

DEVELOPMENT OF SMALL AND MEDIUM BUSINESS SECTOR IN KAZAKHSTAN

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We have to understand the barriers that hinder SMB development and the cultural aspects of developing entrepreneurship in transition economies. Especially in Kazakhstan the entrepreneurship development is sensitive to historical and cultural factors.

The success of particular transition economies in SMB development seems to originate in adequate systemic solutions applied to Kazakhstan: macro-economic conditions that provide incentives to develop business and in which main SMB development barriers are minimized, ability to properly train people and develop their entrepreneurial skills and ability to create conducive financial support to SMBs.

Finally, the article looks at SMB development issues from a regional perspective. In this context, the focus shifts from a national framework to the regional one, where the development of SMBs has to be implemented parallel to the acceleration of the regional integration process.

The role playing by private sector, and especially small and medium businesses (SMB), in the transition economies of the Central Asia is significant as from the point of view of the most transitional needs, so as understanding of its place in the market economy. These countries realize that private sector is the basic catalyst of changes, the tool of effective distribution and use of resources in the context of system transformation, privatization and economy restructuring.

Creation of competitive market with horizontal ties among manufacturers with industrial specialization is possible due to steady development of private sector, including SMB. The entrepreneurship sector becomes the basic driving force of economic development thanks to its mobility and capacity to engage wide strata of population in the income generation activity, not requiring large-scale investments.

The realities of the SMB sector in Kazakhstan are far from the wishful thinking. There are several factors that are contributing to such skeptical opinion: 1) comparisons among countries are difficult, as generally the statistics of the sector is rather poor and unreliable, 2) long-term trends and comparisons among countries are difficult to define since definitions of SMB are adopted and changed at different points of time.

Some small enterprises are registered for reasons, which reflect general weaknesses of economic systems (e.g. as a second, or third job of underpaid civil servants, or for tax reasons) and, contrary to expectations, are not in fact creating additional jobs in the country.

Many existing SMB development problems are presented and publicly discussed in a superficial manner since some of the problems such as corruption

are of a delicate and political nature. On the other hand, many entrepreneurs are convinced that the government elite is usually aware of such problems but not always interested in their radical termination. They claim that systematic inefficiencies remain in place for years, since companies connected to the country's establishment can anyway avoid most of the problems that other average entrepreneurs have to face. It gives the former a specific comparative advantage in a competitive environment. That is why support and development of SMB programs may have a declarative character, and for years many good regulations remain on paper only.

Often, SMB development suffers from pressures stemming from current budget needs and influential Ministries of Finance. In the absence of strong counterbalancing government institutions that would promote long-term growth (and create a long-term vision-strategy of SME sector); the current income from taxes seems to be more important than all multiplier effects involved.

Experience from various transition economies helps to put together a comprehensive list of most common barriers hindering SMB development. They could be divided into two major groups: internal barriers within the enterprises themselves and external barriers in their business environment.

Internal barriers refer first of all to limited own resources of entrepreneurs and limited possibilities to identify business opportunities. They are complemented by lack of market economy experience, understanding of modern business and ability to cope with risky and unpredictable market environment.

External barriers stem from the economic and business system surrounding entrepreneurs. In the process of their decision-making, entrepreneurs are not guided directly by anyone, however, they try to optimize their criterion functions under given constraints and parameters, which are given from outside. The rules and norms of taxation as well as the availability and conditions of credits are usually the two most controversial areas of SMB environment, usually interpreted by the business community as major barriers in development of the sector.

Conducted surveys, direct contacts with entrepreneurs and exchange of information with other business centers in the region, indicate the existence of six fundamental or primary barriers in SMB development in Kazakhstan:

- Burden and complexity of taxes;
- Difficulties in receiving all necessary licenses and permits for starting, conducting and developing own business;
- Excessive direct intervention in business operations by representatives of various official institutions and multi-layer corruption of political and economic structures;
- Difficulties in obtaining adequate credits to set up and develop business. In real life, entrepreneurs are usually exposed to the lack of adequate financial resources, e.g. soft loans tailored to the needs of the SMB sector – with adequate sizes of credit, encouraging credit terms (low interest rate, realistic grace period, flexible approach to collateral, etc.).
- Insufficient knowledge of business and market economy rules by potential

and already functioning entrepreneurs (including knowledge on how to identify business opportunities, how to precisely articulate a new business concept and prepare a powerful business plan according to international standards)

- Difficulties in access to business information (especially information on foreign markets and potential partners) and various difficulties in establishing business ties with foreign partners.

The basic challenges of transition economies include privatization, restructuring, and institutional changes, but the universal ones also cover such issues as the globalization of international business with a growing measure of competition, requirements of the world technical progress and revolution of the information age.

The challenge of today Kazakhstan is to be capable of sufficient reallocation of resources and training support to the most needed societies. The bottom line is that the entrepreneurial training and education still the only tool in our hands that can help utilize existing economic systems of the transition period and reduce the existing differences visible in the final transition results. This is an important message for the international community on the rationale of training resource allocation and of support to creation of comprehensive systems of training and education that can deal with entrepreneurship development.

This does not mean that training and education conducive to entrepreneurial development can do wonders in any economic and political environment. Within certain range of systemic solutions they can, however, help utilize the existing possibilities. What's more, they can create necessary pressures on acceleration of country's changes. Yet eventually, they can be fully effective only in a clear context of a conducive economic system that creates sufficiently aggressive motivation to generate the entrepreneurial effort.

The challenges of *launching a business* in Kazakhstan are shown below.¹ Entrepreneurs can expect to go through 7 steps to launch a business over 20 days on average, at a cost equal to 7.0% of gross national income (GNI) per capita. They must deposit at least 23.1% of GNI per capita in a bank to obtain a business registration number.

Indicator	Kazakhstan	Region	OECD
Procedures (number)	7	9	6
Time (days)	20	32	16.6
Cost (% of income per capita)	7.0	14.1	5.3
Min. capital (% of income per capita)	23.1	53.9	36.1

Dealing with licenses: The steps, time, and costs of complying with licensing and permit requirements for ongoing operations in Kazakhstan are shown below. It takes 32 steps and 248 days to complete the process, and costs 35.04% of income per capita.

Indicator	Kazakhstan	Region	OECD
Procedures (number)	32	21	14
Time (days)	248	242.5	149.5
Cost (% of income per capita)	35.0	564.9	72.0

Employing Workers: The difficulties that employers in Kazakhstan face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices. For Kazakhstan the overall index is 23.

Indicator	Kazakhstan	Region	OECD
Difficulties of Hiring Index	0	34.2	27.0
Rigidity of Time Index	60	50.7	45.2
Difficulty of Firing Index	10	37.1	27.4
Rigidity of Employment Index	23	40.8	33.3
Hiring cost (% of salary)	22	26.7	21.4
Firing costs (weeks of wages)	8.7	26.2	31.3

Registering Property: The ease with which businesses can secure rights to property is measured below. In Kazakhstan it takes 8 steps and 52 days to register property. The cost to register property there is 1.8% of overall property value.

Indicator	Kazakhstan	Region	OECD
Procedures (number)	8	6.4	4.7
Time (days)	52	102.0	31.8
Cost (% of property value)	1.8	2.7	4.3

Getting Credit: Measures on credit information sharing and the legal rights of borrowers and lenders in Kazakhstan are shown below. The Legal Rights Index ranges from 0-10, with higher scores indicating that those laws are better designed to expand access to credit. The Credit Information Index measures the scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.

Indicator	Kazakhstan	Region	OECD
Legal Right Index	5	5.5	6.3
Credit Information Index	4	2.9	5.0
Public registry coverage (% of adults)	0.0	1.7	8.4
Private bureau coverage (% of adults)	5.5	9.4	60.8

Protecting Investors: The indicators below describe three dimensions of investor

protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

Indicator	Kazakhstan	Region	OECD
Disclosure Index	7	4.7	6.3
Director Liability Index	1	3.8	5.0
Shareholder Suits Index	9	6.0	6.6
Investor Protection Index	5.7	4.8	6.0

Paying Taxes: The effective tax that a medium size company in Kazakhstan must pay or withhold within a year is shown below. Entrepreneurs there must make 34 payments, spend 156 hours, and pay 45.00% of profit in taxes.

Indicator	Kazakhstan	Region	OECD
Payments (number)	34	48.3	15.3
Time (hours)	156	423.0	202.9
Total tax rate (% of profit)	45.0	56.0	47.8

Trading Across Borders: The costs and procedures involved in importing and exporting a standardized shipment of goods in Kazakhstan are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.

Indicator	Kazakhstan	Region	OECD
Documents for export (number)	14	7.4	4.8
Time for export (days)	93	29.2	10.5
Cost to export (US\$ per container)	2,780	1,450	811
Documents for import (number)	18	10.0	5.9
Time for import (days)	87	37.1	12.2
Cost to import (US\$ per container)	2,880	1,589	883

Enforcing Contracts: The ease or difficulty of enforcing commercial contracts in Kazakhstan is measured below. It takes 37 steps and 183 days to enforce contracts there. The cost of enforcing contracts is 11.53% of debt.

Indicator	Kazakhstan	Region	OECD
Payments (number)	37	31.5	22.2
Time (hours)	183	408.8	351.2
Cost (% of debt)	11.5	15.0	11.2

Closing a Business: The time and cost required to resolve bankruptcies is shown below. In Kazakhstan, the process takes 3.27 years and costs 18.00% of the estate value. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is 23.56.

Indicator	Kazakhstan	Region	OECD
Time (years)	3.3	3.5	1.4
Cost (% of estate)	18.0	14.3	7.1

Regional cooperation in Central Asia is considered as one of the most effective approaches to strengthening stability in the region, to increase the international competitiveness of the economies. Thus cooperation in a private sector is a necessary condition of integration processes stimulation that is directed on improvement of living standards of population. Besides, from the position of disclosing private sector's potential in maintaining sustainable development and poverty reduction, regional cooperation becomes one of the tools for achieving the stated objectives. Trade policy and trade facilitation, including tourism, transport and transit, and investments are recognized as the most significant directions of regional cooperation and stimulate private sector development of all involved countries.

Technical assistance provided by donors not only should be professionally competent and theoretically correct, but – being addressed to a system deeply embedded in a concrete cultural system – should be culturally sensitive. An important distinction should be made between stimulating development of the SMB sector in mature economies and the transition ones. Cultural differences should be seen between particular transition economies. Training and educational development by donors should be fine-tuned to the needs of particular transition economies, and not to the immediate area of experience of particular experts from developed market economies.

How to help identify new and attractive business ideas? There are no simplistic recipes, but an inspiration to find an attractive business idea is extremely important since here lies the beginning for the ultimate success. The customers needs and their satisfaction, the notion of the customer focus should be at the center of our attention and should be the foundation for the new philosophy, when working with potential entrepreneurs and encouraging them to undertake own business.

Republican Agency for the Regulation of Natural Monopolies, Protection of Competition and Support of Small Business was created last year for the purpose of extension of competencies of the former Agency for Small Business Support. The Agency is the central executing government agency, whose main tasks, with respect to SMB sector include: (1) drafting of legal acts to create a conducive environment for the SMB sector; (2) coordination of activities aiming at SMB support by central and local authorities; (3) analyzing of SMB development tendencies; (4) controlling function of the implementation of legal acts devoted to small business protection; and (5) participation in formulating of credit, investment, trade and privatization policy with respect to small business.

Kazakh Small Business Development Fund has the following main functions: (1) preparation and implementation of state programs aiming at financial support of the SMB sector; (2) crediting of the SMB sector (including physical entities) on a competitive basis; (3) support in creation of new jobs in the SMB sector; (4) issuance of credit guarantees for SMB entities to be used in the commercial bank network; and (5) support in establishing of business centers and small business incubators, consulting, training, leasing and other market institutions.

Chamber of Trade and Industry with the following main functions: issuance of certificates of origin in export activity, the rendering of various consulting services, including a search for foreign partners, or local partners for foreign investors, and organization of presentations of business opportunities in Kazakhstan and various exhibitions at home and abroad. Major SMB oriented credit lines include: EBRD credit line in cooperation with the Kazakh Small Business Development Fund; credit lines from the Central Asian - American Enterprise Fund; credit lines from the Asian Development Bank, in cooperation with the Small Business Development Fund; World Bank credit lines (crediting of farmers in the first place). Domestic credit lines include credit lines by the National Bank and leading commercial banks.

Foreign organizations and NGOs providing technical assistance usually in combination with financial support to SMB include Mercy Corps International, USAID (implemented by ACDI/ VOCA), HIVOS, Euro-Asia Foundation, the Soros Foundation, British Know-How Fund, European Union (Project for New Independent States Kazakhstan Business Services), Peace Corps USA.

Domestic organizations involved in assistance to SMB include Congress of Kazakh Entrepreneurs, Kazakh Center of Entrepreneurship Support and Development, Kazakh Training Center, Women Entrepreneurs of Kazakhstan.

There is a stronger than ever need to revive for Kazakhstan, or newly develop, a regional level SMB program. It could complement the national projects, which are based primarily on efficient use of local human resources and target development of national capacities and institutions. Regional programs should help integrate the whole regional SMB-oriented technical assistance into one system. The regional program could bring important results without involving a lot of new funds and it may not require complicated extra arrangements. Its coordination and administrative center should remain lean and flexible in order to play to a greater extent a conceptual role as a think-tank. The main regional network could be created by chosen team members of existing national SMB projects, which would achieve new or additional tasks to represent the regional program directly in Kazakhstan. The *regional program* could:

- Help support and amplify national achievements and/or select stronger components of particular SMB projects, in order to create real life models and experimental labs for other projects and countries to follow;
- Facilitate information and experience exchange among particular national SMB projects;
- Work on permanent improvement of the whole SMB technical assistance system;

- Help expand the traditional pattern of SMB assistance by introduction of ambitious, innovative topics (such as e.g. assistance in introduction of venture capital financing)

Within the regional system, basic, regular information exchange should be secured. Dissemination of information and exchange of ideas aiming at permanent improvement of the system should be supported by regular meetings of national projects' representatives.

Government should in the long-run design a stable, truly supportive environment for SMB development, an environment in which competing enterprises could help develop desired market mechanisms and flexibly adjust to international standards at the same time generating additional incomes and securing new work places for the society.

The SMB sector requires a stable economic climate to formulate and execute its investment and saving plans. This should include:

- Stable rules governing property rights,
- Stable and simple rules of taxation,
- Efficient and independent system of enforcement of contract and other legal obligations.

Stability and efficiency within these three components of the macroeconomic and political system could help reduce excessive uncertainty in SMB activity. Due to the nature of the marketplace, SMB's functioning in any national economy is full of natural uncertainties both on the demand, as well as on the supply side. Uncertainties under a transitional economy (Kazakhstan) are usually much bigger and the entrepreneurs less experienced. Therefore, possible reduction of such uncertainties should become the highest priority of governments, even before they start dealing with other barriers.

The required changes have to be seen in the context of the required improvement of the economic system as a whole – most of the successful countries in SME development have had, first of all, efficient economic macro systems and within that framework were adding special incentives for SME. In many countries, where the lions share of the economy is and will be SMBs, we should talk about required changes in the whole system, not only within SMBs.

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6. *Al-Pari, Small & medium business development in Kazakhstan*, July 2000

Түйін

Бұл мақалада Қазақстанда орта және шағын бизнестің дамуы баяндалып, сарапталған. Орта және шағын бизнеске байланысты экономикалық және саяси шеңберде түрлі субъектілердің әрқилы түрлері қарастырылған.

Резюме

В данной статье рассматривается анализ малого и среднего бизнеса в Казахстане. Различные субъекты экономической и политической жизни имеют различные ожидания связанные с развитием малого и среднего бизнеса в Казахстане.

Özet

Bu makalede Kazakistan'da küçük ve orta boyuttaki şirketlerin gelişmesi incelenmiştir ve analiz edilmiştir. Küçük ve orta boyuttaki şirketlerle ilgili olarak ekonomik ve politik subjelerin çeşitli beklentileri beyan tespit edildi.