

**Special Economic Zones as an Innovative
Tool of Public Administration in Regional
Development:
The Case of Kazakhstan**

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ABSTRACT

The effectiveness of special economic zones (hereinafter as SEZ) drives the future perspectives of any country in the world in terms of investment and export. The paper analyzes the public administration of the Republic of Kazakhstan in terms of development of regions. More specifically, the study examines SEZ as an innovative tool of administration and development which impacts Kazakhstan's economic transformation, investments into the country and development of new working places in regions. The examination of the existing 13 SEZ includes the period from 2002 to 2022. By concentrating primarily on the effectiveness of SEZ, performance of the SEZ was assessed by secondary data analysis from open sources, data from official sources from Industrial development committee of the Ministry of Industry and infrastructural development of Kazakhstan and JSC “Qazindustry”. It can be concluded that special economic zones are used in Kazakhstan as an innovative tool of public administration for regional development by presenting fast and effective ways of growth, providing incentives and privileges. Even though there is an overall positive trend in effectiveness of SEZ, there were some SEZ that did not show optimal outcomes and it can show the level of regional public administration and the will of local managers.

Key words: public administration, special economic zone, Kazakhstan, regional development, innovative tools, innovation

Introduction

Every country that is managing strategically and administrating the future of their countries from a long term perspective concentrates every existing tool on the economic perspective and development of the national economy (Frick, Rodríguez-Pose and Wong, 2019). One of the sources of economic development is foreign investment that in the majority of cases plays an essential role in becoming a financially stable and economically developed state. In order to attract foreign investment, countries should have stable public administration, political stability, rule of law and good conditions for business (Wang, 2013). For the investors that are aimed at running a business in different regions and countries, the level of infrastructure, soft tax policies and obligations are estimated as necessary factors (Wang, 2013).

Thus, countries started building and opening special economic zones (hereinafter referred to as SEZ) with favorable conditions for investors to run business (Oleksiuk, 2017). The conditions and obligations vary regarding the regions and economic conditions of the country, but most of the time SEZ are connected with infrastructure, tax free obligations and privileged status by law. All the procedures and actions that are taken to build SEZ, functionality of SEZ,

rate of invested capital, expenditure and effectiveness should be analyzed in order to conceptually understand the issue. By obtaining all evaluated data, drawbacks prevent measures and further development actions should be created to build a strategic planning.

To date, the special economic zones are one of the main elements of the industrial and innovative development of the Republic of Kazakhstan along with industrial zones, technoparks and business incubators. Based on the works of Bokayev and Issenova (2022) innovations into the public sector stimulate economic development as the quality of services provided by the state significantly increases. Additionally, the importance of both individual and collective consciousness in the public sector should not be neglected to construct innovative behavior (Glor, 2011). The introduction and further application of innovative solutions is one of the major directions of public sector innovation, according to Kazakhstani researchers (Bokayev et. al, 2021).

There is a lack of understanding of what public sector innovation actually means, meanwhile there is some awareness that innovation takes place in the public sector to solve economic and societal issues. Bloch and Bugge (2013) determined public sector innovation as an implementation of considerable change in relation to the organization and novelty that creates public value. It must be something new rather than just improvements and needs to be useful. Accordingly, SEZ can be identified as an innovative approach or tool of development as it gives a new way of quick attraction of foreign investments, dramatic regional development in terms of economy and creation of new zones with high-tech production.

According to the Law of the Republic of Kazakhstan dated April 3, 2019 “On special economic and industrial zones”, the SEZ are being created in order to accelerate the development of modern high-performance, competitive industries, attract investments, introduce new technologies in economic sectors and regions, as well as increase employment (Adilet.zan.kz, 2019). By creating a favorable investment climate on the territories of SEZ, investors are willing to create modern high-tech industries, conduct scientific research and innovative developments on the basis of modern technologies in Kazakhstan (Zeng, 2016). Therefore, this paper tries to contribute to the existing literature by analyzing to what extent special economic zones in Kazakhstan stimulate the innovative model of public administration.

This allows us to argue that SEZ are the platforms for innovative development, and not only in the creation of innovations themselves, but also in the application of innovative public administration procedures and interaction between the state and business. Hence, the SEZ are the state's products that became productive tools of innovative approaches that are presented by effective public administration.

Literature review

The establishment of zones with a unique “free” legal regime for private capital on the state's territory has been a common practice since Medieval times, across the world (Nevmatulina, 2013).

The concept of economic zones. A number of interpretations of the special economic zones (SEZ) are given in the existing literature to understand its essence. One of the most comprehensive definitions is used in the work of Zeng (2016), who defined special economic

zones as delimited geographical spaces within the geopolitical and geo-economic jurisdiction of a country with its own legal, administrative, customs and regulatory regimes in which tax and other benefits that differ from the general laws of the country apply. SEZ are created exclusively to promote production, processing and installation activities in priority sectors of the economy aimed at replacing imports and promoting exports outside the national economy (Aggarwal, 2007; Frick, Rodríguez-Pose and Wong, 2019). SEZ are used as instruments of political and economic development in order to develop the national economy (Bost, 2019; Aggarwal, 2007). According to Farole and Akinici (2011), SEZ can be used as tools to achieve the following state economic goals:

- attracting domestic investments and foreign direct investments (FDI) by creating the most competitive and favorable investment environment;
- promoting an expanded economic reform strategy;
- overcoming barriers to trade such as restrictive policies, excessive bureaucracy and etc.;
- increase in foreign exchange earnings through exports;
- creating new jobs;
- stimulating the domestic economy.

All of these are considered to be the prerequisites of implementing innovation-based economy as the vital creators of innovation, introducing it into the market, are the businesses and public authorities (Drucker, 1998; Oleksiuk, 2017). Public administration plays an increasingly important role in this matter since SEZ are perceived as a tool to develop certain strategic industries and transfer modern technologies (Jussupova, Bokayev and Zhussip, 2019). Hence, SEZ help to unlock the existing innovative potential of the regions. According to Tuyrchev (2022), the creation of technoparks, where the preferential policies apply, led to modernisation of the economy in the regions and flow of knowledge. Thus, the essence of economic zones is to attract innovative businesses to a particular area and receive benefits from the effect of collaborative localization (Piersiala, 2018).

A further, and arguably more important, characteristic of special economic zones is their extraterritoriality (Nevmatulina, 2013), which means that they have their own distinct legal system and do not extend the rest of the nation's laws to their agents. So, in order to support international commercial activity, a liberal customs regime normally applies in SEZ. Under this system, export-import activities conducted within the SEZ are either exempt from all taxes, excises, and customs duties, or they are subject to preferential taxation (Shakeyev, Nevmatulina and Baibossynov, 2021). The criteria for economic orientation allow for the differentiation of technology-innovative, industrial, service, tourism and recreational zones (Nevmatulina, 2013). Zones of technological innovation are designed to foster an innovative environment. Industrial enterprises whose goods are export-oriented or import-substituting are structured for tax benefits and financial support in industrial zones. Service zones suppose the presence of businesses that have preferences for offering a range of financial and non-financial services. Zones designated as tourist and recreation areas have stringent regulations for the land they are located on. It should be safe for visitors, have outstanding natural and climatic conditions, and be environmentally friendly. Multiple of the aforementioned zones are combined in a complex type of SEZ's territory (Nevmatulina, 2013).

In the study of Pan and Ngo (2016), it was found that the operation of special economic zones positively affects regional performance for provinces and accelerate innovation-based entrepreneurship as Chinese SEZ focus on strengthening the scientific–technological base similarly to Kazakhstans SEZ: “National Industrial Petrochemical Technopark”, “Park of innovative technologies”, “Chemical Park Taraz”, “Astana - Technopolis” and others. The research of Gerbadht (2013) on the Chinese innovation model has shown that the influence of foreign direct investments in science, research and technology on the increase of innovation-based entrepreneurship drives employment, economic growth, and industrial competitiveness. For example, the city of Tianjin, a special economic city of China, is under the strict control of the central government. Nevertheless, it became a state-level economic zone with technological development areas and high-tech industrial parks. It demonstrated how SEZ “Tianjin” incorporated both a centrally planned and a free-market economy. In general, this case clearly shows that preferential policies on the territories of SEZ attract investments even into the countries with socialist market economies regardless of their location (Gebhardt, 2013).

The turning point for China started with the deregulation of the strategic sectors of the economy, including industrial, agrarian and service sectors, whereby Chinese authorities granted permission to foreign companies to construct manufacturing facilities on particular greenfield land in exchange for the transfer of technology and foreign direct investment (Gebhardt, 2013; Wang, 2013). The formation of joint ventures between Chinese state-owned businesses and foreign businesses, which were followed by the relocation of production and later R&D facilities of the foreign investor firm to China, served as another means of promoting Chinese development. According to Wang (2013), such measures aimed to close the technological gap between China and the rest of the world while also modernizing state-controlled businesses and other institutional stakeholders.

Tyurchev, in his research of technoparks in Moscow (2022) several times indicated that the establishment and further development of innovative infrastructure stimulate economic growth. He found that cities that implement innovative policies are more developed (Caragliu and Del Bo, 2018) compared to other cities. However, it should be noted that such an effect could not be possible without effective work of public administration by all stakeholders involved in the process, namely, the innovative entrepreneurs, technological and scientific organizations as well as community (Tyurchev, 2022).

Research Question

The main research question of this paper is “How do special economic zones in Kazakhstan stimulate the innovative model of public administration?”

The formation of SEZ in Kazakhstan

Kazakhstan, in the conditions of transition to a market economy, legalized the development of economic zones on its territory through the adoption of the Law “On Special Economic Zones in the Republic of Kazakhstan”. The history of the creation of economic zones in Kazakhstan dates back to the 1990s, when nine SEZ were created to improve socio-economic development of territories and accelerate the restructuring of the national economy to a market one (Yespayev, 2014). However, the first experience of the formation of SEZ did not achieve the intended goals, so in 1996 all SEZ of that time were abolished (Yespayev, 2014). Subsequently, with the adoption of the new Law of the Republic of Kazakhstan “On Special economic zones in

the Republic of Kazakhstan” on July 6, 2007, it was decided to create new 6 SEZ: “Astana–new city”; “Aktau Seaport”; “PIT”; “Ontustik”; “NINT”; “Burabai”. It is noteworthy that at the stage of its formation, SEZ in Kazakhstan had a sluggish pace of development, however, due to the beginning of the implementation of the first five-year plan of the industrialization saw the most active work in the direction of the SEZ (Turgel, Bozhko and Zinovieva, 2019).

Researchers Mamrayeva (2016); Nevmatulina (2013); Ydyrys, Kozhambekov and Kelesbayev (2018) identify a number of reasons for the unsuccessful application of the mechanism of free economic zones in Kazakhstan in the 90s. One of these reasons is the misuse of state funds allocated for the development of the SEZ as a result of ineffective public administration. The high level of corruption, characteristic of almost all CIS countries, was a strong obstacle for increasing the inflow of foreign investment and the development of market economy institutions. When making decisions on the creation and support of the SEZ, not only national interests were of great importance, but also the interests of small groups of influential people, expressed in the form of strong lobbying (Nevmatulina, 2013). According to Ydyrys, et al., (2018) in their work “development and current situation of special economic zones in Kazakhstan”, SEZ were spread over too large territories, sometimes completely covering an entire area; some zones were created in areas that were not suitable for this. There were also shortcomings in the legislative delineation of the subjects of competence and powers between the administrative councils of the SEZ and local authorities (Yespayev, 2014).

The practical implementation of free economic zones has shown mistakes and the shortcomings that were present at that time in the regulatory framework governing the relevant field of activity (Shakeyev, Nevmatulina and Baibossynov, 2021). Therefore, new laws regulating this area were adopted. Currently, the law of April 3, 2019 No. 242-VI “On Special Economic and Industrial Zones in the Republic of Kazakhstan” is in force, which defines the foundations of state regulation in the field of creation, operation and abolition of SEZ. Free customs regime is established on each territory of SEZ based on the legislation of the Republic of Kazakhstan. That is, goods in the zone have a special status and are considered to be outside the customs territory of the Customs Union. These economic conditions stimulate the emergence of an increasing number of special economic zones in Kazakhstan, as of 2022, there are already thirteen special economic zones (Qazindustry, 2022). The overwhelming number of them belong to the type of industrial zones.

For instance, SEZ “ICBC “Korgos” is a special economic zone with the most efficient, proven and automated business processes for organizing a safe and comfortable holiday for tourists, developing trade turnover between Kazakhstan and China and doing business on the territory of the International Center for Cross-Border Cooperation “Korgos”. Its mission is to create and develop a new unique format of international cross-border cooperation in the field of economy, tourism and culture by creating the necessary infrastructure and attracting investment (Babayeva, n.d.). The strategic goals include the development of tourism, including business tourism; development of export of services and goods; improvement of management standards; increase of investment attractiveness; infrastructure development (Islamjanova, Iddrisu, Suy, Bekbauova and Suleiman, 2017). China is one of the five largest investors in Kazakhstan, accounting for 4.7% of total investments (Wang and Lai, 2019). Over 25 years, China's total investment has exceeded \$42.8 billion and its lending more than 50 billion US dollars (Babayeva, n.d.). In 2018, the cumulative volume of China's investments in Kazakhstan

amounted to \$960.9 million, which is twice as much as the indicators in 2015 (Islamjanova, Iddrisu, Suy, Bekbauova and Suleiman, 2017). At the same time, the outflow of direct investments to China amounted to \$57.2 million (this is 13% of the gross outflow of direct investments of Kazakhstani investors abroad). Within the framework of the industrial and investment cooperation program, it is planned to build 51 modern enterprises worth \$ 26 billion (Qazindustry, 2022).

Methodology

The open secondary data analysis was formed from the JSC “Qazindustry”, the state owned organization that is responsible for the development and new approaches of improvement of the special economic zones of the Republic of Kazakhstan. The data is also collected from the Committee of industrial development of the Ministry of industry and infrastructural development of the Republic of Kazakhstan by non-participatory observation. The law on special economic and industrial zones, rules and methodologies for the regulation and monitoring of the SEZ and effectiveness of each SEZ are under the regulation of the ministry.

As a result, in order to analyze the effectiveness of SEZ, the following data were collected:

- Attracted investments;
- Jobs/workplaces created;
- Production volume;
- Invested in infrastructure;
- Export volume;
- Taxes paid;
- For 1 budget tenge, investments in the industrial sector were attracted;
- Performance indicators of SEZ.

The gathered data was analyzed in total or in overall view, as well as individually by each special economic zone. It was done to analyze the innovative approach of public administration in each existing special economic zone that exists in the territory of the Republic of Kazakhstan. Consequently, it can give detailed information if all special economic zones are innovative or not in terms of organizational transformation. Do the special economic zones play a role as innovative tools for regional development are studied by analyzing collected data.

Results

Our research resulted in significant findings and revealed major aspects of special economic zones in Kazakhstan. The first important point is that Kazakhstan’s Industry and Export Center “Qazindustry” JSC under the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan operates well in regard to the development of special economic zones as the only coordinating center. The priority duties of the Center are

promotion, development and increasing the attractiveness of special economic zones for foreign investment (Qazindustry, 2022).

The functionality and improvement of the 13 special economic zones of the Republic of Kazakhstan are also taken into account as an essential aspect of the Center. The interests of 13 management companies, investors-residents of special economic zones, business processes and effectiveness of regulation are the prior and cutting edge responsibilities of the Center and the Ministry of Industry and Infrastructural development of the Republic Kazakhstan. The analysis of barriers and future perspectives, as well as incentives were considered by these organizations (Qazindustry, 2022).

The secondary data analysis showed that special economic zones in Kazakhstan have enormous advantages and privileges for business sectors, investors that are already the residents and future participants of special economic zones. The special regime and functionality of special economic zones of the Republic of Kazakhstan are regulated by the following special economic zones (Sezunion, 2022):

- Agreement on Free Warehouses and the Customs Procedure of a Free warehouse, ratified by the Law of the Republic of Kazakhstan dated June 30, 2010 (hereinafter referred to as the CU Agreement);
- The Law of the Republic of Kazakhstan “On Special Economic Zones in the Republic of Kazakhstan” dated July 21, 2011;
- The Tax Code of the Republic of Kazakhstan;
- Customs Code of the Republic of Kazakhstan.

The custom and tax benefits for foreign and domestic investors are regulated strictly by legislation, thus, have uniform requirements for prospective participants or members. The exemption from payments is considered an essential privilege of the special economic zones of Kazakhstan:

- corporate income;
- property tax;
- land tax;
- customs duties on import (goods that are determined by the list of the Government of Kazakhstan);
- additional preferences and benefits available to the participants in the special economic zone “Park of innovative technologies” (SEZ “PIT”) (Sezunion, 2022).

In addition to that, research showed that special economic zones of the Republic of Kazakhstan have additional benefits, such as free land plots with ready infrastructure (Qazindustry, 2022).

The data from JSC “Qazindustry” and Ministry of industry and infrastructural development of the Republic of Kazakhstan showed that not all regional territories of the country have their own special economic zones (Table 1). The findings outline that the previous priority list of activities of each special economic zone should be studied further and in detail in order to find out if there are regional or republican interactions in the activities of special economic

zones. Of course, it could be studied as a new topic or research of study for fulfillment and understanding the consequences of such interactions.

The secondary data analysis showed overall outcomes and total information for all special economic zones of the Republic of Kazakhstan as identified in Table 1.

Table 1: The main indicators of special economic zones of the Republic of Kazakhstan.

| Main indicators of special economic zones | Whole period, 2002 to half of 2022 | 2021 | Half of 2022 |
|---|------------------------------------|---------------------|--------------------|
| Number of projects | 30887 | 20 | 22 |
| Attracted Investments | 5,7 trillion tenge | 489,2 billion tenge | 93,2 billion tenge |
| Jobs (work places) | 24 369 | 3 045 | 1 350 |
| Export volume | 384,2 billion tenge | 71,5 billion tenge | 38,1 billion tenge |
| Tax paid | 305,1 billion tenge | 58,07 billion tenge | 29,3 billion tenge |
| For 1 budget tenge spent on infrastructure | | Return 5,5 tenge | |

Source: Kazakhstan Industry and Export Center (Qazindustry), 2022.

According to Table 1, it can be seen that the overall trend of special economic zones is notable in terms of returned money to the government. The point that attracts government and state officials in terms of business and outcome based policy is that for 1 budget tenge that was spent for infrastructure the return was 5.5 tenge. Over the entire period of the SEZ operation in Kazakhstan, the total volume of attracted investments amounted to 5.7 trillion tenge. As of 2022, 818 participating companies are registered on the territory of all 13 SEZ in Kazakhstan. Of these, 180 are already actively working, the rest are at different stages of development, from the planning, attracting investments, construction and production itself. In addition, SEZ provide additional employment in the country of more than 24 thousand jobs (Table 1).

Because the trends and results reveal the overall outcome of all special economic zones, the efficiency of each special economic zone cannot be seen in this analysis.

Data for indicators of efficiency for each special economic zone were obtained from JSC “Qazindustry”, and can be seen in Table 2. Based on the data, the conclusion can be drawn that some special economic zones were not efficient enough, and that innovative approaches were not applied properly in those cases. The special economic zones with high efficiency indicators are studied further and in detail in the Discussion section. Some special economic zones showed good investment results, earning 33 and even 96 times more money than the amount that was spent for infrastructure. This was probably the result of the innovative tools used by management companies of special economic zones and of effective public administration for regional development. In terms of effectiveness, some special economic zones appear not to be

functioning properly—this could be why they are not efficient. The results could be an indication of the level of public administration in those regions as well.

Table 2: Performance indicators of special economic zones of Kazakhstan.

| Performance indicators for special economic zones of Kazakhstan | | | | |
|---|--|--------------------------------|------------|---|
| | Name of special economic zone | Number of implemented projects | Employment | Ratio of attracted investment to 1 tenge spent by the state |
| 1 | «Astana - new city» | 54 | 5894 | 9,1 |
| 2 | «Seaport Aktau» | 18 | 3487 | 33,7 |
| 3 | «Park of Innovative Technologies» | 146 | 7656 | 1,8 |
| 4 | «Ontustik» | 30 | 2242 | 6,8 |
| 5 | «National Industrial Petrochemical Technopark» | 4 | 1075 | 6,4 |
| 6 | «Saryarka» | 9 | 682 | 4,2 |
| 7 | «Pavlodar» | 18 | 1529 | 8 |
| 8 | «Khorgos-Eastern gate» | 9 | 274 | 1,3 |
| 9 | «Chemical park Taraz» | 2 | 91 | 1,0 |
| 10 | «ICBC Khorgos» | 3 | 155 | 0,5 |
| 11 | «Astana-Technopolis» | 2 | 25 | 0,0 |
| 12 | «Turkistan» | 11 | 1099 | 96,4 |
| 13 | «Qyzyljar» | 2 | 149 | 2,4 |
| | Total: | 308 | 24 369 | 5,5 |

Source: Kazakhstan Industry and Export Center (Qazindustry), 2022.

Discussion

The results that were obtained by using scientific research methods about the special economic zones of the Republic of Kazakhstan show that not all regions of Kazakhstan do have special economic zones. Additionally, there is no consensus about the absence of special

economic zones in some areas and no evidence that those regions do not need special economic zones for their development.

The case of not opening special economic zones in all regions could be related to the fact that not all regions or the special economic zones did not show a positive level of efficiency. It might be concerned that the poor reputation or performance of some special economic zones could play a vital role in raising a question if the special economic zones can or cannot be the innovative tool of public administration in regional development. The results of the study showed that special economic zones can be considered as an innovative tool of public administration in regional development and the cases and performance of some individual special economic zones can support that theory.

The performance indicators of implemented projects, employment and ratio of attracted investment to 1 tenge spent by the government were used to measure the efficiency level of each special economic zone in the Republic of Kazakhstan. Consequently, special economic zones that attract and spend more than 1 tenge for each tenge provided by the government are considered to be efficient special economic zones. The results in Table 2 show that the performance indicators for ratio of attracted investment to 1 tenge for the special economic zones such as Turkistan (96,4 tenge income for 1 tenge spent by the state), Morport Aktau (33,7 tenge income for 1 tenge spent from state) and Astana - new city (9,1 tenge income for 1 tenge spent from state) were very high. The ratio investment results to 1 tenge spent by the state means that each of the above mentioned special economic zones profited by that ratio.

There are also some cases that could provide evidence against our theory: some special economic zones do not show good results for some performance indicators. These special economic zones are “Chemical Park Taraz”, “Astana Technopolis” and “MCPS Horgos”. There was no financial return from these SEZ as their infrastructures were funded by the Government of the Republic of Kazakhstan.

In terms of business, the results show that each special economic zone had investors, projects and opened workplaces for local citizens. The special economic zones “PIT” and “Astana - new city” showed the highest results in opening new jobs for people and supporting economic development of the region as well. In the special economic zone “PIT” there were 7656 jobs (workplaces) for people and in the special economic zone “Astana - new city” there were opened 5894 new job places for the people of that region.

All these results with profits, new workplaces and new projects that were implemented in regions can be estimated as effective and innovative tools for the development of regions of the Republic of Kazakhstan. Admittedly, all the positive performance related to new investors, increase in profit of the region and production of new products and goods are due to the special economic zones. As good governance in special economic zones, good state public policy in special economic zones in terms of regulation, tax and infrastructure preferences lead to positive economic and regional development. By saying that, it can be analyzed that special economic zones are used as an innovative tool of public administration in regional development.

The overall trend of the dynamics of functioning special economic zones or the performance indicators of efficiency of the special economic zones of Kazakhstan in the right direction. The overall trend can be seen and analyzed as efficient by showing 5,5 times profit from each spent tenge from the state budget for infrastructure and development of special economic zones.

Conclusion

It can be concluded that special economic zones are used in Kazakhstan as an innovative tool of public administration for regional development by presenting fast and effective mechanisms for growth and providing incentives and privileges. Even though there is an overall positive trend in effectiveness of SEZ, there were some that did not show optimal outcomes. This reflects the level of regional public administration and will of local managers.

Results showed that some special economic zones were highly efficient, with one region profitable up to 96 times the money spent by the state. Opening new workplaces, new companies and production of new goods and products will be drivers of the economy of the region. All these instruments are aimed at developing the region by pursuing foreign investment and business sectors, and demonstrating innovative ways or tools that contribute to new economic prosperity and investment resulting from good public administration.

On the other hand, public policy administration and administration of special economic zones in Kazakhstan's regions need to be studied further. The reason is that the governing body and the civil servants who deal with administration of special economic zones are the ones who are responsible for all results and outcomes of special economic zones. Results showed that all special economic zones in Kazakhstan have the same privileges and preferences, but not all special economic zones showed good results. It can be concluded that the main reason for not gaining efficient results is lack of good governance of the public sector innovation and low levels of responsibility.

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