding coming from the cash auctions. In this fashion, the cash auctions will not operate simply as revenue raisers for the government, but will also help the enterprises to begin the process of restructuring they will need to survive in a market economy.

This will be accomplished by giving them some initial working capital, and by allowing them to shed the burden of carrying social assets which have nothing to do with operations.

In summary, in twenty auctions performed in 1995 there were included firms which privatization started both in the first stage (in 1991-1992), as well as those which privatization started with their inclusion in the MPP in the second phase of privatization (the last group includes 837 firms) (table 15).

3.2.4. Conclusions on the MPP

Analyzing the whole sample of all enterprises it can be said that the structure of shares distribution is significantly different from that described in the program: 38.1 per cent of shares were sold in the coupon auctions much less than 51 per cent assumed. 18.3 per cent of shares went to employees; almost twice as high as assumed (see graph 1). When we take into account only firms which privatization started in 1994 in the framework of the MPP, then this structure looks much more similar to that described in the program: 49.4 per cent of shares were sold in the coupon auctions, 13 per cent of them were transferred to employees; a slight difference to that assumed in the MPP program (see table 15 and graph 2).

Summing up, there are positive and negative aspects of the MPP program. The positive aspect is that today in the Republic of Kazakhstan there are more than 16 million shareholders of Private Investment Funds, which means that practically every citizen of the Republic seems to be a shareholder. The negative aspect is the fact that, in most cases the state retains an effective control of the firms. Lack of investors control and strong state involvement, does not seem to solve the problem of the firms' restructuring. And the additional negative effect of the mass privatization programs is that the public is fully disillusioned with this form of sale. This was a result of the lack of transparency in the mass privatization process. From the program's beginning, the use of PIFs as the only avenue for citizens to invest their coupons raised questions in the population. Many citizens questioned why they could not invest their PICs directly into the enterprises being privatized since they preferred to make the investment choice themselves. This suspicion was heightened by the fact that after the citizens invested their PICs into individual investment funds, they received no confirmation from those funds that they held shares in them. In addition, the substantial inaccuracies in the lists of the fund's shareholders currently held by the GKI Information Center added some suspicion of to program among citizens.

3.3. Case-by-case privatization

The case-by-case approach is designated for large firms employing more than five thousand employees. For this privatization path 142 firms were designated, from which five were completely sold, 32 were sold partially, 44 were given in management, and 7 firms' shares up to ten per cent were designated for coupon auctions. In each company approximately 10 per cent of shares were given to employees.

Generally speaking, approximately 85 per cent of the shares in large enterprises is still in the state ownership, 10 per cent was distributed among employees, and approximately 5 per cent of all shares was sold to external investors.

Five firms privatized in the framework of case-by-case privatization were sold for a total value of $138.5 million. Those firms committed themselves to invest additionally $288 million.

Much more popular are the so-called management contracts. Although the general policy is that firms are not restructured before their privatization, the conclusion of management contracts with foreign firm seems to be very encouraging. Forty-four of the contracts selected by tender for a five year period were concluded in sectors like the black and color metallurgy, and mining industry; six contracts for five firms were terminated because of lack of fulfillment of the financial obligations. Actually 38 such contracts are valid; 12 of them were concluded with foreign firms.

3.4. Agricultural privatization

The government policy adopted in March 1993 was to give each state farm worker the right to an identifiable piece of land on the basis of an inheritable 99-year lease. These land use rights were made transferable in April 1994, thereby setting the stage for the development of a land market. The process of privatization involved 853 state farms in 1994. This increased the total number of privatized farms to 1,490, what constitutes two-thirds of the total number of all state farms — 2,120 designated for privatization.

In 1995 the privatization of 477 agro-farms was assumed. In September 1995, 349 of them were privatized which constitutes 149 per cent of the assumed plan for the first half year.

In 13 oblasts part of the assets of 20 sovkhozes were sold in framework of closed tenders, for the price of 24.8 million tenges. The next 39 sovkhozes valued at nine million tenges, where the management worked not fewer than 20 years, were given free of charge to the sovkhoz management. This policy, however, has lead to little (other than nominal) farm restructuring so far due apparently to delays in titling. Certificates of ownership had been distributed for only 65 farms by the end of 1994. In practice, most farms continue to operate collectively as many technically specialized farm workers have yet to acquire the necessary skills to run a private family firm. Also, the procedure of partially privatizing agro-processing firms (under the control of state holdings) by exchanging shares in these firms against long term supply contracts between firms and farms ran against the very objective of agriculture privatization.

4. SUMMARY OF THE FIRST AND THE SECOND PHASES OF PRIVATIZATION

The end of the second phase of privatization in the Republic of Kazakhstan allows for some statistical comparisons. Generally speaking it can be said that in the first phase was privatized the value of state wealth in amount of nearly two billion

(1.918,9 million) tenges, what constituted more than one fourth (25.2 per cent) of all registered state capital. In the second stage were privatized further equity of 2,573.7 million tenges, what constitutes one third (33.8 per cent) of all capital.

The analysis of the degree of privatization can be made either by the number of firms sold, or value of shares sold or distributed. the statistics of privatization in the first two phases, and firms left to the third phase is presented in the table 17 and graph 3 and 4.

The analysis of the numbers of firms which went private shows that the most advanced is the small privatization; 61 per cent of small-sized firms are already in private hands (graph 5).

Differently went privatization of middle-sized and large enterprises. It has to be stressed here, that under the Kazakhstan's law as private are regarded those firms, by whom the minimum of 80 per cent of shares was distributed among non-state investors. According to this rule in the group of middle-sized firms 28 per cent of them are already private and 50.7 per cent is private partially, what means that between 11 to 79 per cent of shares are sold or transferred to private hands.

The poorest results have been achieved by large firms. Only five of them (3.5 per cent) are sold, and subsequently next 27 per cent have been contracted out to foreign and domestic management groups in the framework of management contracts (see graph 6).

By the value analysis the only available data are for middle and large firms. Middle sized firms are privatized in 61.4 per cent; large firms in 17.4 per cent. In the case of large firms next 24.1 per cent of all firms' shares are contracted out.

Generally speaking after two stages 59 per cent of all state equity is already in the private ownership. In the third phase to be privatized is left 41 per cent of all previously state owned equity designated for privatization. This numbers should, however, be taken with reservations.

Available data at the end of 1995 indicate that the portion of shares being already distributed among private owners can be broken down into three categories. 20 per cent was sold in the tenders organized by tercoms or the SPF. Approximately 40 per cent of firms were engaged in this type of sale. The second portion of shares constituting 19.7 per cent of all shares was distributed to employees. 19.3 per cent of shares were distributed through the mass privatization program. Approximately 37 per cent of firms was involved in this type of sale. These three portions constitute 59 per cent of shares already sold.

The next changes between both phases are observable in the character of firms being an object of privatization. The privatization in the second phase differed from the privatization in the first phase by the fact that the main efforts of the GKI shifted from the small firms to the larger firms, from service area firms to the transportation, industry, agriculture and construction firms. A shift from the typical service area into the manufacturing area is strongly visible (table 18).

Generally speaking the analysis of the privatization process in the Republic of Kazakhstan shows that until now the transformation of property proceeds with restricted scope and with much formality. Privatization carried on this way, unfortunately, is not preceded by enterprises restructuring. Actually, restructuring in not being completed in either the course of privatization or in the post-privatization period.

This is exepcially visible in enterprises which were privatized in the first phase. Also foreign experience suggests that when only the employees and managers participate in privatization, the privatization does not result in additional investments in production or in turnaround activities nor in any changes in the enterprises' management. Unfortunately, there is no much difference in this respect in the second phase.

5. CONCLUSIONS

Many questions have to be addressed in the Third Phase of privatization covering the years 1996-1998.

First, it is necessary to continue cash auctions and development of a mechanism for sustaining cash auctions and share registration independent of expatriate technical assistance.

Second, it is necessary to increase the transparency between citizens and privatization investment funds and to assist investment funds in better managing the enterprises in their portfolios in order to transform them into regular investment funds.

Third, it is necessary to speed up and accomplish the small privatization program. This program should be made in more flexible way, given the exiting limitations on the demand side.

Fourth, it is necessary to accelerate the process of case-by-case privatization. The transparent and fair mechanism of business valuations and negotiation processes should be established. The basic criteria for selection of investors should be first the assuring the deep efficient restructuring, and second the commitment to new substantial investments.

Fifth, new procedures concerning management contracts should be established and implemented. The contracts should be closed on the tender basis with the application of transparent selection procedures, and clear enumeration system.

Sixth, the new bankruptcy and liquidation procedures and institutions need to be developed.

Seventh, the SManC and SPrivC institutional capacity should be strengthened through a larger number of qualified staff, technical training, and an expanded budget or retention of part of the divestiture proceeds.

Eighth, an extensive and well-planned public information effort is needed to ensure understanding of and support for the program by the citizens and to give the public the technical details for their participation in the program.

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Tables and graphs

Table 1
Size structure of the state enterprise designated for privatization (1991). Estimate

Category	Definition	Number of firms		Employment	
		No.	%	No.	%
Small Enterprises	1-50 employees in service, retail trade and catering	17,500	83	1,000,000	17
Regular State Owned Enterprises	State Owned Enterprises	3,473	17	5,000,000	83
Total		20,973	100	6,000,000	100

Source: [Kazakhstan, 1993], p. 75 and own computations.

Table 2
The structure of state sector of the economy in the middle of 1991

Sector	Number of employees		Book value of fixed assets		Assets per employee (thousand tenges)
	No.	%	mln tenges	%	
Agriculture	1,362,000	22.7	37,847.7	29.3	27.0
Construction	600,000	10.0	7,233.7	5.6	12.1
Industry	1,320,000	22.0	49,344.1	38.2	37.4
Non-material and other	1,674,000	27.9	14,079.9	10.9	8.4
Trade & catering	420,000	7.0	8,137.9	6.3	19.4
Transportation & Communication	624,000	10.4	12,529.8	9.7	20.1
Total	6,000,000	100	129,172.8	100	21.5

Source: Computation based on [Kazakhstan, 1993].

Table 3
Distribution of privatized and corporatized enterprises by methods of privatization and by the sector of the economy (as in August 31, 1992)

Name of branch	Transferred to employee collectives	Sold to non-state enterprises	Leased	Transferred to private individuals	Corporatized	Total (Aug. 31, 1992)	Total (Dec. 31, 1992)
Industry	196	15	15	22	68	316	543
Construction	152	12	8	21	20	213	313
Agriculture	31	0	1	0	26	258	628
Transport	32	2	4	4	7	49	90
Trade	608	145	28	280	50	1111	1834
Catering	167	48	6	68	13	302	525
Services	503	53	21	435	5	1017	1596
Public Utilities	60	28	6	35	0	129	195
Other Sectors	124	42	31	51	16	264	464
Total	2073	345	120	916	205	3659	6198
%	56.7	9.4	3.3	25.0	5.6	100	35.4

Source: Computation based on [Kazakhstan, 1993].

Table 4
Results of Small Scale Privatization in 1993-1995

Category	1993	1994	1995	Total
All small firms	21400	21248	18373	16923
Offered	162	4984	3859	9005
% of all small firms	0.8%	23.5%	21.0%	53.2%
% of all offered	1.8%	55.3%	42.9%	100.0%
Sold	152	2875	1450	4477
% of all sold	3.4%	64.2%	32.4%	100.0%
% of offered	93.8%	57.7%	37.6%	49.7%
Withdrawn	10	2109	2409	4528
Paid in full	112	2438	816	3366
Not paid	40	437	634	1111
% not paid	35.7%	17.9%	77.7%	33.0%
Sum of start prices (thousand tenges)	2928	327816	682815	1013559
Sum of final prices (thousand tenges)	32052	1316318	1486559	2834929
Paid (thousand tenges)	11627	700227	687474	1399328
Average starting price	19.263	114.023	470.907	226.392
Average Final Price	210.868	457.850	1025.213	633.221
Coefficient (times)	10.9	4.0	2.8	2.8

Source: Computation based on data provided by the USAID Consortium.

Table 5
Number of coupons used and their distribution (in thousand)

Auction	Coupons used	Coupons used (cumulative)	% of used	Coupons in circulation	% in circulation
1	14837.7	14837.7	0.8	1831162.3	99.2
2	13439.3	28277.0	1.5	1817723.0	98.5
3	21730.9	50007.9	2.7	1795992.1	97.3
4	22280.3	72288.2	3.9	1773711.8	96.1
5	52006.5	124294.7	6.7	1721705.3	93.3
6	62803.0	187097.7	10.1	1658902.3	89.9
7	79442.2	266539.9	14.4	1579460.1	85.6
8	50884.4	317424.3	17.2	1528575.7	82.8
9	93173.6	410597.9	22.2	1435402.1	77.8
10	52668.7	463266.6	25.1	1382733.4	74.9
11-12	89859.7	553126.3	30.0	1292873.7	70.0
13	63931.0	617057.3	33.4	1228942.7	66.6
14	35815.4	652872.7	35.4	1193127.3	64.6
15	39909.4	692782.1	37.5	1153217.9	62.5
16	36650.9	729433.0	39.5	1116567.0	60.5
17	36204.9	765637.9	41.5	1080362.1	58.5
18	42785.0	808422.9	43.8	1037577.1	56.2
19	94983.1	903406.0	48.9	942594.0	51.1
20	67940.7	971346.7	52.6	874653.3	47.4
21	115136.3	1086483.0	58.9	759517.0	41.1
22	85116.8	1171599.8	63.5	674400.2	36.5
Total	1171599.8	1171599.8	63.5	674400.2	36.5

Source: Own computations based on data provided by the USAID Consortium and the GKI.

Table 6
Number of firms for sale in coupon auctions

Auction	No. of firms auctioned	No. of new firms	No. of firms cumula-tive	% of new	No. of JSCs where shares were sold		
					completely	partially	not sold
1	49	49	49	100.0	19	23	7
2	49	49	98	100.0	25	21	3
3	48	48	146	100.0	34	11	3
4	45	45	191	100.0	37	8	0
5	89	41	232	46.1	55	32	2
6	79	61	293	77.2	51	29	0
7	29	29	322	100.0	14	11	4
8	97	59	381	60.8	58	31	10
9	175	149	530	85.1	104	54	16
10	119	52	582	43.7	89	16	17
11-12	147	90	672	61.2	103	20	24
13	87	58	730	66.7	58	14	15
14	121	79	809	65.3	65	33	23
15	154	82	891	53.2	71	41	42
16	159	86	977	54.1	71	47	41
17	161	112	1089	69.6	48	99	14
18	170	141	1230	82.9	57	46	21
19	158	91	1321	57.6	63	51	16
20	150	95	1416	63.3	112	27	11
21	413	247	1663	59.8	270	32	111
22	159	3	1666	1.9	156	2	1
Total	2658	1666	1666	62.7	1560	648	381

Source: Computations based on data provided by the GKI.

Table 7
Shares sold through the auctions (in thousand)

Auction	Founding capital of all firms auctioned	Nominal value of all shares designated for auctions	% of shares for auctions	Nominal value of shares sold	% of shares sold
1	236174.2	101349.6	42.9	53157.6	52.4
2	102403.7	50319.8	49.1	24608.8	48.9
3	74367.4	33954.2	45.6	29643.9	87.3
4	40953.8	20790.1	50.7	15707.7	75.6
5	331511.0	116046.8	35.0	74301.2	64.0
6	114965.3	48154.6	41.9	41669.5	86.5
7	84251.9	25703.9	30.5	19759.2	76.9
8	214780.9	75629.0	35.2	47865.0	63.3
9	542779.3	241919.1	44.5	150533.3	62.2
10	274785.2	89588.5	32.6	64146.6	71.6
11-12	434871.3	152214.6	35.0	106653.1	70.1
13	195544.5	70509.6	36.0	44236.5	62.7
14	570475.7	137602.1	24.1	82966.2	60.3
15	537926.8	126002.3	23.4	79173.7	62.8
16	571128.4	115954.0	20.3	59950.2	51.7
17	270949.6	63369.0	23.4	55128.8	87.0
18	1226155.7	87554.4	7.1	66597.3	76.5
19	1806450.2	211233.1	11.7	147293.3	69.7
20	8407448.1	313837.8	3.7	149416.9	47.6
21	9272533.4	1750789.3	18.9	466850.5	26.7
22	15885821.0	1622167.1	10.2	1621847.7	99.9
Total	41196277.4	5454688.9	13.2	3401507.0	62.4

Source: Computations based on data provided by the GKI.

Table 8
Distribution of shares within the MPP

Auction	Small < 200 employees				Medium and large > 200 employees			
	1-15% for sale	25-50% for sale	51% and more	Total	1-15% for sale	25-50% for sale	51% and more	Total
1-13	47	123	187	340	17	211	436	664
%	4.7	12.2	18.6	33.9	1.7	21.0	43.4	66.1
14	33	6	21	60	27	12	12	61
15	47	18	22	87	28	23	16	67
16	58	9	27	94	33	17	15	65
17	98	20	10	128	24	8	2	34
Total	236	53	80	369	112	60	55	227
%	39.6	8.9	13.4	61.9	10.1	9.2	18.8	38.1

Source: Computations based on data provided by the USAID Consortium and the GKI.

Table 9
The sectoral distribution of firms privatized in the framework of the MPP (data for 15 auctions)

Sector	No. of firms	%
Chemical industry	2	0.2
Construction	565	50.0
Energy	147	13.0
Ferrous metallurgy	17	1.5
Machine Building	60	5.3
Oil industry	158	14.0
Trade	2	0.2
Transportation	26	2.3
Others	153	13.5
Total	1130	100.0

Source: Computations based on data provided by the USAID Consortium.

Table 10
The participation of investment funds in coupon auctions

Auc-tion	No. of registered funds	Funds participating		Funds acquiring shares	
		No.	%	No.	%
1	146	97	66.4	90	92.8
2	151	98	64.9	93	94.9
3	155	113	72.9	78	69.0
4	155	104	67.1	83	79.8
5	159	121	76.1	107	88.4
6	163	113	69.3	97	85.8
7	163	104	63.8	73	70.2
8	167	116	69.5	99	85.3
9	168	108	64.3	104	96.3
10	169	125	74.0	104	83.2
11-12	169	131	77.5	109	83.2
13	169	112	66.3	102	91.1
14	169	96	56.8	81	84.4
15	169	94	55.6	87	92.6
16	169	98	57.9	86	87.7
17	169	111	65.7	93	86.5
18	169	115	68.0	100	86.9
19	169	120	71.0	102	85.0

Table 11
Distribution of PICs among Privatization Investment Funds

No. of collected PICs	No. of PIFs	%	No. of collected coupons	%
20 million and more	7	4.1	242823.6	26.879
Between 10 and 20 million	16	9.5	231869.4	25.666
Between 1 to 10 million	68	40.2	357620.0	39.586
Between 100 thousand and 1 million	65	38.5	70707.2	7.827
Between 10 thousand and 100 thousand	10	5.9	367.8	0.041
Between 1 thousand and 10 thousand	2	1.2	17.5	0.002
Less than 1 thousand	1	0.6	0.37	0.000
Total	169	100.0	903405.9	100.000

Source: Computations based on data provided by the USAID Consortium and the GKI.

Table 12
Shares sold in subsequent auctions

Auction	Date	No. of firms auctioned	No. of all shares ('000)	No. of share in coupon auctions ('000)	% of shares in coupon auctions	No. of shares sold ('000)	% of shares sold
1	29.04.94	49	15522	7525.1	48.5	3946.9	52.4
2	17.05.94	49	13203	6510.0	49.3	3183.7	48.9
3	07.06.94	48	6364.0	3805.6	59.8	3322.5	87.3
4	24.06.94	45	7681.8	4072.6	53.0	3077.0	75.6
5	15.07.94	89	26586	1008.0	37.9	6454.3	64.0
6	13.09.94	79	15439	6367.4	41.2	5509.9	86.5
7	28.09.94	29	3337.7	1538.8	46.1	1182.9	76.3
8	29.11.94	97	17849	6895.3	38.6	4364.0	63.3
9	22.12.94	175	39236	16387	41.8	10197.2	62.2
10	31.01.95	119	13627	4839.0	35.5	3464.8	71.6
11-12	28.03.95	147	22997	7837.0	34.1	5491.2	70.1
13	27.04.95	87	12752	4313.0	33.8	2705.9	62.7
14	31.05.95	121	21757	7013.6	32.2	4228.8	60.3
15	30.06.95	154	18317	5330.3	29.1	3349.3	62.8
16	01.08.95	159	22204	6094.6	27.4	3151.0	51.7
17	29.08.95	161	16445	3121.2	19.0	2715.3	87.0
18	29.09.95	170	26471	2761.1	10.4	2100.2	76.1
19	31.10.95	158	53897	6689.7	11.7	4385.8	69.7
20	30.11.95	150	27439	3334.0	12.1	2053.3	61.8
21	30.01.96	413	77065	36761.0	47.7	11009.5	29.9
22	01.02.96	159	51341	25991.3	50.6	25991.3	100.0
Total		2658	504758	175516	34.8	111189	63.3

Source: Computations based on data provided by the USAID Consortium and the GKI.

Table 13
Price comparison in the coupon auctions

Auction	Nominal value of share	Starting price of share in PICs	% of nominal value	Final price of share in PICs	% increase in price
1	13.5	3.17	23.5	3.76	119
2	7.7	1.52	19.7	4.22	278
3	8.9	2.23	25.0	6.54	293
4	5.1	1.02	20.0	7.24	710
5	11.5	2.29	19.9	8.06	352
6	7.6	1.53	20.1	11.40	745
7	16.7	26.69	159.8	67.16	252
8	11.0	3.44	31.3	11.66	339
9	14.8	5.31	35.9	9.14	172
10	18.5	6.44	34.8	15.20	236
11-12	19.4	7.14	35.8	16.36	229
13	16.3	5.75	35.3	23.63	411
14	19.6	7.44	37.9	8.47	114
15	23.6	11.2	47.4	11.92	106
16	19.0	8.18	43.1	11.63	142
17	20.3	2.62	12.9	13.33	509
18	31.7	5.75	18.1	20.37	354
19	33.6	6.21	18.5	21.66	349
20	72.8	25.02	34.2	33.08	132
21	219.0	38.13	17.4	10.45	27
22	324.0	62.91	19.4	3.27	5
Total	43.5	11.14	25.6	15.17	136

Source: Computation based on data provided by the USAID Consortium.

Table 14
Supply and demand for shares, and price formation in the coupon auctions

Auction	No.of shares sold	Nominal value of shares sold	Coupons used	Final price of share in PICs	Purchasing power of each PIC in nominal value	Purchasing power of each PIC in shares
1	3946.9	53157.6	14837.7	3.76	3.58	0.27
2	3183.7	24608.8	13439.3	4.22	1.83	0.24
3	3322.5	29643.9	21730.9	6.54	1.36	0.15
4	3077.0	15707.7	22280.3	7.24	0.71	0.14
5	6454.3	74301.2	52006.5	8.06	1.43	0.12
6	5509.9	41669.5	62803.0	11.40	0.66	0.09
7	1182.9	19759.2	79442.2	67.16	0.25	0.01
8	4364.0	47865.0	50884.4	11.66	0.94	0.09
9	10197.2	150533.3	93173.6	9.14	1.62	0.11
10	3464.8	64146.6	52668.7	15.20	1.22	0.07
11-12	5491.2	106653.1	89859.7	16.36	1.19	0.06
13	2705.9	44236.5	63931.0	23.63	0.69	0.04
14	4228.8	82966.2	35815.4	8.47	2.32	0.12
15	3349.3	79173.7	39909.4	11.92	1.98	0.08
16	3151.0	59950.2	36650.9	11.63	1.64	0.09
17	2715.3	55128.8	36204.9	13.33	1.52	0.07
18	2100.2	66597.3	42785.0	20.37	1.56	0.05
19	4385.8	147293.3	94983.1	21.66	1.55	0.05
20	2053.3	149416.9	67940.7	33.08	2.20	0.03
21	11009.5	466850.5	115136.3	10.45	4.05	0.09
22	25991.3	1455067.7	85116.8	3.27	17.09	0.30
Total	111189	3234727.0	1171600	10.53	2.76	0.09

Source: Computations based on data provided by the GKI.

Table 15
Distribution of shares in the framework of the MPP (December 1995)

Sample	Exclusively firms included in the MPP			All firms		
	No.	tenges	%	No.	tenges	%
Sold in coupon auctions		303886.4	49.4		453066.9	38.1
Sold in cash auctions and tenders		59054.9	9.6		121293.5	10.2
Given to employees		79970.1	13.0		217614.8	18.3
In the state disposal		172243.3	28.0		397176.8	33.4
Total	837	615154.7	100.0	3473	1189152.0	100.0

Source: Computation based on data provided by the GKI.

Table 16
Case-by-case privatization. Results on December 1995

Description	Shares designa-ted for coupon auctions	Sold com-pletely	Sold partially	Given into mana-gement	In state owner-ship	In em-ployee owner-ship	Total
Number of firms	7	4	32	38	138	138	142
% of shares sold	0.5	1.5	3.4	24.1	84.6	10.5	100
Value in tenges ('000)	19178	6142	13922	98103	336326	41087	407040
Average (%)	9.3	100	14.7	75.6	84.6	10.1	100

Source: Computations based on data provided by the GKI.

Table 17
Progress in privatization of the state wealth in the Republic of Kazakhstan (December 1995) (Cumulative)

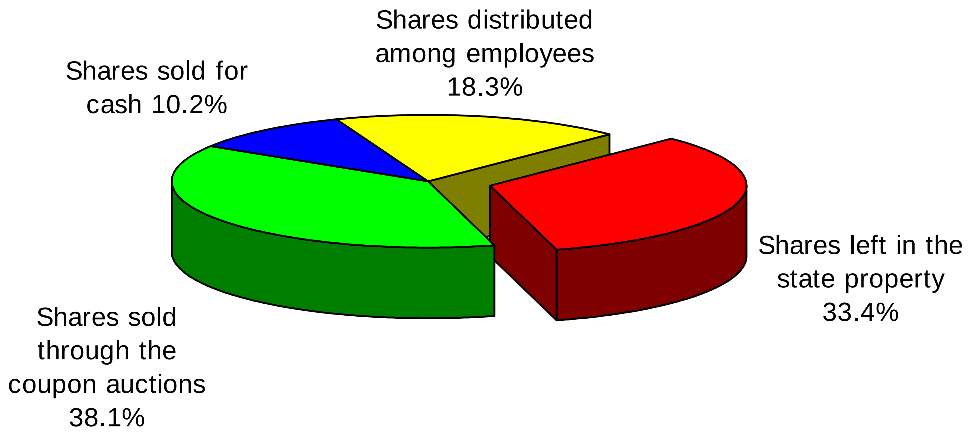
Description	Phases						Total
	First Phase		Second Phase		Third Phase		
	No.	%	No.	%	No.	%	No.
Small-size firm privatization							
No.	6198	35.4	10675	61.0	6825	39.0	17500
Tenges			2834929				
Middle-sized firms privatization (in numbers)							
Shares sold:							
fully	274	13.0	736	28.0	2402	72.0	3331
in 80%-99%	178		198				
in 11%-79%	751		1690				
in 1-10%	533		842				
0% sold	900		7				
Middle-sized firms privatization (in tenges)							
Tenges	1918920	26.6	4421995	61.4	2785725	38.6	7207720
Large-sized firms privatization							
No.	0	0.0	5	3.5	137	96.5	142
Tenges	0	0.0	70714	17.4	336326	82.6	407040
Management contracts							
No.	0		39	27.5			142
Tenges	0		98103	24.1			407040
Total value of middle and large firms privatization							
Tenges	1918920	25.2	4492709	59.0	3122051	41.0	7614760

Source: Computations based on data provided by the GKI.

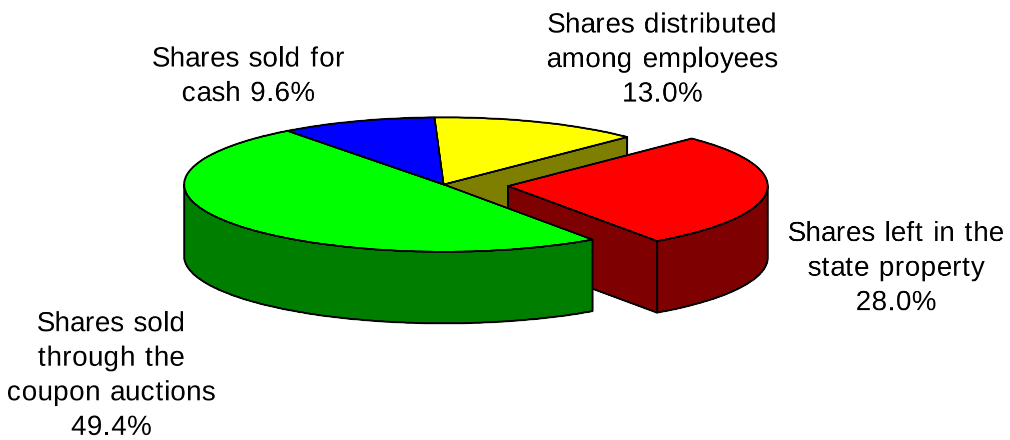
Table 18
Distribution of privatized enterprises by branch of economy (No. of firms)

Name of branch	1991-1992	1993	1994-1995	Total
Industry	543	422	583	1548
Construction	313	237	300	850
Agriculture	628	344	1330	2302
Transport	90	469	200	759
Trade	1834	392	2100	4326
Catering	535	79	1025	1639
Services	1596	210	1200	3006
Public Utilities	195	46	100	341
Other Sectors	464	296	30	790
Total	6198	2495	6788	15481

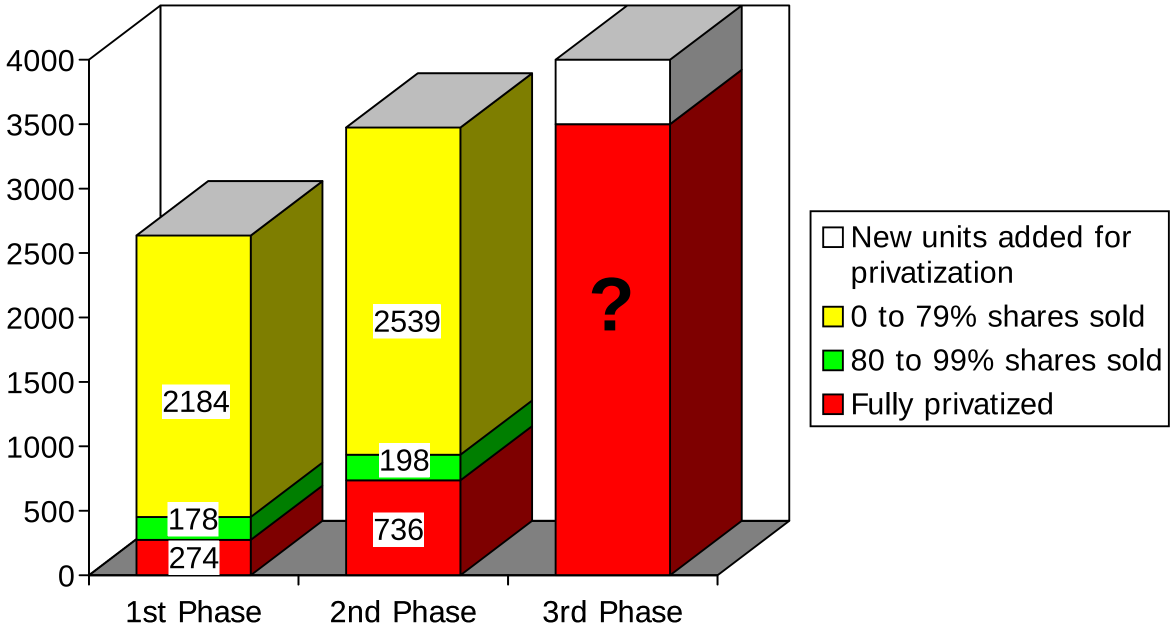
Graph 1
Results of mass privatization. Sample of 3473 enterprises



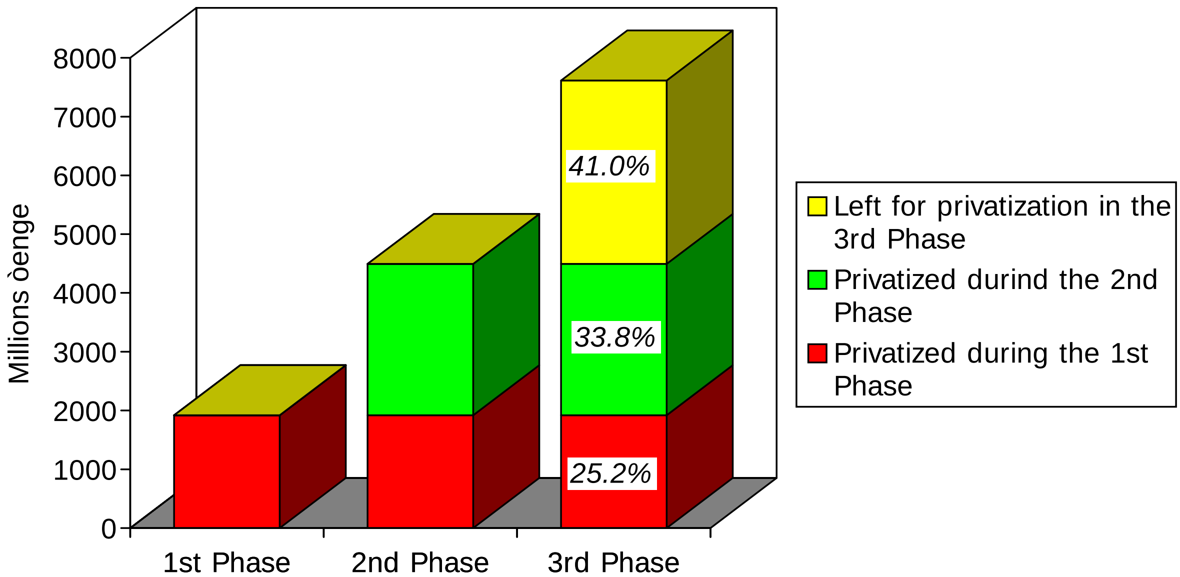
Graph 2
Results of mass privatization. Sample of 837 enterprises



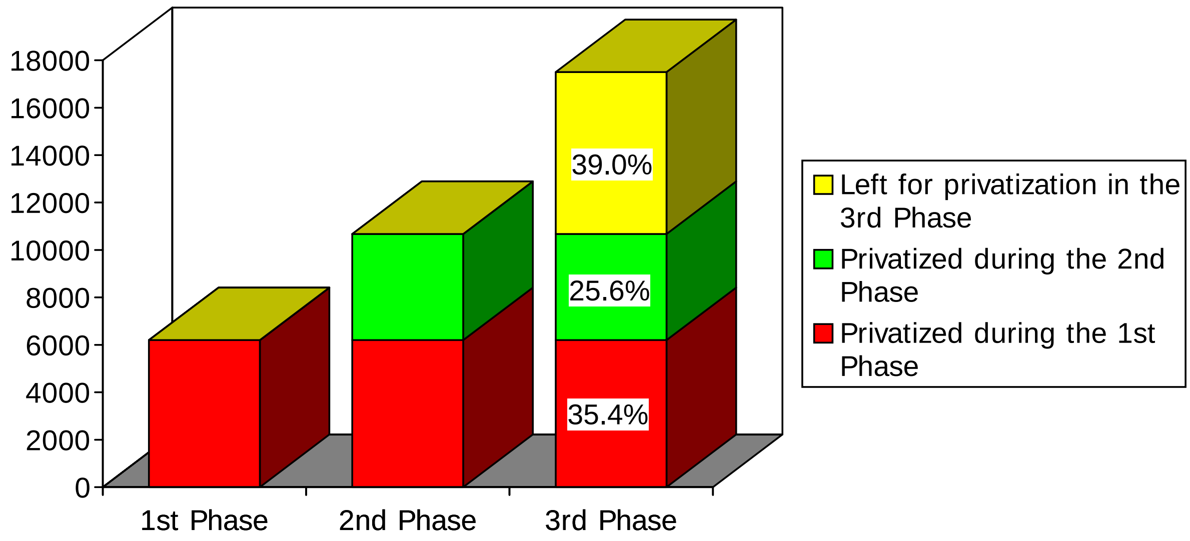
Graph 3
Results of middle-sized firms privatization (number of enterprises)



Graph 4
Results of middle-sized firms privatization (value of shares)



Graph 5
Results of small privatization (number of business units)



Graph 6
Results of case-by-case privatization (number of enterprises)