

**中央アジア  
ビジネス振興プロジェクト形成調査報告書  
付属資料  
別冊（１）**

**平成18年12月  
（2006年）**

**独立行政法人国際協力機構  
アジア第二部**

# Country Market Review

## Contents

Kzakhstan Market Review .....	1
Project Formulation Study on Business Promotion Program in the Kyrgyz Republic	
Aisulu Chubarova, Legal Consultant .....	139
Summary Table .....	143
FINAL REPORT .....	165
Tajikistan Market Review .....	331

August 2005

# Kazakhstan Market Review

Business Environment

Investment Promotion

SME Promotion and HR Development

Trade Promotion

Japan International Cooperation Agency

# Contents

<b>Introduction .....</b>	<b>3</b>
<b>Key Challenges .....</b>	<b>4</b>
Bureaucracy / Excessive Tax and Statistical Reporting .....	4
Licensing of Operations .....	5
Changes in the Regulatory Framework, Ambiguity .....	5
Lack of Statistical and Business Information .....	6
Inspections and Corruptive Practices .....	7
Investment / Tax Concessions and Special Economic Zones .....	8
Limited Access to Financial Resources for SMEs .....	11
Products and Service Certification .....	11
Infrastructure .....	12
<b>Government Actions .....</b>	<b>13</b>
Business Associations .....	13
Incubators, Techno and IT parks .....	13
Electronic Government .....	14
Entrepreneurial Development Fund .....	15
<b>Government Agencies .....</b>	<b>16</b>
SME Development at National Level .....	16
SME Statistical Information at National Level .....	16
Investment Fund of Kazakhstan (KazInvest) .....	17
<b>Action Plan .....</b>	<b>18</b>
Training of Professionals and Marketing Support .....	18
Simplification of Customs Clearance and Transit Procedures .....	18
Licensing .....	18
<b>Attachment 1: Summary Table .....</b>	<b>19</b>
<b>Attachment 2: Interview Memos .....</b>	<b>58</b>
1. Ernst & Young Kazakhstan .....	61
2. Almaty Association of Entrepreneurs .....	62
3. National Innovation Fund of Kazakhstan .....	65
4. Investment Fund of Kazakhstan .....	67
5. Customs Clearance .....	68
6. United States Agency for International Development .....	69
7. Almaty Technology Park .....	71

8. Municipal Business Incubator .....	73
9. National Investment Fund.....	76
10. World Bank .....	78
11. Alkor .....	80
12. Business Advisory Services Program .....	81
13. ATF Bank.....	84
14. Engineering and Technology Transfer Center .....	86
15. Forum of Entrepreneurs of Kazakhstan .....	88
16. Union of Chambers of Commerce and Industry .....	90
17. Small Entrepreneurial Activity Development Fund.....	94
18. Enterprise Development Project.....	96
19. Trade Facilitation and Investment Project, Reduction of Investment Constraints .....	98
20. Trade Facilitation and Investment Project, Chair of Party.....	100
21. Trade Facilitation and Investment Project, E-Governance.....	101
22. Trade Facilitation and Investment Project, International Trade and Customs.....	102
<b>Attachment 3: Selected Information Sources .....</b>	<b>105</b>
<b>Attachment 4: Glossary of Terminology and Abbreviations.....</b>	<b>107</b>
<b>Attachment 5: Major Activities of Amcham, Eurobak, ITIC and IFC .....</b>	<b>110</b>
<b>Attachment 6: Donors' Credit Schemes .....</b>	<b>114</b>
1. World Bank.....	114
2. Asian Development Bank .....	117
3. CIDA.....	119
4. USAID.....	121
<b>Attachment 7. Business Service Providers.....</b>	<b>122</b>
<b>Attachment 8. SME Statistics per Region .....</b>	<b>129</b>
<b>Attachment 9: Statistics on Investment.....</b>	<b>131</b>
<b>Attachment 10: Statistics on ISO Certificates .....</b>	<b>137</b>

# Introduction

This report was developed in conjunction with the project realized by the Japan International Cooperation Agency (“JICA”) and Ernst & Young Kazakhstan, contains confidential information, is the property of JICA, should be used exclusively by JICA personnel, and should not be disclosed to third parties or otherwise circulated.

The aim of this report was to research and identify the key challenges, objectives, regulatory framework and action steps required to remove investment constraints in the business environment, trade promotion, the development of human resources and the overall growth of small and medium enterprises in the Republic of Kazakhstan.

The evaluations and analyses presented in this report do not necessarily represent the professional position of Ernst & Young and are based on an analytical research of publicly available information and interviews conducted by Ernst & Young with the representatives of business circles and governmental authorities of the Republic of Kazakhstan. A list of the key information resources analyzed and a summary of the interviews are provided in the attachments to this report.

Additional information pertaining to this report or work carried out in conjunction with this report can be obtained from the following representatives of JICA and Ernst & Young:

Name	Company	Email
Jiro IIDA	JICA	Iida.Jiro@jica.go.jp
Graeme HUGGINS	Ernst & Young	Graeme.Huggins@kz.ey.com
Artiom KOZLOVSKI	Ernst & Young	Artiom.V.Kozlovski@ru.ey.com

# Key Challenges

The Republic of Kazakhstan covers a vast area and the challenges entrepreneurs meet here vary depending on the different regions of the country. However, in the opinion of the people interviewed and other public sources, there are several key problems that are common for the local business environment. These issues are described briefly below.

This report was prepared with an emphasis on business environment, investment promotion, trade promotion and particularly SME development. The active development of SMEs in Kazakhstan started in 1997, when Almaty had approximately 8,000 thousand registered SMEs. Today this number, according to some statistics, exceeds 30,000. SMEs are established rather unequally throughout Kazakhstan, with the two largest centers for SME development being Astana and Almaty. Small and medium enterprises in Kazakhstan tend to specialize in providing services such as hotel accommodation, trade promotion, consulting, and small production projects e.g. furniture, souvenirs, various consumer products and musical instruments. The SME market is growing steadily in Kazakhstan. It is estimated that 40% of Almaty budget receipts are generated by SME tax contributions, while this number will be increased to 60-65% before the end of 2005.

## Bureaucracy / Excessive Tax and Statistical Reporting

There continues to be a significant amount of bureaucracy to deal with in Kazakhstan, some generated by legislation, other types generated by overly zealous state officials. Most tendering procedures, both for state procurements and other commercial tenders in the Republic of Kazakhstan require tender participants to present certificates from tax authorities confirming that they do not have outstanding tax payables, which take a considerable period of time to prepare. The ridiculous part is that the authorities usually require 10 days to prepare a certificate that is only valid for 7 days.

**Administrative barriers that block the development of SMEs.** According to the "Administrative barriers and Semi-Legal economy of Kazakhstan"<sup>1</sup> publication the administrative barriers in this country can be divided into three groups:

- † Impractical;
- † Partly practical;
- † Barriers that prevent entrepreneurs to effectively enter and develop the market of Kazakhstan, such as corruption, unfair competition, limited access to financial resources, few business professionals, ambiguous laws, too much tax and statistical reporting, problem with supply chain management and logistics. For now the Almaty Association of Entrepreneurs is working on all of these problems, with a special emphasis on corruption.

---

<sup>1</sup>Recommended for additional reading



Interests and requirements of regulating bodies are different for different clusters, they are constantly changing. It is almost impossible to systemize them and link to SME in a comprehensive format, as they are mostly targeting the large companies of the country.

It is generally believed that the KZ fiscal authorities are predominantly interested in fines, rather than the systematic tax collection.

## Licensing of Operations

A 1995 Law on Licensing established the legal framework for licensing activities in Kazakhstan. In 1998 additional procedural acts were adopted to implement the requirements of the Law. Within one month of receiving all required documents from a company, the authorized agency is required to issue the necessary licence. In implementation, however, law is inadequate because the Government has not yet approved most of the qualifying procedural requirements for the issuing of most licences. This situation creates an unpleasant predicament for some businesses and leaves them vulnerable to inspection bodies, which may threaten them with fines or even shut down their activities for failure to procure licences that are often (legally) impossible to obtain.

The Kazakhstan Licensing Law is being constantly updated, and as of today there are over 1,000 types of business operations in the country that require a license. The current trend is to work towards a simpler version of the law, but sometimes this simplification procedure results in additional complications. For example, recently the law was supplemented with a clause stating that all construction work should now be licensed locally, and not at the national level. This has resulted in a situation where new construction licenses are valid solely in the region where they were issued, forcing constructors receive additional licenses if they wish to perform activities in other regions. This has seriously increased licensing costs and had a negative impact on the tendering abilities of small and medium size construction companies on the national level.

Although the regulation of currency transactions is gradually being liberalized, there are still many normal business transactions that are subject to licensing and other forms of National Bank regulation.

## Changes in the Regulatory Framework, Ambiguity

The current regulatory framework is one of the key areas for SME entrepreneurs. Due to the constant changes to requirements in this area SME entrepreneurs require additional guidance so as not to get lost in the numerous updates. Due to the current lack of relevant guidance SME entrepreneurs have been known to sometimes act outside the official boundaries in order to achieve their objectives.

In addition, there changes continue to be made to the operation and taxation of subsurface users, which include significant and increased state involvement and forced local content in projects.

One of the reasons for the constant changes in the regulatory framework is believed to be the high rotation of the heads of governmental agencies in charge of SME development. Most officials do not have the time to thoroughly investigate the problems and needs of SMEs, and every new official is forced to start every SME development program from the very beginning.

## Lack of Statistical and Business Information

Kazakhstan has very few places where an individual is able to receive qualified and consolidated advice on how to start a new business, the legal procedures involved, documents needed, to find banks providing SME loans and similar useful information. Market demand for these services is very high, yet the function is virtually unrepresented.

Even basic statistical information on SMEs is hard to come by, which makes it hard for foreign donors and developing institutions to do anything tangible to improve the business environment in Kazakhstan, as they have no real picture of the situation in the country.

One of the main problems that entrepreneurs face when performing trade activities in the country is the lack of reliable information on external trade policy and customs procedures. Very often information either comes from unreliable sources or is seriously outdated, due to frequent changes made to legal documents that regulate foreign trade related economic operations. Inaccessibility of information for traders puts them at a disadvantage against government officials at the local level, which results in corruptive practices. However, even at the national level there is little reliable information available to the authorities, for example even the Ministry of Trade of the Republic of Kazakhstan is believed to have only a vague estimate on the cost structure of transit operations in the country. International donor organizations, including USAID, provide considerable support to the trade and customs authorities by plotting transit routes and calculating real costs incurred by traders, including illicit payments, and developing comprehensive manuals and trade guides for end users.

To start any business, company needs to undertake a marketing research, understand its core competencies, competitors, customers and develop a strategy. However in Kazakhstan SMEs have neither skills to make such research on their own, nor do they have funds to subcontract this job to a consulting company. Publicly available information is very contradictory and without the proper business planning many SMEs miss the target and soon dissolve.

World Bank's site has little information available. The reason for the absence for a systematic survey on constraints is that even the very basic data for SME in RK is of a very poor quality. Even the most reliable database of the tax authorities has little valuable data, as SME taxation is simplified and the details available for them is not very telling.

In terms of available statistics for SME Mr. Pizikov (National Director of Regional RIC Programs) mentioned 3 databases, which do not concur with each other:

- † **Ministry of Justice database**, where registered enterprises are listed (legal bodies except private entrepreneurs).
- † **State Statistics agency's database**. It is however quite unreliable, as here one enterprise can be shown twice.
- † **Tax committee's database** shows the most accurate figures on SMEs. But even in this database the same unique taxpayer identification number (RNN) can be given to the several enterprises at the same time.

The best way to acquire reliable information on SMEs in RK, is to combine data from all three.

## Land Use and Development

This challenge covers the acquisition of land into private ownership, the receipt of approvals for design and construction documentation, site commissioning. The World Bank recommends foreign investors resolve land use issues as one of the top priorities when setting up a business in the Republic of Kazakhstan, as it can be quite lengthy, tedious and demanding in terms of financial resources.

Subject to a few limitations set forth by the Land Code, foreign companies and individuals can exercise the same rights as local entities and individuals. The term "Foreign Land Users" covers nationals of foreign countries, stateless individuals, foreign legal entities, foreign countries and international associations and organizations. Under the Land Code, Foreign Land Users cannot own parcels of agricultural and forestry land, or have the right of permanent use of land, or lease parcels of agricultural land within the three-kilometer protection zone adjacent to the state border of the RoK. Private foreign legal entities and individuals may own parcels of land designated for construction and operation of buildings, whether industrial or not.

## Inspections and Corruptive Practices

Over the past several years this problem is no longer a priority, as new legislation has come into force to make many inspections far more systemized.

Tax inspections, however, are still performed regularly and inspectors tend to be very demanding. In addition, they have at their disposal laws such as the transfer pricing law, which is not up to international standards and can be interpreted to the detriment of taxpayers. It is generally believed that the Kazakhstan fiscal authorities are predominantly interested in imposing fines, rather than the systematic collection of taxes.

There are about 50 controlling committees in Kazakhstan – on the national level only, not counting the multiple local inspections and supervisory committees. Every week at least one committee comes to inspect each SME in the country. This leads to a potential increase in corruption and seriously slows the SME development and legalization process.

Mr. Shestakov, Chairman of Customs Broker's Association, Member of Expert Council of Finances Ministry RK, member of Consultative Council of Custom Control Agency RK highlighted major problems and barriers, explaining why an entrepreneur can not pass custom control without "giving money":

- † Goods Delivery Control does not operate efficiently. Goods delivered by individuals should be checked in via a simplified procedure, which happens very rarely.
- † Consequently, 30% of goods pass the borders illegally. Trading places' owners know that the goods are illegal and extort traders.

Local government collects daily fees and "bribes" because of illegal goods. Annual turnover of goods between China and Kazakhstan is 4 billion dollars. In addition illegal turnover is about 2-3 billion dollars.

**Cooperation with customs** (similar to the World Bank activities started in the Russian Federation in 2003. However it is believed that the customs situation in Kazakhstan is more grave here: unlike in Russia, there are few complaints in Kazakhstan, it's "too corrupted and organized" to allow for complaints to appear. Several customs posts in RK are completely autonomous even from the national customs authorities);

One of the main problems that entrepreneurs face when carrying on trade business in the country is lack of reliable information on external trade policy and customs procedures. Very often information either comes from unreliable sources or is seriously outdated, due to frequent changes made into legal documents that regulate economic operations related to foreign trade. Inaccessibility of the information for traders put them into disadvantage against government officials, which results in corruptive practices.

## Investment / Tax Concessions and Special Economic Zones

Although these concessions are provided for in the law, their use and value is restricted by:

- † Geographical location;
- † Difficulty in obtaining them;
- † Limitation of benefits.

The law governing SEZs was introduced back in January 1996 and has undergone several amendments. Under the current version of this law the President must approve by Presidential Edict the establishment of all SEZs as well as any future amendments to the established conditions. SEZs can be established for a maximum of 10 years and it is worth noting that appropriately ratified international agreements such as double tax treaties will override SEZ legislation should a difference between the two arise.

The first SEZ of those that are currently in force was created in order to accelerate development of the left bank of the Ishim River in Astana, the capital of Kazakhstan. Effective for a period of 5 years from 1 January 2002 the following tax concessions were introduced for the construction of infrastructure, administrative facilities or residential complexes in the 1,052.6-hectare SEZ:

- † Turnover from the sale of goods, work and services in the SEZ for consumption entirely in construction projects is exempt from VAT;
- † Turnover from the sale of goods and equipment into the SEZ for consumption entirely in construction projects is zero-rated for VAT purposes;
- † Land in the SEZ on which infrastructure, administrative facilities or residential complexes are constructed during the period in which the SEZ is in existence is exempt from land tax;
- † The value of buildings and constructions in the SEZ are exempt from property tax if constructed in the SEZ during the period in which it is in existence;
- † The operation of a free customs zone regime in the SEZ.

One year later, a second SEZ entered into force for a period of 4 years through to 1 January 2007. This SEZ covers 227.1 hectares of the port area within the borders of the city of Aktau, which is located on the Caspian Sea and provides for the following concessions:

- † An exemption from corporate income tax;
- † Land in the SEZ is exempt from land tax if it is used for the production of goods in a priority sector (see below);
- † Assets are exempt from property tax if they are used for the production of goods in a priority sector;
- † The operation of a free customs zone regime in the SEZ.

Companies that would like to take advantage of these concessions must be registered for tax purposes in this SEZ, avoid the establishment of structural subdivisions outside the SEZ and generate 90% of their total income from the sale of goods produced from one or more of the following priority areas of activity:

- † The chemical industry;
- † The production of rubber and plastic items;
- † The production of other non-metallic mineral products;
- † The metallurgy industry;
- † The production of finished metallic items;
- † The production of machines and equipment.

The latest SEZ was established effective from 1 October 2003 and has been introduced for the maximum period allowed under the law - 10 years. This SEZ is a 340 hectare Information Technology Park in Kazakhstan's southern city of Almaty and provides for the following tax concessions:

- † A 50% reduction in corporate income tax;
- † Land in the SEZ is exempt from land tax if it is used when engaging in specified information technology activities (see below);
- † Assets are exempt from property tax if they are used when engaging in specified information technology activities;
- † Sales turnover from specified information technology activities is exempt from VAT;
- † The operation of a free customs zone regime in the SEZ.

Companies that would like to take advantage of these concessions must be registered for tax purposes in this SEZ, avoid the establishment of structural subdivisions outside the SEZ and generate 90% of their total income from the following types of information technology activities in the SEZ:

- † The planning, development, introduction, experimental production and production of software data bases and hardware;

- † And (or) the creation of new information technologies on the basis of artificial intelligence;
- † And (or) scientific investigative and experimental construction work for the creation and introduction of projects in the field of information technology.

As you may have learned from reading the above summary of the existing SEZs, their usage is restricted because of links to specific geographical locations in Astana, Aktau and Almaty, respectively. This restriction is inherent in the SEZ governing law as it links the creation of all SEZs to a limited territory within Kazakhstan. Following criticism from various quarters, the Government linked the recently introduced exemption from corporate income tax for entities in the petrochemical industry to the performance of activities in this sector rather than to a specific geographical location. This also meant that the exemption could be introduced outside the auspices of the SEZ governing law, without the need for a Presidential Edict and directly into the tax code. Although this is an improvement, the entry criteria for the exemption are onerous and it remains to be seen whether significant investment will be attracted into this area. Below is a list of the criteria that need to be met in order to obtain the exemption:

- † Entities must register and production facilities must be commissioned, between 1 January 2004 and 31 December 2007;
- † No less than 90% of total income must be generated from the sale of certain goods<sup>1</sup> produced from oil and/or gas that was extracted from the subsurface of Kazakhstan;
- † An investment of at least approximately USD 34 million is required into the production facilities.

The exemption applies for a period of 5 years from the date a production facility is commissioned.

Taxpayers selling high value added goods that they have produced may be entitled to tax concessions. To qualify for the tax concessions envisaged under this regime a taxpayer must generate at least 90% of its total income from sales of high value added goods; add value during production equal to at least 40% of its total income; and have an overall tax burden of at least 12% of total income. The tax concessions available are a 30% reduction in corporate income tax and a one-off 50% reduction in corporate income tax on income received from the sale of goods produced using a process that has been certified according to a procedure that will be established by legislation in line with the ISO standards series 9,000 and 14,000 for quality management systems and environmental management. This one-off corporate income tax reduction will be available for the tax period following the year in which appropriate management systems are introduced by the enactment of the relevant legislation.

<sup>1</sup> Currently, the production of the following goods qualify for this concession: petrochemical products (excluding fuel); various organic (chemical) substances; certain plastics; synthetic rubber; paints and dyes; soap and cleaning, washing and polishing substances; perfume and cosmetic items; artificial and synthetic fibres; rubber items.

## Limited Access to Financial Resources for SMEs

The banking system of Kazakhstan is considered by some to be the best developed among all CIS countries, but the system still faces several serious problems such as high interest rates, expensive service fees and restrictions on collateral accepted by banks for the provision of loans.

During our research it was discovered that the average period for paperwork to be considered with respect to obtaining a SME loan from a financial institution can last anywhere between two and three months.

Mr. Pizikov (National Director of Regional RIC Programs) mentioned problems with receiving loans:

- † High interest rates;
- † Strict terms of real estate appraisal;
- † LTV ratio is max 40-50% of the real estate's market value;
- † Banks basically do not give loan to start-ups.

Mr. Pizikov thinks that in terms of taxation, the national government has done a satisfactory job in decreasing tax rate and in offering tax privileges to enterprises; however excessive formalities are still seriously impeding SME development.

## Products and Service Certification

Product certification in Kazakhstan is unreasonably complicated for both large companies and SMEs. For example, in order to certify foodstuffs, small enterprises are obliged to pay the same costs as a large company. Besides, each foodstuff shipment should be certified independently. Another example of this is that a more complicated certification procedure has been introduced for imported products, which results in excessive storage and other additional trade constraints at customs warehouses.

Quality Management Center within EDP assists enterprises in implementation of quality management systems making them more competitive and profitable. The QMC provides Quality training and consulting services that meet and exceed the expectations of its client organizations as they strive for compliance to requirements of international standards. Quality Management Center operates on the Quality Management System in compliance with ISO 9001:2000 requirements. Co-financing of the Center comes from United States Agency for International Development (USAID) and partly from multinational companies.

These companies originally paid QMC to help their local suppliers receive international certification. At the beginning oil companies did not require ISO Certification. Oil companies offered to their vendors to pay for hiring quality people. In 2001 local companies were under pressure, that they had to have ISO Certification. At that time only State Standard Committee was authorized to perform ISO Certification. Now 317 companies of RK have ISO Certification. 5 international companies work here. EDP has worked with 30 oil company vendors.



## Infrastructure

Kazakhstan's telecommunication system is both primitive in terms of choice and quality, and expensive relative to EU8 countries, Ukraine, and Russia; and, the road and air transport infrastructure are underutilized. Policies in these sectors need to focus mainly on enlarging the market size and promoting new entry (domestic and foreign) and competition. These are the only sustainable ways to reduce the economic and money cost of using the infrastructure. Unfortunately, the current policy stance undermines entry by private investors (domestic and locals) and constrains market growth.



---

# Government Actions

## Business Associations

One of the key measures implemented by the government with respect to creating favorable business conditions, particularly for SMEs, is the promotion of business associations, which provide services to entrepreneurs, as well as advise local and national legislation-makers on the view point of businessmen towards new laws being adopted and evaluate the performance of governmental agencies and officials. This work is usually done through consultative (expert) councils and is gaining weight and momentum.

However, the number of such associations is also rapidly increasing and by some estimates there are already 150 in existence, which seriously hinders their ability to coordinate their approach and share common perspectives.

The most effective associations working in Kazakhstan at present are considered to be the Almaty Association of Entrepreneurs, the Forum of Entrepreneurs, the Union of Employers of Kazakhstan, the Kazakhstan Association of Business Incubators and Information Centers.

## Incubators, Techno and IT parks

In accordance with the Edict of the President of the Republic of Kazakhstan, support of small businesses has become a priority sector of the government's nationaleconomic policy. Legislation and regulations regarding the support of entrepreneurial activities are still being developed; however many government programs for the support and development of small entrepreneurship, including national and local initiatives, have already been approved and implemented.

In 1999, in the light of favorable economic conditions, a group of individuals representing prominent entrepreneurs, in conjunction with the Department of Small Businesses of the City of Almaty, created a state institution named the "Almaty city business incubator", which is still considered to be one of the most successful pilot projects in Kazakhstan. The experience of the Almaty city business-incubator is currently being extended to all regions of the country.

Techno parks, which have been established by the national and local governments, are also developing quite actively, some of which have the status of special economic zones providing tax and customs concessions to its members. Also, it is generally believed that SMEs operating within government-funded incubators and techno parks have fewer problems with illicit extortion from various inspectorates and supervisory agencies.

In September 2004 eight of the fifteen business-incubators operating in the country took part in a conference of the **Kazakhstan association of business-incubators and innovation centers**

(KABIC), which currently unifies almost all business-incubators, techno parks, entrepreneurial and innovation support centers operating in Kazakhstan. The mission of the KABIC is to assist the development of small and medium size business in Kazakhstan, via support of the establishment and development of small business infrastructure entities.

All of the Technology parks of Kazakhstan today can be basically broken down into 3 main types:

- 1) **National parks that are created by the Government of RK.** They represent special economic zones, which provide tax and customs privileges to their clients (ex.: IT park "Alatau").
- 2) **Parks that are created by Government, with participation of local authorities.** These parks largely concentrate in one special field (economic cluster).

**Parks created by the local authorities.** Almaty Technology Park (ATP) represents the third type of a technopark. It was created in 2003 year as a joint stock company. The mission of ATP is to transfer technologies and provide services connected with such a transfer. There is no research and development in ATP, because of lack of financing and virtually no need in new technologies, developed in Kazakhstan. ATP specializes in 9 fields: oil and gas, ecology, energy, telecommunication, construction, utilities, transportation, ferrous and non-ferrous metallurgy, mining industry.

Government supports the development of IT companies. In 2003 year Government adopted the Industrial Innovation Development Strategy till 2015 year, according to which a special economic zone was created, that provides tax, custom, currency privileges. The Program for anti-monopolization of telecommunications, the Program for creation of Electronic Government will involve all Kazakhstan's IT companies and support their development.

In accordance with resolution of the Government of RK on 19.07.05 the Engineering and Technology Transfer Center should be united with National Innovation Fund. Now center waits for decree of State Property Committee and on the meeting on the 4<sup>th</sup> of August the details of unification will be discussed.

## Electronic Government

Annually the Kazakhstan Government and state-owned companies spend about \$3 billion on state procurements. The idea of E-procurement was proposed in 2002. Basically, E-procurement involves using automated purchasing systems through software applications that are Internet-based. For example, a common Web browser user can log onto an E-Procurement system to view vendor offerings and catalogues, and place orders.

E-procurement can decrease costs and save up to 70% of budget funds allocated for acquired goods. This system has already been created. The plan is that it will only be used with respect to certain standard goods, but pre-qualification procedures for all other tenders will also be performed on-line. It is planned that all information on those entrepreneurs who have been long-listed for tenders will be checked on-line, which will significantly reduce the time and effort otherwise needed to collect the

necessary paperwork. All entrepreneurs will pass tender pre-qualification on-line, after which all companies admitted will have an equal chance of participating in state tenders.

### Entrepreneurial Development Fund

A Small Entrepreneurial Development Fund was created in 1997 in the form of a Joint Stock Company with 100% of shares belonging to the Government, and its aim is to support SMEs and provide loans. The fund has 14 branches in all regions of the country plus one representative office in Astana. The head office in Almaty employs 150 people, while the branches employ between 5 and 7 people.

The Fund has been providing loans to SMEs directly since 2002, and has launched several micro-loan programs, whereby loans are offered at 7%-12% interest per year, with a maturity period of no more than 5 years and a grace period of 1-2 years. In comparison, banks offer loans at 20%-28% interest and maturity of 1-3 years.

# Government Agencies

## SME Development at National Level

Several agencies exist in Kazakhstan that were set up with the main purpose of promoting and controlling national SME development, such as the SME Departments within the Ministry of Trade and the Ministry of Economics of the Republic of Kazakhstan, the CMIR, the Customs Control Agency, the Investment Fund of Kazakhstan, the KCBA and others. More information on these agencies can be obtained from interviews, selected Internet sites and the summary table below.

The business elite of Kazakhstan believes that SME support programs should be initiated and developed primarily by associations, that the government involvement should be limited to providing overall strategic guidelines and ground rules for their operations. It is believed, that the two most active governmental agencies in this regard are Ministry of Industry and Trade and the Ministry of Economy and Budgeting Planning.

## SME Statistical Information at National Level

Despite the fact that multiple agencies control the SME market in the country, most of the respondents complained about the poor quality of data available on small and medium enterprises. In general three main databases are available, which rarely concur:

- † **Ministry of Justice Database**, where registered enterprises are listed (legal bodies except private entrepreneurs).
- † **State Statistics Agency Database**. This database is quite unreliable, as one enterprise may be shown twice and information is sometimes taken “off the wall”.
- † **Tax Committee Database** shows the most accurate figures on SMEs. However, even in this database the same unique taxpayer registration number (TRN) can be listed against several enterprises simultaneously.

As a result, despite having several controlling agencies that are involved in the work of small and medium business enterprises, the best way to acquire reliable information on SMEs in Kazakhstan, is to combine data from all three databases.

## Investment Fund of Kazakhstan (KazInvest)

Investment Fund of Kazakhstan (KazInvest) was created in 1998 year by decree of Government of RK under the Ministry of Trade and Industry. As of today it has rep offices in Germany, Italy, Spain, and almost all regions of Kazakhstan.

KazInvest is divided into 5 departments:

- † Investment projects department;
- † Department, which organizes meetings of businessmen with ministers and president;
- † Legal department, which provides judicial support of foreign investors;
- † Advertising and publishing department. Publications of KazInvest are “Investors guide”, “Invest Kazakhstan”, “Investor’s Atlas” and “Doing business in Kazakhstan”<sup>2</sup>;
- † Information and consulting services department.

The primary function of KazInvest is to attract foreign direct investments and prepare information for foreign investors.

When KazInvest provides investing for a company, it needs to pay 2% from the project.

The major advantage of KazInvest is that it is working in the sectors other than raw materials sector of economy, where there is little number of big companies, consequently supporting SMEs.

---

<sup>2</sup> Recommended for additional reading

# Action Plan

## Training of Professionals and Marketing Support

Some of the core skills required by SMEs are financial management, soft skills, ISO certification, total quality control and strategic enterprise management. Most of the business professionals interviewed confirmed a major need for an education center and a consulting agency conducting desk researches and tailoring training opportunities for the specific needs of small and medium enterprises.

Unlike in Japan, Kazakhstan currently has no specialized agencies where an entrepreneur is able to receive comprehensive information on how to set up a company from a legal perspective, what tax and other reporting is required, as well as to receive guidance and checklists on what industry specific certificates will have to be obtained, what inspections can be expected and how debt financing can be arranged for his business. The absence of this sort of administrative and marketing support seriously impedes the development of small and medium enterprises in the country, especially at the regional level.

## Simplification of Customs Clearance and Transit Procedures

Since October of 2002 the Customs Control Committee has been very actively involved in studying the experience of customs operations at the Polish-German and American-Canadian borders, where it is common practice for the two relevant countries to check the transit of goods either together in one team, or at entry points only, or even splitting the work between the two customs posts, with one performing paper checks and the other conducting physical examinations. This type of system has been planned at the Kazakhstan-Kyrgyzstan border, but due to the latest political events in Kyrgyzstan the Kazakhstan customs authorities have so far decided against decreasing control procedures at the border. A similar pilot initiative at the Russian border on the other hand is gaining pace and is about to be promoted further, together with other similar constructive initiatives implemented by the Government of the Republic of Kazakhstan.

These and other assumptions, as well as the sources of information and recommended sources for additional research have been presented in more detail in the attachments below.

## Licensing

Simplification of licensing procedures and a decrease in the number of licensed activities. The Forum of entrepreneurs is seriously pursuing an initiative to simplify licensing procedures and to decrease the number of licensed activities, having already convinced the national government to decrease the number of licensed operations by over a hundred. For example, it is hardly reasonable to issue a license for wall-painting activities.

# Attachment 1: Summary Table

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.0. Business Environment				
1.01	<p><b>Trade Liberalization / Customs Facilitation</b></p> <p>"Innovative Industrial Development Strategy of the Republic of Kazakhstan for 2003-2015" (Decree of the President of the Republic Kazakhstan dated May 17, 2003, ? 1096);</p> <p>Cross-border councils have been organized between Kazakhstan and Kyrgyzstan to address border issues, and which have successfully resolved certain obstacles to cross-border trade without requiring national action.</p> <p>Major points include:</p> <ol style="list-style-type: none"> <li>1. The partial redistribution of income from raw material producers to industries with higher added value</li> <li>2. The critical analysis of legislation in order to remove barriers for healthy competition and product and service flow</li> <li>3. The organization of new production facilities which will be based on scientific and innovative developments</li> </ol>	<ol style="list-style-type: none"> <li>1. Eliminate all barriers for goods and services crossing the border in order to bring healthy competition to the Kazakhstan market;</li> <li>2. This policy should be implemented through the partial redistribution of extraction revenue to benefit further value-added chain development and set up new production lines based on research and innovation.</li> </ol>	<p>There is little official updated information available to SMEs regarding customs requirements, which makes it difficult to comply with required documentation and may contribute to corruption in both countries in order to obtain customs clearance.</p> <p>It is believed by some respondents that the customs situation in Kazakhstan is more serious than in, for example, Russia as few complaints are ever made regarding customs' practices in Kazakhstan, as the corruption is "too widespread and organized" to allow for complaints to be heard. Several customs posts in Kazakhstan are completely autonomous and comparatively in dependent from the</p>	<p>USAID - Trade Facilitation and Investment (TFI) Activity: Developing a Trade Requirements Matrix and Trade Guides.</p> <p>The TFI project managed to unite parties engaged in foreign economic activity so they could settle disputes, solve problems, and improve trade and customs administration processes. The TFI project created Consultative Councils in Kazakhstan (as well as in Kyrgyzstan), where the parties concerned meet on a regular basis at the oblast and national levels to identify problems related to system regulation, and to seek ways to solve these problems</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	4. The liberalization of currency regulations		national customs authorities.	The TFI project also places an emphasis on the development of trade administration capabilities by helping to implement up-to-date methods and international practices. For this reason, we have provided Kazakhstan customs authorities with international customs experts in order for local customs authorities to learn about the integrated administrative requirements of WTO principles and agreements (mainly, requirements related to customs assessment and the protection of intellectual property rights), and to implement current customs administration principles based on risk management principles.
1.02	WTO Accession  Bilateral market access negotiations for goods and services began in October 1997, and are continuing on the basis of revised offers on goods and services.  The application process started in 1996. Kazakhstan currently does not comply with WTO TRIPS obligations, as well as several intellectual property protection treaties: 1. World Intellectual Property Organization Copyright Treaty	Kazakhstan businessmen must be able to export products and services to WTO countries.  If they are able to do so: 1. Kazakhstan will have access to the global market; 2. All export constraints will be eliminated;	1. Goods produced by local companies do not meet international standards, and are not competitive with international producers; 2. Infrastructure in Kazakhstan needs to be repaired; production facilities are very old and in general obsolete.	WTO Accession, USAID: TFI Project. One of the most important objectives of the project is to provide technical assistance to the Kazakhstan government. WTO representative office activities include: 1. Technical assistance and



#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	2. Performances and Phonograms Treaty	3. All goods and services will match international standards.		<p>support to the ministries and agencies responsible for WTO accession negotiations and membership;</p> <p>2. Organization of seminars, workshops and training courses at the national and regional level to implement WTO Agreements;</p> <p>3. Assistance in reviewing and drafting trade-related legislation and regulations to ensure their consistency with WTO Agreements;</p> <p>4. Responses to queries from Governmental agencies on WTO accession and implementation issues, including advice on the adoption of international conventions, the establishment of enquiry points and assistance in the preparation and review of documentation and notifications;</p> <p>5. Participation in parliamentary hearings and other events concerning systemic trade policies and issues.</p> <p>Additional information on TFI operations can be found in the enclosed interviews with its representatives and additional</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c) research materials listed in Attachment 3.																																			
1.03	<p><b>Taxation</b></p> <p>1. Tax Code dated June 12, 2001 ? 210-II;</p> <p>The basic tax rates in the Rep ublic of Kazakhstan are as follows:</p> <p>Corporate income tax (CIT)- 30%; Value added tax (VAT) – 15%; Personal income tax (PIT):</p> <table><tr><th colspan="3">Annual Taxable Income</th><th>Tax on the lower amount (Tenge)</th><th>Rate on excess (%)</th></tr><tr><th>Exceeding (Tenge)</th><th>Not Exceeding (Tenge)</th><th></th><th></th><th></th></tr><tr><td>0</td><td>174,780</td><td>0</td><td>0</td><td>5%</td></tr><tr><td>174,780</td><td>466,080</td><td>8,739</td><td>8,739</td><td>8%</td></tr><tr><td>466,080</td><td>2,330,400</td><td>32,043</td><td>32,043</td><td>13%</td></tr><tr><td>2,330,400</td><td>6,991,200</td><td>274,405</td><td>274,405</td><td>15%</td></tr><tr><td>6,991,200</td><td>---</td><td>973,525</td><td>973,525</td><td>20%</td></tr></table>	Annual Taxable Income			Tax on the lower amount (Tenge)	Rate on excess (%)	Exceeding (Tenge)	Not Exceeding (Tenge)				0	174,780	0	0	5%	174,780	466,080	8,739	8,739	8%	466,080	2,330,400	32,043	32,043	13%	2,330,400	6,991,200	274,405	274,405	15%	6,991,200	---	973,525	973,525	20%			<p>AMCHAM, EUROBAK, ITIC and FICall provide opportunities to actively lobby for positive changes to legislation that impact the Kazakhstan business environment.</p> <p>The main activities of AMCHAM (American Chamber of Commerce in Kazakhstan) and EUROBAK (European Business Association of Kazakhstan) are to represent the American and European business communities in Kazakhstan by:</p> <ul style="list-style-type: none"><li>? holding business roundtables;</li><li>? creating working groups;</li><li>? organizing/ participating in conferences.</li></ul> <p>The International Tax and Investment Center (ITIC) creates programs on the organization of forums that bring together hundreds of people annually to discuss and debate critical issues with others such as, what can be done to improve the investment climate in Kazakhstan.</p>
Annual Taxable Income			Tax on the lower amount (Tenge)	Rate on excess (%)																																			
Exceeding (Tenge)	Not Exceeding (Tenge)																																						
0	174,780	0	0	5%																																			
174,780	466,080	8,739	8,739	8%																																			
466,080	2,330,400	32,043	32,043	13%																																			
2,330,400	6,991,200	274,405	274,405	15%																																			
6,991,200	---	973,525	973,525	20%																																			

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)																																																
	<p>Social tax for local specialists:</p> <table><tr><th colspan="2">Annual Taxable Income</th><th rowspan="2">Tax on the lower amount (Tenge)</th><th rowspan="2">Rate on Excess (%)</th></tr><tr><th>Exceeding (Tenge)</th><th>Not Exceeding (Tenge)</th></tr><tr><td>0</td><td>174,780</td><td>0</td><td>20%</td></tr><tr><td>174,780</td><td>466,080</td><td>34,956</td><td>15%</td></tr><tr><td>466,080</td><td>2,330,400</td><td>78,651</td><td>12%</td></tr><tr><td>2,330,400</td><td>6,991,200</td><td>302,369</td><td>9%</td></tr><tr><td>6,991,200</td><td>---</td><td>721,841</td><td>7%</td></tr></table> <p>Social tax for foreign specialists:</p> <table><tr><th colspan="2">Annual Taxable Income</th><th rowspan="2">Tax on the lower amount (Tenge)</th><th rowspan="2">Rate on Excess (%)</th></tr><tr><th>Exceeding (Tenge)</th><th>Not Exceeding (Tenge)</th></tr><tr><td>0</td><td>466,080</td><td>0</td><td>11</td></tr><tr><td>466,080</td><td>2,330,400</td><td>51,269</td><td>9</td></tr><tr><td>2,330,400</td><td>6,991,200</td><td>219,058</td><td>7</td></tr><tr><td>6,991,200</td><td>---</td><td>545,314</td><td>5</td></tr></table>	Annual Taxable Income		Tax on the lower amount (Tenge)	Rate on Excess (%)	Exceeding (Tenge)	Not Exceeding (Tenge)	0	174,780	0	20%	174,780	466,080	34,956	15%	466,080	2,330,400	78,651	12%	2,330,400	6,991,200	302,369	9%	6,991,200	---	721,841	7%	Annual Taxable Income		Tax on the lower amount (Tenge)	Rate on Excess (%)	Exceeding (Tenge)	Not Exceeding (Tenge)	0	466,080	0	11	466,080	2,330,400	51,269	9	2,330,400	6,991,200	219,058	7	6,991,200	---	545,314	5		<p>Every ITIC program is "driven" by the following three points:</p> <p>1) As an independent, trusted and respected voice on tax and investment policy, the ITIC is a conduit through which private sector know-how passes to government policymakers.</p> <p>2) The ITIC provides governments and parliaments with a policy "road map" to attract investment and a "neutral forum" for them to discuss and resolve differences with investors.</p> <p>3) Trusted relationships, ongoing engagements and the continued perseverance and persistence of ITIC's principled, united and consistent message are paramount.</p> <p>The Foreign Investors' Counsel (FIC) is an advisory body chaired by the President of the Republic of Kazakhstan.</p> <p>The main tasks of the Council are to develop recommendations to identify the main directions of investment policy development in the Republic of Kazakhstan;</p>	
Annual Taxable Income		Tax on the lower amount (Tenge)	Rate on Excess (%)																																																	
Exceeding (Tenge)	Not Exceeding (Tenge)																																																			
0	174,780	0	20%																																																	
174,780	466,080	34,956	15%																																																	
466,080	2,330,400	78,651	12%																																																	
2,330,400	6,991,200	302,369	9%																																																	
6,991,200	---	721,841	7%																																																	
Annual Taxable Income		Tax on the lower amount (Tenge)	Rate on Excess (%)																																																	
Exceeding (Tenge)	Not Exceeding (Tenge)																																																			
0	466,080	0	11																																																	
466,080	2,330,400	51,269	9																																																	
2,330,400	6,991,200	219,058	7																																																	
6,991,200	---	545,314	5																																																	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
				investment climate enhancement in the Republic of Kazakhstan; elaboration of the investment legislative base of the Republic of Kazakhstan; the creation of investment and legal conditions for economy diversification, industrial sector growth, SME development; integration of the Kazakhstan economy into the global economy; realization of large scale investment programs and projects of global importance, etc.
	<p>2. A draft Law "On Amendments to the Tax Code" dated June 12, 2001 ? 210-II is currently being considered by the Parliament of the Republic of Kazakhstan;</p> <p>A) For entities manufacturing food products, except for excisable goods, the following is proposed:</p> <p>1. CIT tax rate of 10%;</p> <p>2. VAT of 50% of accrued VAT.</p>	<p>A) Purpose: to reduce taxation and thus stimulate the food production by Kazakhstan enterprises in order to reduce Kazakhstan's reliance on imports and to diversify the economy.</p>	<p>A) 1. Higher tax rate;</p> <p>2. Kazakhstan's reliance on imports.</p>	<p>Please refer to the Attachment 5 for brief description of major activities of these organizations</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	B) It has been proposed that turnover from the sale of work and services related to infrastructure projects will be exempt from VAT. Infrastructure projects should be approved by a decision of the Government of the Republic of Kazakhstan.	B) The purpose of this proposal is to stimulate infrastructure development in the Republic of Kazakhstan by using surplus investor capital available inside and outside the Republic of Kazakhstan.	B) The objectives of the proposal are not a significant incentive for investors.	
	Draft Law "On Amendments to the Law on the State Control of Transfer Pricing" dated January 5, 2001 ? 136-II: 1. The scope of transactions subject to transfer pricing regulations is to be expanded to include all transactions concluded in the Republic of Kazakhstan and related to international business transactions; 2. The definition of international business transaction will be amended (e.g. a transaction between a Kazakhstan LLP and foreign branch will be considered an international business transaction); 3. A new concept of self-regulation is to be introduced (parties to a transaction have the right to adjust objects of taxation and objects associated with taxation).	To avoid budget losses from transactions not priced at the fair market value.	1. No definition of international business transactions -- there is a high risk that any transaction may be considered as an international business transaction; 2. All transactions involving the provision of work and services with branches / representative offices of foreign legal entities in Kazakhstan are regarded as international business transactions and thus will be subject to transfer pricing control; 3. No procedure for self-control has been established; 4. No provision for binding advance pricing agreements exists.	
	Reduction in Personal Income Tax and Social Tax rates.	To encourage more individuals and businesses to pay the relevant taxes.	Bureaucracy and audits still exist as burdens to achieving such goals.	

#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.04	Currency	<p>A new Law of the Republic of Kazakhstan "On Currency Regulation and Currency Control" dated June 13, 2005 will enter into force on December 17, 2005:</p> <ol style="list-style-type: none"> <li>1. The new Law introduces several major changes and amendments, e.g. the specification of licensing procedures and the registration of currency transactions, and also establishes certain limitations in this area;</li> <li>2. The new Law introduces three methods of currency regulation: the licensing, registration and notification of currency transactions. The types of activities associated with the use of currency valuables subject to licensing have been significantly narrowed;</li> </ol>	<ol style="list-style-type: none"> <li>1. The purpose of this new Law is to continue the liberalization of the regulation of currency transactions;</li> <li>2. The Law simplifies the regulation of certain currency transactions by moving them to a notification regime</li> </ol> <p>The notification regime includes resident participants of currency transactions and (or) authorized banks providing information on a currency contract to the National Bank of Kazakhstan.</p>	<ol style="list-style-type: none"> <li>1. Many normal business transactions are still subject to regulation;</li> <li>2. There are no established subordinate acts to support the new Law at the moment, but the Prime Minister of the Republic of Kazakhstan has developed a list of legal acts required in order to implement the new Law (e.g. Rules for Conducting Currency Operations in the Republic of Kazakhstan). These acts should be developed by the end of November 2005.</li> </ol>	<p>AMCHAM, EUROBAK, ITIC and FIC all provide opportunities to actively lobby for positive changes to legislation that impact the business environment in Kazakhstan.</p>
		<p>One of the innovations introduced by the new Law is currency monitoring, which is to be carried out by the National Bank.</p>	<ol style="list-style-type: none"> <li>1. The purpose of this innovation is to assess the stability of the Republic of Kazakhstan's balance of payments;</li> <li>2. Subjects of currency monitoring include the branches and representative offices of foreign legal entities that have been operating in the Republic of Kazakhstan for more than a year.</li> </ol>		
1.05	Banking / Finance	<p>The Law of the Republic of Kazakhstan "On Banks and Banking Activity" dated August 31, 1995.</p>	<ol style="list-style-type: none"> <li>1. Kazakhstan is currently developing rapidly in many sectors of the economy. Therefore, international</li> </ol>	<ol style="list-style-type: none"> <li>1. One of the most difficult problems for entrepreneurs is financing. The issue of expensive credit, the lack of mortgage opportunities has already</li> </ol>	<p>The World Bank, ABN, CIDA, USAID and many similar organizations provide credit</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>The Law addresses the following major points:</p> <ol style="list-style-type: none"> <li>1. The basis and condition for the creation of banks and their activities</li> <li>2. Changes in legal status and liquidation</li> </ol>	<p>banks and development organizations are beginning to invest in these sectors;</p> <ol style="list-style-type: none"> <li>2. This type of investment has become profitable for both sides. However, most entrepreneurs complain of high interest rates and an ineffective use of their assets;</li> <li>3. For this reason the interest rate needs to be reduced and more banks need to enter onto the market.</li> </ol> <p>The aim of the law is to regulate activity in the financial sector of the economy.</p>	<p>been discussed among bankers and entrepreneurs, but so far there have been no satisfactory results. Our analysis shows that the amount an entrepreneur pays in banking services when repaying credit exceeds the amount of taxes it pays;</p> <ol style="list-style-type: none"> <li>2. Another bank-related problem is that the Department for Small Businesses of the Almaty akimat receives proposals from entrepreneurs concerning changes to commission tariffs on services provided by banks to legal entities, in the section – "transfer operations in foreign currency." According to these new changes, the commission for any transfers in foreign currency ranges from 200 to 700 dollars, if the commission is paid by the sender. If it is paid by the beneficiary, the commission is 50 dollars.</li> </ol>	<p>financing and grants primarily in Infrastructure, Environment and Agriculture clusters. (Information on these organizations can be found at <a href="http://www.worldbank.org.kz">www.worldbank.org.kz</a>, <a href="mailto:usaid.gov">usaid.gov</a>, <a href="http://adb.org">adb.org</a>, <a href="http://acdi-cida.gc.ca">acdi-cida.gc.ca</a>)</p> <p>Please refer to attachment 6 for a brief description of the main activities of these organizations</p>
1.06	Price liberalization was started in 1994	The initiative was implemented to enable market reform in Kazakhstan as price liberalization was deemed to be the main factor in liberalizing market relations.	Prices and the inflation rate rose but the paying capacity of Kazakhstan citizens decreased several times. The Government stopped supporting and subsidizing prices, and many state enterprises were privatized.	No comprehensive information discovered during our research

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.07	<p><b>Anti-Monopoly</b></p> <p>1. Law of the Republic of Kazakhstan "On natural monopolies" dated July 9, 1998, ? 272-1 (last amendment on April 12, 2004);</p> <p>2. Law "On Competition and Limitation on Monopolistic Activities" dated January 19, 2001 ? 144;</p> <p>3. Edict of the President of the Republic of Kazakhstan "On Questions of Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies and the Protection of Competition" dated July 20, 2003 ? 1141;</p> <p>3. Law "On Unfair Competition" dated July 9, 1998, ? 232.</p>	<p>To regulate the activities of natural monopolies in the Republic of Kazakhstan; it is aimed at protecting the interests of customers and natural monopolies.</p> <p>Purposes of the Law:</p> <p>1. To create a legal foundation for a national pricing and tariff regulation policy for services (goods, work) provided by natural monopolies;</p> <p>2. To encourage the development and improvement of production and delivery conditions for services (goods, work) in the natural monopolies sector.</p>	<p>The macroeconomic situation in the Republic of Kazakhstan gives rise to several major holdings in each cluster, with 20 companies accounting for the major bulk of the GDP. These majors have multiple affiliates and as a result, despite existing legislation for SMEs, the effective market potential for SMEs in terms of equal access to lucrative tenders and contracts is limited.</p>	<p>Anti-Monopoly regulations implemented by the Government of the Republic of Kazakhstan</p>
1.08	<p><b>Legal System</b></p> <p>1. Civil Code (General Part) dated December, 27 1994;</p> <p>2. Civil Code (Special Part) dated July 1, 1999;</p> <p>3. Criminal Code dated July 16, 1997 ? 168-I;</p> <p>4. Tax Code dated June 12, 2001 ? 210-II;</p> <p>5. Customs Code dated April 5, 2003 ? 401-II;</p> <p>6. Civil Procedural Code dated July 13, 1999 ? 412-I;</p> <p>7. Criminal Procedural Code dated December 13, 1997 ? 207-I;</p> <p>8. Code on Administrative Violations dated January 30, 2001 ? 156-II;</p> <p>9. Budget Code dated April 24, 2004 ? 548-II;</p>			



#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	10. Water Code dated July 9, 2003 ? 481-II; 11. Land Code dated June 20, 2003 ? 442-II;			
	<b>Recent changes:</b> Law "On International Commercial Arbitration" dated December 28, 2004 ? 23-III. The Law establishes the procedures for the resolution of disputes at International Commercial Arbitration (special institutions, ad hoc or sole arbitrator). A dispute can be transferred to Arbitration when an arbitration agreement between the parties is concluded. One of the parties of the agreement must be a non-resident.	The purpose of this Law is to ensure that the Kazakhstan court system meets international standards. Due to the large volume of investment activity in Kazakhstan, the importance of International Arbitration has now been significantly increased.  An arbitral award made in a foreign country is recognized as binding and may be executed if a similar provision exists in the respective country.	Disputes between Kazakhstan legal entities are not subject to International Arbitration.	
	Law "On Arbitration Courts" dated December 28, 2004 ? 22-III. Disputes between Kazakhstan entities fall within the jurisdiction of arbitration courts.	The main aim of this Law is to defend the lawful interests of business enterprises.	Disputes that affect state interests and state enterprises are outside the jurisdiction of arbitration courts.	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.09 Registration, Permit, License, Inspection	<p>The introduction of special courts to hear administrative violation cases</p> <p>1. Law "On the State Registration of Legal Entities and the Registration of Branches and Representative Offices" dated April 17, 1995 ? 2198;</p> <p>Starting from September 2004 the state registration of legal entities, branches and representative offices is performed according to the "one stop shop" principle, which means that all registration documents should be submitted to a single state authority, which is the Department of Justice. The registration process should be completed within 10 working days after documents have been submitted. For SMEs the registration process should take only 3 working days after documents are submitted.</p>	<p>To simplify the court process for such matters.</p> <p>The purpose of these amendments is to simplify and accelerate the registration process;</p> <p>Before September 2004 the registration procedure was performed in the Department of Justice, the Statistical Agency and the Tax Committee, and each state authority had its own deadline for the consideration of documents.</p>	<p>1. Not all regions have such courts;</p> <p>2. The competence of many judges is not up to standard.</p> <p>In spite of the fact that the Law establishes a specific deadline for the Department of Justice to consider documents, i.e. 10 (3) working days, in practice the state authorities usually do not meet this deadline.</p>	<p>Government of the Republic of Kazakhstan</p> <p>AMCHAM, EUROBAK, ITIC and FIC all actively lobby for positive changes to legislation that impact the business environment in Kazakhstan</p> <p>The achievements include:</p> <p>1. The development and publication of an International Trade Guide and Integrated Tariff System for Kazakhstan, the and electronic publication of the Guide</p> <p>2. The provision of technical advice and support in the development and adoption of a new Customs Code in the Republic of Kazakhstan</p> <p>3. The provision of assistance and support for the creation of Customs Consulting Councils</p>
	2. Law of the Republic of Kazakhstan "On licensing" dated April 17, 1995 ? 2200;	Regulates relations associated with the state licensing of activities or specific	The registration procedure for subsidiary acts at the Ministry of Justice has become a technical	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	3. Administrative Code of the Republic of Kazakhstan.	acts subject to licensing.	formality, «unable to thwart the creation of "shadow" legislation». As a result, the ministry and departments are able to increase the amount of power they hold every year, and are able to impose or free from punishment, install complicated and endless agreement procedures and traps that impede small enterprises from entering onto the market. An example of the Ministry's enhanced powers is the Law on Licensing, which is one of the main administrative barriers to performing activities. It contains a list of more than 60 kinds of licensed activities (in 1995 there were 40). However, with subsidiary acts the list has been increased to 1,000 kinds of licensed activities, including more than 250 kinds of architectural and city building activities. Most licenses are issued by central executive bodies and require that a complicated procedure be followed. As a result, entrepreneurs throughout the country have to spend a long time in Astana trying to obtain a license or obtain several regional ones.	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>4. "Rules for Determining the Quota, Conditions and Procedure for the Issue Permits to Employers to Employ Foreign Citizens in the Republic of Kazakhstan" dated June 19, 2001 ? 836.</p> <p>The second level of license approval for the engagement of foreign workers by employers has been moved from the labor authorities in Astana to the regional municipal authorities.</p>	Better monitoring and control of regional quotas.	Quotas are established at the start of the year and are not always a reasonable reflection of actual needs in a particular region.	Much lobbying has been done in Astana by the British Embassy in conjunction with their Trade and Investment Office to attempt to alleviate work permit problems in this region.
1.10	<p>Standardization, Metrology, Certification</p> <p>1. Law of the Republic of Kazakhstan "On Standardization" (as subsequently amended on June 10, 2003 ? 432-II);</p> <p>2. Law of the Republic of Kazakhstan "On Certification" (as subsequently amended on June 10, 2003 ? 432-II).</p>	<ol style="list-style-type: none"> <li>1. To establish the provisions, rules and characteristics for products, processes and services;</li> <li>2. To provide products, processes and services that are considered safe with respect to the life, health of the people, property and environmental protection;</li> <li>3. To remove technical trade barriers, to enhance the competitiveness of products in the external and domestic markets;</li> <li>4. To provide for technical and information compatibility, as well as the interchangeability of products;</li> <li>5. To ensure the unity of measurements;</li> <li>6. To retain and use all types of resources rationally;</li> <li>7. To provide defense capabilities and mobilization readiness of the country;</li> <li>8. To provide for the safety of business</li> </ol>	<p>The certification services market experiences the same level of business competition as the product and services market. When introducing a quality management system, an entrepreneur must select the appropriate certification agency. Thus, the levels and requirements of each agency should be known.</p>	<p>1. USAID - TFI Project - MASQ component focuses on improving trade facilitation and market access by creating an awareness of international MASQ provisions and promoting the benefits of international standards and the mutual recognition of certification and accreditation results. MASQ recent activities include:</p> <ul style="list-style-type: none"> <li>- the formal establishment of CA</li> <li>- Cooperation on MASQ which strives to align the MASQ activities of 4 countries in the region in order to achieve international mutual recognition of accreditation and certification activities;</li> <li>- the implementation of a formal program to train regional technical specialists to become international</li> </ul>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
		<p>objects susceptible to the risk of natural and man-made catastrophes and other emergency situations;</p> <p>9. To protect the interests of consumers regarding the quality of products, processes (work) and services.</p>		<p>recognized assessors qualified to certify the testing and calibration of laboratories in full accordance with international ISO/IEC 17025 standards;</p> <ul style="list-style-type: none"> <li>- assistance in drafting WTO compliant laws on technical regulations and conformity assessment in all countries in the region;</li> <li>2. Certain organizations already function in this area: <ul style="list-style-type: none"> <li>- "Intersertifika-CenterAsia" (Kazakh and Russian joint venture company) - standardization, certification, quality management;</li> <li>- NaeEcs, JSC - certification;</li> <li>- Kazakhstan Center of Certification, LLP;</li> <li>- GosStandart RK - certification;</li> <li>- Sapa Intersistem, LLP - certification; etc.</li> </ul> </li> <li>Any additional standardization, certification and quality management information can be found at <a href="http://www.standard.kz">www.standard.kz</a> (rus)</li> <li>3. Quality Management Center (EDP). Additional information can be obtained at <a href="http://www.qmc.kz">www.qmc.kz</a></li> </ul>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.11	Infrastructure (IT, Communication, Electricity, Transport, etc)	<p>1. State Program for the Support and Development of SMEs in the Republic of Kazakhstan for 2004-2006;</p> <p>2. Industrial Innovation Development Strategy of the Republic of Kazakhstan;</p> <p>3. The Program for Telecommunication Anti-Monopolization;</p> <p>4. The Program for the creation of Electronic Government;</p> <p>5. Resolution of the Government of the Republic of Kazakhstan "On the Development Plan for the Kazakhstan Electricity Grid Operating Company (KEGOC) in 2005-2007" dated June 27, 2005 ? 637.</p>	<p>Up to now Kazakhstan has no developed SME infrastructure and support system.</p> <p>The E-government program is developing at a comparatively slow pace.</p>	<p>Achievements include the following:</p> <p>1. Through an accounting reform program - supports of the adoption and implementation of market economy enterprise accounting.</p> <p>2. Quality Management Center assists enterprises in implementing quality management systems making them more competitive and profitable.</p> <p>1. Ministry of Finance; 2. USAID; 3. Investment Fund of the Republic of Kazakhstan; 4. Development Bank of Kazakhstan; 5. National Innovation Fund of the Republic of Kazakhstan.</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
1.12	<b>Anti-Corruption</b> 1. The Law "On Combating Corruption"; 2. The State Program for Combating Corruption for 2001-2005; 3. The State Commission of the President of the Republic of Kazakhstan on issues to combat corruption was created; 4. Law "On Anticorruption Efforts" dated July 2, 1998 ? 267-1.	1. To create an effective state corruption policy; 2. To strengthen trust towards the state and its institutions; 3. To strengthen international cooperation in combating corruption; 4. To reduce the level of corruption and increase the effectiveness of the state agency's work, to increase transparency.	1. Many foreign businessmen have noted the level of state organized corruption in Kazakhstan. According to experts, corruption is one of the main illegal economic activities. Up to 60% of representatives of small and medium enterprises have had to bribe officials from the prosecutor's office, the tax and customs services, and other controlling bodies; 2. Periodic campaigns against corruption initiated by the government have had no serious results. The police, customs, tax services, courts, prosecutors, universities are still caught in a spiral of corruption.	1. USAID, through the Transparent Kazakhstan Foundation, is implementing a project called "the Anti-Corruption Center of Kazakhstan." The project intends to publish the research journal "Towards A Corruption-Free Society," conduct surveys and public opinion polls on corruption, and maintain the anti-corruption web portal <a href="http://www.transparencykazakhstan.org">www.transparencykazakhstan.org</a> ; 2. The Almaty Association of Entrepreneurs is working on decreasing the overall corruption level through the analysis of legislation and the identification of loopholes promoting this abusive practice.
1.13	<b>Land Ownership and Lease</b> The Land Code of the Republic of Kazakhstan dated June 20, 2003. The Land Code provides for the following types of rights to land in Kazakhstan: 1. Ownership; 2. Permanent land use; 3. Temporary land use; 4. Lease; 5. Servitudes (easements). Law "On Land Ownership" (2000)	1. Licensing activity should be optimized to provide approval for land use and development operations; 2. The official road map for the Republic of Kazakhstan should be developed and regularly updated.	1. This challenge covers the acquisition of land into private ownership, the receipt of approvals for design and construction documentation, site commissioning; 2. Legislation in this area also changes very often (e.g. the land ownership certificate has changed, which means that landowners must spend a great deal of money to	USAID, TFI work with regional and national entrepreneurial organizations within consulting councils, including agricultural and construction clusters (on the land use question).

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
			<p>modify land certification).</p> <p>Subject to a few limitations set forth by the Land Code, foreign companies and individuals can exercise the same rights as local entities and individuals. The term "Foreign Land Users" covers nationals of foreign countries, stateless individuals, foreign legal entities, foreign countries and international associations and organizations. Under the Land Code, Foreign Land Users cannot own agricultural and forestry land plots or have the right to the permanent use of land, or lease blocks of agricultural land within a three-kilometer protection zone adjacent to the state border of the Republic of Kazakhstan. Private foreign legal entities and individuals may own land plots designated for the construction and operation of buildings, whether industrial or otherwise.</p>	



#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
<b>2.0. Investment Promotion</b>				
<b>2.01</b>	<b>Labor Environment</b>	<p>The Law of the Republic of Kazakhstan "On Labor in the Republic of Kazakhstan" dated December 10, 1999 ? 493-I (as subsequently amended on December 23, 2004 ? 20-III).</p> <p>Draft Labor Code (currently under consideration by the Parliament of the Republic of Kazakhstan):</p> <ol style="list-style-type: none"> <li>1. SME employers will enjoy more flexibility when choosing working conditions (e.g. employment agreements may be concluded for any period of time - compared to other legal entities that should conclude employment agreements for no less than one year);</li> <li>2. Work safety and protection provisions provided in more detail;</li> <li>3. Labor arbitration and mediation procedures have been proposed in order to resolve labor disputes;</li> </ol>	<p>SMEs are concerned with the following:</p> <ol style="list-style-type: none"> <li>1. high overtime payments</li> <li>2. high maternity leave payments</li> <li>3. strict work safety requirements</li> </ol> <p>The Labor Code has been under development for more than 2 years, during which the situation has changed in certain labor market aspects and the Code already needs to be updated.</p> <p>Better protection of employee rights.</p>	<p>AMCHAM, EUROBAK, ITIC and FIC all actively lobby for positive changes to legislation that impact the business environment in Kazakhstan</p>
	<ol style="list-style-type: none"> <li>1. Law of the Republic of Kazakhstan "On Obligatory Employer Insurance against Liability for Injury Caused to the Life and Health of Employees when performing their Work (Professional) Activities", which is from July 1, 2005. Previously, in the Republic of Kazakhstan, employers were at liberty to decide whether they wanted to be insured for this type of liability. However, from July 1, 2005 this type of insurance became mandatory. At the</li> </ol>	<p>The main goal of this Law is to establish legal, economic and organizational principles in the Republic of Kazakhstan for the obligatory insurance of employer liability for injury caused to the life and health of an employee during the execution of their work (professional)</p>	<p>International Labor Organization:</p> <ol style="list-style-type: none"> <li>1) Promotion and application of international labor standards and fundamental principles and rights at work;</li> <li>2) Creation of better opportunities for women and men to secure appropriate employment and</li> </ol>	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>same time the right of employers to take out additional voluntary insurance will not be restricted;</p> <p>2. The legal basis for obligatory insurance will be an obligatory insurance agreement concluded between the employer and an insurance organization. Employees insured by their employer will be the beneficiary, i.e. the recipient of an insurance payment, under this type of agreement.</p>	<p>duties and to ensure the protection of the material interests of employees in the event of an insurance case. The Law will strengthen the position of employees, especially with respect to working conditions and employer liability for any injury caused to an employee.</p>		<p>income;</p> <p>3) Improvements to the coverage and effectiveness of social welfare;</p> <p>4) Strengthening of tripartism and social dialogue.</p> <p>USAID: support of applied studies in universities and regional training programs</p> <p>USAID: support of applied studies in universities and regional training programs.</p>
2.02 Investment-related Laws	<p>1. The Law of the Republic of Kazakhstan "On Investment" dated January 8, 2003 ? 373-II (latest amendment on May 4, 2005 ? 48-III) establishes a level playing field for all investors, domestic and foreign alike. Concessions include a possible CIT reduction of 100% for a maximum period of 10 years and from land tax, property tax and customs duties for 5 years.</p>	<p>1. The purpose of this Law is to attract investment to the priority sectors of the economy;</p>	<p>1. The bureaucracy and processes involved in obtaining investment concessions can be administratively burdensome;</p>	<p>KazInvest, AMCHAM, EUROBAK, ITIC and FIC all actively lobby for positive changes to legislation that impact the business environment in Kazakhstan.</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>2. Law "On the Subsurface and the Use of Subsurface of the Subsurface" January 27, 1996 ? 2828, the Law "On Petroleum" dated June 28, 1995 ? 2350, the Law "On State Procurements" dated May 16, 2002 ? 321-II:</p> <ul style="list-style-type: none"> <li>- Pre-emptive right of the State to purchase subsurface use rights in new and existing subsurface use contracts;</li> <li>- Requirement that the National Oil Company (KazMunayGas) owns at least 50% of an operator's charter capital;</li> <li>- Local content - conditional reduction of the tender price for Kazakhstan producers by 20 %;</li> <li>- Obligation to develop high-level technology, infrastructure, new and process industries;</li> <li>- Even if the State's interest is less than 50% it has the right to participate in project management.</li> </ul>	<p>2. The main aim is to stop inappropriate exploitation of the subsurface.</p>	<p>2. State involvement is high.</p>	
	<p>3. Order of the Prime Minister "On the creation of a working group to increase Kazakhstan content in subsurface use contracts" dated June 21, 2005 ? 169-p;</p>	<p>The Purpose of this Order is to increase the involvement of local content in subsurface use contracts</p>	<p>Foreign investors are pushed very hard by the State to use local subcontractors, hire local employees and buy local produce. This takes the form of awarding contracts to local individuals and companies if all other evaluation criteria are the same.</p>	

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>The following Special Economic Zones ("SEZ") and concessions have been introduced to the Tax Code:</p> <ol style="list-style-type: none"> <li>1. New capital Astana;</li> <li>2. Seaport Aktau;</li> <li>3. Technology Park in Almaty;</li> <li>4. Petrochemical industry;</li> <li>5. High added value goods.</li> </ol>	<p>The goals of these zones are to accelerate:</p> <ol style="list-style-type: none"> <li>1. the development of the regions;</li> <li>2. new technology;</li> <li>3. export oriented production;</li> <li>4. the manufacture of new types of products;</li> <li>5. the attraction of investments;</li> <li>6. the development of normal market relations;</li> <li>7. the introduction of the latest methods of business administration and management;</li> <li>8. the resolution of social problems.</li> </ol>	<ol style="list-style-type: none"> <li>1. The Astana, Aktau and Almaty SEZs are restricted to specific geographic locations;</li> <li>2. The Petrochemical industry: concessions provided are not significant for major investments and are only in place for a 5-year period;</li> <li>3. SEZs must be approved by Presidential Edict.</li> </ol>	
			<p>Over the past several years this problem is no longer a priority, as new legislation has come into force to make many inspections far more systemized.</p> <p>Tax inspections, however, are still performed regularly and inspectors are very demanding. In addition, they have at their disposal laws such as the transfer pricing law, which is not up to international standards and can be interpreted to the detriment of taxpayers. It is generally believed that the Kazakhstan fiscal authorities are predominantly interested in</p>	

#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
2.03	Taxation in favor of FDI	Please see the Investment-Related Laws section.	Please see the Investment-Related Laws section.	<p>There are about 50 controlling committees in Kazakhstan solely on the national level, not counting the many local inspections and supervisory committees. Every week an SME receives a visit from at least one inspection committee. This leads to a potential increase in corruption and seriously slows the SME development and legalization process.</p>	Please see the Investment-Related Laws section.
2.04	Database	<p>Legislation of the statistical department (please see website stat.kz):</p> <ol style="list-style-type: none"> <li>1. Rules for the development and approval of national and departmental statistical supervision programs;</li> <li>2. Rules for the presentation of statistical reporting in the Republic of Kazakhstan.</li> </ol> <p>Business directories are publicly available, such as Yellow Pages, A-Business, etc - the directories are published by private companies.</p>	<p>The statistical agency keeps a special database on all enterprises in the Republic of Kazakhstan.</p> <p>There are two other databases that provide legal and financial information (Database of the Ministry of Justice and Database of the Tax Committee).</p>	<p>1. The databases are not coordinated and contain contradictory information even within the same database;</p> <p>2. The information in these databases should be combined in order for it to be used more effectively.</p>	<p>TFI is attempting to create its own statistics through its regional and customs promotion programs.</p>
2.05	Statistics	1) The Law of the Republic of Kazakhstan "On State Statistics";	1. Fines for the provision of inaccurate information;	Information provided by entrepreneurs is inadequate, as they	<ol style="list-style-type: none"> <li>1. USAID;</li> <li>2. TACIS;</li> </ol>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	<p>2) The Rules for the development and approval of national and departmental statistical observation programs;</p> <p>3) The Rules for the provision of statistical reporting in the Republic of Kazakhstan;</p> <p>4) The Rules for conducting national statistical observations and the provision of statistical and similar information by state bodies;</p> <p>5) Improvements to legislation on state statistics;</p> <p>6) Statute concerning the public council for improvements to state statistics of the Agency of the Republic of Kazakhstan for Statistics;</p> <p>7) Plan for statistical work for 2005;</p> <p>8) List of the forms of national statistical reporting of the Republic of Kazakhstan.</p> <p>Please refer to Attachment 9 Statistics on investments</p>	<p>2. Develop a system to examine the statistical information system.</p>	<p>can not be persecuted for providing false statistical information to the Statistical Agency.</p>	<p>3. Business associations of KZ.</p>
<b>3.0. SME Promotion</b>				
3.01	<p><b>SME Promotion Policy / Law</b></p> <p>The State Program for the Support and Development of SMEs in the Republic of Kazakhstan for 2004-2006.</p>	<p>1. Development of a loan and investment support system for SMEs;</p> <p>2. Development of SME sector infrastructure;</p> <p>3. Educational, informational and methodology support to and the promotion of SMEs;</p> <p>4. Systematization and improvement in the legal base regulating SMEs.</p>	<p>1. In spite of the fact that the tax burden for SMEs is small in comparison with other entities, the processes of receiving licenses, certificates and conducting inspections are as complicated as they are for large companies;</p> <p>2. It is generally believed that the KZ fiscal authorities are predominantly interested in fines,</p>	<p>TFI (USAID)</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective rather than the systematic collection of taxes.	(d) Donor activities / programs to support (a) or to solve (c)
3.02	Ministry in charge of SME Promotion  The SME development fund works as a division of the Ministry of Industry and Trade and was established by a Decree of the President in 1997.	<ol style="list-style-type: none"> <li>1. Participation in the development and realization of state programs for the financial support of small business;</li> <li>2. The provision of loans to small business projects;</li> <li>3. The creation of new workplaces in small business;</li> <li>4. Guarantees in favor of SMEs enabling banks to give them loans.</li> </ol>	<ol style="list-style-type: none"> <li>1. The relevant authorities are often rotated, and officials do not have time to become well acquainted with their work, which would enable them to take proper action to ensure progress;</li> <li>2. Time limits for policy making are usually very short and excessively optimistic.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ministry of Industry and Trade;</li> <li>2. Ministry of Economy and Budget Planning;</li> <li>3. Ministry of Finance;</li> <li>4. Ministry of Education.</li> </ol> <p>USAID also cooperates with the Ministry of Industry and Trade, the Ministry of Finance and the Ministry of Education in cost-sharing partnerships in order to provide training to local SME professionals.</p> <p>USAID actively operates with the SME department, specially set up at the Ministry of Economy and Finance.</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
3.03	SME Promotion Agency  The Law "On the State Support of Small Enterprises".	<ol style="list-style-type: none"> <li>1. Exemption of small enterprises engaged in production activities from fees to register property rights for three years from the moment of their state registration;</li> <li>2. The transfer of land plots to small enterprises engaging in production activities without charging them for land use certificates;</li> <li>3. Freeing SMEs from fees for connection to the electricity and water supply and sewer systems for opening accounts at second-tier banks with the participation of the state;</li> <li>4. A restriction in the number of checks on the financial and economic activities of small enterprises to no more than once a year.</li> </ol> <p>The aim of the FSEI is to provide new and developing entrepreneurs with access to financial resources in the form of start-up capital.</p>	<ol style="list-style-type: none"> <li>1. Some of the incubators and technological clusters are not transparent, they are unable to develop;</li> <li>2. Financial control needs to be tightened over them and a unified system developed.</li> </ol>	<ol style="list-style-type: none"> <li>1. Almaty Association of Entrepreneurs;</li> <li>2. Technology Parks;</li> <li>3. Business Incubators;</li> <li>4. USAID;</li> <li>5. World Bank;</li> <li>6. J.P. Austin;</li> <li>7. Business Advisory Services Program;</li> <li>8. Engineering and Technology Transfer Center;</li> <li>9. National Innovation Fund;</li> <li>10. National Investment Fund;</li> <li>11. Center of Marketing and Research.</li> </ol>
3.04	SME loans  Many different types of loans are offered to SMEs by local banks. The JSC Small Entrepreneurship Development Fund has been created to: 1. stimulate the establishment and economic growth of SMEs in the Republic of Kazakhstan	<ol style="list-style-type: none"> <li>1. Help SMEs to satisfy their short-term and long-term needs;</li> <li>2. Strengthen turnover capital;</li> <li>3. Buy equipment, etc.;</li> <li>4. Expand production lines;</li> <li>5. Launch new types of products.</li> </ol>	<p>The loan conditions for SMEs are very strict and interest rates are high:</p> <ul style="list-style-type: none"> <li>- entrepreneurs do not have enough information about banks;</li> <li>- the requirement to provide primary balance sheets is discriminatory;</li> <li>- the amount of documents for</li> </ul>	<ol style="list-style-type: none"> <li>1. USAID - Credit Management System: The USAID Office of Development Credit in the Bureau for Economic Growth, Agriculture, and Trade (EGAT/DC) is responsible for managing USAID's credit</li> </ol>



#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	2. increase the effective use of state funds directed to support SMEs		<p>submission is excessive;</p> <ul style="list-style-type: none"> <li>- no departmental links (tax inspection, justice department and statistical department references etc.);</li> <li>- guarantees/collateral is demanded;</li> <li>- banks do not accept land as collateral;</li> <li>- mortgage valuations made by the center for real estate and by banks are different;</li> <li>- official registration of mortgage documents takes much time;</li> <li>- banks do not accept buildings, equipment as collateral;</li> <li>- a separate payment is made for mortgage evaluation;</li> <li>- the official registration of collateral is too complicated.</li> </ul>	<p>programs. The use of credit provides the Agency with a powerful tool to achieve its development goals. Credit activities enable the most appropriate financial instruments to be chosen: loans, loan guarantees, grants, or a combination of these, thus enhancing the Agency's efficiency and effectiveness;</p> <p>2. The Entrepreneurial Development Fund was created by the Government of the Republic of Kazakhstan in order to improve the situation with high interest rates and severe loan conditions;</p> <p>3. EBRD, ABRD.</p> <p>USAID cooperates with EBRD to provide a credit line for SME microfinance initiatives.</p> <p>The EBRD program provided a credit line of 77.5 million dollars, from which 2.5 million dollars is used for training, as micro-loans to SMEs. This program operates in almost all regions of Kazakhstan.</p> <p>The results of the EBRD program:</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
3.05	Microcredit 1. Law "On Credit Cooperatives and Microcredit Organizations"; 2. Law of the Republic of Kazakhstan "On Microcredit Organizations" dated March 6, 2003 ? 392-II.	The objectives of the law of the Republic of Kazakhstan "On Microcredit Organizations" dated March 6, 2003 ? 392-II are: 1. To regulate microcredit lending activities and the activities of microcredit organizations The objectives of the Law "On Credit Cooperatives and Microcredit Organizations" are: 1. To regulate lending procedures 2. To regulate credit cooperative activities		* Banks learned how to work with micro-loans; * Weak banks disappeared (in 1994 year in Kazakhstan there were 250 banks, now 34, of which 12 are working with the EBRD program). 1. EBRD The EBRD works with AT F bank, Bank CenterCredit, Bank TuranAlem, HSBK, KKB Total \$63.6M until 2004
3.06	Guarantees	1. To involve foreign banks; 2. To create best SME financing conditions; 3. To rank banks by financial stability; 4. If the Ministry of Finance decreases its flat rate then the banks can lower their interest rates.	1. SMEs do not have sufficient collateral in the form of liquid assets; 2. High rate of interest; 3. The definition of collateral is limited; 4. The Ministry of Finance and	1. KDIF (Kazakhstan depository Insurance fund); 2. The Ministry of Finance.

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
3.07	<p><b>Equity Investment</b></p> <p>The Law of the Republic of Kazakhstan "On the Investment Fund of Kazakhstan" dated July 6, 2004 ? 575-II.</p> <p>The law covers the following points:</p> <ol style="list-style-type: none"> <li>1. The legal status and goals of the fund</li> <li>2. The regulation of the fund's activity</li> <li>3. The fund's reporting requirements and obligations</li> </ol>	<ol style="list-style-type: none"> <li>1. To invest in the authorized capital of newly established and existing organizations engaged in the processing of materials and supplies, and the manufacture of competitive goods on the basis of new technologies, and providing producer services to promising industrial organizations;</li> <li>2. To stimulate private investment in secondary industries through co-financing investment projects (investment in the authorized capital of enterprises) and participating in the management of these projects;</li> <li>3. To assist in the increase in the investment activities of Kazakhstan organizations abroad through the co-financing of investment projects outside Kazakhstan, which should promote industrial co-operation between domestic and foreign enterprises that develop related industries (Investment Fund).</li> </ol>	<p>KDIF do not take into account the financial stability of banks when calculating flat rates.</p> <ol style="list-style-type: none"> <li>1. Many companies are not prepared to reveal their real financial data;</li> <li>2. Companies prefer banks to the fund because they do not want to have to sell their shares; (Investment Fund).</li> <li>3. Insufficiencies in legislation. Earlier legislation changed less often and banks and companies found it easier to develop. However, nowadays the government seems intent on frequently correcting legislation in order to make "life easier for companies".</li> </ol>	<ol style="list-style-type: none"> <li>1. KazInvest - develops joint projects etc.;</li> <li>2. Investment Fund of Kazakhstan.</li> </ol>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
3.08	Leasing  1. Law of the Republic of Kazakhstan "On Financial Leasing" dated July 5, 2000 ? 78-II (with amendments dated July 10, 2003 ? 483-II and March 10, 2004 ? 532-II).	The objective of the law is to set a legal framework for financial lease activity.	1. Same problems as with the credit section; 2. Short lease terms.	IFC researches/projects include: 1. In Kazakhstan, the market quadrupled in 2003, with six new lessors opening after tax laws had been amended. Leasing deals grew from \$57 million to \$89 million within three months from the introduction of new legislation, while the average deal size fell from \$190,000 to under \$90,000, bringing leasing within the budget of more SMEs. 2. IFC and Switzerland's State Secretariat for Economic Affairs (seco) are also teaming up to bring their successful experience to Central Asia (see p. 13) and Azerbaijan, focusing early efforts on improving the legal environment for the industry and raising awareness of the benefits of leasing among private enterprises, financial institutions, and government authorities.
3.09	Venture Capital  1 National Innovation Fund  The major goals of the fund include:	1. The attraction of private capital to innovation activity, risk reduction, the formation of mechanisms to enable efficient interaction between the state	1. SMEs have problems in selling their goods and services within the country; 2. The capital nature of the current	1. USAID (TFI); 2. Consulting companies ISO.  Statistics on ISO certifications is

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	1. The creation of venture funds 2. The creation of techno parks 3. The creation of techno incubators	1. and private entrepreneurs with respect to the commercialization of innovations; 2. The establishment of venture funds in cooperation with local and foreign investors, participation in the formation of mechanisms and infrastructure for the venture financing of innovation projects (innovation fund).	market; 3. The tender procedure for state purchases is very complex which is why companies are forced to enter foreign markets. But many companies do not have ISO 9000 certification; 4. The regulatory framework is not sufficiently developed.	available in Attachment 10.
3.10	Please see the previous Databases and Statistics section.  Attachment 8 contains statistics on SMEs in regions.	Please see the previous Databases and Statistics section.	1. The Government has no reliable data available on SMEs; 2. Information collected by the Statistics Agency of the Republic of Kazakhstan does not provide the real picture; 3. ATF bank has a credit bureau system, which allows it to screen companies applying for loans and create a database, which is available to other Kazakhstan banking institutions.	Please see the previous Database and Statistics section.
3.11	The Information-Marketing center works as a part of KABIC to influence management processes to improve the quality of production and the competitiveness of its clients' products on the market, and thereby increase their profitability and overall effectiveness.	1. To perform concentrated market studies for starting and developing enterprises organizing or creating new methods of production or that are interested in selling new products or service lines; 2. To help formulate and/or optimize a	1. No full market research has ever been conducted on Kazakhstan. Any research conducted only partly covers the information available, which is why the Kazakhstan market has not been studied in full; 2. SMEs are not market oriented due	1. BISAM Agency; 2. BRIF Agency; 3. COMCON-2 Agency 4. Information Marketing Agency

#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
			<p>company's management process, and transfer knowledge, skills, and experience in the successful running of a business;</p> <p>3. The preparation and presentation of product and service information by small enterprises in Kazakhstan to large enterprises as well as large and middle-sized companies;</p> <p>4. The IMC researches market areas on the basis of need. Interested organizations will submit purchase orders for goods/services that small, developing enterprises are capable of producing. Conversely, the IMC will look at market needs and inform an SME what requirements exist and what needs to be produced in Kazakhstan (marketing center.doc);</p> <p>5. Companies should be created that provide universal market research of Kazakhstan;</p> <p>6. The financing of market research companies should be increased.</p>	<p>to the lack of strategic thinking and the high cost of obtaining credible data through desk researches and other special instruments.</p>	<p>1. BRIF Agency: Market and Marketing Research, Social Research, Desktop Research, Retail Audit, GIS (Geographical information systems), Seminars;</p> <p>2. BISAM Agency: Market and Marketing Research, Social Research, Desktop Research, Advertising and Media research, Retail Audit, Advising and training services;</p> <p>3. Comcon-2 Agency: Market and Marketing Research, Social Research, Media research;</p> <p>4. GFK Agency: Consumer Tracking, HealthCare (research in the healthcare sector), Retail and Technology, Media, Custom Research, Other Services (Data Mining with GFK, Target group orientation for strategic market planning);</p>
3.12	R & D Support		<p>SMEs need help in improving operations, entering new markets, practical business advice to assist with the removal of barriers to growth and development, and in enhancing</p>	<p>Many entrepreneurs do not invest in R&amp;D because they think that R&amp;D support is not important and cannot solve problems. The most popular types of training are in financial</p>	<p>EBRD BAS Program project includes:</p> <ul style="list-style-type: none"> <li>- market research projects; Innovation Fund;</li> <li>- the study of market opportunities</li> </ul>

#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
3.13	<b>Incubators</b>	In accordance with the Edict of the President of the Republic of Kazakhstan, the support of small businesses has become a priority sector of the government's economic policy. The "Almaty city business incubator" was established in 1999 (AMBI).	Incubators should assist all persons, particularly those unemployed who are willing to start their own business, by establishing a "favorable business environment". For this reason business start up training courses have been announced for the unemployed, as well as accounting and personal computer courses. Other target work has been performed to assist entrepreneurs willing to get involved in industrial (production) activities.	1. Weak theoretical and practical training of business incubator managers; 2. Incomplete groundwork for incubator provisions in the Republic of Kazakhstan; 3. Lack of understanding and the required structural support from the government and local authorities; 4. Limited finances and information.	and market research in prospective markets for high-tech and science-intensive products; Donors: 1. USAID; 2. World bank; 3. TACIS;  1. Engineering and Technology Transfer Center; 2. AKIMAT of the city of Almaty; 3. Soros-Kazakhstan; 4. Association of the "League of Entrepreneurs of Kazakhstan"; 5. Kazakhstan Association of business-incubators and innovation centers.
3.14	<b>Associations</b>	The AAE has adopted several projects and organized meetings in order to improve the entrepreneurial "climate" in Kazakhstan. Kazakhstan entrepreneur Forum;  Draft Law "On Private Entrepreneurial Activities",  Law "On Public Associations of the Republic of	1. To reduce administrative barriers and improve the legislative system so that SMEs can grow and develop. To protect the interests and rights of SMEs, help them to become competitive; 2. To coordinate work, for example, USAID certification of association partners.	1. The number of associations in the country is extremely high (over 150 large associations). However, these associations do not work together effectively, which means that their consolidated impact is therefore significantly undermined; 2. Associations are organized at geographical and cluster level; 3. The associations' work is not	1. USAID; 2. World bank; 3. TACIS; 4. TFI; 5. Arizona Kazakhstan Fund; 6. Forum of Kazakhstan Entrepreneurs.

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	Kazakhstan"; Law "On Chambers of Commerce and Industry" dated May 3, 2005.		coordinated. 4. The most effective associations are thought to be the Almaty Association of Entrepreneurs, the Forum of Entrepreneurs, the Employer Union, the Kazakhstan Association of Business Incubators and Information Centers.	
3.15	SME taxation benefits  The State Program of the Republic of Kazakhstan for 2003-2006 provides for further improvement to the forms and methods for SME support	One of the main objectives is to: 1. Reduce the tax burden on SMEs; 2. Create a favorable tax climate for small business; 3. Develop an effective system of tax privileges. Tax privileges should be given to small businesses located in depressed, ecologically unsuccessful regions; 4. Simplify, as much as possible, small business tax reporting procedures	1. Burdensome and complex taxes; 2. Various studies in this field show that the tax system in Kazakhstan is one of the most complicated and tax rates are among the highest in transition economies; 3. Tax issues are indicated as the main barrier in SME development in all transition economies; 4. The procedures for introducing simplified and other forms of presumptive tax formulae for the SME sector are burdensome and inefficient.	



#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
		<p>Proposed and already existing amendments are concerned with individual entrepreneurs and SMEs using the simplified declaration special tax regime:</p> <p>1) the tax period has been extended from a quarter to a half year, i.e. less compliance required;</p> <p>2) the tax rates for individual entrepreneurs and SMEs are to be decreased.</p>	<p>Purpose - to encourage the business activities of individual entrepreneurs and SMEs in Kazakhstan and to reduce their compliance requirements.</p>	<p>Significant audit activity still undertaken by state authorities.</p>	
3.16	Business Service Providers	<p>With an Edict of the President of the Republic of Kazakhstan the support of small businesses has become a priority sector of the government's economic policy. The "Almaty city business incubator" was established in 1999.</p> <p>Business service providers include:</p> <ol style="list-style-type: none"> <li>1. Grata;</li> <li>2. Mak Ole;</li> <li>3. . Solell;</li> <li>4. Secret+Service;</li> <li>5. Kadyrov and Partner s;</li> <li>6. BDO Kazakhstan audit;</li> <li>7. Accounting-Audit Center;</li> <li>8. Salyk Consulting;</li> <li>9. Finaudit;</li> <li>10. Mintax.</li> </ol>	<p>Please see the section on Incubators and technological parks</p>		

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	Please also refer to Attachment 7 "Business Services Providers"			
4.0. SME Human Resource Development				
4.01	<p><b>Business Courses by SME Support Organizations / BSP</b></p> <p>1. The Resolution of the Government of the Republic of Kazakhstan "On the Center for International Programs" dated April 4, 2005 ? 301;</p> <p>2. State Program for the development of the Republic of Kazakhstan on 2005 - 2010 (October 11, 2004). Please see <a href="http://www.government.kz">www.government.kz</a> for additional information.</p> <p>The major points of the Resolution of the Government of the Republic of Kazakhstan "On the Center for International Programs" dated April 4, 2005 ? 301 include:</p> <p>1. The main activity of the center is to support education abroad through the Bolashak program</p>	<p>The "Bolashak" educational program was created by the Ministry of Education of Kazakhstan to train qualified personnel, improve professional skills and develop business specifically by sending students for study and internship to well-developed western countries. The "Bolashak" program is controlled by the Center for International Programs</p>		<p>1) The Choice Agency: Resource management, marketing, salesmanship enhancement, client work, increase in team work effectiveness;</p> <p>2) Renaissance training agency: manager - effective leader and team, phone sales, time management, PR practice, mass media interaction, verbal skills, sales manager client work, merchandising, corporate client sales, ISO 9000 (for chief executives), attract client notice, train the internal Quality Management System auditor, development and implementation of QMS, ISO 9000:2000</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
4.02	<p><b>University Business Courses</b></p> <p>1. Resolution of the Government of the Republic of Kazakhstan "On the Center for International Programs" dated April 4, 2005, ? 301</p> <p>One of the basic points of the state program for the development of the Republic of Kazakhstan on 2005 - 2010 (October 11, 2004) include</p> <p>1. The modernization of the national system of education based on the priorities set in the Kazakhstan Strategic Development plan until 2010 in order to increase the level of human development.</p>	<p>1. The MBA (Masters program) provides students with broad exposure to basic business skills, which will enable them to focus their efforts afterwards on specific courses for their chosen career path. This option is available for students who wish to start a business after graduation or to pursue a PhD. Students will have the opportunity to formulate a thorough business plan culminating in business ownership, or to begin a research project leading to a thesis.</p> <p>2. The MBA program (Master of Business Administration) enables people with higher education to gain wider knowledge in business management and administration.</p>	<p>1. The most popular courses are management and administration courses;</p> <p>2. All universities aim to train high-level professionals;</p> <p>3. The Almaty Association of Entrepreneurs believes that in Kazakhstan today there are 8 managers per one employee, because "Universities teach people to manage, rather than work in SMEs".</p>	<p>1. IAB KZ-program: Marketing and public relations, corporate management, HR management, arts management;</p> <p>2. IAB International program: general and strategic management, master in advanced management;</p> <p>3. KIMEP: Accounting and finance, marketing, management, operation management, information systems, natural resource management;</p> <p>4. UIB: Marketing, management, information technology, banking industry, accountancy, finance and credit.</p>
4.03	<p><b>Vocational/Training Schools</b></p> <p>1. The program of the Republic of Kazakhstan "On the Modernization of the National Education System", approved by the Resolution of the Government of the Republic of Kazakhstan dated August 6, 2001 ? 1037;</p> <p>2. The program of the Republic of Kazakhstan "On the Modernization of the National Education System", approved by the Edict of the President of the Republic of Kazakhstan dated September 22, ? 3645.</p> <p>The major points of the above include:</p>	<p>The objective is to provide courses where a person will obtain the skills and knowledge required to work in a SME</p>	<p>Vocational and training schools are targeted for those who already have a business education. However, in Kazakhstan figures have shown that those wanting to work in SMEs tend to be the unemployed, ex-teachers, engineers, doctors. For this reason they need to obtain a basic knowledge in computers, law, accounting, finance etc. There are no</p>	<p>The Engineering and Technology Transfer Center organizes short-term courses and internships in foreign universities, invite innovation management specialists (contracts with Israel, France, Germany and Russia).</p>

#	(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
	1. The creation of electronic educational materials 2. The training of personnel who will be able to use such electronic materials 3. The supply of state education institutions with equipment, materials and access to the internet 4. The creation of an informational infrastructure		courses in Kazakhstan that provide such services.	
<b>5.0. Trade Promotion</b>				
5.01	<b>Trade Promotion Agency</b>  1. The Customs Code of the Republic of Kazakhstan dated May 1, 2003; 2. The Law of the Republic of Kazakhstan "On changes and Additions to the Custom Code of the Republic of Kazakhstan".  KazInvest is divided into 5 departments: 1. Investment projects department; 2. Department, which organizes meetings of businessmen with ministers and president; 3. Legal department, which provides judicial support of foreign investors; 4. Advertising and publishing department. Publications of KazInvest are "Investors guide", "Invest Kazakhstan", "Investor's Atlas" and "Doing business in Kazakhstan"; 5. Information and consulting services department.	1. The objective is to make the process of obtaining certificates quicker; 2. The mission of Trade Promotion Agencies is to assist in the successful development of client business through information exchange.	1. The Custom Code makes the receipt of a certificate for imported goods very difficult. 2. Importers of non-durable goods sometimes prefer to make bribe payments in order to speed up the clearance process and save their products from being spoilt; 3. Consequently corruption in the customs sector is increasing.	1. BRIF Agency: Market and marketing research, social research, desktop research, retail audit, GIS (geographical information systems), seminars; 2. BISAM Agency: Market and marketing research, social research, desktop research, advertising and media research, retail audit, advising and training service; 3. Comcon-2 Agency: Market and marketing research, social research, media research; 4. GFK Agency: Consumer tracking, health care (research in the healthcare sector), retail and technology, media, customs research, other services (data

#		(a) Major Policies / Laws / Programs / Actions	(b) Objectives to be achieved and problems to be solved by (a)	(c) Remaining / current problems from a business perspective	(d) Donor activities / programs to support (a) or to solve (c)
		The primary function of KazInvest is to attract foreign direct investments and prepare information for foreign investors.			mining with GFK, target group orientation for strategic market planning); 5) TFI
5.02	Credit / Guarantee	Please see the SME Loans and Guarantee section.			

## Attachment 2: Interview Memos

?	Date	Organization	Name	Position
1	25.07.05.	Ernst and Young	Mrs. Zhanna Tamenova	Tax partner
			Mr. Graeme Huggins	Senior manager
			Mr. Nur Bakbergenov	Marketing manager
			Ms. Roxana Abuova	Senior consultant
2	25.07.05.	Almaty Association of Entrepreneurs	Mrs. Munavara Paltasheva	Director
			Mr. Talgat Kukenov	Project manager
3	25.07.05.	National Innovation Fund of Kazakhstan	Mr. Askar Shayakhmetov	Project Manager
4	26.07.05	Investment Fund of Kazakhstan	Mrs. Victoria Patrakova	Advisor to President
			Mrs. Aigul Bekzatova	Head of information and consulting services department
5	26.07.05	Customs Clearance	Mr. Gennadiy Shestakov	Chairman
6	27.07.05	United States Agency for International Development	Mr. Timur Omoev	Project management specialist, office of enterprise and finance
			Mrs. Svetlana Golovatskaya	Project management specialist, office of enterprise and finance

?	Date	Organization	Name	Position
7	27.07.05	Almaty Technology Park	Yerik Dukenbaev	President
8	27.07.05	Municipal Business Incubator	Mr. Kanat Kerimkulov	Director
			Mrs. Sholpan Bizhanova	Akimat
			Mrs. Yulia Shukhrina	Entrepreneurial Activity Support Center Director
			Mrs. Madina	Financial Service Center Manager
9	27.07.05	National Investment Fund	Mrs. Zeinulla Kakimzhanov	Chairman
			Mr. Timur Zhakselekov	Board member
10	28.07.05	World Bank	Mr. Pedro L. Rodriguez	Senior economist, poverty reduction and economic management
11	28.07.05	Alkor	Mr. Alexander Nestertsev	Director
			Mrs. Svetlana Rubtsova	Finance Director
12	28.07.05	Business Advisory Services Program	Mr. Zhanibek Suleimenov	National director for Kazakhstan
			Mr. Sergei Lyssenko	Project officer
13	28.07.05	ATF Bank	Mrs. Shynar Dilmagambetova	Deputy director
			Mrs. Aliya Shynybayeva	Head of Methodology and Education Division
14	29.07.05	Engineering and Technology Transfer Center	Mr. Bauyrzhan Abdrasilov	Director

?	Date	Organization	Name	Position
15	29.07.05	Forum of Entrepreneurs of Kazakhstan	Mr. Raimbek Batalov	Chairman
16	29.07.05	Union of Chambers of Commerce and Industry	Mr. Kairat Sadvakassov	Advisor
17	29.07.05	Small Entrepreneurial Activity Development Fund	Mr. Beket Kopbossynov	Managing director
			Mrs. Zaire Bitimbayeva	Chief expert, investments and external loans department
18	29.07.05	Enterprise Development Project	Mr. Ronald Ashkin	Chief of Party
			Mr. Edward Nemeroff	Senior Advisor
19	08.08.05	TFI, Reduction of Investment Constraints	Mr. Sergey V. Pizikov	National Director of Oblast RIC Programs
20	08.08.05	TFI, Chief of Party	Mr. Kelly Seibold,	Chair of Party
21	08.08.05	TFI, E-Governance	Mr. Andrew Beklemishev	TFI Consultant
22	11.08.05	TFI, International Trade and Customs	Douglas J. Cruinckshank	TFI Regional Director
			Zhannat Rakhimzhanova	International Trade and Customs Advisor, TFI



## 1. Ernst & Young Kazakhstan

July 25, 2005

### *Ernst & Young representatives:*

Mrs. Zhanna Tamenova, Tax partner

Mr. Graeme Huggins, Senior manager

Mr. Nur Bakbergenov, Marketing manager

Ms. Roxana Abuova, Senior consultant

### *Summary*

Main project objectives, schedule and timeframe.

#### *1) Objectives:*

- † To describe the Kazakhstan business environment from a SME perspective;
- † Find out about SME government and institution programs;
- † Collect information in Astana, before the arrival of another part of the delegation.

#### *2) Time-schedule:*

- † August 15 – presentation;
- † August 15 at 6 p.m., delegation leaves to Astana;
- † Details of the schedule for the week will be sent in the afternoon to everyone involved;
- † From July 26 the delegation will split into 2 groups.

#### *3) Other:*

- † Who will participate at the meetings;
- † Hotel;
- † Communication;
- † Transportation.

## 2. Almaty Association of Entrepreneurs

July 25, 2005

### *Representative of Almaty Association of Entrepreneurs:*

Mrs. Munavara Paltasheva, Director

### *Summary*

The Almaty Association of Entrepreneurs is a non-commercial public organization and is the founder of the Forum of Kazakhstan Entrepreneurs, which is a Republican organization that aims to bring all associations (regional, municipal, etc.) under one roof. Between 1998 and 2002 Mrs. Munavara Paltasheva has worked as the director of both organizations. However, from 2002 she has been working exclusively at the Almaty Association of Entrepreneurs, as she believes it is able to tackle more problems and provide practical solutions through its operations. The Association has a president, two vice-presidents, six employees (including the director) and 2 volunteers. The Association totals more than 600 companies, made up of SMEs and large enterprises. The organization's expenses are covered by membership fees (8 dollars per month), income from training and government support, as well as foreign grants. The Association provides two main types of support to SMEs in Kazakhstan, while attracting specific support from foreign donors and the Government of the Republic of Kazakhstan:

### *1) SME support and development:*

- † **Education of entrepreneurs.** There are no organizations or institutes in Kazakhstan today that teach small business how to increase the effectiveness of their operations on the local market. After the dissolution of the Soviet Union many people in Kazakhstan were left without jobs, and as a result were forced to create their own SMEs (teachers, doctors, engineers etc.). This explains why small and medium entrepreneurs today are not always entirely clear as to how they should structure their business, which results in their facing many operational and strategic problems with their companies. This is especially true for small successful companies, which inevitably want to grow and increase turnover, yet their owners have no experience in delegating authority and are not ready to change operational structure and introduce new policies and procedures to enable this to happen. At the same time, through its university and vocational training the Government of the Republic of Kazakhstan prepares a substantial number of high level specialists every year, but only some of them are able to find employment with large companies, while the rest have to turn to SMEs, where they face this operational problem, which they are unable to resolve, which leads to discouragement;
- † One of the key business areas requiring additional training and development is ensuring that SME entrepreneurs are aware of the current regulatory framework, which is constantly changing often resulting in entrepreneurs losing their way with the numerous updates and sometimes preferring to act outside the official boundaries in order to achieve their aims;

The Association of Entrepreneurs is successfully working with the JICA to resolve this problem. However it is generally believed that JICA and similar educational organizations tend to specialize more on medium sized enterprises rather on the smaller ones, which seriously limits the scope of potential partnership;

- † **Information available to entrepreneurs.** In Kazakhstan there are very few places where qualified consolidated advice can be obtained on how to open a business, on what legal procedures are involved, what documents are needed, what banks provide loans to SMEs and other useful information. The market demand for these services is very high, yet the sector is virtually unrepresented;
- † **Market research.** To start any business, a company needs to conduct market research, understand its core competencies, competitors, customers and develop a strategy. However, in Kazakhstan SMEs have neither the skills to conduct this research on their own, nor do they have the funds to subcontract this work to a consulting company. Publicly available information is very contradictory and without the proper business planning many SMEs miss the target and soon close.

2) **Administrative barriers that block SME development.** According to the publication "Administrative Barriers and Semi-Legal Economy of Kazakhstan"<sup>3</sup>, the administrative barriers in Kazakhstan can be divided into three groups:

- † Unrealistic;
- † Partly realistic;
- † Barriers that prevent entrepreneurs effectively entering onto and developing the Kazakhstan market, such as corruption, unfair competition, limited access to financial resources, few business professionals, ambiguous laws, complex tax and statistical reporting, problems with supply chain management and logistics. The Almaty Association of Entrepreneurs is currently working on all of these problems, with a special emphasis on corruption.

The interests and requirements of the regulatory bodies are different for each cluster, are constantly changing and may not be linked to a specific SME in a comprehensive format, as in general they target the large companies in Kazakhstan.

Since 2002 the Almaty Association of Entrepreneurs has been working with the CIPE and "Transparent Kazakhstan" funds, aiming to identify core administrative barriers in Kazakhstan and Central Asia. The results of research have been analyzed and on the basis of this information the Association has been able to organize two conferences in Almaty and Bishkek. The Association discovered that the largest administrative barrier was reckoned to be the **Administrative Code of the Republic of Kazakhstan**. Changes and additions have since been introduced into the Code so the Association is now shifting its attention to decreasing the overall corruption level, through the analysis of legislation and the identification of loopholes that promote this abusive practice. The

---

<sup>3</sup>Recommended for additional reading

Association is also working in this area with various foreign funds, such as Arizona Kazakhstan, PRAGMA Corporation, other agencies.

The business elite of Kazakhstan believes that SME support programs should be initiated and developed primarily by associations, and that government involvement should be limited to providing overall strategic guidelines and ground rules for their operations. It is believed that the two most active governmental agencies in this area are the Ministry of Industry and Trade and the Ministry for the Economy and Budgeting Planning.

***Opportunities for cooperation with Japan:***

1. **Creation of SME support centers.** Similar centers exist in Japan and Israel. These countries have extensive experience to share, and their input would be highly valuable for Kazakhstan's weak entrepreneurship infrastructure. Setting up a center like this could be the first pilot for JICA deployment in Kazakhstan.
2. **SME financing experience exchange.** Kazakhstan's financial system is working on self enrichment. It does not expect any significant return from SMEs and is therefore not interested in investing and paying special attention to their needs. Interest rates are high and loan conditions are very severe. In order to improve this situation the Government has created the **Entrepreneurship Development Fund** and issued several laws on the development of micro-loans organizations. Japan's experience in simplifying SME loan provision conditions could significantly speed up this process.

***Other information***

Mrs. Munavara Paltasheva mentioned several contacts, who could provide more information on the development of the SME market in Kazakhstan:

- † **Mr. Vladimir Yermakov**, Director of the Entrepreneur Service Centre "Secret + Service";
- † **Mr. Raimbek Batalov**, Chairman of the Entrepreneur Forum;
- † **Mr. Timur Nashanov**, Director of the Entrepreneur Forum.

### 3. National Innovation Fund of Kazakhstan

July 25, 2005

#### *National Innovative Fund representatives:*

Mr. Talgat Kukenov

Mr. Askar Shayakhmetov, Project Manager

#### *Summary*

The National Innovation Fund is a governmental fund that was created together with two other similar agencies (the Investment Fund and Development Bank of Kazakhstan) with the objective of decreasing the country's dependency on the oil and gas industry. Their aim is to increase overall domestic innovative activity and to support the development of high technology production in Kazakhstan. The NIF is working with innovative projects and provides investment, infrastructure and consulting support. The Fund conducts market opportunity studies and market research of prospective markets for high-tech and science-intensive products, participates in the creation of technological parks, business-incubators and other elements of innovation infrastructure.

The Fund invests equity in promising companies in Kazakhstan (domestic, foreign or joint venture), producing goods and services in an innovative manner, or producing innovative products. Companies that work with the Fund are free from land and property tax, and have a 50% income tax reduction.

The Innovation Fund works in two main areas:

1. **Funding of other funds.** The Fund has already set up 5 venture capital funds (3 domestic, 2 foreign). According to a fund memorandum, the Fund is able to invest up to \$10 million in each venture and can hold 49% of shares. By the end of 2005, the Fund will have set up 3 additional foreign and 2 local venture capital funds.
2. **Implementation of innovative projects.** The Fund may provide up to \$60 million for one project. The Fund currently has 12 pipeline projects with a total cost of \$35 million. The Fund is investing in the Kazakhstan Technology Park, which is located near Almaty and will be a free economic zone. The Fund is running several programs such as the innovative infrastructure program and a business incubator program. The Innovation Fund also has several programs with Massachusetts University, CRDF and ICSquare. The National Innovation Fund has become a member of the European Venture Capital Association and Singapore Venture Capital association, which primarily invest money in the following areas:
  - ? Power engineering and sustainable energy;
  - ? Information technology, communications and electronics;
  - ? Bio / Agro Technology;

? Mechanical Engineering and machinery construction.

The above associations finance applied research and the creation of new technologies, products and services with commercial potential.

*The future plans of the Innovation Fund are to:*

- † Finish the Technology Park project in Almaty, which will be a free economic zone and after completion will be run by an American company (for example CISCO);
- † Open three new funds in the USA, Malaysia or South Korea and Kazakhstan later this year;
- † Set up several business incubators.

The fund also participates in the creation of infrastructure that is conducive to innovation (techno parks, incubators, innovation centers and centers of excellence). Mr. Kukenov sees the business opportunities in Kazakhstan as very promising due to limited competition and the openness of Kazakhstan towards the latest technology innovations.

## 4. Investment Fund of Kazakhstan

July 26, 2005

### *Investment Fund of Kazakhstan representatives:*

Mrs. Aigul Bekzatova, Head of Information and Consulting Services Department

Mrs. Victoria Patrakova, Advisor to President

### *Summary*

The Investment Fund of Kazakhstan (KazInvest) was created in 1998 in the Ministry of Trade and Industry by a Resolution of the Government of the Republic of Kazakhstan. Today it has representative offices in Germany, Italy, Spain, and in almost all regions of Kazakhstan.

KazInvest is divided into 5 departments:

- † An investment projects department;
- † A department to organize business meetings with ministers and the president;
- † A legal department that provides judicial support for foreign investors;
- † An advertising and publishing department. KazInvest publications are "Investors guide", "Invest Kazakhstan", "Investor's Atlas" and "Doing business in Kazakhstan"<sup>4</sup>;
- † An information and consulting services department.

The primary function of KazInvest is to attract foreign direct investment and prepare information for foreign investors.

When KazInvest provides investments for a company, the company needs to pay at least 2% from the project from its own funds.

The major advantage of KazInvest is that it works in sectors other than the raw materials sector, where there are few large companies, and therefore supports SMEs.

### *Problems*

- † From 1993 investments in Kazakhstan have totaled 36 million USD, 70% of which went to the raw materials sector. 2004 has seen investments in the raw materials sector double. Consequently Kazakhstan is becoming more and more dependent on raw materials and the production sector of economy is not developing, suffering from low investment.
- † Multinational companies are not interested in the Kazakhstan market.
- † Kazakhstan needs innovation in technology and infrastructure.
- † Long bureaucratic processes in the receipt of licenses, certificates, which complicates the work of SMEs.

---

<sup>4</sup>Recommended for additional reading

## 5. Customs Clearance

July 26, 2005

### *Association of Customs Broker representative:*

Mr. Gennadiy Shestakov, Chairman

#### *Summary*

The Kazakhstan Custom Broker's Association (KCBA) was established in 2000. Since 1998 the Broker's Association has been working as a division of the Forum of Kazakhstan Entrepreneurs. In 2001 the KCBA became a member of the Confederation of Kazakhstan Employers, joining forces with the Government to resolve the issue of labor legislation. In the same year the Customs Control Agency became a member of the World Custom Organization. In 2002 a special customs code working group was formed by the Government, which reformed the customs agency in 2003. Today the KCBA has 28 members from 70% of the custom service market, while any private entrepreneur can become a member of the KCBA. Before the new Custom Code was adopted there was only 1 custom broker in Kazakhstan. Once the new code had been adopted, the number of brokers increased to 180.

Mr. Shestakov, the Chairman of the Customs Broker's Association, a Member of the Expert Council of the Ministry of Finance of the Republic of Kazakhstan, a member of the Consultative Council of the Customs Control Agency of the Republic of Kazakhstan, has highlighted major problems and obstacles explaining why an entrepreneur is unable to clear goods through customs without having to "part with money":

- † The control of the delivery of goods does not operate efficiently. Goods imported by individuals should be cleared via a simplified procedure, which happens very rarely.
- † Consequently, 30% of goods cross the border illegally. The owners of trading places know that goods tend to be contraband and extort traders.
- † Local government collects daily fees and "bribes" due to the existence of illegal goods. The annual turnover of goods between China and Kazakhstan is worth 4 billion dollars, which does not include illegal turnover of about 2 or 3 billion dollars.

In order to start reforming these problem areas, the KCBA suggested a legalization initiative and suggested:

- † Combining the electronic databases of the tax and custom committees;
- † Legalizing custom inflows;
- † Excluding local government from collecting daily fees so traders do not have to pay illicit bribes.
- † Traders pay 1.5 times more in bribes than in official tax and duties. In Kazakhstan there are currently approximately 350 000 traders. If the current custom system changes, between 150,000 and 200,000 additional traders will be able to start business, producing goods and services.



## 6. United States Agency for International Development

July 27, 2005

### *United States Agency for International Development representatives:*

Mr. Timur Omoev, Project Management Specialist, Office of Enterprise and Finance

Mrs. Svetlana Golovatskaya, Project Management Specialist, Office of Enterprise and Finance

### *Summary*

The United States Agency for International Development (USAID) conducts two main projects to promote SMEs and improve the economic environment in Kazakhstan:

- 1) **Enterprise development project (EDP)** operates at the small enterprises level in several areas:
  - † Production quality improvement;
  - † Regional trade promotion, e-commerce;
  - † Association development;
  - † Accounting assistance: training and professional certification of SME accountants;
  - † Quality management, ISO certification, the creation of a Quality Management Center.

There are 12 development centers in Central Asian region: 5 in Kazakhstan, 2 in Uzbekistan, Tajikistan and Kyrgyzstan and 1 in Turkmenistan. The EDP produces quarterly reports, which are submitted to USAID.

- 2) **The Trade Facilitation and Investment Project (TFI)** concentrates on improving the economic environment in the country as a whole. The TFI operates at the national level through associations without direct investment from the USA. The project has 25 partners in Kazakhstan. In Kyrgyzstan the TFI works more closely with the national government. In Tajikistan the TFI provides customs consulting and dialog with local customs authorities, and has 27 partners. In Uzbekistan the project has not been fully implemented as the National Government asserts its influence on all decisions made in the country, which makes the TFI's work more complicated. The TFI submits quarterly reports to USAID.

USAID works directly with the national government (Ministry of Industry and Trade, Ministry of Education and Ministry of Economy)

***Major problems of Kazakhstan business:***

- † Lack of production quality;
- † Lack of transparency;
- † SMEs are the weakest part of the economy.

***The Kazakhstan economy should be oriented toward:***

- † Quality improvement;
- † The education of business professionals;
- † Strategic planning;
- † The removal of SMEs from the shadow economy

***Other USAID activities:***

- † USAID actively operates with the SME department, specially set up in the Ministry of Economy and Finance. USAID highly appreciates the enthusiasm of this agency; however it has very limited technical ability to implement appropriate policies.
- † USAID also cooperates with the Ministry of Industry and Trade, Ministry of Finance and Ministry of Education in cost-sharing partnerships with the aim of providing training to local SME professionals.
- † USAID cooperates with the EBRD to provide a credit line for SME microfinance initiatives.
- † USAID is developing a junior achievement program through its regional offices in business and economic education and is involved in publishing business education books all over the world. An initiative exists at university level to develop the relevant studies and applied research.

***Key issues noted by USAID in SME development:***

- † The high rotation of the heads of governmental agencies in charge of SME development;
- † SMEs need to start thinking strategically; obtaining cheaper loans will not substitute the need to become more market oriented.

***Additional contacts:***

- † Mr. Ron Ashkin, EDP 504760 (-64) absent
- † Mr. Kelly Seibolt, TFI
- † Mr. Brian Coogley, Small Enterprises Fund

## 7. Almaty Technology Park

July 27, 2005

*Almaty Technology Park representative:*

Mr. Yerik Dukenbaev, President

### *Summary*

The active development of SMEs in Kazakhstan started in 1997 when Almaty had approximately 8,000 SMEs. Today their number, by some statistics, exceeds 30,000.

SMEs are established rather unequally throughout Kazakhstan, with the two largest centers for SME development being Astana and Almaty. Small and medium enterprises in Kazakhstan tend to specialize in providing services such as hotel accommodation, trade promotion, consulting, and small production projects e.g. furniture, souvenirs, various consumer products and musical instruments. The SME market is growing steadily in Kazakhstan. It is estimated that 40% of Almaty budget receipts are generated by SME tax contributions, while this number will be increased to 60-65% before the end of 2005.

Generally each region in Kazakhstan specializes in a different type of business:

**Almaty.** The local administration stimulates the development of all enterprises in 4 directions:

- † Tourism;
- † Services;
- † Financial services to entrepreneurs;
- † Innovation technologies.

**South-Kazakhstan.** 40% of the country's agriculture industry is concentrated in this region for the following reasons:

- † Predominant rural population;
- † Natural predisposition of the area to agricultural development;
- † Historical reasons.

The basic agricultural activity here is directed toward the production of rice and cotton.

**West-Kazakhstan.** The major specialization here is oil exploration. Most enterprises in this region provide services and goods to major oil companies.

**Northern and Central Kazakhstan** are the large grain and industrial centers. Kazakhstan's largest coal mining field, "Bogatyr", is also located here.

All of Kazakhstan's Technology Parks can be basically broken down into 3 main types:

- 1) **Parks created by the Government.** They represent special economic zones, which provide tax and customs concessions for their clients (for example, the IT park "Alatau").
- 2) **Parks created by the Government, with the participation of local authorities.** These parks largely focus on one area (economic cluster).
- 3) **Parks created by the local authorities.** The Almaty Technology Park (ATP) represents the third type of a technopark. It was created in 2003 as a joint stock company. The mission of the ATP is to exchange technology and provide related services. No research and development activities are conducted in the ATP due to the lack of financing and need for new technology developed in Kazakhstan. The ATP specializes in 9 fields: oil and gas, ecology, energy, telecommunications, construction, utilities, transportation, ferrous and non-ferrous metallurgy and the mining industry.

The ATP operates under a strategic plan valid until 2010, which consists of 5 stages:

- † Legal registration (completed in 2003);
- † Infrastructure development (completed in 2004);
- † Financial stability (to be completed in 2005);
- † Creation of an International Technology Transfer Centre (2006);
- † Sustainable development of the Technology Park (2005 - 2010).

The ATP is currently working with 73 companies, 10% of which are foreign companies. Park management consists of 15 people. Altogether 33 persons run and maintain the territory.

The thing that differentiates the ATP from business incubators is the size of potential clients is not an issue for the ATP. The partnership is based on technology innovation; while the terms of this type of partnership are also flexible.

The ATP plans to organize a new technology exhibition in December 2004. For this reason the ATP is conducting a survey to find out which type of technology Kazakhstan companies are primarily interested in. Once the results of this survey are known, ATP representative offices in Ognensk, San-Francisco and Shanghai will search for foreign companies to provide the required technology and invite them to participate in the Technopark.

## 8. Municipal Business Incubator

July, 27, 2005

### *Municipal Business Incubator representatives:*

Mr. Kanat Kerimkulov, Director

Mrs. Sholpan Bizhanova, Akimat (Almaty City Council)

Mrs. Yulia Shukhrina, Entrepreneurship Support Center Director

Mrs. Madina, Financial Service Center Manager

### *Summary*

An Edict of the President of the Republic of Kazakhstan has stated that support of small businesses has become a priority sector of the government's economic policy. Legislation and regulations regarding entrepreneurial support are currently still being developed. Many government programs for the support and development of small scale entrepreneurial activities that include national and local initiatives have already been approved and implemented.

In 1999, in light of favorable economic conditions, a group of individuals representing prominent entrepreneurs, in conjunction with the Department of Small Businesses of the Almaty city, created a state institution named "Almaty city business incubator". The Almaty city business incubator is an industrial complex providing entrepreneurs with comprehensive support and favorable conditions to start up businesses and sustain development. Establishment of the Almaty city business incubator had been preceded with extensive research made on the experience of economically advanced countries and Eastern Europe regarding the organization and activities of specific institutes engaged in SME support (business incubators, techno parks, innovation centers and other agencies within the small entrepreneurship development infrastructure). Production facilities cover 8,500 square meters.

Several industrial zone models established in Turkey and business incubators operating in Poland were taken into consideration for the Almaty city incubator. Entrepreneurs willing to carry out industrial activities are able to lease industrial premises over a long period and under concessionary terms, receive assistance in the installation of engineering communications and connection to bus networks, as well as the informal protection of their rights with city authorities and various inspectorates. A business incubator is supposed to assist entrepreneurs in obtaining the information required to manage a successful business. It has been proposed that the Almaty city business incubator will assist all individuals, particularly those unemployed willing to start their own business, by establishing a "favorable environment". Other than low rent, maintenance and other fees, the incubator provides training courses for start-up businesses and the unemployed. Accounting courses and computer courses are also being envisaged.

Today the SMEs starting up in an incubator industrial zone are quite varied and cover the production of ready-made garments, furnishings and souvenirs, window blinds, plastic devices, construction materials, photo accessories, the provision of services, metal processing, the production of joiner

devices and furniture, the packaging of free-flowing products, pharmacy production, even a Center for revival of traditional home-crafts and a printing house. The provision of accounting, legal, office and other types of services is also being anticipated.

The internal infrastructure of the Almaty city business incubator is well developed. All engineering communications have been restored and repaired (electric power, sewerage, telephone etc.), and security systems, first aid posts, canteens, a pharmacy and small grocery store have been installed. Certain activities are underway to improve the territory and create a favorable micro environment for entrepreneurs. The Governor of Almaty has allotted 18 million tenge from the local budget for these activities. In addition "Soros-Kazakhstan" Foundation has supported a joint project of the Almaty city business incubator. The Association of the "League of Entrepreneurs of Kazakhstan" allotted funds to repair the heating system and roofing of three business-incubator entities, as well as repairs of the trade-exhibition pavilion and some other facilities.

The experience of establishing the Almaty city business-incubator is currently being seen in all regions of Kazakhstan. A lot of work is currently being performed on the distribution of methodological materials, advertising seminars have been organized while the idea of business-incubators is being promoted in Kazakhstan. Close contact has been achieved with those operating and business-incubators currently being established, as well as other entrepreneurial activity infrastructure facilities. Eight of the fifteen business-incubators operating in Kazakhstan in September 2004 took part in a conference of the **Kazakhstan association of business-incubators and innovation centers (KABIC)**, that is currently trying to unify almost all business-incubators, techno parks, entrepreneurial activity and innovation support centers operating in Kazakhstan. The mission of the KABIC is to assist in the development of small and medium size business in Kazakhstan, via support of the establishment and development of subjects of the small business infrastructure.

Today the Almaty Business Incubator provides several types of services:

- † **Entrepreneurial Support center.** Offers several basic office solutions: helps to implement contemporary technology and services, and also provides administrative support (fax, secretary services, etc.).
- † **Centralized Accounting Department.** Each Accountant can serve 8-10 businesses, resolve issues with the tax and statistic committees, etc. CAD can provide tax, environmental and statistical reporting. CAD outsourcing fees are significantly lower than the cost of hiring alternative internal accountants. Right now the incubator is collecting information from businesses starting up on what additional services they want to receive.
- † **Centralized Financial Group** operates as "the buffer" between banks, funds and entrepreneurs. The banking system of the Republic of Kazakhstan is considered by some to be the best among CIS countries, but it is still facing several serious problems such as high interest rates, expensive service fees and limitations on collateral that banks accept for providing loans. This group provides information on banks, which bank provided lower interest rates and defends the rights of entrepreneurs before third parties.
- † **Centralized Legal Group** helps with contracts, legal due diligence and provides transaction support. The CLG registers and liquidates companies, protects the rights of

entrepreneurs in litigation cases. These services of the Almaty Business Incubator (AMBI) are not free, but are far cheaper than non-incubator service providers.

AMBI revenue comes from membership fees, maintenance (networks, security, etc.) and utility fees (electricity, heating, telephone, etc.). Its expenses include municipal payments and administrative costs, rental costs, which are paid to the government, the owner of the territory. The rental cost however is comparatively low, about \$3 per square meter per year. Rental costs for all municipal property in general are set by the mayor. The AMBI building was empty for about 3 years, and the AMBI repaired everything in it to be able to move in and start operations.

***Achievements of the Municipal Business Incubator:***

Companies registered in the Incubator	25
Number of workplaces created	400
<b>Investment amount (1999-2005)</b>	<b>470 mln. Tenge</b>
Loan given by city mayor	18 mln. Tenge
Soros Fund grant for heating system repairs and Roofing of three entities of the business-incubator	19 mln. Tenge
Financing for staff maintenance	2.5 mln. Tenge
Private investments	430.5 mln. Tenge
Tax payments (1999-2005)	147,274 tenge

As can be seen from the table, the AMBI is a comparatively profitable organization, yet it is not allowed to record a profit per se. The incubator is a state facility, which is dependent upon the city budget. The incubator is self-sufficient in terms of its turnover, however is not allowed to operate so that its operations are self-financed and self-sufficient. The incubator has little management reporting currently in place, as it is not required to make a profit. If JICA is interested in creating methodological support, such a system could be easily introduced.

As of today even management regards this particular incubator pilot as a social and a political project, as it is not yet operating as a business enterprise itself. Its key objectives in the near future are to become fully self-financed, increase the number of companies and develop strategic guidelines for its further development.