

Critical Issues of Starting Entrepreneurship in Kazakhstan

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Initiating and implementing an entrepreneurship start-up is a complex decision-making process, where many opportunities and risks need to be analyzed. To help entrepreneurs grow, policymakers should provide a favorable environment that facilitates business rather than creating obstacles. The article investigates the current entrepreneurship barriers in Kazakhstan, identifies the critical factors faced by entrepreneurs, and recommends some suggestions having policy implications. The researchers use a system approach known as the "Thinking Process" to identify the critical factors that hinder entrepreneurship, and determine the causal relationships between these factors. These relationships will help policymakers to create a better environment for starting entrepreneurship in Kazakhstan.

1. Introduction

Starting a new business or expanding an existing business is a critical decision-making process where many qualitative and quantitative factors need to be considered. Starting entrepreneurship is an investment decision that has serious impacts on business throughput. The entrepreneurship decision-making process should not be a trial and error process, because it is expensive and time-consuming.

Kazakhstan, the ninth largest country in the world, contributes to the world economy through its significant oil and gas reserves and large agricultural sector. Kazakhstan's economic growth, to a large extent, is due to huge natural reserves and the economy is stimulated by oil and gas production. However, the government has declared a policy of diversification away from oil and gas sector and formation of a middle class in Kazakhstan. The country has a great market potential which we can evaluate by comparing its per capita GDP (\$7800, in 2004). According to a recent UN report, average monthly earnings for the population increased by 32% in 2000-02, while unemployment decreased from 13.5% to 9.3%. The country's economy is expanding and creating many new business opportunities. The number of entrepreneurs is growing and there are said to be more than 5.5 million entrepreneurs in the country (Mustafina, 2004). Entrepreneurs are mostly from small business industries that range from construction, trade, commerce, small-scale manufacturing and services. Although these small business industries were previously ignored under socialism,

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recently they have managed to grow rapidly (Frye and Shleifer, 1997; Johnson, McMillan and Woodruff, 2002). The growth of small businesses in the Republic is increasing. As of October 1, 2004, there were 137,700 active registered small enterprises in Kazakhstan, compared to 125,200 a year ago (Statistics Department of the Republic of Kazakhstan, 2004).

Most business opportunities are centered on the major cities such as Astana, Almaty, Aktobe and Karaganda. In many of these cities, entrepreneurs have thrived despite poorly protected patents and equipment; contracts have been poorly enforced; taxes have been high and the regulations they face have been burdensome; they have regularly been forced to make extra-legal payments to local mafias and government organizations for protection; and they have had limited sources of external finance (Frye and Shleifer, 1997; Johnson, McMillan and Woodruff, 2002).

Constraints of entrepreneurship in Kazakhstan have been studied in literature. Several studies (Zhuplev et al. 1996, CIPE 2002, Low and Yermekbayeva 2005) explored small businesses in Kazakhstan. One remarkable study by Zhuplev et al. (1996) discovered the most important motivations and obstacles for start-up, operations and training of small businesses. The study identifies several important problems of business start-up such as lack of information and research, underdeveloped institutional sources of seed capital, taxation, finances, law and marketing. Among the obstacles, the most important factors are high interest rates, high tax levels and lack of financial support. As business environments change with time, it is important to find out the latest situation of entrepreneurship. Further, most of the identified factors are dependent on each other and previous studies have tried to figure out the key factors or root causes of problems or obstacles.

The researchers consider that with the change taking place in business environment, it is necessary to investigate the critical and root cause of the entrepreneurship problems and recommend respective actions that should be taken. With this in mind, a system approach called the Thinking Process (TP) is applied. In fact, TP is a very recent tool, and within our knowledge this tool has not been used before in any entrepreneurial research. With the aim of identifying the critical issues of starting a new business, the researchers conducted a small survey among local participants in Almaty. The researchers ranked the current entrepreneurship barriers and applied TP (Goldratt, 1990) to identify the critical factors and discuss policy implications.

2. Survey and Data Analysis

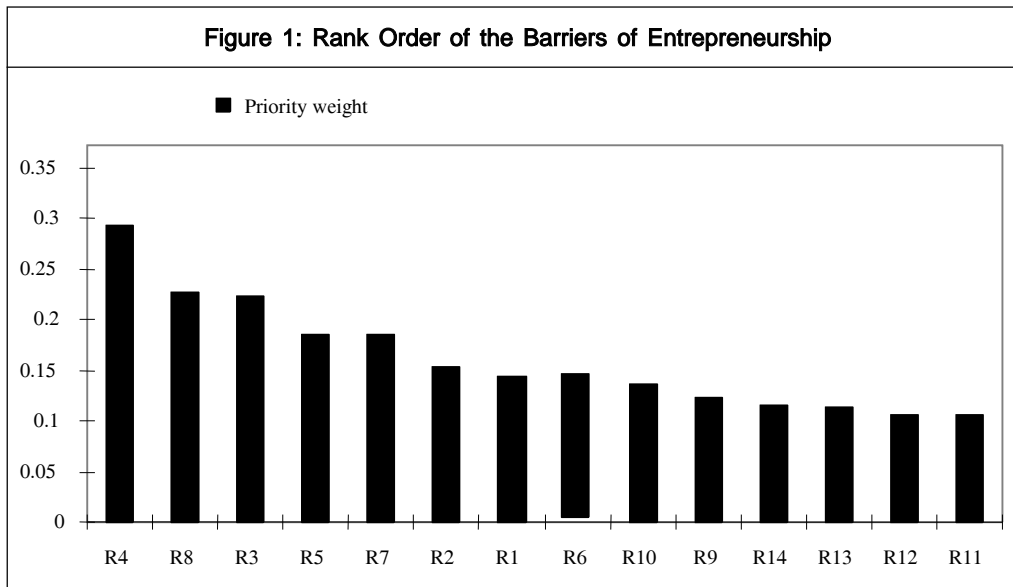
The researchers conducted a survey in Almaty amongst those who have previous experience of entrepreneurship, or are planning to do business in near future. From descriptive statistics, we found that among the respondents 87.5% have work experience in the private sector, and of them, 60% have previous business experience. The number of survey participants is 40 and their average age is 24.77 with a range of 20-37 years. The survey contains two important objectives: First, to find out the current major obstacles of starting business in Kazakhstan; and second, to identify the possible important factors for policy implication. From literature we incorporated 14 possible factors (Tables 1 and 2) and asked the respondents to rank the important factors in order of priority from 1 to 14.

2.1 Current Impression of Entrepreneurship

According to the survey, the biggest problem of starting an entrepreneurship is that one has to face too many regulatory controls. Here the controls are from the government with an

ex-soviet mentality. The other most important factors are lack of capital or financial support, high tax or customs duty, excessive entry costs for entrepreneurs, too much government interference in private enterprises and unavailability of suitable technology. The details about the factors and their relative ranks are shown in Table 1 and Figure 1 respectively. From the recent World Bank report of Doing Business in 2006, we have a more in-depth analysis of

Factors	Total Weight
R1: Business inputs are not available	0.142
R2: Suitable technology is not available locally	0.15
R3: High tax or custom duties	0.22
R4: Too much regulatory government controls for start-up	0.29
R5: Excessive entry costs for entrepreneurs	0.181
R6: Poor support from government organization/officials	0.14
R7: Too much government interference in private enterprises	0.18
R8: Lack of capital or funds/limited access to financial resources	0.23
R9: Little or no experience in business	0.12
R10: Not enough business contacts	0.13
R11: Lack of entrepreneurship training	0.10
R12: Lack of trained business staff	0.10
R13: Lack of access to information	0.113
R14: Lack of business opportunity	0.114



these factors and can compare Kazakhstan with other countries in this region and the OECD countries.

To start up, the current system of entrepreneurship is too regulatory and time-consuming. There is much government interference in private enterprises and the country has a confusing licensing system for new entrepreneurs. The World Bank report—Doing Business in 2006 (World Bank, 2005)—also shows that the total process of issuing a new business license needs

32 steps and takes 258 business days and the cost is 68.3% of income per capita. Comparatively, the regional average number of steps is 21 and the total processing time is only 251 days.

Starting a new business in Kazakhstan is challenging, and the recent survey shows that entrepreneurs can expect to go through seven steps to launch a business over 24 days on average, at a cost equal to 8.6% of Gross National Income (GNI) per capita. Entrepreneurs must deposit at least 26.6% of GNI per capita in a bank to obtain a business registration number. Compared to neighboring countries this is not too bad, but compared to OECD countries the process is time-consuming and costly. Furthermore, registering a business property is also a time-consuming process and takes nearly eight steps (regional average six steps) and 52 days (regional average 127 days) at a cost of 1.6% of the property value.

In Kazakhstan, entrepreneurs pay high tax and customs duties involving more hassles. The current taxation and accounting system is confusing and suffocating. For paying taxes to government a medium-sized enterprise must make 34 payments, spend 156 hours, and pay 41.6% of gross profit in taxes. Even though the situation is better than the neighboring Commonwealth of Independent States (CIS), compared to OECD countries the performance is not promising.

For business operation, many entrepreneurs trade across the borders. For logistic purposes, entrepreneurs need to depend on others outside the territory. Cross-border businesses involve export and import for finished or semi-finished products and raw materials or other business inputs. In every country, there are some procedural requirements for exporting and importing a standardized cargo of goods. A recent (World Bank, 2005) survey shows that Kazakhstan is far behind the OECD and regional averages in terms of business done across the borders. It shows that there are many procedures and steps needed to be followed, starting from the time of preparing the necessary documents to the time the cargo is in the warehouse of the client. Many documents and signatures for clearing the goods across the border are needed. The results show that for exports, entrepreneurs need to go through 14 documents and 15 signatures that take around 93 days. On the other hand, for imports, it is necessary to go through 18 documents from start to finish that need 17 signatures and a total of 87 days to complete the process. The bureaucratic processes hinder the business processes and increase the cost of products that in the long run are paid by the customers. This red tape is estimated to cost more than 10% of the value of exports in developing countries (World Bank, 2005).

If we compare our survey report with the World Bank report, it reinforces the fact that the existing entrepreneur start-up system is hindered by the current red tape and due to change in the government officials' mindset. Further works are needed to make the system more efficient.

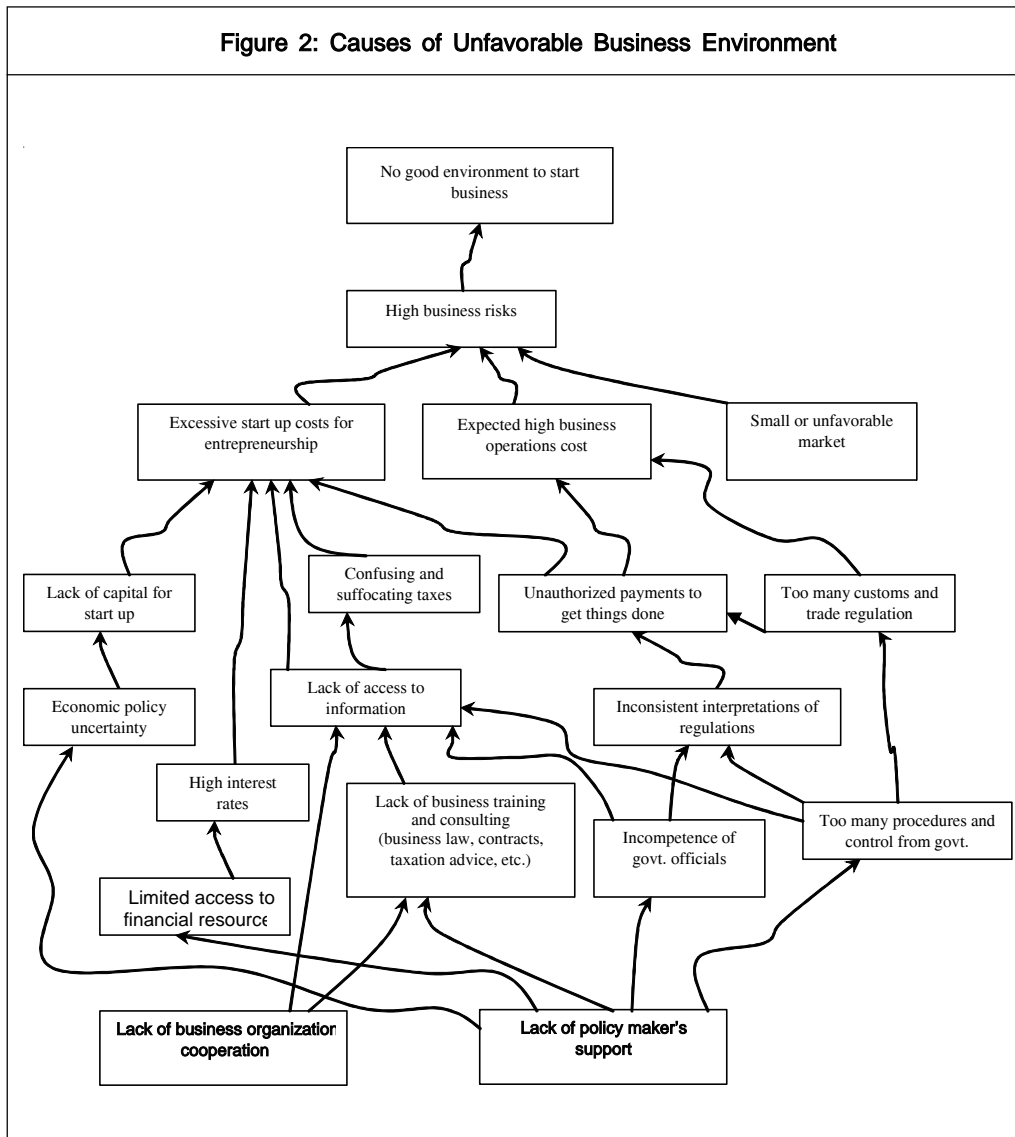
2.2 Searching for Critical Factors

To identify critical factors of starting a business in Kazakhstan and to determine the causal relationships between these factors, a system approach known as Thinking Process (TP) is applied. Goldratt (1990) developed the TP methodology to address policy constraints and create effective solutions using common sense, intuitive knowledge and logic (Rahman, 2002).

Usually the factors are mostly policy-related and are difficult to identify and evaluate because of their cross-functional areas. While dealing with entrepreneurship barriers policymakers are required to make the following generic decisions (Goldratt 1990): (i) Decide what to change—finding the core problem; (ii) decide what to change to—probable solution

of the core problem; and (iii) decide how to cause the change—how to do it. As the purpose is to identify the core problem of starting an entrepreneurship and suggest some recommendations for policy implication, the researchers focus on the first two steps of TP.

In Figure 2, we develop a tree and analyze the current causes of unfavorable business environment. The diagram identifies cause and effect relationship of different undesirable effects. The diagram is constructed from the top-down; however, it is read from bottom-up (cause-effect). The core problem appears to be with the policymaker's support. Due to the lack of supportive decisions, many interrelated problems or effects are generated that creates high

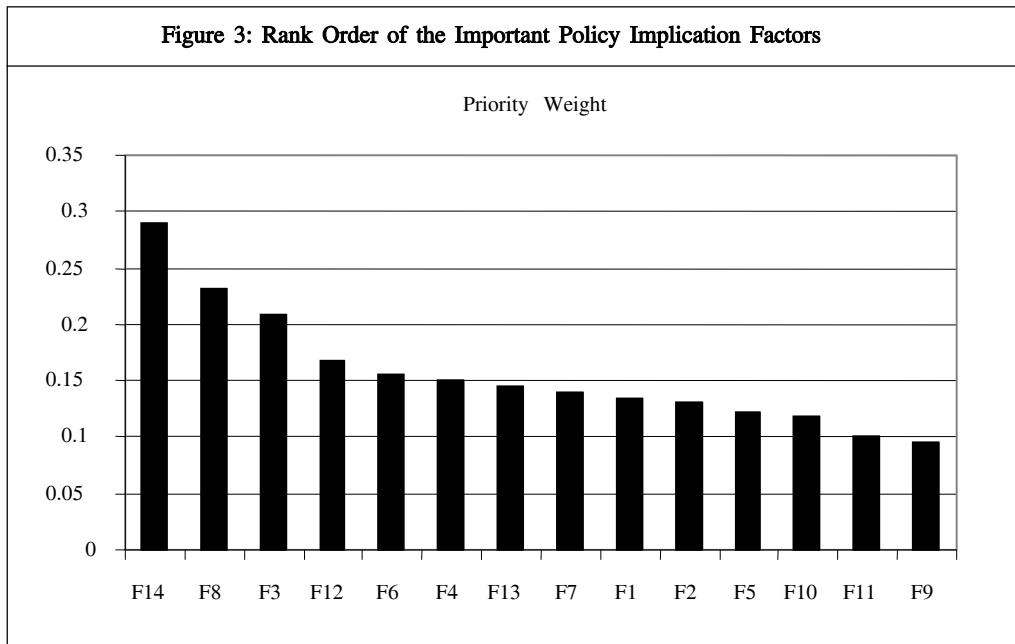


or excessive business start-up cost. Further, more operations cost and small and unpredictable market demand creates a riskier business environment that is discouraging for new entrepreneurs to start business.

3. Policy Implications

To incorporate entrepreneurs' view with regard to policymaking, the researchers asked the respondents to rank 14 factors (Table 2). The purpose is to demonstrate the usefulness of including entrepreneurs' opinion in the policymaking process. The most important factor to start a new business is mentioned as creating a good business environment. According to priority, other important factors are to provide business training, to ease trade-related rules and regulations and to share information among different interested groups. The detailed ranking is shown in Figure 3.

Factors	Total Weight
F1 Business inputs made available	0.133
F2 Custom duties lowered	0.131
F3 Simplified regulations for doing business	0.209
F4 Reduced or fewer penalties for entrepreneurs	0.149
F5 Increased knowledge and empathy of government officials towards business	0.122
F6 New business contracts provided through Chambers and Associations	0.156
F7 Funds made available	0.139
F8 Staff training made available	0.230
F9 Entrepreneurship training made available	0.095
F10 Market made available	0.117
F11 Tax simplified	0.101
F12 Information made more readily available	0.168
F13 Provisions of good infrastructure and telecommunications	0.144
F14 Create opportunities or environments to make money or profits	0.290



Survey results indicate that creating business opportunities to make money or profit is the most important issue for a better entrepreneurship environment. Government regulations and red tape should be minimized. There are many rules and regulations and procedures in Kazakhstani bureaucratic management with complicated administration. In government organizations, the existence of many written norms and standards require additional staff and consulting agencies. Constantly changing legislation also creates bureaucracy among the different public sectors. For new business contracts, existing procedure is bureaucratic so it is time-consuming, costly and is often not clear to the issuing authority. Officials are not well-trained or well-informed about the rules or procedures, and there are inconsistencies in interpretation of regulations. Unofficial payments or requested gifts are common to “get things done” for entrepreneurs (respondents’ input). New business contract processes need further modification so that they become transparent to all, and that there is less red tape. The respondents of the survey suggested that the authority to issue contracts should be transferred to independent organizations like the local Chamber of Commerce Association or others.

Necessary information or database access for local entrepreneurs is limited and very difficult to achieve. The overall mentality or tendency is to keep everything secret and collecting information is a big hassle. Infrastructure for available information hasn’t yet developed. Although the latest telecommunication technology is available, long distance local and international calls are very expensive. Internet use is still limited within the large cities and most telephone connections are analog that makes dial-up Internet connection slow. The fiber-optic cable installation project could be a solution. As the country is huge and the geographical condition of the country is difficult for land phone line, mobile phone use is increasing day by day.

Training and consulting is one of the most important issues for better entrepreneurship environment. Training could be provided for taxation advice and planning; obtaining seed money or loans for start-ups; explaining new business laws, contracts and negotiations; import-export and marketing. The government can use the public media and can open training agencies.

Furthermore, it is an important issue for Kazakhstan authorities to create an environment for local business wherever possible and to train the indigenous population for starting new businesses rather than waiting to work for the government. Parallel to government efforts, it is also a duty of existing successful entrepreneurs to provide support and assistance to the newcomers. This coincides with Dever’s (2005) observations that in emerging economies such as in Kazakhstan, the locals—indeed, no need for them to be told by the government—should encourage newcomers, as well as just grab opportunities to do business where possible. The locals should see the positive aspects of entrepreneurship, and simply forge ahead.

Besides, local or foreign successful entrepreneurs working within the territory could provide consultancy services to new entrepreneurs in various aspects including business plan preparation, start-up assistance, marketing and financial analysis, provision of business information, advice on loan application procedures and training in different areas of business management.

It can be seen from the analysis of the current situation (Figure 2) that if the policymaker or government and existing successful entrepreneurs extend their hands to support new entrepreneurs, definitely there will be a better environment for business start-ups. Support could also be in the form of cooperation rather than creating impediments or doing nothing.

Government can provide a better infrastructure for new businesses by providing useful information for new business opportunities and reducing unnecessary steps, time and costs of complying with licensing and permit requirements. Among financial facilities, the government can reduce taxes from the current 41.6% (World Bank, 2005) of profit. Otherwise there will be a tendency of tax evasion and an increase in the number of defaulters. Additionally, for small business ventures, interest rates could be lowered further. Another important step to be taken is to ease the existing laws to expand access to credit. This is because the current scope, access and quality of credit information available through public registries or private bureaus are very limited.

4. Conclusion

This study aims to investigate the critical issues of starting entrepreneurship. The researchers conducted a survey and ranked the key critical factors that create obstacles in starting a new business in the country. We further developed a cause-effect relationship between the important factors and found that government policy and existing entrepreneurs could play a key role in improving the current barriers to starting entrepreneurship in former Soviet economies now embracing the market economy. Once policymakers or supportive organizations can provide a positive entrepreneurial environment, people will be interested to start their businesses. There will be less start-up costs, less business operations cost, and an increase in overall productivity. Furthermore, if there are market demands there will be more sales or profits and new businesses will continue to grow in Kazakhstan. It is a good indication that parallel to the government, different non-profit organizations and successful entrepreneurs have already started entrepreneurship support programs in Kazakhstan. In line with governmental efforts, it is also a duty of existing successful entrepreneurs to provide support and assistance to newcomers. Successful entrepreneurs should encourage or mentor newcomers while grabbing opportunities to do business where possible. The locals should see the positive aspects of entrepreneurship, be resilient, and simply forge ahead.

Additionally, collecting more data from different regions of the country could further extend the study. Further, instead of providing a set of possible barriers of entrepreneurship, it could be possible to ask the respondents in a free format manner, that is, they give their own opinions regarding the current situation. The researchers can also ask the respondents about their areas of interest for starting business. Factors of starting a business could also depend on the type of business and the area of research could be extended further along that line.□

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