

# Regional construction financial groups as a key element of investment infrastructure of the region's economy

## Grupos financieros de construcción regional como un elemento clave de la infraestructura de inversión de la economía de la región

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#### ABSTRACT:

The article deals with the topical issue of reconstruction and development of investment infrastructure of the region's economy through the formation of regional construction financial groups (CFG), as well as the development of a methodology for effective structural reforms to restore the investment and construction complex in the post-Soviet space. The authors analyze the main problems of Kazakhstan construction industry, resulting from irrational market reforms, and define the concept of "construction financial group", as well as the main advantages of corporate business in modern construction. The article also presents advanced national and foreign experience in effective structural transformations in the construction industry and provides substantiation for integrated approach when solving set tasks taking into account the interests of different parties involved in investment and construction

#### RESUMEN:

El artículo trata del tema actual de la reconstrucción y desarrollo de la infraestructura de inversión de la economía de la región a través de la formación de grupos financieros regionales de construcción (CFG), así como el desarrollo de una metodología para reformas estructurales efectivas para restaurar el complejo de inversión y construcción. El espacio post-soviético. Los autores analizan los principales problemas de la industria de la construcción de Kazajstán, como resultado de las reformas de mercado irracional, y definir el concepto de "grupo financiero de construcción", así como las principales ventajas de las empresas en la construcción moderna. El artículo también presenta experiencias avanzadas nacionales y extranjeras en transformaciones estructurales eficaces en la industria de la construcción y proporciona la justificación para un enfoque integrado al resolver

activity. The authors note the importance of adequate decision-making at the regional level that is crucial in formation of all the conditions for rational resource provision, as well as the successful production and sale of construction products and future maintenance service taking into account all industry-specific features. It is argued that a range of fairly large construction financial groups specializing in various kinds of industrial and civil construction can serve as a structure-forming basis of regional investment and construction complexes, collectively forming an integrated national investment and construction association.

**Keywords:** investment and construction complex, small and medium-sized enterprises, corporate business, holding companies, industrial financial groups, construction financial groups, investment infrastructure, regional resources, business diversification, synergetic effect.

tareas definidas teniendo en cuenta los intereses de las diferentes partes involucradas en la inversión y la actividad de construcción. Los autores señalan la importancia de una adecuada toma de decisiones a nivel regional que es crucial en la formación de todas las condiciones para la provisión racional de recursos, así como el éxito de la producción y venta de productos de construcción y futuros servicios de mantenimiento, características. Se argumenta que una gama de grupos financieros de construcción bastante grandes especializados en diversos tipos de construcción industrial y civil pueden servir como una base estructural de inversión regional y complejos de construcción, formando colectivamente una asociación nacional integrada de inversión y construcción.

**Palabras clave:** inversión y complejo de construcción, pequeñas y medianas empresas, empresas corporativas, sociedades holding, grupos financieros industriales, grupos financieros de construcción, infraestructura de inversión, recursos regionales, diversificación de negocios, efecto sinérgico.

## 1. Introduction

A serious drawback of the modern construction industry and the whole economy in Kazakhstan is that the hard pressure of administrative management and total planning of all and everything was changed during the creation and development of market economy into the other extremity – evident failure and inefficiency of government regulation and state involvement in the management of investment and construction complex.

From a technological viewpoint, the construction complex does exist under any form of economy management or regulation. However, in the context of economy management in changing general economic conditions of the construction industry as a branch of material production, the concept of construction complex has virtually disappeared. Primarily, this is due to the elimination of a subordination vertical line of "Trust – Association – General Directorate – Ministry". The dismantling of this system, unbundling and privatization of the structural elements of construction associations have led to a vacuum in the middle management level.

The question arises whether the concept of "construction complex" is still relevant in a market economy, and if yes, what should be its essential economic and organizational content?

The predominant privatization form of large construction enterprises in the transition to a new economic system was the corporatization, i.e. conversion into joint-stock company. However, many state-owned enterprises when becoming joint-stock companies just changed the sign-plates, continuing to operate in the mode of cost-based economy that inevitably contributed to the decline in production. Another typical consequence of massive privatization in construction sector was the creation of a large number of uncompetitive small enterprises which even today predominate in the market.

Promotion of entrepreneurship in construction sector should ensure the comprehensiveness of the construction industry, which, as organic whole, would successfully operate in a market economy. This goal should not be overlooked when carrying out sectoral restructuring, namely, improving the production (modernizing fixed and current assets), finance (changing the capital structure), and management (improving the structure and elimination of duplicating functions) in construction sector. From this it follows that, firstly, we should deeply comprehend the legal consequences of privatization, and secondly, we need to take a new look at the legal nature of new-type construction associations.

Currently, national construction companies lose out to foreign competitors in the tenders not only on the price factor but also on performance reliability of contracting projects in terms of work quality and deadlines.

In this regard we should pay particular attention to the solution of two main problems:

- overcoming the negative consequences of privatization which have led to the destruction of the country's construction complex that resulted in obvious non-availability of local contractors able to effectively implement major investment projects;
- mastering of up-to-date methodology and practice in project management, when implementing major contracting projects.

For the successful solution of this problem, first of all, attention should be paid to the development of efficiently operating national corporate construction structures, allowing increasing the capital concentration level in the industry. The economic potential of large corporations is significantly higher than that of small enterprises, and thus can provide a higher economic effect.

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## **2. Methodology and practice of corporate business advantages evaluation in contemporary construction sector**

The development of corporate sector of the investment and construction complex can substantially raise the efficiency of the whole construction industry. Comprehensive management of construction should be considered in terms of the final product, since it is the final output that integrates the construction organizations and productions, as well as organizations of other industries, into agglomerate that has complex-forming ties (Asaul and Batrak 2001a).

The prerequisites for establishing effective regional corporate structures in the investment and construction complex can be stated in the following main provisions:

- fixing the cost of objects, which is more likely when integrating into the corporate structure suppliers of building materials, products, and structures;
- providing high degree of attachment to a specific regional market to enhance competitive advantages of the construction organization in the region, where it has material and technical resources and other production and technological infrastructure elements;
- creating favorable conditions for home buyers, who are interested not only in the quality of the purchased apartment but also in after-sales service.

Drawing on best practices in international corporate management considered in many foreign and some latest domestic scientific works, we can distinguish the following approaches to evaluating the effectiveness of corporate integration:

- the approach associated with the financial management theory;
- the approach associated with ensuring competitive advantages;
- the approach associated with the transaction costs theory (the possibility of savings through long-term contracts, regulating joint activity);
- the approach aimed at fostering a mutually beneficial long-term business relations (Asaul and Batrak 2001b). Serious attention should be paid to research on corporate business benefits in the construction industry of most developed countries. Thus, we have studied the relevant changes in the UK construction industry aimed at developing cooperation and coordination of branch enterprises in the framework of the implementation of a complete construction cycle. In consequence of conducted survey among the construction industry representatives, it was found that in general there were significant changes towards increased cooperation that provides beneficial effect. On the other hand, it was revealed that these changes were unbalanced. In addition to the survey, interviews were held with a number of experts in the industry that helped exploring the specific features of the cooperation between construction companies and evaluating its practical significance for successful economic development (Meng

2013).

It should be noted that the British construction industry is undergoing serious changes. The combination of reform initiatives emanating from the state, changes in the public procurement strategy and increased international competition have led to the need for institutional reform in British construction sector, aimed at developing partnerships and optimizing private financing of enterprises in the industry. At that, the reforms of the contractual relationship are noted as the most important development trends, in particular, the proliferation of partnerships as well as shift of public procurement towards concession contracts in the form of "private finance initiative", (Winch 2000).

The advantages of corporate business in modern construction are confirmed also by best practices of multinational construction corporations of Singapore. As a result of conducted research and evaluations, Cuervo and Pheng have identified the most important factors contributing to transnational construction corporations in obtaining their benefits from the internationalization. This, above all, is high economic efficiency and competitiveness, quality of work and customer service, maximum cost optimization and reliable contract enforcement, protection of corporate reputation, as well as enhancement of corporate brand prestige and credibility (Cuervo and Pheng 2005).

In addition to the above, it should be noted that an analysis of the advantages of ownership, location and internationalization of Chinese multinational construction corporations (MNCs) is of particular interest for the development of industry-specific corporate business. This analysis is based on the theory of rough sets in the framework of Dunning's Eclectic Paradigm. This allows overcoming the constraints associated with limited sample size in the study of MNCs that is aimed at studying regularities and causality of the identified effectiveness factors. Unlike traditional statistical methods, the methodology for the analysis of rough sets allows setting the procedure for determining these factors, as well as their level of influence when analyzing the indicators of construction multinational corporations (Pheng and Hongbin 2006).

It is believed that one of the major motives for corporate mergers is the desire to achieve a synergistic effect.

The most important goals when implementing synergies, arising from the corporate merger, include the following:

- operational savings, i.e. increase in efficiency by eliminating duplicate functions in each of the merging companies, the centralization of marketing, logistics, and financial flow management;
- economies of scale, i.e. reduction in average costs per unit with increasing output due to distribution of fixed costs on a larger total of output;
- reduction of costs owing to vertical integration through the implementation of the commitments, improved management and coordination along the entire process chain, avoiding the market value of resources in integrated productions, improving quality control, etc.;
- combining complementary resources;
- optimization of taxation (tax shields) through the use of transfer pricing, "carry-forward" of losses of one company to reduce the taxable profit of another company (i.e. reducing future tax payments);
- improving the managerial efficiency through redistribution of property from poor management in favor of more efficient management;
- business diversification, allowing stabilization of the company income through the activities in different market segments with different business environments.

Recently, fundamentally new types of investment and construction companies and enterprises have emerged in the post-Soviet space. Operating and developing successfully, they are able to meet the market needs in construction products. Holding companies are a kind of such groups.

From systemic perspective, a holding company in construction sector can be represented as a

system of interconnected structural entities focused to the main goal – the creation of a finished construction object with a use value (Rakhman and Terentiev 2002).

The industrial financial groups (IFGs), widespread globally and domestically due to the development of concentration and cooperation processes in various sectors of the economy, are a kind of a holding company. These corporate structures typically include not only industrial enterprises but also financial institutions. The capabilities of IFGs are quite high, since they are able to join manufacturing, trade, banking, and other forms of capital. Thus, the industrial financial group can be interpreted as a combination of supervision and proprietary rights, technologies and assets, providing potential future revenues with a certain probability. These structures should become critical means for the successful implementation of the investment policy in construction (Ivanov 2001).

In the leading industrial nations, the powerful industrial companies are organically intertwined with financial institutions such as banks, insurance and investment companies. Compared to small and medium-sized businesses, these integral formations have much greater opportunities for carrying out research and development works, manufacturing high-tech products, and conducting large-scale projects due to the concentration of scientific potential as well as production and financial resources. The practice of Western European countries, USA, Japan, South Korea, etc. definitely convinces us that the national capital becomes competitive at the international level only when it is structured in large part into financial and industrial corporations supported by the state.

The vast experience in the establishment and development of industrial financial groups as a tool for activation of investment and construction activities in the post-Soviet space has been gained in the Russian Federation (Shvets and Shvets 2001). The recent history of the IFGs activities in Russia dates back to the adoption in 1993 of the Presidential Decree No.2096 "On Industrial Financial Groups" and the entry into force of the relevant federal law, providing regulatory and legal framework for the establishment and development of large corporate-type economic structures.

The analysis of the IFGs activities in the post-Soviet space shows that in the conditions of economic crisis major corporate entities demonstrate a greater resistance against exogenous factors, provide a more favorable investment climate compared to separately operating enterprises, and enable consolidation of current assets at their deficit.

Under conditions of almost full decentralization and disintegration, characteristic for the regions with transitional economies, IFG is almost the only mechanism, which allows focusing on possible "points of growth" of the industry, ensuring the restructuring of the economy and its manageability at the level of middle management.

It is IFG that is able to act as a reliable support of the state when fostering the economy. The IFGs can contribute to progressive structural adjustment, and improve the competitiveness of national production.

In the corporate business, the main objective is the concentration of financial resources, optimization of the financial flow creation and management methods. At the present time, industrial and financial businesses in Kazakhstan are experiencing acute need for each other. The financial market has available money, while lacks quality financial instruments (investment targets). At the same time, industrialists feel the need for investment resources, though between them there is no sufficient trust, consistency in actions, and consequently the risks of joint activities are quite high. Therefore, there is an urgent need for structures ensuring the balance between interests of all business participants.

Industrial financial groups are the promising structures ensuring the creation of a single financial scheme of corporate business in Kazakhstan and an effective mechanism for capital redistribution.

Development priorities and state support for IFG should be determined by the priorities of national economic development for the foreseeable future.

Crucial measure for the successful solution to problems in investment and construction area is the establishment of regional IFGs focusing on the implementation of the mortgage, ensuring the closure of the investment cycle and integrating into a single complex the entities of the construction industry, banking and insurance sectors on a common reporting and taxation basis.

In view of the foregoing, it becomes obvious that for the successful implementation of state investment policy and strategy for rational restructuring of the economy, special attention should be paid to the organization and development of regional construction financial groups (CFG).

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### **3. The results of the study on regional construction financial groups as system-forming link of investment and construction complex**

Regional CFGs should be considered as a variation of the IFG with respect to the construction industry. These are economically and organizationally independent structures, created with the purpose of accumulating financial resources for the execution of major investment and construction projects and their implementation in the territory of specific regions of the country.

The formation of regional CFGs will allow solving most effectively in the short term the fundamental problem of the regional economy development – the accumulation of investments for implementation of large-scale investment projects in the industrial and social spheres.

It is obvious that contemporary regional investment and construction complexes cannot consist of only CFGs, because the small business sector has firmly carved out a niche in the state economy, including that in construction sector. However, the combination of large enough CFGs, specializing in various kinds of industrial and civil construction, can and should become the structure-forming basis of regional investment and construction complexes, collectively forming a unified national investment and construction association.

Implementation within the territory of the regions of large industrial and infrastructure projects, requiring substantial volume of funding (such as the creation or extension of large transport nodes, the development of mineral deposits, etc.), requires the establishment of regional CFGs focused mainly on industrial construction. At that, an active role should belong to economic agents interested in profiting from the exploitation of future production capacities. Local administrations may act as initiators of projects development and creation of the regional CFGs necessary for projects implementation, as well as act in capacity of their co-founders, investing regional ownership resources in the equity capital. The feasibility of formation of such groups can be identified at the stage of strategic development of long-term economic development of the regions, especially since this task is associated with the solution of the most important social task - creation of additional jobs for the working population.

The feasibility of establishing regional CFGs, aimed at solving problems related to the development of appropriate life support systems of the population, and the requirements of their organizational forms can be identified in the course of medium-term policy-making with regard to the social and economic development of regions or municipalities. Here, the initiative should belong almost entirely to the regional authorities, concentrating in their hands the financial resources of a profitable part of local budgets, whose expenditure is designed for solving social problems. Besides, they are managers of regional resources, which can be paid into the created CFGs as share capital, providing both profit-making and proper monitoring over their activities.

Communication between the participants of the regional investment and construction complex should be based on production relations in the framework of creating the ultimate construction products, while the regulatory control of local administration can be carried out through:

- a set of national and regional legal acts regulating economic behavior of market entities;

- a range of measures in the framework of regional production and social policy with regard to both the investment and construction complex in general, and each specific CFG;
- proactive elaboration on a competitive basis of major projects in the field of industrial, transport, tourist and other regional complexes development, as well as the development of the regional life support systems and social programs;
- involvement as co-founders in the establishment of regional CFGs, aimed at solving problems of industrial and social development of the region by investing into the authorized capital of such groups not so much monetary assets, but regional resources, which, according to applicable legislation, can be used by the local authorities;
- financing of construction projects of regional production and social development through regional (municipal) budget;
- providing guarantees for targeted loans to regional CFGs implementing investment and construction projects, aimed at solving the priority tasks of the regional development;
- supporting accumulation of CFGs' financial resources through the issuance of regional special-purpose loans, securities, etc.

Here we should emphasize that all these measures should be purely economic, though in no way administrative in nature, and carried out in the framework of effective public-private partnerships.

Thus, the regional CFGs are able to act as a reliable pillar of the local administrations in the development of certain elements of the investment and construction complex of the country, its progressive structural adjustment and enhancement of competitiveness of the national construction industry in general.

There are various options for the establishment of CFGs (Gorbunov, et. al. 1999), though following are the basic ones:

- Private or joint stock company, engaged in construction business, acts as an initiator of CFG establishment, creating its own financial structure to accumulate financial resources and attract other necessary members of the production activities; the involvement of a bank or group of banks as the financial component of the group may be a modification of this option;
- regional CFG is established by a bank through consolidation of building contractors and enterprises involved in construction materials industry, which are under its financial or credit service. Purchase of a significant or even control block of shares of companies involved in entrepreneurship in the sphere of construction and being potential members of the group is also possible;
- regional CFG is established on the initiative of the local administration to solve a specific social or economic problems.

Certainly, in addition to the above mentioned basic establishment options of the CFG, other modified schemes based on more extended structure of participants (especially in the financial infrastructure area) are possible. Though, in any case, CFG members should ensure availability of full cycle of creation and implementation of the final construction products. Different approaches to the formation of CFGs should be unflinchingly based on a balance of all group member interests regardless of their category or level in the hierarchy of the established corporate structure.

Features of regional investment and construction complexes formation are largely dependent on the capital concentration level in the regions, as well as natural, economic and geographic factors (availability of mineral resources, geopolitical situation, level of economic development of the region, etc.), the engineering and social infrastructures development level, and many other factors. In this regard, local administrations should be interested in creating favorable conditions for preferential taxation of CFGs registered in the region in order to attract new capital.

Regional CFGs, operating closely with municipal authorities and with their active support, can undertake the solution of the whole range of problems related to organization of construction and subsequent maintenance service of housing as well as other community infrastructure and facilities. In this case, the regional CFGs will have to step into the role of developers performing the following functions:

- selecting cost-effective project;
- creating or conversing real estate objects (redevelopment of undeveloped land, reconstruction of existing buildings, etc.);
- obtaining all necessary statutory documentation and approvals for the project implementation;
- searching for investors and defining conditions to attract investment and borrowed funds;
- developing the cash cycle and return mechanisms;
- qualifying contractors and outsourcing, monitoring works performance;
- selling and subsequent servicing the constructed objects.

Regional CFG should be responsible to investors for the effective management of their funds, to financial institutions for timely repayment of loans, to the authorized state and regional agencies for compliance with the terms of the project, to the contractors for the timely financing of works, and to consumers for product quality. Ultimately, it should be the coordinator of the entire investment and construction cycle within the framework of the implemented project.

Moreover, the structure of regional CFGs, which includes as a rule powerful financial institutions and particularly banks, allows not being limited to simple accumulation of financial resources, but increasing initially raised funds through activities in the financial markets that implies exercise of the functions of trust management of funds. This opens to the regional CFGs broad opportunities for projects funding, especially large ones, which require long-term implementation (for example, the mass construction of housing in urban areas).

Thus, it is obvious that the regional CFGs can become central system-forming institutions in the course of adaptation of the regional investment and construction complexes to the socially oriented market economy conditions.

It can be argued that in the current context the phenomenon of investment and construction complex acquires specific subject-matter and a full-fledged economic interpretation only under consideration at the regional level. Thus, today it is expedient to define the concept of investment and construction complex as association of local regional complexes. At that, each regional investment and construction complex should be characterized by a certain uniqueness of its formation, functioning, and development.

The formation and application issues of the system-based approach in the economic space management are successfully developed and implemented on the basis of multi-year research of scientists of a number of Russian institutes of economics and economic studies at regional branches of the Russian Academy of Sciences (RAS).

Member of the Russian Academy of Sciences Alexander Tatarkin, Director of the Institute of Economics, Ural Branch of RAS, (Tatarkin 2012) notes that rational systemic transformation of the current economic space is based on the provisions of the theory of polycentricity, indicating a need for transformation of the centralized economic space into polycentric network space. Therefore, the essence of the new model of spatial development and management of the post-Soviet market economy consists in creating a framework of regional and territorial centers of economic growth. At that, there is a need for self-development and independent governance of regional and territorial socio-economic systems. It should be emphasized that the importance of developing new forms of spatial organization of the economy by creating business areas, the transition to program-and-project based approach in the management of spatial development,



active use of market institutions of spatial development, and especially clusters as the most common institutions.

All this, according to the authors of present article, also stipulates the necessity for development of regional CFGs as crucial elements of the investment infrastructure of regional economies, whose success ultimately determines the successful development of the national economy in general.

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## **4. Prospects of regional associations of small construction enterprises as an effective form of their activity in the market environment**

Based on the entrepreneurial essence in construction sector, creating the ultimate construction products (real estate), its sale and subsequent maintenance service have a distinct regional nature. As a rule, regulation and development issues of the investment and construction activity processes are resolved at the level of regions, taking into account their characteristics and needs, as well as national interests. This is confirmed by global practice (Kharms and Bunis 1996; Vorontsova and Gubanova 2012; Bannova 2012; Kulikova 2011).

It was noted earlier that the economic potential of large corporations is significantly higher than that of small enterprises and can provide higher economic benefits that is also evidenced by a number of contemporary studies (Ivanenko and Petrov 2012a; Ivanenko and Petrov 2012b; Popkova and Meshkov 2012).

However, one should not underestimate the role and importance of small business in construction sector. Practices of many countries (Germany, Finland, Poland, Czech Republic, etc.) show that small construction companies perform from 40 to 60% of the total scope of installation and construction works, and a considerable proportion of these works is executed on the terms of subcontracts with major investment and construction corporations, holding companies, etc. In other words, small construction enterprises are grouped around the construction corporations and holdings, performing works that are more appropriate and cost-effective for small businesses in construction. At that, it is desirable to take into account the accumulated successful practices of dynamic process modeling in production diversification (Barkalov and Bakunets 2003).

The development of small business contributes to the extension of free competition and serves a kind of indicator in both a particular industry and a state economy in general. Currently, 83.7% of the organizations in the construction industry of Kazakhstan are small enterprises (numbering up to 50 people); this indicates a high level of industry competition.

However, the lack of own available funds or ability to take up loan, bank and insurance guarantees, as well as limited capacity of the small construction enterprises lead to the fact that these enterprises, not being involved in a corporate structure, virtually are unable to win a tender for the construction of any significant facilities.

The same conclusion can be drawn when analyzing similar problems of small construction firms abroad. Thus, in consequence of the conducted survey, about 70% of the Egyptian companies stated that they do not have the necessary access to existing funding sources, while 85% of companies confirmed that the lack of financial resources negatively affects their competitiveness in the fight for promising projects. It is also noted that the increase in accessibility of financing sources for small construction enterprises would contribute to a more successful development of not only the construction industry but the national economy in general (Hassanein and Adly 2008).

Most building contractors in Hong Kong are also typically small private firms. Bank loans are the main, if not the only, source of external financing for them. However, construction loans represent only a small part of loan portfolio of Hong Kong bankers. Therefore, banks often neglect small construction firms as a low-priority and high-risk category of borrowers, which

negatively affects their competitiveness and opportunities for innovative development. Trying to overcome such kind of difficulties, construction companies use the interim payment mechanism that somewhat reduces the need for external borrowing, though does not solve industry problem in general (Chiang and Cheng 2010).

The analysis of statistical data shows that the production capacities of small and medium-sized construction structures are used at just 30-57%, while only 8% of them have the necessary working capital and real possibility for competitive struggle in the real estate market (Construction in Russia, 2013). In this regard it is expedient to consider the possibility of merging small companies into large consortia that is fairly widespread abroad. Regional engineering consortium created in the construction industry could be entrusted with the following functions:

- conducting investment projects marketing;
- creating temporary consortia of banking, insurance, project, and contracting organizations able to participate in tenders for major projects;
- preparing tender documentation for participation in the investment and contracting biddings on selected projects, as well as preparing tender documentation, business plans, valuation of real estate, consulting services, etc. on outside orders;
- awarding contracts with the customer (investor) and consortium members in case of winning in tenders;
- implementing functions of the coordinator (general contractor) in the contract execution.

In consequence of discussion of prospects of regional associations of small construction enterprises in the market conditions, many contemporary researchers proposed to create construction clusters, which are considered as an effective form of interaction between participants of construction complex, including small business entities. Some researchers studied the feasibility of the cluster approach in the formation of effective cross-sectoral and territorial interaction of participants of investment and construction activities in the region (Akhmetova 2014; Smitskikh and Terent'eva 2014; Kotlyarova and Devyatykh 2013; Sqvirya 2013).

In general, it should be noted that the very fact of integrating various structures different in forms of ownership, scale and nature into a single group or the network evidences that at the present stage of development of regional investment and construction complexes, an intense internal restructuring of the construction industry is developing towards the creation of new organizational forms relevant to the changing market economy conditions.

Thus, the period of the collapse of construction firms is replaced by a period of consolidation of construction companies, i.e. formation of large construction organizational structures aimed at concentrating the resources needed for the implementation of major investment and construction projects, successful participation in tenders, entering new markets, etc. Besides, the consolidation ensures greater sustainability of entities in the construction industry, including small and medium-sized enterprises. This produces diversification of production activities, the combination of various market segments, as well as leads to synergistic effect inherent in effective systemic formations.

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## **5. Conclusion**

In the context of modern market relations, in the Republic of Kazakhstan, just as in the most regions of the post-Soviet space, there is a definite lack and inefficiency of state regulation and involvement in the management of national investment and construction complex. And indeed, in consequence of irrational market transformations, this concept itself has become a kind of abstraction since the corporalization of the large construction companies has not resulted in effective corporate structures. At the same time, currently prevailing isolated small and medium-sized construction enterprises are not able to ensure the implementation of major

projects, which lowers the competitiveness of the domestic construction industry.

Promotion of entrepreneurship in construction sector should ensure the comprehensiveness of the construction industry, which, as organic whole, would successfully operate in a market economy. For a rational solution to this problem, special attention should be paid, first of all, to the development of well functioning domestic corporate construction structures that would allow increasing capital concentration level in the industry.

Based on the entrepreneurial essence of construction sector, creating the ultimate construction products (real estate), its sale and subsequent maintenance service have a distinct regional nature. Therefore, it is expedient to resolve the issues of regulation and development of the investment and construction activity processes at the level of regions, taking into account their characteristics and needs, as well as national interests.

In order to successfully meet the challenges in investment and construction area, the establishment of regional industrial financial groups (IFGs) should be considered as the crucial measure to provide complete investment cycle and integration of small, medium-sized and large construction entities into a single complex, operating along with the banking and insurance sectors on a common reporting and taxation basis.

Regional construction financial groups (CFGs) should be considered as a variety of IFG in relation to the construction industry. These are economically and organizationally independent structures, created to accumulate financial resources for the execution of large investment and construction projects and implement them in the territory of specific regions. A set of fairly large CFGs, specializing in various types of industrial and civil construction, can and should become a structure-forming basis of the regional investment and construction complexes, collectively forming a unified national investment and construction association.

The present article contains findings of the research carried out in the framework of the state budget research on a topic: "The rational organization of production and management in the modern construction", and published in the fundamental scientific monograph (Dontsov 2004), which has received a positive reviews from Chung Ngia Chan – Doctor of Economics, Professor, Member of the International Informatization Academy, Erlan M. Aryn – Doctor of Economics, Professor, Rector of S.Toraighyrov Pavlodar State University, and Yerzhan B. Zhatkanbaev – Doctor of Economics, Professor of Al-Farabi Kazakh National University. The monograph was edited by Kenes K. Kazhymurat – Doctor of Economics, Professor, Vice-President of the Institute for Development of Kazakhstan.

The authors hope that their research and recommendations on creation and development of the regional construction financial groups as a crucial element of the investment infrastructure of the regional economy will allow optimizing the structure of the investment and construction complex in Kazakhstan and contribute to a more dynamic and effective development of the national economy in general.

Future research prospects in this area can be associated with the implementation of the developed proposals for improving the investment infrastructure of regional economies and subsequent structural optimization of the Kazakhstan investment and construction complex. This will allow making necessary clarification and increasing the practical significance of research outcomes, including in particular the following:

- improving the efficiency of state regulation and participation in the management of the national investment and construction complex;
- specifying the terms of interaction between corporate businesses and small and medium-sized business entities in the structure of CFG;
- detailing functions of the construction financial groups, while ensuring the comprehensive development of modern construction industry;
- identifying further development paths of CFGs, forming a single national investment and construction complex when operating together, considering specifics of construction products,

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