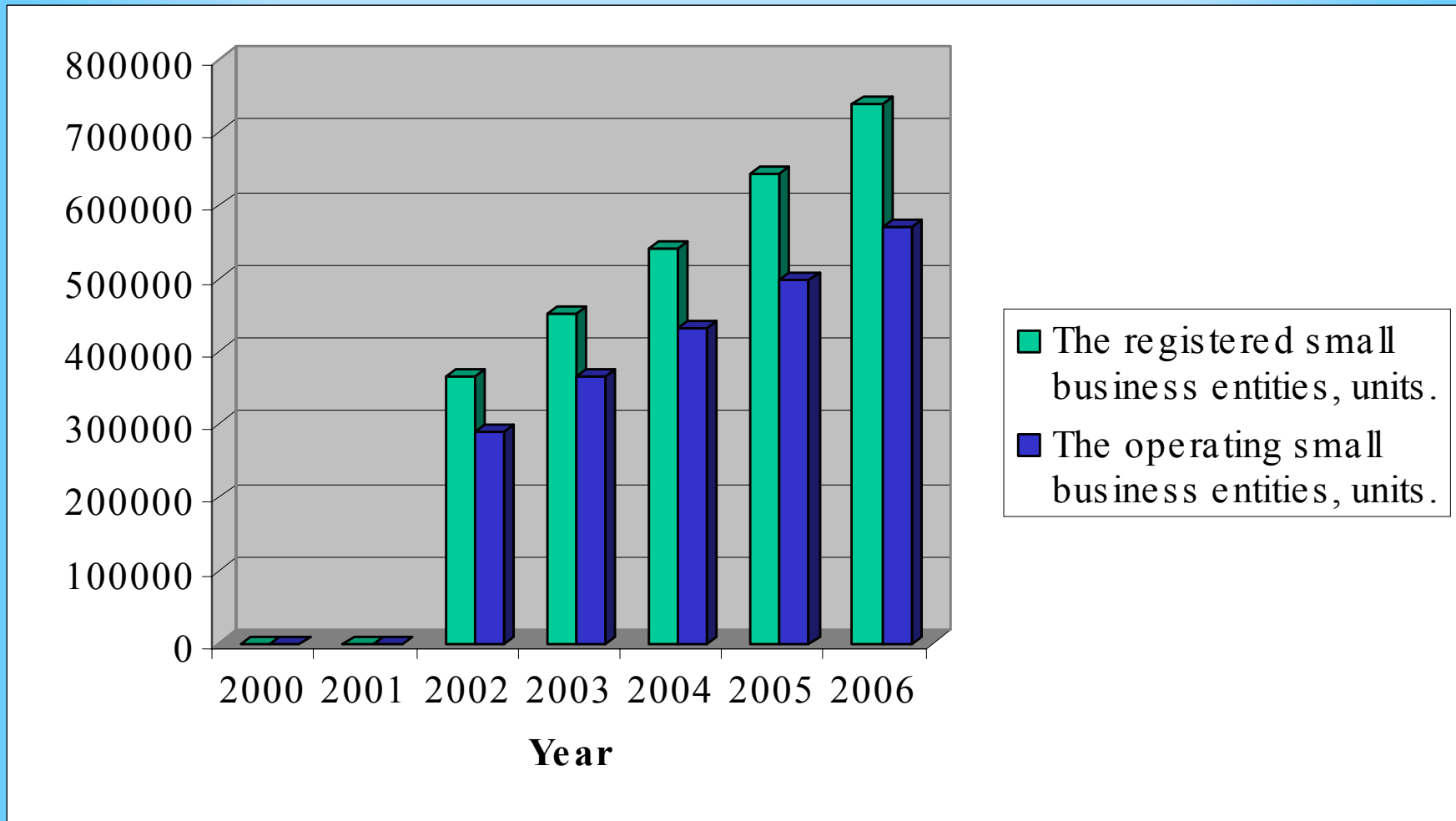


# **Obstacles to Entrepreneurship Development in the Republic of Kazakhstan and Ways of Overcoming Them**

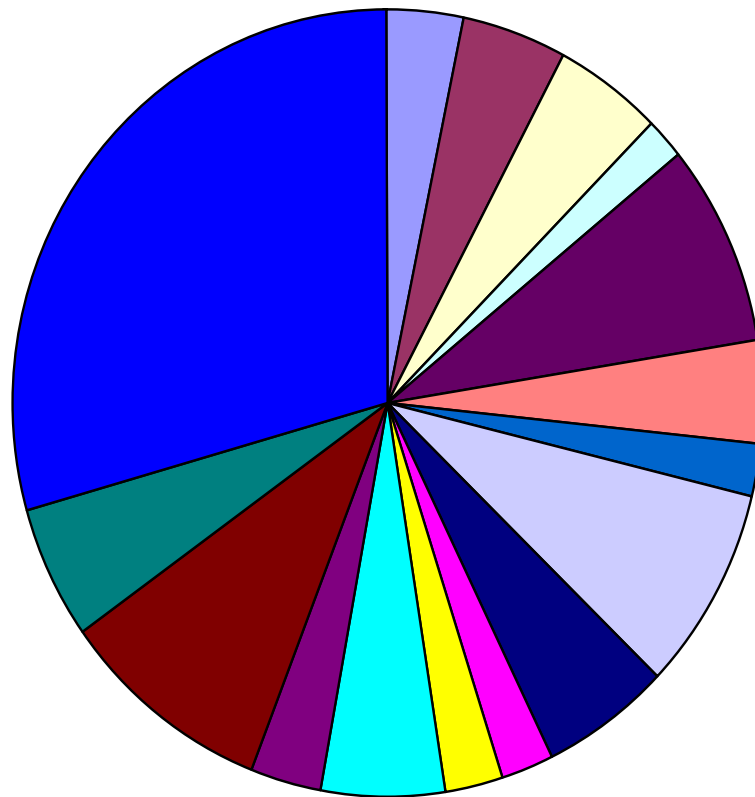
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**June 18, 2007, Geneva**

# Changes in small business enterprise numbers (2000 to 2006)

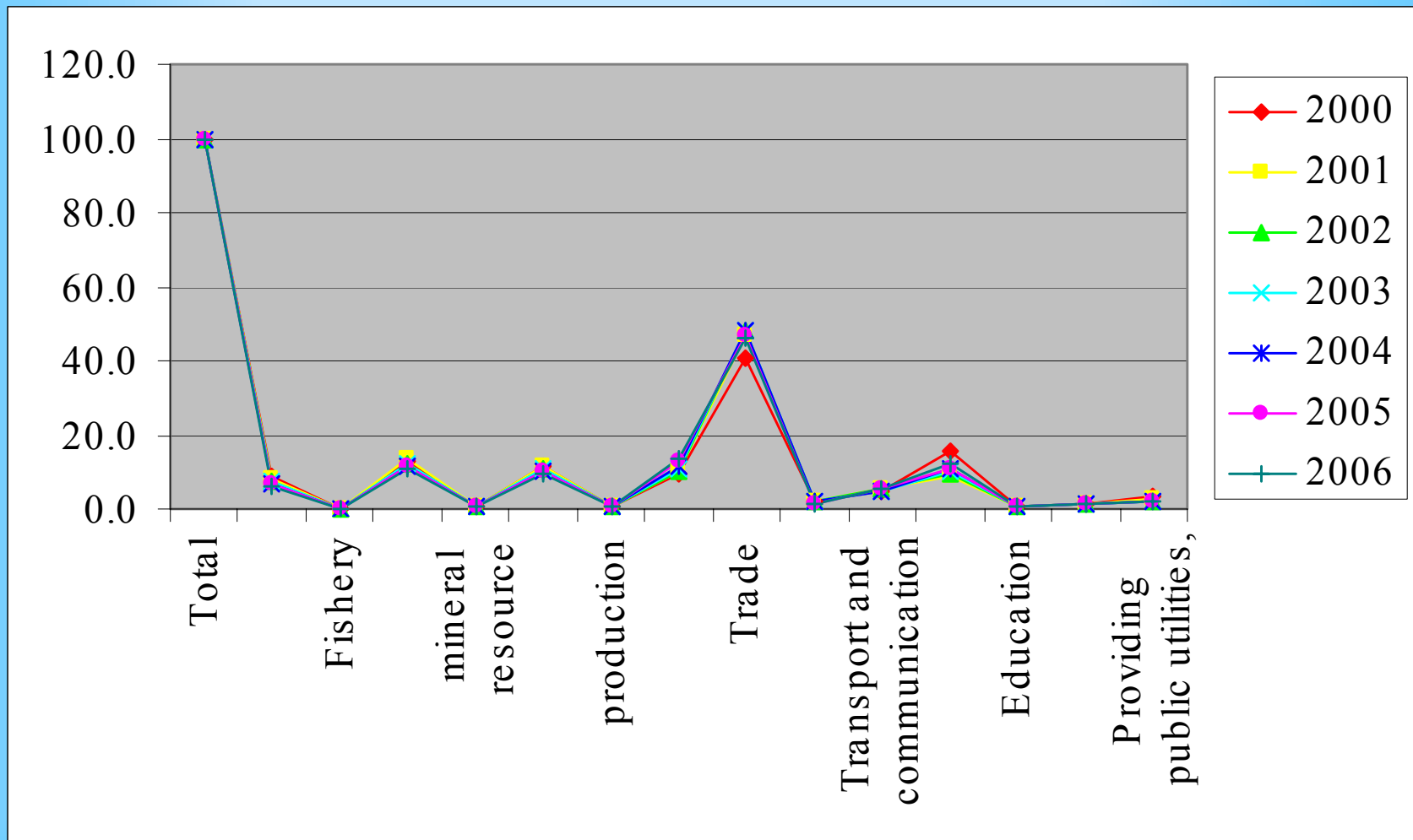


# Registered and operating small business enterprises by region



- Akmolinskaya
- Aktubinskaya
- Almatinskaya
- Atirauskaya
- Vostochno-Kazakhstanskaya
- Zhambilskaya
- Zapsadno-Kazakhstanskaya
- Karagandinskaya
- Kostanaiskaya
- Kizilardinskaya
- Mangistauskaya
- Pavlodarskaya
- Severo-Kazakhstanskaya
- Uzhno-Kazakhstanskaya
- Astana city
- Almaty city

# Small business enterprises by type of economic activity



## **Small businesses face obstacles while financing through second-tier banks**

- High interest rates
- Short terms of credit, up to only half a year
- High requirements for securing of mortgage credit: security must be at least twice credit
- Absence of vacation during repayment of principal debt
- Absence of vacation during repayment of fees

# High interest rates of second-tier banks

## Measures underway now

- Interest rates of second-tier banks to be decreased from 24% to 12-14% annual rate

## Recommended measures for elimination of obstacle

- Further development of the banking sector and of competition within the banking sector to decrease interest rates to 6-8 %

## Short terms of credit for business

### Measures underway now

- *Crediting terms have been increased from one-half year to 5 years*

### Recommended measures for elimination of obstacles

- *Increasing crediting terms to 10-15 years, especially for innovation and capital-intensive projects*

# High requirements for securing mortgage credit

## Measures underway now

- Now the mortgage of deposits or marketable real estate amounts to more than 20% of the loan sum
- The mortgage of acquired fixed assets amounts to up to 80% of the loan sum

## Recommended measures for elimination of obstacles

- Transition to mortgages freely giving credit on the basis of positive credit history
- Giving credits with authorized capital stock mortgage

# **Absence of vacation during repayment of principal debt: repayment of principal debt after obtaining credit is required**

## **Measures underway now**

- **Grace period for repayment of the principal debt is provided: for an operating business – up to 6 months, for a starting business – up to 12 months**

## **Recommended measures for elimination of obstacles**

- **Providing a grace period for repayment of the principal debt for an innovation business – up to 24 months**

# Doing Business indicators for Kazakhstan

	2006 rating	2005 rating	Rating changes
Doing business	63	82	19
Starting business	40	37	-3
Receiving licenses	119	121	2
Hiring workers	22	21	-1
Real estate registration	76	81	5
Obtaining credit	48	117	69
Protection of investors	46	43	-3
Tax payments	66	63	-3
International trade	172	171	-1
Negotiating contracts	27	27	0
Closing business	100	102	2

## **Obstacles to financing small business through microcrediting organization networks**

- **Insufficient access to financial sources in rural areas: in 1999 there were only 17 microcrediting organizations in Kazakhstan**
- **Unprofitable character of microcrediting organizations due to 15% value added tax (VAT)**
- **Costs of creation or development of small businesses greatly exceed the established microcredit loan-size norm in the current law “On microcrediting organizations”**

# **Insufficient access to financial sources in rural areas**

## **Measures underway now**

- **Law “On microcrediting organizations” of March 6, 2003, has been adopted, resulting in creation of over 300 microcrediting organizations**

## **Recommended measures for elimination of obstacles**

- **Further development of the microcrediting organization networks in rural area**

# **Costs for small businesses greatly exceed the microcredit loan-size in current law**

## **Measures underway now**

- **Law of the Republic of Kazakhstan of December 8, 2006, # 198 "On amending the law "On microcrediting organizations"" increased the maximum loan-size norm from \$8,958 to \$71,666**

## **Recommended measures for elimination of obstacles**

- **Plan further increases of the given microcrediting loan-size, especially for innovation businesses**

# **Obstacles to financing business through the Small Entrepreneurship Development Fund and development institutes**

- **Inefficient usage of budgetary funds for development of small and medium business**
- **Absence of deposit guarantee system**
- **Absence of assets for entrepreneurs for purchasing expensive equipment**
- **Unwillingness of financial institutions to finance innovation and production business due to high risks and large payback times**

# **Inefficient usage of budgetary funds for development of small and medium business**

## **Measures underway now**

- **Annually 10 billion tenge (~\$83,333,333) are allotted for development of small business from the state budget to Small Entrepreneurship Development Fund (SEDF)**

## **Recommended measures for elimination of obstacles**

- **Decreasing annual interest rates to 6-8%, the opportunity to make decisions on credits in branches, and reducing the number of procedures for obtaining credit**

# Absence of assets for entrepreneurs for purchasing expensive equipment

## Measures underway now

- The Law of RK “On financial leasing” introduced in 2000

## Recommended measures for elimination of obstacles

- Further develop competition in the leasing-services market among both domestic and foreign companies

# **Unwillingness of financial institutions to finance innovation and production business due to high risks and large payback times**

## **Measures underway now**

- **Creation of development institutes: Kazakhstan Development Bank (KDB), National Innovation Fund (NIF), “Investment Fund of Kazakhstan” JSC (IFK), and “State Corporation on Insurance of Export Credits and Investments” JSC (SCI)**

## **Recommended measures for elimination of obstacles**

- **Increase work-efficiency of development institutes, decrease number of procedures necessary for project consideration, and increase objectivity and scientific justification of project selection**

# Tax Payments in Kazakhstan

#	Taxes	Number of payments	Tax rate	Taxable income	Tax share in gross profit volume (%)
1	Value added tax	4	14%	The value added	45.4
2	Corporate tax	12	30%	Taxable profits	21.2
3	Social tax	4	20-22%	Salaries	21.1
4	Land tax	4	28.95 tenge/square meter	Land plot	2.4
5	Net worth (property) tax	4	1%	Property	0.2
6	Transport tax	1	15 MCI	The transport weight	0.1
7	Advertisement tax	1	1 – 100 MCI	Advertisement scope	
8	Ecological tax	4	1.248 per 1 ton of emissions		
9	Total	34			45.0

# **Obstacles in business taxation and ways of improving taxation**

- **High value added tax**
- **Progressive individual income tax scale**
- **High taxes for small business entities**
- **High, progressive-scale social tax rates of 20% or more causes workers' salaries to remain in the "shadow"**
- **High corporate tax rate**

# High value added tax

## Measures underway now

- **Beginning 2007, the value-added tax rate is decreased by 1%, to 14% instead of 15% in 2006**

## Recommended measures for elimination of obstacles

- **Beginning 2008 the VAT is planned to decrease to 13%, and in 2009 – to 12%**

# High taxes for small business entities

## Measures underway now

- **Special tax regimes to be introduced based on: one-time coupon, patent-based, and based on reductive declaration**

## Recommended measures for elimination of obstacles

- **Introduction of a reduced flat-tax rate for small entrepreneurship entities is planned**

**High, progressive-scale social tax rates of 20% or more causes workers' salaries to remain in the "shadow"**

**Measures underway now**

- **According to the Tax code, a step-by-step reduction of the social tax is to occur**

**Recommended measures for elimination of obstacles**

- **Beginning 2008 a reduction of social tax on average of 30%, down to 5-13%, is planned**

# High corporate tax rate

## Measures underway now

- Corporate tax rate set to 30 % of taxable income

## Recommended measures for elimination of obstacles

- Further development of tax legislation toward lowering taxation pressure

# **Simplifying Tax and Statistical Reporting**

- **Unjustifiably time-consuming and cumbersome system of tax reporting by small enterprises to the state**
- **Necessity of providing large numbers of forms for statistical and accounting reporting to the state**

## **Unjustifiably time-consuming and cumbersome system of tax reporting by small enterprises to the state**

### **Measures underway now**

- **Formation of tax reporting within the “Electronic Government” program and its regional subprograms**

### **Recommended measures for elimination of obstacles**

- **Further formation and implementation of special projects and programs aimed at informational support of entrepreneurial activity**

# ***The administrative barriers***

- **Presence of the large numbers of by-laws and instructions, restraining the development of entrepreneurship**
- **Insufficient expertise for statutes on protection of private business concerns**
- **Providing large numbers of documents with mandatory notarial attestation**

# Insufficient expertise for statutes on protection of private business concerns

## Measures underway now

- Creation of “Advisory Councils” at central and local state agencies, according to the Law on Private Entrepreneurship

## Recommended measures for elimination of obstacles

- Creation of advisory councils in every ministry, which will conduct expert review of departmental normative statutes

# **Introducing a Simplified System of Registration and Liquidation of Enterprises**

- **Lengthy registration procedure**
- **Complicated and expensive  
enterprise liquidation procedure**

# Lengthy registration procedure

## Measures underway now

- Implementation of registration practice by means of “one window” registration to some extent has facilitated procedures, however, up to now the problem is not solved outright

## Recommended measures for elimination of obstacles

- Creating conditions for registering an enterprise within two-three days and beginning work during one month after, according to the experience of developed countries

# Complicated and expensive enterprise liquidation procedure

## Measures underway now

- Simplified order of voluntary liquidation applies to small entrepreneurship entities not having unexecuted liabilities

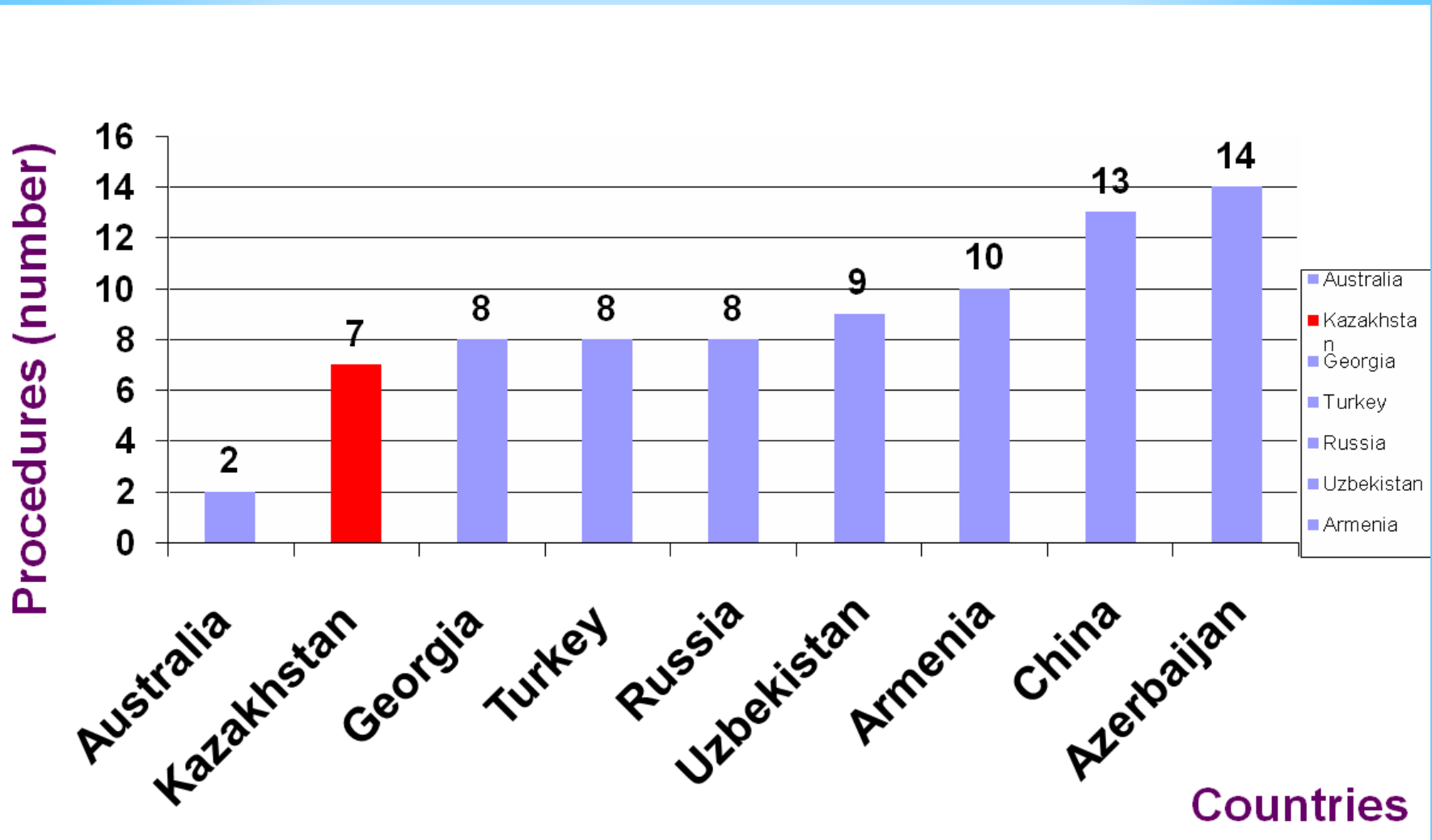
## Recommended measures for elimination of obstacles

- Conduct liquidation of inactive enterprises, if they do not have liabilities to the state

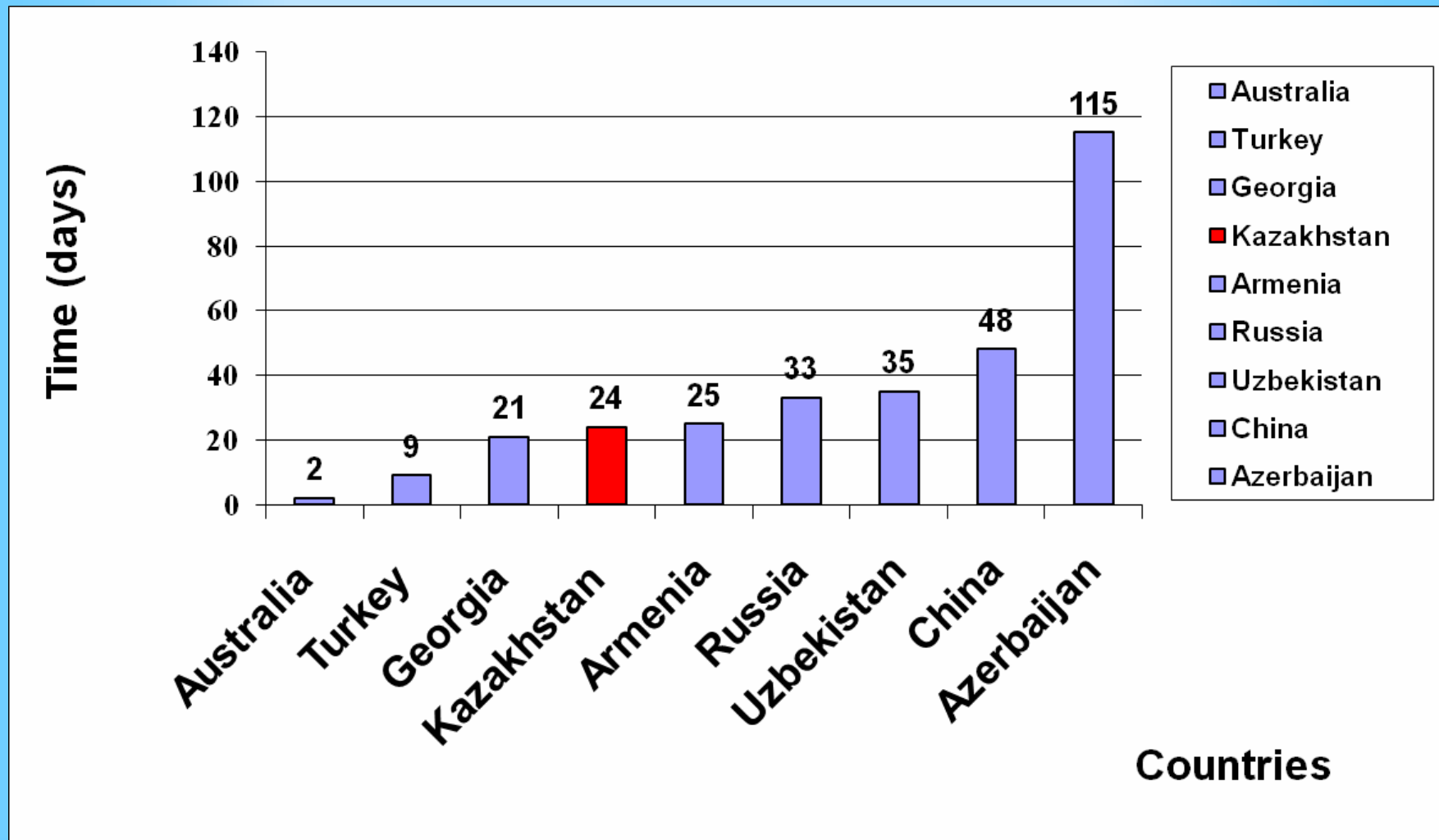
# Simplicity of Business Creation



# Number of procedures necessary for business creation



# The time necessary for creation of business



## **Lowering number of licensed activity types and simplifying licensing, certification, and accreditation procedures**

### **Measures underway now**

- **Currently, mandatory attestation of compliance of certain types of production and processes is assumed, if attestation is necessary for attaining goals specified by the legislation of the Republic of Kazakhstan on technical regulation**

### **Recommended measures for elimination of obstacles**

- **Only products that may harm health or safety of people or the environment, must be subject to mandatory certification**

# **Lowering Bureaucracy and Corruption in State Agencies**

- **Creation of artificial barriers, including audits by regulating agencies**
- **Rigid regulation of private entrepreneurship**
- **Corruption in governmental authorities, particularly in licensing, customs duties, and loan areas**

# Rigid regulation of private entrepreneurship

## Measures underway now

- State agencies are prohibited from adopting by-laws and normative statutes on issues regarding conducting audits of private entrepreneurship entities

## Recommended measures for elimination of obstacles

- Decrease the number of regulating procedures on behalf of the state

# **Corruption in governmental authorities, particularly in licensing, customs duties, and loan areas**

## **Measures underway now**

- **The Law of the Republic of Kazakhstan “On anti-corruption measures” (1998) and State Anti-corruption Program for 2006-2010 have been adopted**

## **Recommended measures for elimination of obstacles**

- **Decentralize functions of central state agencies with step-by-step transfer of parts of their functions to regions and the private sector, reduce monopolies and create conditions for competition development in the rendering of state services, and implementation of “one window” principle**

## **Development of state and private entrepreneurship**

- **Low efficiency of management in the state sector of economy**
- **Insufficient interaction between state and private sectors in the economy**
- **Limited access of enterprises to public purchasing system**
- **“Raider problem” as a factor of weak private property protection system**

# **“Raider problem” as a factor of weak private property protection system**

## **Measures underway now**

- **Adoption of the Law of the Republic of Kazakhstan “On anticorruption measures” (1998), deputies’ interpellations, and statements by public associations against raiders**

## **Recommended measures for elimination of obstacles**

- **Adopting laws preventing development of raiders in the country**

## **Development of the Infrastructure of Entrepreneurship Support**

- **Impossibility for regular entrepreneurs to start a business from a business incubator**
- **Limiting the activity of business incubators only to providing premises**
- **Weak development of franchises**
- **Limited access to consulting services due to high cost of services and scarcity of consulting firms**
- **Limited access to training programs**

# Impossibility for regular entrepreneurs to start a business from a business incubator

## Measures underway now

- 44 business incubators created, including with support from the Soros-Kazakhstan Fund and Eurasia; but: many closed after cessation of international fund financing

## Recommended measures for elimination of obstacles

- Legislative consolidation of the state system of support for resource centres and business incubators

# Weak development of franchises

## Measures underway now

- Adoption of the Law of RK “On complex entrepreneurial license (franchise)”, and creation of the Kazakhstan Franchise Association (KFA) in February 2002 with the purpose of franchise development in Kazakhstan

## Recommended measures for elimination of obstacles

- Implementation of the progressive Russian experience of franchise development, popularize this form of creating business among entrepreneurs, and allow a decrease of risks by 3 times

# Limited access to consulting services due to high cost of services and scarcity of consulting firms

## Measures underway now

- Consulting services are rendered through entrepreneurship support centres, business incubators, resource centres, international funds, public associations of entrepreneurs, and private consulting firms

## Recommended measures for elimination of obstacles

- Organization of remote consulting via INTERNET system for all regions
- Support for consulting firms, especially in distant regions

# Limited access to training programs

## Measures underway now

- Training programs are performed through regional entrepreneurship development departments, entrepreneurship support centres, resource centres, international funds, public associations of entrepreneurs, and private training centres

## Recommended measures for elimination of obstacles

- Training and methodic support of small entrepreneurship, including development of curricula and programs on the most needed courses for entrepreneurs
- Preparation and raising trainer skill level in the republic at the expense of state budget

# **Informational Support for Private Business**

- **The barrier which most causes the informal-sector growth is information shortage on current laws, their unhandiness, complexity, and inconsistency. Many amendments to laws have been adopted recently, and entrepreneurs think that the key to improvement is in access to information.**
- **Shortage of journals, periodicals, and information bulletins on entrepreneurship issues**
- **Absence of reliable data on the number of existing and operating enterprises**
- **Lack of knowledge on creation and promotion of business caused by absence of information**

# **Shortage of information on current laws, their unhandiness, complexity, and inconsistency**

## **Measures underway now**

- **Owing to the implementation of the electronic government program, there were created sites in all regions where, along with general information, information on small business is available**

## **Recommended measures for elimination of obstacles**

- **Place the registered normative statutes of central state agencies concerning small and middle entrepreneurship on the web-site of the Ministry of Justice**

# Shortage of journals, periodicals, and information bulletins on entrepreneurship issues

## Measures underway now

- The “Small and middle business” and “Business world” journals have been created and issued quarterly in Kazakhstan, containing legislative materials and examples of successful entrepreneurship

## Recommended measures for elimination of obstacles

- Increase circulation of the mentioned and other journals, in order for them to become available for all entrepreneurs both by subscription and through retail stores

# Recent Kazakhstan Improvements in SME Development



**Kazakhstan has become the first Central Asian country accepted into the GEM (Global Entrepreneurship Monitoring) Consortium.**

**Kazakhstan is now completing its first GEM survey in Entrepreneurship through USAID's Kazakhstan Small Business Development Project.**

**Kazakhstan signed a cooperation Agreement with the United States Agency for International Development (USAID). Now the Government of Kazakhstan directly funds USAID economic programs in Kazakhstan.**

**THANK YOU FOR YOUR  
ATTENTION!**

