

## Investment operations of Kazakhstan population and transnational corporations in the stock market

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**Abstract:** The article deals with the problem of involving the population of Kazakhstan and transnational corporations into investment operations in the stock market. The study is highly relevant today, since both the population and the transnational corporations have temporarily free resources, which they wish to use to gain profit in the future. On the other hand, there are enterprises functioning in the real sector of economic activity that need financial resources to increase its capital, i.e. investment. Thus, transformation of savings into investments, in this case – transformation of the country's financial resources and resources of transnational corporations into investments in the stock market – is the major macroeconomic problem, which successful solution has direct impact on the capital saving capability of the economy of Kazakhstan (as well as any other country's economy), and respectively, on its sustainable development.

**Key words:** Transnational corporations; Stock market; Free resources; Investments; International cooperation; Social issues; Globalization

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### 1. Introduction

The intensive development of globalization processes along with involvement of national economies into the world economic system and their tight interrelation became the distinctive feature of the present world economy. Internationalization and quick growth of financial markets vividly reflect these processes. The financial globalization process opened new ways for investment in the financial market of Kazakhstan, including the stock (Saparova, 2011).

Both the Kazakh population and TNCs have temporarily free resources, which they wish to use to gain profit in the future. On the other hand, there are enterprises functioning in the real sector of economic activity that need financial resources to increase its capital, i.e. investment. Thus, transformation of savings into investments, in this case – transformation of the country's financial resources and resources of transnational corporations into investments in the stock market – is the major macroeconomic problem, which successful solution has direct impact on the capital saving capability of the economy of Kazakhstan (as well as any other country's economy), and respectively, on its sustainable development.

The transformation of personal savings and free corporate capital into investments takes place in the financial markets. There are two segments of these

markets: commercial banks and the stock market. In this regard, as shown by the world practice, stock market is more attractive for funding than bank loans, because it minimizes credit risk impact. Besides, the stock market improves management of the companies, since their transparency as regards all potential investors, participating in market operations, becomes one of the investment requirements for the functioning enterprises (Tsgoev et al., 2012).

Today the investment policy is one of the most important components of the state economic policy. The enterprise economy practice in the Republic of Kazakhstan shows unsatisfactory level of investment activity, high depreciation of the basic assets, ineffective structure of the national economy, lack of circulating assets etc. Therefore, radical change in the country's investment policy and its orientation on the development of domestic investment projects is regarded as top priority. The search for effective ways to increase the investment business activity is the most important direction of the present economic studies.

Today the Kazakh stock market is not an investment instrument, but with regard to its profitability and risk reduction gained through the investment resource management and diversification of investment portfolios, becomes widespread.

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One of the apparent shortages of the emerging markets, including the Kazakh one, is their low monetization and weak flows of funds. At the same time, there is a direct relationship between the level of monetization, circulation of securities, the level of financial resources allocation through the stock market players, positive sustainability of market conditions and the market size.

This study will focus on the investment activity of Kazakhstan's population and transnational corporations (TNCs) in the domestic stock market; this implies study of the stock market problems and prospects with regard to relevant investments; elaboration of recommendations with a view to raise the effectiveness of investment into the stock market instruments, which is necessary to activate the real sector of economic activity and to solve strategic tasks of the country's economic development.

The country's active investment activity solves many problems, therefore, it is necessary:

- To create favorable conditions to activate domestic investments (the entrepreneurial structures and population are the main domestic investors);
- To attract foreign investments (transnational corporations are the main potential investors);
- To increase efficiency of the state investment policy with a view to create active and effective market and social infrastructure;
- To develop the competitive environment.

Investments provide improvement of the state image, expanding possibilities of international cooperation, promoting solution of different social problems, providing high level of public employment, production renovation, modernization and accumulation of the basic funds of enterprises, as well as implementation of the state-of-the-art technologies.

Determination of the stock market, its role and impact on the economy was widely outlined in the papers of such world-famous economists-theorists as Singer (2002), Jochimsen (2003), Hedtkamp (2015), and Williamson (1998). Each of these scholars offered different approaches to the stock market conception. The analytical review of literary sources and studies of securities market infrastructure (Shishkov, 2001; Haecker and Muenchen, 2007; Pagano, Panetta, and Zingales, 1998; Astapov, 2012; Tsgoev et al., 2012). How does an IPO work at the NYSE shows that today the scientists have not reached general consent as regards determination of the notion "stock market". In addition, there is no distinct quantity of market participants, which causes a number of methodological problems, in particular, the problem of identification, namely, the need to distinguish all market participants between the two categories: the infrastructural and the basic one.

The problems of stock market development and specific features of joint-stock capital development, based on shares and related financial instruments were studied by such foreign scientists as: Lucas and McDonald (1990), Choe, Maulis, and Nanda (1993), Baker and Wurgler (2000), Pagano, Panetta, and

Zingales (1998), Chemmanur and Fulgieri (1999), Brau, Francis, and Kogers (2003).

Most scientists, who study the present peculiarities of financial market, not only disclose complex issues of its functioning and perspective development, but also offer models of effective (Vsyakikh, 2010; Pakhomov and Pakhomova, 2010).

In particular, the American scientists Lukas and McDonald (1990) developed the model based on asymmetric / incomplete information with a view to figure out in what period (as a rule) the enterprises primarily allocate public assets. It is acceptable, for instance, that managers of a certain enterprise have information regarding the present cost of this enterprise; however, this information will be unknown in the market by the subsequent period. The enterprise is "underestimated", if disclosure of this information leads to the increase of share costs and "overestimated" if it causes cost reduction.

Choe, Maulis, and Nanda (1993) elaborated the dynamic model of share issue, which also takes into account the danger of adverse selection effect. However, the difference of this model from the model offered by Lucas and McDonald (1990) lies in the fact that the dynamic model takes into account that the enterprise can also finance its projects by taking up a loan. Another difference is that Choe, Maulis, and (1993) also take into account the interconnection between price level on the stock market, business cycle and share price dynamics in case of information on shares emission.

Baker and Wurgler (2000) analyzed the hypothesis concerning the "window of opportunities". They used annual share issue data, taking into account indebtedness of relevant enterprises during 1928–1997 and clarified that in case when many shares were issued during a certain period, then in the subsequent period the stock market profits would squeeze.

Chemmanur and Fulgieri (1999) elaborated the model in order to study which life cycle stage is better for the enterprise to go on the stock exchange. According to this model, the enterprise has two possibilities: to place their shares privately using the venture capital fund, which does not want to risk or to sell them to numerous small investors through the primary public flotation.

Brau, Francis, and Kogers (2003) studied the issue of enterprise strategy choice, which is determined either by the primary public flotation or by being bought by another enterprise, which is already listed at the stock exchange. Using the sample consisting of 9500 private enterprises located in the USA, the scientists discovered the basic factors having vivid impact on this solution. Their study discovered four factors affecting the decision as regards the primary public flotation:

- The branch, to which the enterprise belongs;
- Situation on the market at that moment;
- Expenses, related to the transaction;
- Financial resource requirement (to a lesser extent).

Foresti (2007) devoted his paper to the analysis of interrelation between the stock market and

economic growth in the developed countries. Its basic results revealed the stock market impact on GDP. Foresti (2007) supposes that there are two diametrically opposite viewpoints as regards the stock market impact on GDP. One of them is the "wealth effect" (wealth effect). It implies that with the growth of asset prices the shareholders become wealthier and are ready to spend more than before that, in turn, stimulating economic growth. The critics of this theory believe that this theory is based only on suggestions and expectation, accordingly, the error possibility exists.

Filler, Hanousek, and Campos (1999) studied the stock market impact on the economic growth, using the Granger's method. Proceeding from their studies covering 69 countries with different economic conditions and stock market activity levels, they proved that stock markets, especially in the more developed countries, have impact on the economic growth which corresponds to the effective market hypothesis.

## 2. Research methods

The study is based on the analysis of the stock market conception, its role, and importance for the world economy, based upon research papers of such well-known world economy theorists as Singer (2002), Jochimsen (2003), Hedtkamp (2015), Williamson (1998), Lucas and McDonald (1990), Choe, Maulis, and Nanda (1993), Baker and (2000), Pagano, Panetta, and Zingales (1998), Chemmanur and Fulgieri (1999), Brau, Francis, and Kohers (2003) et al. The study also included the analysis of JSC "Kazakhstan Stock Exchange" development strategy and its evaluation. The research methodology and methodic is based on system approach to the problems of information and financial support of TNCs and the population of Kazakhstan, based upon the use of research methods related to social and economic processes. The research methodic is based on observation, clustering and characterizing the information flows, on processing and generalizing of accounting, manufacturing, marketing and sales information, on creating mathematical models with a view to simulate economic situations and to predict outcomes, as well as on the practical implementation of the results. The authors also used graphic-analytical methods for visualizing relevant information, system analysis, statistical methods of analytical calculations, and methods of factor and economic-mathematical analysis of the TNCs activities in Kazakhstan.

## 3. Research results

With a view to improve the stock market development of Kazakhstan, the Development Strategy of JSC "Kazakhstan stock market" was elaborated in 2011 and approved for the period 2011– 2013. This Strategy aimed at the increase of securities liquidity on the Kazakh stock market.

The Strategy provided the following basic measures aimed at the liquidity increase:

- attraction of new companies to the stock market thus expanding the list of traded shares (first of all, within the framework of the "national" IPO);
- attraction of the foreign investors (implementation of the required T+3 calculation system, modern clearing in the securities market, direct access of non-residents of Kazakhstan to stock trading, including through the obtainment of KASE membership, distribution of indexes and the Kazakhstan stock exchange information by the world providers);
- expansion of the local investor's base through the development of Internet-trading, elaboration and improvement of services, provision of relevant educational activities and the increase of the investors' protection level.

According to the *Strategy of the Development of JSC "Kazakhstan Stock Market" for 2011–2013*, Gradual realization of all these measures should foster the development of wide investor's base in support of the national economy.

However, despite of the fact that Kazakhstan provides large amount of measures aiming at the development of securities market and its further improvement with regard to the present economic tasks, international practice and lessons learnt, much is still to be done in order to solve the above-mentioned problems and to provide further development of this very important economy segment.

First, it is necessary:

- To form legal platform for the development of new financial market instruments, which correspond to the present state of economy;
- To stimulate the retail investors and to provide investment of personal savings pursuant to relevant principles;
- To develop competitive institutes of the securities market;
- To develop instruments and forms of private capital investments and to stimulate the investment activity;
- To provide legitimacy and order at the financial market to protect the investors' rights and interests;
- To develop the regulation system and the principles of the state policy in the financial market.

In order to provide the development of new financial market instruments the state should actively promote the development of enterprises with stable monetary flows – potential securities emitters, along with their direct establishment. Substantiating this approach one could give the examples of KASE and CJSC "Central depository", which were created based on subdivisions of the National bank, when the private sector was not still ready for their development as full-fledged institutes (Shishkov, 2001).

Moreover, using the "National IPO" program the shareholder can activate its own activity by putting the securities of such entities at the stock market and

thus raising their investment attractiveness. It is possible that the securities of small-business enterprises will appear on the stock market given the following conditions:

- Provision of the small-business securities output through guarantees of the large financial institutes that will remove the listing difficulties;
- Appearance of the venture investment funds (potentially high profitable, but risky investments), which will become the buyers of the small-business securities.

Financial market regulations are very important for the stock market of Kazakhstan. If the stock market regulation is properly supported by the state, the stability and economic benefit of their investment will become evident for the investors.

In this case, crisis and risk are distributed within the economy in a more optimal and safer way. Due to this very reason, financial markets badly need good and reasonable regulation. Taking into account the complexity of financial services, provided by such markets, quite often their nature and long-term character, potentially or big amounts of money, the level of financial markets regulation becomes much higher than the regulation level of non-financial services.

However, after the creation of the Unified pension savings fund and its refusal to join the stock market, the consistency of regulation lost its topicality. Perspective development of the stock market is reasonable by using funds of profiteers and long-term investors originating from the population and non-residents; to this end, it is necessary to weaken "the state grip" and pass the bigger part of control over the quality of instruments to the market structures – rating agencies, and investment companies. It is clear that liberalization of the regulation should be accompanied by the actions aiming at radical improvement of the legal protection of investors and trust to the judiciary system, along with real application of the corporate management standards by the companies and other important steps.

The main problem of the stock market is the absence of a structure, responsible for its development. Earlier this task was put on ARFC (Almaty Regional Finance Center). This structure, on the one hand, was responsible for diversification of economy, and provided profitability of the regional investment projects in Almaty, and on the other – for providing the appropriate location of the regional offices of the world investment banks, foundations and other financial institutes in Kazakhstan, including its southern capital. Presently the National Bank is responsible for the market supervision, but so far, no positive results have been reached. After the creation of mega regulator, the committee on control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan (FSC) is responsible only for state control and supervision. The National Bank itself focuses on risk minimization in the country's financial system. In choosing between the

development of stock market and the country's financial security system, the priority is always given to the latter option.

According to the opinion of professional participants related to the state body, responsible for the securities market development in Kazakhstan, the functions and authorities as regards stock market regulation and development should be given to FSC. While KASE is ready to perform the functions related to ideological provision of the national stock market development, it requires more power to provide due regulation of this market.

Another important move implied creation of the long-term program of the securities market development, oriented directly at the development, but not on correcting the mistakes and imperfections of the pre-crisis period. The third step implied deepening the KASE partnership ties with foreign stock exchanges by means of selling its major share package or by other means, going beyond the ordinary share of experience, information and staff training.

The position of the National Bank on these three issues showed readiness to compromise, to discuss the non-strategic issues of the market development and rigidity as regards key positions of the current regulation model.

According to the regulator's opinion, it is necessary to keep the unified model of regulation and supervision as regards all sectors of the financial market without making the regulation and supervision policy a separate segment.

In the end of October 2013, the Association of Kazakhstan Financiers (AKF) sent its proposals to the National Bank, related to raising effectiveness of state functions as regards protection of the rights and legal interests of the financial market participants, as well as on early warning and prevention of the unfair practice and violation of the legislation in the securities market (Batishcheva, 2013).

The sector of non-state securities (bonds and shares) is characterized by the common problem - the lack of the securities supply. Solution of this problem given the present stage of economic development and the state of managerial mentality completely depends on the role, which the state chooses for itself. In case of a weak interest of the private production sector in filling the securities stock market, the state should act as a "pusher", conducting aggressive policy aimed at the "discharge" of new instruments to the market.

The Republic of Kazakhstan should take the following steps to improve the stock market:

- To provide tax stimulation in the form of different preferences for listing companies and their investors, subsidizing interest rates on credits for companies, being in the listing process on the domestic stock exchange, or for those companies, which securities are already put at the stock market of Kazakhstan;
- Involvement of the companies into different state programs on the economic and infrastructure

development through different benefits and preferences, which stimulate listing;

- Promote the investment activity of the population through simplification of the stock exchange and displaying its transparency;
- Provide educational seminars free of charge;
- Explain the issues related to entry of the regional companies with a view to attract the potential emitters to a special trading platform;
- Active interaction between the stock exchange and mass media;
- Provision of seminars for emitters, giving information on the stock market advantages, new listing rules and principles of securities market operation.

The domestic stock market should give citizens of the Republic the possibility to participate freely in the market development and to use securities as an alternative option of free investment.

According to the *Russian Association of Venture Investing* (2012), the slowing world economic growth demonstrates the outflow of the foreign capital from the developing markets, which look less attractive as compared with the developed ones. In this regard, it became more complicated to attract foreign portfolio investors and presently it is necessary to rely on one's own forces.

The financial integration of the CIS states will activate the investment cooperation and promote the economic growth, enhancing the economic security and sustainability of the national financial markets as regards crisis phenomena on the world financial market.

Proceeding from the above-mentioned, it is possible to note that the Kazakh stock market has development prospects; however, it will have several specific features as compared with the foreign markets. First, these are:

- Bond market;
- Market of primary public flotation, oriented on Kazakh institutional investors (CMPA and banks);
- Market, which volume will be determined by the free resources of Kazakh institutional investors;
- Low-speculative market. Possible deviations from this forecast depend on the general development of Kazakh economy (i.e. from the state of securities emitters and institutional investors) and on the presence of foreign portfolio investors at the Kazakh stock market.

Demand for the stock market as for the supplier of liquidity to the real sector is still high. The Kazakh economy survives difficult post-crisis restoration with the slowing economic growth. The basic flow of capital investments into the economy was recently provided by the state, through foreign direct investments and partially from the small group of private Kazakh investors. Given such mass infusion of foreign and state capital into the economy, the funds of stock market investors were not merely required. Presently the situation is somewhat different.

In order to keep the leading position of metallurgic industry in the Kazakh economy, it is

necessary to consider the budget funding of research studies on the priority directions.

Keeping in mind the fact that the export orientation of Kazakh producers of metals will be kept intact in the nearest future, it is expedient that production be reoriented at the output of the knowledge-intensive production with high value added: rolled metal with advanced consumer parameters, conductor and cable production and special alloys etc.

The economy needs money to realize the infrastructure projects and to arrange domestic market. The required funds can be taken at the local stock market – from the population and professional investors without relying on foreign investors and large business.

If the private portfolio investors could gain access to such projects along with the development of relevant corporate management, the management abuses will reduce. The FIID projects were selected not only for providing the economy of Kazakhstan with local content, but also to be profitable and commercially successful. It means that they should be attractive for private investment and be public by nature. The stock exchange is ready to accept such emitters.

Kazakhstan requires political decision of its government aimed at implementing such projects along with involvement of the private joint stock capital; therefore they should be transparent not only for the Accounting committee, but also for the civil society in general. The financial data of such companies must be public, and public opinion should be formed with regard to the results of their activity. If the project is less successful, it will attract less money from the investors because of the smaller expectation on this project. The domestic competition at the investor's expense should be formed as well.

The universal structural solution of the situation, satisfying all parties, could be offered. Namely, the Single Accumulative Pension Fund (SAPF) can purchase unit investment trusts (UITs) of the managing companies, for instance, 20–30% from its portfolio, which will make it more flexible, and the market will get the required liquidity. Given the active investor, the market will start to develop. SAPF would be investing into the state bonds and infrastructure projects, and the managing companies, having previous experience of portfolio management, would be responsible for the risk part of this portfolio, including support of the "National IPO" program. Banks could also receive long-term funds, necessary for crediting of economy through the bond flotation, which would be acquired by the UITs.

The situation at the Kazakh stock market is rather ambiguous. The statistics shows trade activity reduction, and the market players are even ready to earn more at the external markets than at the domestic one.

Thus, the following actions aimed at the development of domestic stock market could be offered:

- The stock market should perform its basic function – to promote the economic growth and innovations, i.e. to become the mechanism of investment attraction into the real sector, and also to foster the real monetary competition with markets of other countries;

- It is necessary that the share of small shareholders (physical persons) be increased up to 20–25% of the total capitals of enterprises, and the shares of institutional investors, representing population – up to 8–10%. This could provide the possibility to attract capitals on the retail markets (the majority of enterprises have their “controlling” shareholders). In this regard, it is necessary to note that the Anglo-Saxon financing model, based upon shares, is unlikely to work in Kazakhstan in the closest perspective;

- It is necessary to build the mixed model of the stock market, involving such market players the universal commercial banks, investment banks (broker-dealing companies) and financial conglomerates. Implementation of this model requires the system of conflict regulation as regards interest and risk management inside commercial banks and broker-dealing companies.

- Combination of both universal and specialized institutes at the stock market;

- Creation of the new clusters of investors, representing the population and oriented on the increase of workers’ share in the joint-stock capitals of enterprises.

Therefore, in order to develop and strengthen the stock market of Kazakhstan, it is necessary to improve the quality of shares offer at the Kazakh stock market, and to promote further development of the “National IPO” with a view to raise public interest in sales and purchase of shares at KASE. Along with that, it is necessary to increase demand from the part of retail and institutional investors. Solution of the previously mentioned problems will promote liquidity of shares at the Kazakh stock market and thus, the development of stock market would promote the economic development of Kazakhstan.

In the developed countries of the world, IPO is one of the active instruments of stock market. Taking into account the current state of the Kazakh stock market, it is evident that launching the “National IPO” Program (hereinafter referred to as the Program) can become one of the most effective methods of the stock market liquidity increase.

The Head of State, Nursultan Nazarbaev, was the first who made an announcement about this Program that would allow citizens to become co-owners of the largest national companies.

The “National IPO” is aimed largely at the increase of transparency of state enterprises and intensification of the public control over their activity.

The Program supposed to give priority in purchasing shares to the citizens of the Republic of Kazakhstan (taking into account restrictions as regards the maximum quantity of shares to be purchased by one physical person). In the last turn, the shares can be purchased by the country’s accumulative pension funds that would allow avoiding sharp increase of share prices. Purchase of the state enterprise shares by physical persons will give them the right to vote during the general shareholders’ meetings of the national companies, the right for dividends, and the right to gain profits on the shares price change. As a result of the Program, the population will get new opportunities for investing free money.

The “National IPO” should involve the enterprises-participants of the JSC “National Welfare Fund “Samruk-Kazyna” group, which represent strategic assets of Kazakhstan: oil and gas pipelines, electric networks, railways, electric power plants, aircraft and sea fleet.

However, the state keeps its control over the basic enterprises by selling small shareholdings to the population (Vsyakikh, 2010).

Before taking the decision to launch the “National IPO” Program, the JSC “KazMunaiGaz” Exploration Production” became one of the first national companies, which placed its shares in the stock market. In 2006 the company placed its shares and share depositary receipts at the London stock exchange which generally amounted to US\$ 2 billionn. USD, at the price of US\$ 12.75-14.75 for 1 GDR and 9649.71-11163.39 tenge per 1 ordinary share. Generally 23 086 791 shares were placed. The quantity of physical persons, who purchased the company’s shares, made 113, and the quantity of deals – 200.

Before the crisis of 2008–2009, quotations were higher than the prices of allocation, which allowed the IPO members to fix the desired profit. Only during the crisis period shares cost dropped and the price was lower than the price of allocation (up to 6,000 tenge per share), but within the next six months quotations returned to the previous level.

Presently the ordinary shares of JSC “KazMunaiGaz” Exploration Production” are traded at 17000 tenge, which on average is 70% higher than the price of allocation.

The JSC “Kazakhtelecom” became the next large company, which placed its securities on the Kazakh stock exchange.

In October 2006, the JSC “Kazakhtelecom” decided to sell 4.6% of its ordinary shares in the domestic market of the country, totally – 497 597 shares, 90% of them were intended for sale to the population, and the rest was intended for selling at the organized stock market. The price range was established within 25000–33000 tenge. The quantity of physical persons, which participated in the bidding, made 6 841. The average allocation price of the purchased shares made 30561 tenge. The total capital attracted from the physical persons made 12.2 billion tenge or US\$ 95.4 million. After selling

these shares to the population, the rest (0.46%) of shares were offered to the country's pension funds.

The ordinary shares of the JSC "Kazakhtelecom" as opposed to the shares of JSC "KazMunaiGaz' Exploration Production" gave the possibility to earn much more during the first year after their allocation, but starting from the fourth quarter of 2007 the price dropped lower than the price of allocation. During all the subsequent years, the shares of the JSC "Kazakhtelecom" were traded at lower prices and only after selling of its share in LLP "GSM Kazakhstan" in the 3rd quarter of 2011 the price of shares began to rise substantially, returning to the level of 30,000 tenge per share. Presently these shares are traded at about 12,000 tenge per unit, which is 61% lower than the allocation prices. (Genatulin, 2013).

The IPO of 25% of Kcell shares was held in the end of 2012 within the framework of bilateral agreement between the JSC "Kazakhtelecom" and Teliasonera Company. Kcell, which is the largest mobile operator in Kazakhstan, successfully sold the planned volume of shares that allowed the company to attract about 7.5 billion tenge to the Kazakh stock market.

The general allocation volume in London, with regard to IPO, made US\$ 525 million or nearly 79 billion tenge. The price was established on the low limit level of the announced range of US\$ 10.5 – 13 per 1 GDR, or 1578.68 tenge per one share.

In the secondary market, the price for one ordinary Kcell share made about 2900 tenge, which exceeds the allocation cost by 84% on average.

In December 2012, the "National IPO" Program was launched starting from allocation of the JSC "KazTransOil" shares. Presently, the state fully participates in its statutory capital. The company is the largest oil pipeline company of the Republic of Kazakhstan, having the powerful well-developed network of long-distance pipelines, which provide oil transportation and water supply.

Other basic types of the company's activity include production, transfer and distribution of the thermal energy, transfer and distribution of the electric power energy, natural gas transportation for the Kazakh consumers, exploitation and technical servicing of the long-distance pipelines, belonging to other legal entities. The company is the natural monopoly at the national market of services related to the oil pipeline transportation, and forms part of the national company "KazMunaiGaz".

Totally 38,463,559 ordinary shares were sold on the Kazakh stock exchange to 33 989 citizens of Kazakhstan. The allocation price of one ordinary share made 725 tenge (lower than the balance price of 1000 tenge).

The general demand exceeded 59 billion tenge given the allocation volume of 27, 9 billion tenge (Figure 1). The small part went to the pension funds – less than 6 billion tenge, while the general amount of the requests made nearly 37 billion tenge, i.e. demand greatly exceeded supply.

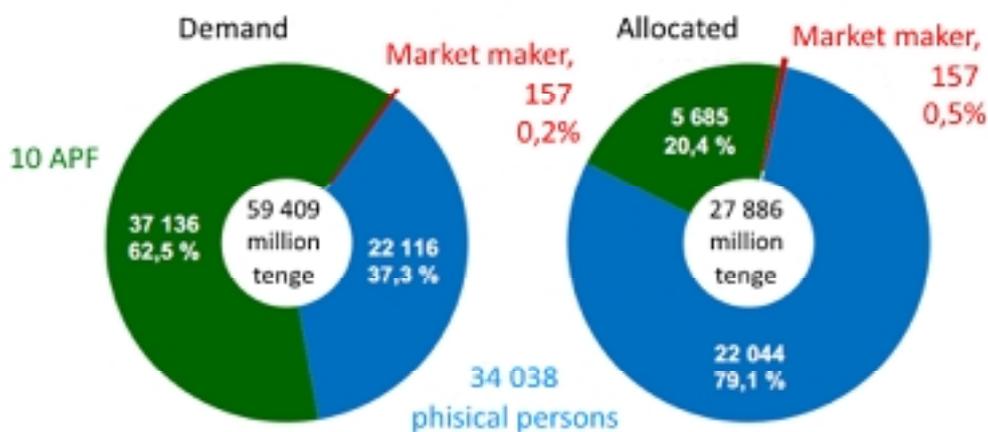


Fig. 1: IPO Results for JSC "KazTransOil"

Notice: Source [www.kase.kz](http://www.kase.kz)

During opening of the secondary bid the price of ordinary share has increased at 11%, today the price is about 11,000 tenge, which is 38% higher than the allocation price.

After the allocation process two categories of investors appeared: those who wish to sell shares and receive profit due to their price growth within several months and those who wish to keep the shares for the longer term and to receive relevant dividends.

Pension funds received more than four times less than they wanted to acquire; that promoted increase of shares cost in the secondary market. Probably, the demand on shares was supported by not only the funds, but also by physical persons, whose requests were not completely satisfied and also by foreign investors, which generally had no right to participate in IPO. This means that share liquidity and market activity in general was provided due to the "National IPO" Program.

Thus, two successful flotation's of the large companies took place during the year, which provided further development of the Kazakh stock market and the inflow of several new investors in it.

Inclusion of KazTransOil and Kcell shares into the KASE presentation list is a positive event for the stock exchange index. Two allocations turned out to be large, and accompanied by a large number of transactions; shares matched the required standards in order to receive the representation status and therefore had substantial impact on the index. Moreover, both companies are standard to a certain extent and thus less subject to the external factors.

The experience of the Kazakh companies, which implemented IPO shows that their successful allocation testifies to the stable economic growth of Kazakhstan and its further integration into the world financial community.

Thus, given the present situation, the "National IPO" is the most appropriate option. The population will get the possibility to earn on bringing the companies to the national stock exchange platforms, and share investment will become the alternative to deposits for the Kazakh people – this will imply the possibility to earn several times more than on the deposits during the shorter term. Therefore, business transparency, the quality and effectiveness of corporate management in Kazakhstan will be substantially improved.

Given relevant state support, perspective realization of the project will bring profit to the country, the stock market and, accordingly, the economy of Kazakhstan will be dynamically developed (*Materials to the Report of KASE President Damitov K. K. on "IPO World" for the Fifth Astana Economic Forum, May 24, 2012.*)

However, in order to make this program work, it is necessary to provide the effective functioning of the stock market. It is necessary to take measures, aimed at the promotion of attractive assets and stimulation of the active trade in the Kazakh stock market.

Moreover, taking in account unification of all pension funds into the single pension fund, which allocates only 28% on share investment, state regulation measures should be provided to activate investment from this pension fund.

Another important problem is the short term of investment, while the stock market development requires the medium and long-term investment.

Moreover, it is necessary to take into account all types of risks, and to minimize them as best one can. For example, the situation in Ukraine can have indirect impact on Kazakhstan, as the introduction of sanctions in relation to Russia, can influence the activity of Kazakh national companies, which shares have general impact on the Kazakhstan stock exchange index. In case of recession, quotations of the national shares will drop immediately.

The results of two IPO show that slowdown in the investment activity on the stock market is explained by the lack of qualitative and accessible investment media. In this regard, the presence of large

Kazakhstan enterprises at the domestic stock market can provide both domestic and foreign investment, which could substantially raise share liquidity that, in turn, will finally promote the Kazakh stock market development.

According to the statistics, profitability of the funds, invested in shares in the long-term period exceeds investments in other instruments (bonds, precious metals, real estate, deposits). Shares profitability consists of two components: dividends and growth of their market value that is the basic source of their profitability pursuant to the world practice. On average, no more than 10% of the net profit of companies is allocated in the form of dividends, and the other part remains as the unallocated profit and is used to expand the economic activity.

In many developed countries (the USA, Japan, Canada, Germany, and the U.K. etc.), the positive connection between the economic growth and stock market development is quite substantial. Situation in Kazakhstan can vary greatly because of its economic structure. The rate of stock market capitalization in Kazakhstan and the solid legal basis aimed at shareholders' rights protection should become the key factors for the country's further development. Stock markets of partner countries and the developed countries can have impact on the stock market of Kazakhstan. Thus, the interest of foreign investors to Kazakhstan is rising, which is a positive moment. One of the facts, that confirm this trend, is the creation of hedge funds, focused only on the countries rich in natural resources, such as Kazakhstan and Azerbaijan (Sturgeon fund, registered on the Cayman Islands founded by Clemento Capello, Tau Capital – the joint British-Kazakhstan enterprise). This being said, minimum 50% of their investments are sent directly to the stock exchange of Kazakhstan, and the rest – to the companies listed abroad

#### 4. Conclusion

Thus, the investment activity of Kazakh population and transnational companies in the stock market is one of the factors of stock market development. Both the private and corporate investors get the new possibility to invest their own capital and gain profit. However, the domestic general investment market takes its first steps as regards integration into the world financial market, and simultaneously tries to meet competition through all directions. Unfortunately, the domestic general investment institutes play insignificant role in the stock market.

Given financial globalization, the national stock market is getting sensitive to the international flow of capital, particularly as regards the segments of investment activity of the population and transnational corporations. According to the *National IPO of Kazakhstan (2015)*, the statistical data analysis shows loss of state regulation impact on the collective investment structure, at the same

time the impact of financial policy implemented by the international financial institutions is growing. The authors believe this is the objective process and further actions aimed at the stock market development should be based on the new concept of the collective investment regulatory policy.

Social function of the state regulatory policy should provide improvement of the legal framework of the investment activity as regards population and transnational corporations. Namely, such policy should provide the establishment of investment funds with sub-funds and funds, which could be invested in other funds. In turn, the regulatory function of the international capital should be expanded: it is necessary to improve unification of the information disclosure standards, provide information transparency on the collective investment market, improve maintenance of shareholders' register, and to provide protection of monetary shareholders. The state should implement the following measures:

- To promote attraction of the public funds to the stock market through creating favorable organizational and legal conditions and to provide the information transparency of the general investment institutes;

- To increase the responsibility of corporate investors for the actions related to investment activity;

- To raise public awareness of the stock market activity and advantages of public investment into its instruments; presently the majority of the Kazakh population is not aware of this segment of financial market, so the population will have the possibility to use its purposeful right to choose between the bank deposits and investment into the stock market.

Perspective studies should be directed at the development of real practical recommendations as regards determining the optimal foreign capital share in the financial and stock market structure, which, on the one hand, could create healthy competitive environment and promote integration of the stock market into the world economy, and on the other – wouldn't have negative impact on the country's economic stability in case foreign investors face financial problems.

Summarizing the above-mentioned, it is possible to distinguish basic ways of tackling the problems, emerging in Kazakhstan, as regards the activation of individual and corporate investment: legal and organizational framework is required to raise the efficiency of the investment climate provision and to form the basis for the growth of competitive strength of domestic economy. To this end, it is necessary to take several immediate actions aimed at the successive DE politicization of the economy, development of common strategic goals and successive economic reforms, as well as to provide guarantees of the investor's market rights and freedoms protection.

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