

The Composition and Structure of Capital: Evidence from Firms in Kazakhstan

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ABSTRACT

The process of forming of management politics by a loan capital in the real sector of economy is considered. The statistical debts on the obligations of enterprises of the real sector of Republic of Kazakhstan's economy for the last five years are analysed. Correlation of the short-term and long-term credits given out by jars the second level to the enterprises and volume of auctions by corporate bonds on the exchange stock of Kazakhstan is considered, the structure of debt funds of enterprises of the real sector of Republic is considered.

Keywords: financial policy of the enterprise; real sector of economy; loan capital; credit resources of the enterprise; accounts payable.

I. INTRODUCTION

A company that uses borrowed capital has higher financial potential of development and growth opportunities to the financial profitability of activities, but more generates the financial risk and the threat of bankruptcy.

In the current economic conditions of the country's development for each enterprise is quite acute question about the formation and management of capital. In world practice, there are the following main sources of financing of activity of the enterprise:

1. Self-financing, i.e. financing through own funds available to the organization;
2. Financing through the capital market.

This is, firstly, the additional sale of shares, thereby increasing the number of owners, or existing owners pay an additional Deposit; second, the implementation organization of the bonds which entitle their holder to a long-term current income and return of capital provided in accordance with the terms of this bond loan;

3. Bank lending, as the most accessible source of funding;
4. Budget financing. The organization may obtain funds from the budget. Recently, the access to this source constantly shrinking;
5. Mutual financing of economic entities. Organizations widely use commercial loans, mortgage loans, financial leasing. [1]

As can be seen, almost all sources are borrowed capital.

II. OBJECTS AND RESEARCH METHODS

Debt management is part of the overall corporate financial policy, which consists in providing the most effective forms and conditions for attracting borrowed capital from various sources in accordance with the needs of the enterprise development.

The formation of this policy should take place with the following conditions:

- Availability of broad opportunities to attract sources of financing for the company's current operations;

- The cost of borrowed resources is lower than the cost of the company's own capital;
- Attraction of borrowed funds ensures the growth of financial potential for increasing assets with increasing sales of goods and services;
- Attraction of borrowed funds increases the profitability of using own capital as a result of the effect of the financial leverage effect;
- The use of borrowed resources generates the risk of reducing financial stability and loss of solvency;
- Assets formed from borrowed funds make it possible to obtain less profit due to the amount of interest paid. [2]

The process of forming a policy for managing borrowed capital involves the implementation of the following stages:

1. Analysis of the current practice of attracting and using borrowed funds, including:

- Studying the total amount of borrowed funds and assessing its dynamics in comparison with the volume of assets;
- Comparison of the rates of changes in the loan capital with the rate of change in the equity of the enterprise;
- Conducting analysis in the dynamics of the main forms of borrowing and borrowing volumes for the duration of use;
- Conducting an assessment of the composition of creditors and lending conditions, identifying compliance with the financial and commodity markets;
- The efficiency of using borrowed funds using indicators of turnover and profitability.

2. Statement of the purpose of raising borrowed funds in the forthcoming period:

- Identification of the sources of the formation of the missing resources;
- Replenishment of a constant part of current assets;
- Ensuring the formation of a variable portion of current assets;
- Provision of social programs;
- Provision of other temporary needs.

3. Determination of the optimal size of borrowing:

- Identification of a limit for the use of borrowed funds in business;
- Determining the level of the effect of the financial advantage that provides an acceptable level of borrowing;

4. Determining the cost of attracting borrowed capital from various sources:

- Evaluation of external and internal sources;
- Determination of the total amount of funds necessary to ensure the desired level of borrowing;

5. Determination of the structure of the volume of borrowed funds:

- Identification of funds attracted on a short-term and long-term basis, evaluation of the composition of creditors;
- Formation of acceptable conditions for attracting borrowings.

6. Identification of forms of borrowing. These forms differ in the context of financial, commodity loans, other forms.

The choice of a specific form of borrowing is carried out depending on the characteristics of the organization of economic activity and the objectives of the corporate financial policy of the enterprise.

7. Determination of the composition of the main creditors in the form of borrowing, which may include permanent

suppliers who are able to provide commodity loans, commercial banks, other lenders.

8. Formation of effective conditions for attracting credit. The main conditions are:

- the term for granting a loan;
- interest rate for the loan;
- terms of payment of the amount of interest;
- terms of payment of principal amount;
- Other conditions related to obtaining a loan.

9. Ensuring the effective use of credit. As the main criteria for assessing the effectiveness of indicators are turnover and profitability of borrowed capital.

10. Provision of conditions for timely settlements on loans received. [3]

The borrowed capital, which is an indispensable tool for increasing the efficiency of financial and economic activities, is widely used by enterprises in the real sector of the Republic of Kazakhstan, as evidenced by statistical data (Table 1).

Table 1 – Debt for liabilities of enterprises of the real sector of the economy of the Republic of Kazakhstan for 2012 - 2016

Indicators	2012 year	2013 year	2014 year	2015 year	2016 year
Outstanding liabilities, mln tenge	27 829 630	30 264 806	38 979 341	37 476 023	41 900 761
The growth rate over the previous year, %	113,64	108,75	128,79	96,14	111,81
Note – compiled by the author based on statistical materials [4,5]					

As can be seen from the table the amount of funds used by the enterprises of Kazakhstan, has increased steadily from 2012 to 2016, though at different rates. Visually the dynamics of changes in the volume of borrowed capital and the growth rate are presented in figures 1 and 2.

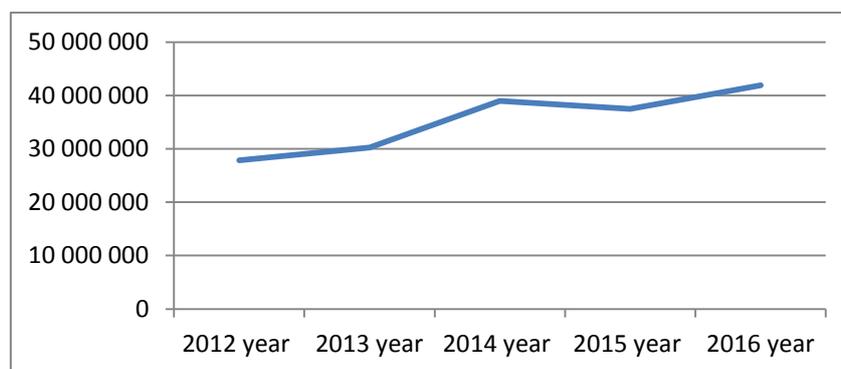


Figure 1 – Dynamics of debt obligations of the enterprises of Kazakhstan for 2012 – 2016
Note – compiled by the author according to the table 1.

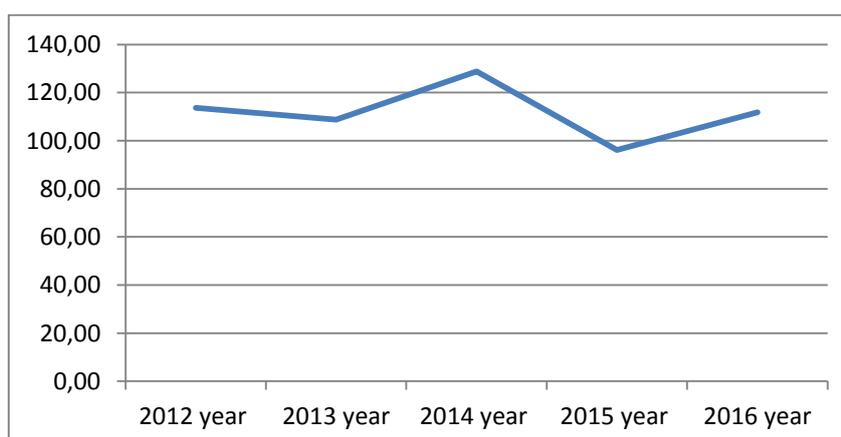


Figure 2 – Dynamics of growth of debt obligations of the enterprises of Kazakhstan for 2012 – 2016
Note – compiled by the author according to the table 1.

With the constant increase in the absolute volume of funds raised, the pace of the increase has been so irregular. So if in 2012 the size of borrowed capital increased compared to 2011 by 13,64%, in 2013 compared to 2012 - only 8,75%, and in 2014 the increase has made already and 28,79%. However, in 2015, a decrease in the growth rate of this index by 3,86%. In

2016, growth will pick up to 11.81%. Such changes indicate an unstable economic situation in the country, which has led to uncertainty of domestic enterprises in the use of borrowed capital.

Sources of borrowed funds for domestic companies are loans of second tier banks, bond loans and payables.

Credits of banks of the second level are a significant source of capital and takes from 30 to 40% of the loan capital of Kazakh enterprises. The volume of Bank lending of the real sector of the Republic of Kazakhstan are presented in table 2.

According to table 2, the volumes of crediting of the enterprises by second-tier banks increased annually from 7 102 691 million tenge in 2012 to 8 816 915 million tenge in 2016. However, the rate of increase from year to year, decreasing from 10,38% growth in 2012 to 3,6% in 2016.

Table 2 – Credits of second-tier banks to non-bank legal entities for 2012 - 2016

	2012 year	2013 year	2014 year	2015 year	2016 year
Credits of banks of II level to non-bank legal entities, million tenge	7 102 691	7 665 412	8 090 838	8 510 656	8 816 915
Growth rate for the previous year,%	110,38	107,92	105,55	105,19	103,60
Including short-term	1 830 317	1 949 126	2 294 780	1 970 529	2 142 736
Growth rate for the previous year,%	114,00	106,49	117,73	85,87	108,74
Long-term	5 272 374	5 716 285	5 796 057	6 540 127	6 674 179
Growth rate for the previous year,%	109,17	108,42	101,40	112,84	102,05
Note - compiled by the author on the basis of statistical materials [6]					

Consider the ratio of short-term and long-term loans issued by banks to enterprises (table 3).

Table 3 – the ratio of short-term and long-term loans of second tier banks non-Bank legal entities for 2012 – 2016, %

	2012 year	2013 year	2014 year	2015 year	2016 year
Credits of banks of the II level to non-bank legal entities, total	100,00	100,00	100,00	100,00	100,00
Including: Short-term	0,26	0,25	0,28	0,23	0,24
Long-term	0,74	0,75	0,72	0,77	0,76
Note - calculated by the author on the basis of data in the table 2					

Over the past five years, the structure of the loan and does not change significantly. On average, the share of short-term loans is 25% and long term – 75%. It is clear that for a long time attracted a larger amount allocated for the financing of investment, while short-term loans used for working capital.

Another source of borrowing is the issuance of corporate bonds. To do this, in the Republic of Kazakhstan has the legal framework and appropriate financial infrastructure. The volume of corporate bond trading on the stock market of Kazakhstan is presented in table 4.

Table 4 - The volume of trading in corporate bonds on the stock exchange of Kazakhstan for 2012 - 2016

Показатели	2012 year	2013 year	2014 year	2015 year	2016 year
Volume of trades in corporate bonds on the Kazakhstan Stock Exchange (primary market), billion tenge	84,30	205,00	345,00	1 011,90	424,40
Growth rate for the previous year,%	384,93	243,18	168,29	293,30	41,94
The ratio of trading volume on the stock exchange to loans of banks of the II level,%	1,19	2,67	4,26	11,89	4,81
Note - compiled by the author on the basis of statistical materials [7]					

These tables show that the volume of issuance and placement of corporate bonds until 2015 grew at a high pace, but in 2016 fell sharply. Such dynamics can be visualized in the form of graphs (Figures 3 and 4).

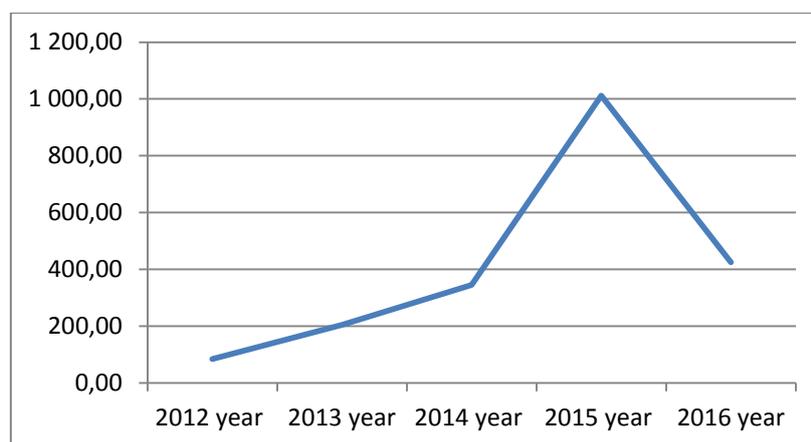


Figure 3 - Dynamics of the volume of trading in corporate bonds on the Kazakhstan Stock Exchange (primary market) for 2012 - 2016

Note - compiled by the author according to the data of Table 4.

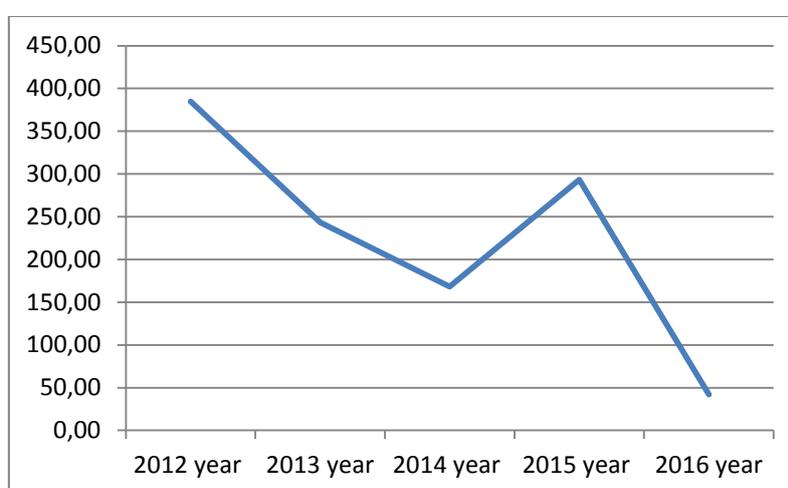


Figure 4 - Growth rates of trading in corporate bonds on the Kazakhstan Stock Exchange (primary market) for 2012 - 2016

Note - compiled by the author according to the data of Table 4.

III. RESULTS AND DISCUSSION

IV.

The situation on the stock exchange transactions with corporate bonds are not very stable. Besides, judging by the ratio of the volume of trading on stock exchange loans of banks of the second level, this kind of borrowing is used slightly. In addition, the bulk of corporate bonds released by commercial banks and financial institutions. The main issuers of debt securities from the real sector of the economy are large public companies. So in 2016 the largest share in the volume of placements has provided JSC "Development Bank of Kazakhstan" (50,1 %), JSC "national managing holding "KazAgro" (16,5 %), JSC "national company "Kazakhstanemirzholy" (11,8 %) and JSC "KEGOC" (11,6 %). [8]

Only large corporations, as well as the complexity of the procedure of issue of corporate bonds can afford the unpopularity of borrowing on the stock market due to the high cost of issue and placing of such costs.

Widely used by domestic companies this source of borrowed capital as accounts payable, which is formed because of the provision of commercial credit, deferral payment for the supplied resources, wage arrears and tax payments. This is the cheapest way of raising funds.

In the structure of capital of Kazakh enterprises of the real sector of the economy borrowed funds range from 45% or more (table 5).

Table 5 – Structure of liabilities of enterprises in the real sector of the economy for 2015 - 2016, %

Article	1 q. 2015 year	2 q. 2015 year	3 q. 2015 year	4 q. 2015 year	1 q. 2016 year	2 q. 2016 year	3 q. 2016 year	4 q. 2016 year
The structure of liabilities								
Capital	54,2	53,3	51,7	50,2	48,7	46,6	47,8	46,2

Short-term liabilities	21,3	22,5	22,9	24,1	25,1	23,7	22,8	23,6
long term liabilities	24,5	24,2	25,4	25,7	26,2	29,7	29,4	30,2
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Structure of short-term liabilities								
Short-term accounts payable	56,0	54,4	51,3	51,9	47,7	53,7	55,9	50,1
Short-term loans of banks	18,2	22,0	22,9	21,8	22,5	18,8	19,0	21,2
Other current liabilities	25,8	23,6	25,9	26,3	29,8	27,5	25,1	28,7
Total	100,0	100,0	100,1	100,0	100,0	100,0	100,0	100,0
Structure of long-term liabilities								
Long-term loans of banks	43,3	44,2	44,0	46,3	47,6	53,3	56,8	55,4
Other long-term liabilities	56,7	55,8	56,0	53,7	52,4	46,7	43,2	44,6
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Share of enterprises with overdue debts								
Accounts payable	25,1	23,1	22,4	23,1	23,0	22,4	22,1	23,2
Loans from banks	7,3	5,5	5,1	4,4	4,4	4,1	3,8	3,4
Note - compiled by the author on the basis of statistical materials [9]								

As we can see, within the periods under review, the values of the indicators change insignificantly, so we will analyze the structure from the average values. At the same time, the structure of borrowed funds of enterprises in the real sector of the economy of the Republic of Kazakhstan is as follows (Table 6):

Table 6 – The structure of borrowed funds of enterprises in the real sector of the economy for 2015 - 2016, %

	Average
Structure of obligations	
Short-term obligations	46,42
Long-term obligations	53,58
Total	100,00
Structure of short-term liabilities	
Short-term accounts payable	24,41
Short-term loans of banks	9,68
Other current liabilities	12,34
Total	46,42
Structure of long-term liabilities	
long-term accounts payable	26,27
Other current liabilities	27,31
Total	53,58
Share of enterprises with overdue debts	
Accounts payable	23,05
Loans from banks	4,75
Note - compiled by the author on the basis of the data of the table 5	

First, it is necessary to note the predominance of long-term component in the structure of borrowed capital of Kazakhstan companies – 53,58%.

According to the presented data, the greatest share in the structure of borrowed capital of domestic enterprises is borrowed by banks, which make up 35,9% of short-term and short-term loans. That is, the main source of formation of borrowed funds can be considered bank lending.

The next most significant item is the other long-term liabilities – 27,31%. Most often - it is the investments of foreign partners into the capital of our enterprises, or the funds allocated under state programs.

A significant proportion accounted for short-term accounts payable – 24,41%. And other short-term liabilities have the smallest share – 12,34%.

The structure of borrowed capital of Kazakhstani enterprises is illustrated in Figure 5.

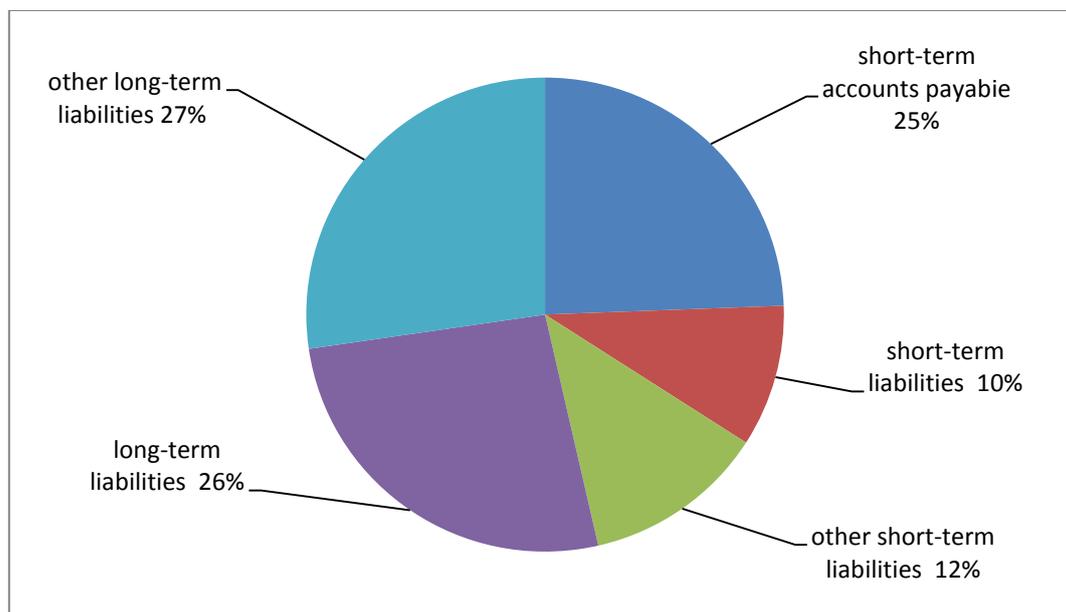


Figure 5 - Structure of borrowed funds of enterprises of the real sector of the Republic of Kazakhstan

Note - compiled by the author on statistical data

IV. CONCLUSION

From the above material can draw the following conclusions:

The main sources of attracting borrowed capital of enterprises in the real sector of the Republic of Kazakhstan are bank loans and accounts payable, as well as investments by foreign partners.

Kazakhstani enterprises attract long-term loans of banks in a larger volume than short-term ones.

The use of such a source of borrowed funds, like bonded loans in the real sector is not developed.

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