

Entrepreneurial development in Kazakhstan: A review and update

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ABSTRACT

A part of the former Soviet Union, the Republic of Kazakhstan has been independent since 1991. Under the leadership of President Nursultan Nazarbayev the economy of Kazakhstan has been transformed from a Soviet-command economy to an emerging and developing market-based economy. An important part of this transformation has been the establishment of laws and infrastructure to support the previously illegal activity of entrepreneurship and the operation of small businesses in Kazakhstan. This paper provides an overview of the Republic of Kazakhstan and the budding development of infrastructure to support entrepreneurship within the new independent state.

Keywords: entrepreneurship, small business, Kazakhstan, developing economy, former Soviet Union, international business

INTRODUCTION

The Republic of Kazakhstan lies in the northern part of Central Asia and is bounded by Russia to the north, China to the east, Kyrgyzstan and Uzbekistan to the south, and Turkmenistan and the Caspian Sea to the west. Kazakhstan covers an area of 2,724,900 square kilometers and is about the size of Western Europe. The territory is quite varied and includes mountains, a Siberian climate and terrain, and an extensive steppe land, consisting of vast treeless plains. The country is very rich in oil and mineral deposits (BBC News, 2010).

The total population of Kazakhstan is about 15 million people, which, with the large size of the territory, results in a low population density of 5.5 people per square kilometer. However, approximately sixty percent of the people live in urban areas. The majority of the Kazakhstani people are ethnic Kazakh (53.4%) who speak both Kazakh and Russian languages (Kazakhstan, 2010). The “official” language is Russian, which is used routinely in business, and the “state” language is Kazakh. Other ethnic groups include Russian (26.8%), Ukrainian (3.7%), Uzbek (2.5%), Uigur (1.4%), Tatar (1.7%), German (2.4%) and other (7%) (Kazakhstan, 2010). People from over one hundred nations live in Kazakhstan and enjoy equal protection from the government and relative peace among ethnic groups (BBC News, 2010).

The middle socioeconomic group in Kazakhstan represents somewhere between 5 and 30% of the total population, whereas in Western Europe the middle class represents about 80% of the population and about 50% of the population in Eastern Europe. Kazakhstan has a literacy rate of 98.8% as a result of required, universal education through the secondary level (US Dept. of State, 2009). The Baikonur Cosmodrome spaceport (also known as Tyuratam), the oldest space launch facility in the world, is located in the middle of Kazakhstan (FAS, 2010).

Although the impact of seventy-four years of official atheism has left many without religious beliefs, others are seeking meaning through religious activity. The primary religious faiths of the people are Muslim, Russian Orthodox, and Protestant (BBC News, 2010).

The President of the Republic of Kazakhstan is Nursultan Nazarbayev. Born in 1940, he first served as secretary of the Communist Party of Kazakhstan in 1989, was elected President in 1991, and was reelected for another seven year term in 2005 (BBC News, 2010). Mr. Nazarbayev’s eldest daughter, Dariga Nazarbayeva, is heavily involved in politics and owns many media outlets including television and radio stations (BBC News, 2010). Kazakhstan laws make insulting the president and officials a criminal offense and the president’s private life, health and financial affairs are protected (BBC News, 2010).

All of the market reforms in Kazakhstan have been realized under President Nazarbayev’s direct management. His election year, 1991, is referred to as the “independence year” by the Kazakhstani people since this is the year that the former Soviet Union was disbanded. The national currency has been the tenge since 1993, which replaced the Russian ruble. One U.S. dollar is equal to about one hundred forty-five tenges (Universal, 2010). Forms of electronic money such as credit and debit cards are becoming more widely used in business and consumer transactions.

During the independence year and following Kazakhstan made significant reforms from a Soviet command-economy to a market system economy. As a result, over 40 billion dollars have been invested in Kazakhstan by governments and corporations, with approximately 20 billion dollars invested by U.S. interests. The majority of these investments have been directed to oil sector of the economy which is a result of the large oil deposits that are present in the Caspian Sea. By the year 2015, the oil fields of Kazakhstan will be capable of producing 3 million barrels of oil per day, which will rank it in the world's

top ten oil-producing nations (Wall Street Journal, 2010). American companies including Chevron, Texaco, Shell, ConocoPhillips, Occidental, and Exxon-Mobil are currently invested in the Kazakstani economy.

Kazakhstan is also a major producer of grain; with 18 million tons produced annually it places fifth in the world among exporters (US Dept. of State, 2009). However, the extreme weather conditions in Kazakhstan can make grain production risky. In the 1960's the Soviet government made virgin land available for farming. As a result, many new towns in the northern part of the Republic have developed as people from all regions of the Soviet Union have come to work on these farms.

Significant economic progress has been made since independence, and Kazakhstan has surpassed many other former Soviet countries in macro-economic reform. In 2006 President Nazarbayev set a goal for Kazakhstan to be one of the top 50 competitive economies in the second decade of the 21st century (Kazakhstan Truth, 2006). With a per capita gross domestic product (GDP) of \$3,700.00 USD and a gross national income per capita (GNI) of \$6,740.00, Kazakhstan is among the wealthiest of the Central Asian republics (Doing business, 2010; Kazakhstan Today, 2003). The country has netted GDP growth in the range of 8% since 2000, in part due to its large oil, gas, and mineral resources. Although current economic growth has been primarily through oil, it is anticipated that profits from oil exports will create opportunities for a more diversified economy. As the economy opens to new investment, entrepreneurs and small businesses will also have opportunities to emerge and develop in the growing economy.

ENTREPRENEURSHIP IN THE EMERGING MARKET OF KAZAKHSTAN

Between the years 1986 to 1991 students in Kazakhstan began to discuss and loosely organize cooperative enterprises that were built around their educational technology centers. Entrepreneurial ideas and small businesses began to grow out of these technology centers, even though there were no official laws to support individual proprietorship in the country. However, as Kazakhstan gained independence, laws were passed which provided a beginning framework around which small businesses could be organized.

As can be seen in Table 1 (Appendix), the first law to allow for entrepreneurship, or the "individual labor activity of citizens" was passed in 1987, and subsequent laws, the evolution of which continues today, continue to address entrepreneurship. According to the 2006 Kazakhstani law, "About Private Entrepreneurship," private entrepreneurship is defined as an individual initiative based on organizing one or more person's personal property in a private business for the purpose of receiving income in exchange for accepting risk associated with the use of the personal property (Law, 2006).

The pursuit of entrepreneurship and small business ownership in emerging economies, including Kazakhstan, is often made difficult because of "resistance to change within the government, religious, business, and social institutions; failing energy, transportation, educational, and healthcare infrastructure; underdeveloped legal and financial systems; restrictive and inconsistent taxation, high interest rates and inflation, and a lack of management skills" (Luthans & Ibrayeva, 2006). However, as demonstrated in this paper, in recent years Kazakhstan has made important progress in overcoming these barriers to entrepreneurship.

DEFINITIONS OF SMALL, AVERAGE, AND LARGE BUSINESSES

The standards used to identify a small business vary throughout the world and include both quantitative and qualitative measures. Measures such as number of employees, annual

income, and the active involvement of the owner in the business are commonly used. Table 2 (Appendix) provides a summary of some of the measures used internationally. Small, average, and large businesses in Kazakhstan are defined in terms of number of employees and annual sales. Kazakhstani law defines a small business as one without the establishment of a legal entity (individual entrepreneurs) with no more than 50 employees and annual sales not to exceed 60 thousand minimal accounting ratios (MRP). An MRP is equal to 1035 tenges, which would be roughly equal to \$7.00 USD x 60,000, or \$435, 000.00 USD (Law, 2006). An average sized business is defined as one without a legal entity (individual entrepreneurs) with between 51 and 250 employees and annual sales not to exceed 325 thousand minimal accounting ratios (MRP). Large businesses are defined as separate legal entities carrying out entrepreneurial activity with more than 250 employees and annual sales greater than 325 thousand minimal accounting ratios (MRP). (Law, 2006)

STARTING A BUSINESS IN KAZAKHSTAN

In less than twenty years Kazakhstan has developed a business environment that, compared to other emerging market economies, has been seen as being relatively supportive of new businesses (Doing Business, 2010). In great part this transformation may be attributed to the foresight of President Nazarbayev who for many years called for reductions in unnecessary duplication and paperwork, an expeditious way to eliminate inoperative enterprises, and increased cooperation between business and government (Kazakhstan Today, 2003).

The World Bank reports that Kazakhstan in 2011 ranks 59th out of 183 countries in terms of “Ease of Doing Business” which is 23 notches higher than the 2005 ranking. (Doing Business, 2010). The main factors that were considered in determining the “Doing Business” ranking were Starting a Business, Dealing with Construction Permits, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. A summary of Kazakhstan’s rankings for 2005 and 2006 and five years later, 2010 and 2011 (Doing Business, 2010), are shown in Table 3 (Appendix). Based on the rankings provided by the World Bank, Kazakhstan has made substantial improvements, relative to other countries, in the areas of closing a business, registering property, getting credit, and paying taxes.

The main legal forms of businesses in Kazakhstan are the Full Partnership, Limited Liability Partnership, Joint Stock Company, Mixed Partnership, Additional Liability Partnership, and Representative and Branch Office (Legal, 2010). Because the financial liability of participants is limited to the amount of invested capital, the most popular legal form of organization in Kazakhstan is the Limited Liability Partnership.

In 2006 in Kazakhstan there were seven procedures which required an average of 20 days which must be done before an entrepreneur could open a new business. The 2011 World Bank rankings indicate that these procedures can now be accomplished in about 19 days, and the number of procedures has been reduced to six. (Doing Business, 2010). Very small businesses may accomplish these steps in as few as five days. The cost of the registration procedure is approximately \$32 USD. By comparison, ten years ago this process took about one month and fees were more than \$500.00 USD (Legal, 2010).

In Kazakhstan, the following documents must be submitted to register a new business:

- Letter of application for state registration in established format.
- Charter of legal entity, drafted in accordance with Kazakhstani law.
- Document confirming decision to create legal entity, decision of sole founder or foundation agreement.

- Copy from trade register confirming legal status of any foreign investor (i.e., certificate of incorporation).
- Letter/certificate from taxing authorities confirming founder has no outstanding debts due to the state.
- Copy of director's passport.
- Copy of a lease agreement or similar agreements to confirm address of new legal entity.
- Power of attorney issued by founding company authorizing a designated representative to register legal entity's behalf.
- Receipt for payment of registration fee.
- Documents presented to authorities in a foreign language which were issued abroad must be notarized and translated into Kazakh and Russian.

FINANCIAL SUPPORT AND BUSINESS TAXES IN KAZAKHSTAN

There are three basic levels of access to financial support for small businesses in Kazakhstan, which include second-tier banks, organizations which provide some type of banking service, and microcredit organizations. There are more than thirty-five commercial banks in Kazakhstan which results in an increasing level of competition in the banking industry. As a result, and consistent with worldwide economic levels, interest rates on small business loans have declined.

In his 2008 annual address, President Nazarbayev called for a new tax code designed to promote the economic goals of Kazakhstan, especially in support of small and medium-sized businesses (Townsend & Witt, 2010). Small business owners in Kazakhstan may be subject to eight different taxes which include the value added tax (VAT), corporate income tax, social tax, land tax, property tax, vehicle tax, advertising tax, and the environmental tax (Legal, 2010; Townsend & Witt, 2010). To help small businesses owners with the tax burden certain preferential tax modes were developed, which are established on the basis of:

- the single coupon (1 dollar per day)
- the patent (3% of annual revenue)
- a simplified declaration.

Small business owners may pay taxes on the basis of the single coupon as long as they are individual entrepreneurs and their business is of a periodic and changeable character and their business activity is carried out no more than 90 days in one year (Legal, 2010; Townsend & Witt, 2010). These business owners are exempted from state registration and all other taxes. Businesses meeting these requirements include vendors of newspapers and magazines, or flowers and produce which have been raised at home or on small farms, or transportation services for passengers or cargo (not including licensed transportation), or the services of tractors owners in tilling the land.

Taxes based on patents are used for entrepreneurs who work alone without hired employees and have an income of no more than 2 million tenge (approximately \$13,800.00 USD) per year. This form of taxation is popular for small startups with limited income.

INFRASTRUCTURE IN KAZAKHSTAN TO SUPPORT SMALL BUSINESS DEVELOPMENT

A small business support infrastructure similar to the one established in the U.S. through the Small Business Administration has been an important part of the development of entrepreneurship in Kazakhstan (Supporting Entrepreneurship, 2010). Set up within the

Ministry of Industry and Trade, an external affairs ministry, the Entrepreneurship Development Institute (EDI) has offices in 16 regions throughout Kazakhstan, including the capital of Almaty, with the main goal of supporting small business development. A Small Business Development Fund, the Damu Fund of Kazakhstan, has pledged to provide \$1.7 billion USD for the project (SME Times, 2010).

A joint project of the United States Agency for International Development (USAID) and the Government of Kazakhstan, the USAID Kazakhstan Small Business Development project was initiated in October 2006 with the goals of bringing international best practices of small and medium sized enterprises (SMEs) to Kazakhstan and developing an infrastructure of small business consultants, referred to as business service providers (BSPs) to provide advice and support for new businesses (USAID, 2010).

Commercial banks, business incubators, technology parks, consulting firms, and educational centers are also part of the small business development infrastructure. In addition, several non-government business associations to protect the rights of entrepreneurs were also created. One of the largest of those associations, the Forum of Entrepreneurs, holds an annual meeting to discuss topics of interest to entrepreneurs (Siegel, 2007). The Forum invites the President of Kazakhstan to speak to the entrepreneurs each year.

As in developed economies, business incubators in emerging markets help new businesses survive during the first two to three years as they accumulate knowledge and resources for growth. There are currently forty-four business incubators in Kazakhstan, where clients may share business services, obtain flexible and reasonably priced office space, and gain access to business counseling, training, and information programs (Supporting, 2010). While the level and quality of services varies considerably across incubators, many of them work very efficiently. The Sodbi business incubator in Shymkent provides all the above mentioned services within a very professional and supportive environment. In return for the sponsorship of these incubators, the Kazakhstani government receives new business enterprises, new jobs for the people, and contributions toward a growing economy.

There are also several technology parks in Kazakhstan. The largest park, Alatau IT-City, is in the south of Kazakhstan near Almaty. Alatau IT-City was designed to be the centerpiece of the new high technology intellectual center in Central Asia. The world's top information technology and communications companies have cooperated in the development of Alatau IT-City including Microsoft, HP, Siemens, Cisco Systems, Tels, LG, Sun Microsystems, and Samsung, as well as other IT leaders. A partnership between Chevron, CitiBank, UNIDO, and UNDP has provided funding and support to develop entrepreneurship in Kazakhstan (Supporting, 2010)

SMALL BUSINESS GROWTH IN KAZAKHSTAN

There are approximately 140,000 small businesses in Kazakhstan, and this has doubled over the last five years (SME Times, 2010). While there are generally four routes to small business ownership including startup, buyout, franchising, and joining a family business, these routes are severely restricted in Kazakhstan. Very few businesses in Kazakhstan are available for sale, since a primary reason for selling a business is often the retirement of the founder and the average age of entrepreneurs in Kazakhstan is 40-45 years old. Franchising has developed in Kazakhstan very slowly, although it has been successful in Russia, particularly the McDonald's restaurants in Moscow. Although McDonald's is not in Kazakhstan, other franchised businesses have opened in Kazakhstan including Baskin-Robbins Ice Cream and Patio Pizza.

Although 90% of Kazakhstan businesses are family businesses, there are no special programs for family business and they are considered the same as all other small businesses .

(SME Times, 2010). Since opportunities for buyouts and franchising are very limited in Kazakhstan most entrepreneurs either start a business or join the family business.

The majority of the small businesses in Kazakhstan are located in Almaty and the surrounding region since Almaty is the large financial and industrial center of the Republic. The cities of Shimkent, Karaganda, and Astana have also seen strong development of small businesses. Approximately 50-60% of the small businesses in Kazakhstan are involved in some sort of trading activity (SME Times, 2010). However, for the development of the new economy in Kazakhstan manufacturing activity is also needed. Trading activities are preferred by many entrepreneurs because trading is much easier than production, and the ratio of asset turnover in trade enterprises is much higher than in the manufacturing enterprises. In an attempt to alter the preferences of Kazakstani entrepreneurs, tax privileges for industrial and innovative enterprises have been established and special innovative and investment funds to support industrial projects have been created.

SUMMARY AND CONCLUSION

In just under twenty years as an independent country, Kazakhstan has made great progress in the transformation of a Soviet-command economy into a market-based economy. The support of entrepreneurship has been a strong contributor to this development. The sanctioning of a legal and political infrastructure and strong efforts to support entrepreneurs by providing small business resources have served to enable this progress. Kazakhstan has reached out beyond its borders through varying programs designed to bring the best entrepreneurial business practices worldwide to their budding entrepreneurs. Laws have been passed, regulatory procedures streamlined, and infrastructure such as business incubators and technology parks have been established to support the development of small businesses in Kazakhstan.

The Republic of Kazakhstan holds tremendous promise in its ability to contribute to the worldwide economy and to ultimately benefit its newly independent population through financial prosperity and economic stability. With its valuable natural resources, an educated workforce, along with a government that has shown strong support for entrepreneurship and recognized its value to both to the government and to the people, the Republic of Kazakhstan is uniquely positioned to develop its potential as a strong contributor to the world economy.

Appendix

Table 1. Evolution of Entrepreneurship Laws in Kazakhstan.

| Years | Laws |
|--------------|--|
| 1986-1991 | Law "About individual labor activity of citizens" (1987) was enacted. "The law about cooperation" (1988) Laws about lease, joint venture, and bank activities were also enacted. |
| 1992-1994 | Kazakhstan Law "About pleading and supporting private entrepreneurship" (1992) Kazakhstan Law "About proprietors" (1993) Kazakhstan Law "About privatization" (1993) |
| 1995-1997 | Kazakhstan Law "About the government small business support" (1997) |
| 1998-2002 | Code PK "About taxes and other obligatory payments in the budget" (2001) Law PK "About complex enterprise license (franchising)" (2003) |
| 2003-present | Law RK "About the micro credit organizations" (2003) Law RK "About private entrepreneurship" (2006) |

Table 2. International small business definitions (SME, 1998)

| Country | Criteria |
|----------------|--|
| Kazakhstan | The number of employees is no more than 50 people; The amount of assets for one year should not exceed 60 thousand minimal accounting ratios (MRP) (MRP is equated 1035 tenges, that means \$8 x 60,000 = \$480, 000) |
| USA | The number of employees is from 1 to 500 people; The enterprise should belong to the independent owner |
| Great Britain | The small market of selling which is not allowing to influence on the prices and volumes of the sold goods; Presence of owner's personal management of the firm instead of hiring managers Presence of juridical independence |
| Russia | The number of employees is no more than 100 people |
| France | The handicraftsmen and small proprietors are receiving the basic income from direct production functions; The owner of the enterprise personally participates in the manufacture and he (she) has a high level of qualification; The small enterprises are maintaining a limited number of the hired workers, carrying out simple reproduction; The small enterprises is having extended reproduction; The number of the workers is from 10 up to 100 people |
| Japan | The legally independent companies with number employee up to 300 men or volume of a fixed capital is no more than 100 millions yens in manufacturing industry ranches, construction, transportation, communication, in a municipal services; The number of employee is up to 100 people or 30 millions yens of a fixed capital in wholesale trade; The number of employee is up to 50 men or up to 10 millions yens in retail trade and sphere of services; 7 groups of enterprises according with the number of employees: a). from 1 up to 4; b). from 5 up to 9; c). from 10 up to 29; d). from 30 up to 49; e). from 50 up to 99; f). from 100 up to 299; g). from 300 up to 499 |
| Germany | The number of employee is from 20 up to 49 employees (annual turnover up to 500 thousands EU); The number of employee is from 50 up to 99 people; The number of employee is from 100 up to 199 people |
| ES | The number of employee is up to 50 men with an annual turnover up to 7 million and balance up to 5 million Euro; The number of employee is up to 10 men are considered as micro enterprise |
| Southern Korea | The number of employees is 20 and less which are working at the manufacturing and preprocessor transport and construction enterprises; The number of employees is 5 and less which are working in trade and sphere of rendering of services |

Table 3. Kazakhstan's Ease of Doing Business Ranking, 2005-2006; 2010-2011. (Doing Business, 2010)

| | 2005 rank | 2006 rank | 2010 rank | 2011 rank | Change, 2005-2011 |
|-----------------------------------|-----------|-----------|-----------|-----------|-------------------|
| Overall "Doing business" ranking | 82 | 63 | 74 | 59 | +23 |
| Starting a business | 37 | 40 | 85 | 47 | -10 |
| Dealing with licenses | 121 | 119 | * | * | +2 (2005-2006) |
| Dealing with construction permits | * | * | 156 | 147 | +9 (2010-2011) |
| Employing workers | 21 | 22 | * | * | -1 (2005-2006) |
| Registering property | 81 | 76 | 29 | 28 | +53 |
| Getting credit | 117 | 48 | 69 | 72 | +45 |
| Protecting investors | 43 | 46 | 57 | 44 | -1 |
| Paying taxes | 63 | 66 | 53 | 39 | +24 |
| Trading across borders | 171 | 172 | 182 | 181 | -10 |
| Enforcing contracts | 27 | 27 | 36 | 36 | -9 |
| Closing a business | 102 | 100 | 54 | 48 | +54 |

*Information not included in that year's World Bank Ranking

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