Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

ENTERPRISE SURVEYS
COUNTRY NOTE SERIES

63664

2011
COUNTRY NOTE NO. 11
WORLD BANK GROUP

KAZAKHSTAN

Running a Business in Kazakhstan

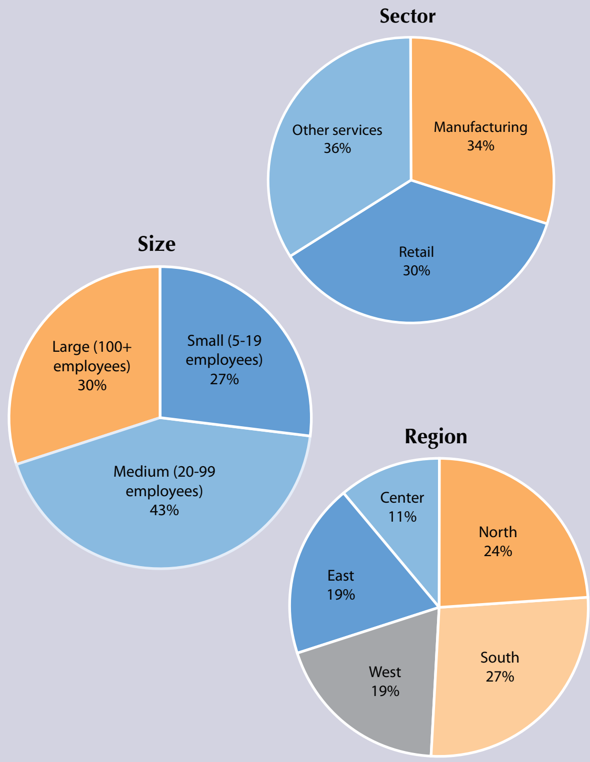
New Enterprise Surveys data indicate that firms in Kazakhstan are more likely to face corruption and are less integrated in global trade (figure 1) when compared to the rest of the countries in the Eastern Europe and Central Asia region (ECA). The duration of power outages is high relative to the ECA region, and Kazakhstan businesses report large losses due to crime (table 1). However, the amount of senior management time spent dealing with government regulations is notably low compared to other ECA countries, and the share of financing by banks in firm investment has risen over time.

The Enterprise Surveys[1] use standard survey instruments to collect firm-level data on the business environment from business owners and top managers. The surveys cover a broad range of topics including access to finance, corruption, infrastructure, crime, competition, labor, obstacles to growth and performance measures. The survey is designed to be representative of a country's private nonagricultural economy and firms sampled are stratified by size, location,[2] and sector (figure 2)[3] to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. In Kazakhstan, 544 firms were interviewed from September 2008 through February 2009. The information collected refers to the characteristics of the firm at the moment of the survey or to fiscal year 2007.

Figure 1 Relatively few Kazakhstan firms engage in exporting

Source: Enterprise Surveys.

Figure 2 Characteristics of the firms interviewed



Source: Enterprise Surveys.

Table 1 How does Kazakhstan 2009 compare within Eastern Europe and Central Asia	
Ranking 1 assigned to the largest value	**Descending ranking (out of 29 countries)**
Percent of firms formally registered when started operations in the country	17
Private domestic ownership (%)*	4
Private foreign ownership (%)*	25
Government/state ownership (%)*	14
Percent of firms with female participation in ownership	17
Bank finance for investment (%)	20
Percent of exporter firms	27
Domestic sales (% of sales)	5
Percent of firms with internationally recognized quality certification	26
Percent of firms with annual financial statement reviewed by external auditor	23
Capacity utilization (%)	7
Percent of firms using their own Web site	25
Percent of firms using e-mail to communicate with clients/suppliers	19
Ranking 1 assigned to the smallest value	**Ascending ranking (out of 29 countries)**
Value of collateral needed for a loan (% of the loan amount)	2
Number of power outages in a typical month	17
Senior management time spent in dealing with requirements of government regulation (%)	3
Average number of visits or required meetings with tax officials	26
Incidence of graft index **	24
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	29

Source: Enterprise Surveys.
Note: This table presents a ranking out of 29 economies for each of the listed indicators. The numbers are ranks as opposed to the actual value of the indicator.

What is the average firm in Kazakhstan?

The average firm in Kazakhstan[4] is significantly younger than the average firm in the ECA region (10 years old vs. 14 years old), and the experience (in years) of the average Kazakhstan manager is below the average in the region (13 years vs. 16 years). However, the percentage of females in top management positions (25 percent) is higher in Kazakhstan compared to the EU-10 group of countries, as well as to the average for all ECA countries (table 2).

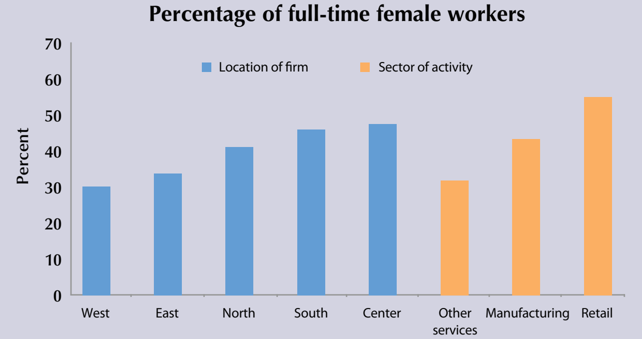
Firms in Kazakhstan also vary in the gender composition of their workforce: Firms managed by women have almost two times the proportion of full-time female employees (62 percent) compared to those firms managed by men (34 percent). Female participation in the workforce also varies by geographic region: Firms in the West region employ relatively few women compared with firms in the Center region (figure 3). Furthermore, firms in the South region are almost twice as large as firms in the West region, and

Table 2 The average firm in Kazakhstan 2009

	Kazakhstan	**ECA-29†**	**EU-10‡**
Age (years)	9.5	13.9	13.9
Percent of firms formally registered when started operations in the country	97.4	96.8	98.7
Most common legal form	Closed Shareholding Co.	Closed Shareholding Co.	Closed Shareholding Co.
Private domestic ownership (%)*	96.1	91.3	90.3
Private foreign ownership (%)*	3.1	6.2	7.4
Government/state ownership (%)*	0.9	1.1	0.5
Percent of firms with female participation in ownership	34.4	36.7	39.0
Percent of firms with female in top management position	24.7	18.9	22.2
Experience of the top manager (years)	13.3	16.1	17.2
Average number of temporary workers	1.8	3.2	2.5
Average number of permanent, full-time workers	55.0	43.4	36.4
Percent of full-time female workers	41.3	38.5	40.1

Source: Enterprise Surveys.
Note: In the survey questionnaire, the phrase "Limited Liability Company or Closed Joint Stock Company (shares traded privately if at all)" was used for "Closed Shareholding Company."

Figure 3 **Female participation in the workforce varies across firm location and sector of activity**



Source: Enterprise Surveys.

the few foreign owned firms[5] in Kazakhstan are almost three times as large as firms that are domestically owned (144 permanent employees vs. 51 permanent employees).

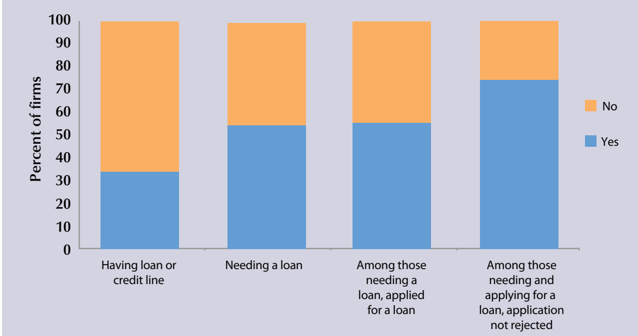
Kazakhstan stands out in the ECA region for its high rate of female participation in top management (table 2). Female participation in top management is more common in retail firms. Female management is more common in smaller firms: 33 percent of small firms are run by women, versus 21 percent of medium firms and 10 percent of large firms.

How do businesses operate in Kazakhstan?

On average, the share of internal financing in firm investment is about 69 percent in Kazakhstan, the 6th highest in the ECA region. Moreover, the share of financing by banks is 18 percent, well below the ECA average of 23 percent (table 3). Only 33 percent of Kazakhstan firms had a bank loan, which is also low by ECA standards. Ninety-four percent of the loans taken by Kazakhstan firms require collateral. In the ECA region, only in Uzbekistan is the prevalence of loans requiring collateral higher. On the other hand, the value of collateral needed for a loan by a Kazakhstan firm is only 91 percent of the loan amount, lower than that in all other ECA countries, except Turkey.

Our data reveal significant differences in the use of financing from banks among Kazakhstan firms. Forty percent of large firms report using banks to finance investment; in contrast, only 19 percent of small firms use banks for financing. This percentage is 37 percent for manufacturing firms, but only 15 percent for retail firms. Nearly 100 percent of the loans taken by small firms required collateral. Nineteen percent of small firms have bank loans, versus 58 percent of large firms. Not all firms that need a loan get one. Among the 54 percent of firms in need of external financing, only 56 percent apply for a loan and only 75 percent of those that apply are not rejected (figure 4). Finally, domestically owned

Figure 4 **Credit needs of Kazakhstan firms**



Source: Enterprise Surveys.

Table 3 **Choices by the average firm in Kazakhstan 2009**

	Kazakhstan	ECA-29†	EU-10‡
Internal finance for investment (%)	68.7	59.7	58.8
Bank finance for investment (%)	17.7	22.9	25.7
Value of collateral needed for a loan (% of the loan amount)	91.2	132.2	123.4
Loans requiring collateral (%)	94.4	81.0	74.2
Percent of firms with a checking or savings account	92.1	88.9	85.2
Percent of exporter firms	4.9	22.1	29.1
Domestic sales (% of sales)	97.9	90.8	88.3
Sales exported directly (% sales)	1.3	7.1	9.5
Sales exported indirectly (% sales)	0.8	2.0	2.2
Sales that are pre-paid (%)	46.7	23.0	11.2
Sales sold on credit (%)	28.5	49.4	66.3
Percent of firms with internationally recognized quality certification	10.8	20.0	25.8
Percent of firms with annual financial statement reviewed by external auditor	25.3	37.9	38.6
Capacity utilization (%)	80.4	73.7	81.3
Percent of firms using their own Web site	26.5	48.5	63.6
Percent of firms using e-mail to communicate with clients/suppliers	67.6	73.1	88.3

Source: Enterprise Surveys.

firms appear to use more trade credit than foreign owned firms; the share of sales sold on credit is 28 percent for the former and 44 percent for the latter.

Foreign trade is relatively uncommon in Kazakhstan firms. Only 5 percent of Kazakhstan firms are exporters. Within the ECA region, only Uzbekistan and Azerbaijan export less than 5 percent. Not surprisingly, the percentage of Kazakhstan firms' domestic sales (98 percent) is the 5th highest in the ECA region. Forty-five percent of Kazakhstan firms use inputs of foreign origin, a usage rate in the bottom third of ECA countries. This could be related to the fact that the average time to clear imports from customs is 14 days, and is higher only in Tajikistan, Armenia and Uzbekistan. Fifty-nine percent of firms in the South region use inputs of foreign origin, a percentage significantly higher than that in other regions of Kazakhstan.

Forty-five percent of Kazakhstan firms are expected to give gifts to secure a government contract.

Kazakhstan lags behind its peers regarding technology use and international standards for accounting and quality certification. Kazakhstan ranks 26th in the ECA region in terms of the percentage of firms with an international quality certification and 23rd in terms of the percentage of firms with annual financial statements reviewed by an external auditor. Only 27 percent of Kazakhstan firms use their own Web site; rates are lower only in Uzbekistan, Tajikistan, Azerbaijan and Kyrgyz Republic. Large Kazakhstan firms, compared to small and medium ones, are significantly more likely to have international quality certifications, to have their annual financial statements reviewed by an external auditor, and to use e-mail (and the Internet) to communicate with clients or suppliers

What constrains firms in Kazakhstan?

Firms in Kazakhstan report a notably low percentage (5 percent) of senior management time spent dealing with government regulations (table 4). In the ECA regions, only Georgia and Azerbaijan report a lower percentage for the "time tax." But other measures of regulatory burdens on firms suggest a different picture. The average Kazakhstan firm experiences three visits from tax officials, a number higher than that in all other ECA countries, except FYR Macedonia, Albania, and Republic of Kosovo. Similarly, the number of days to obtain an import license in Kazakhstan is nearly 23, the 6th highest in the region. Twenty-five percent of Kazakhstan firms state that the business licensing and permitting process poses major constraints to conducting business; only in Romania, Ukraine and Belarus is that percentage higher. The data also suggest that the large firms have to deal with greater regulation, since senior management in large Kazakhstan firms spend nearly 9 percent of their time dealing with government regulations, a percentage twice that reported by small and medium firms. Further, it takes as long as 41 days to obtain an operating license in the East and West regions of Kazakhstan as opposed to only about 22 to 26 days in other regions.

Survey data suggest that corruption is an important issue for firms in Kazakhstan. Forty-five percent of Kazakhstan firms are expected to give gifts to secure a government contract. Among ECA countries, only Latvia, Uzbekistan and the Kyrgyz Republic rank lower by this measure. Moreover, the average value of gifts expected to secure a government contract is 5 percent of the contract value, the second highest in the ECA region. Twenty-five percent of firms are expected to give gifts in meetings with tax officials, and 34 percent of firms are expected to make informal payments to get things done, both of which are also among the highest rates in ECA countries. Moreover, 30 percent of Kazakhstan firms are expected to give gifts to get an operating license. Only in Uzbekistan, Azerbaijan, Ukraine and Tajikistan is this percentage higher.

Looking across firms within Kazakhstan reveals several interesting patterns in the way corruption is experienced

Table 4 Constraints on the average firm in Kazakhstan 2009

	Kazakhstan	ECA-29†	EU-10‡
Number of power outages in a typical month	2.8	5.2	2.1
Senior management time spent in dealing with requirements of government regulation (%)	4.7	10.6	9.5
Average number of visits or required meetings with tax officials	2.6	1.6	1.1
Percent of firms expected to pay informal payment to public officials (to get things done)	34.1	23.1	12.7
Incidence of graft index**	21.9	13.5	6.8
Losses due to theft, robbery, vandalism, and arson against the firm (% of sales)	1.0	0.5	0.4
Percent of firms paying for security	57.8	57.7	62.2

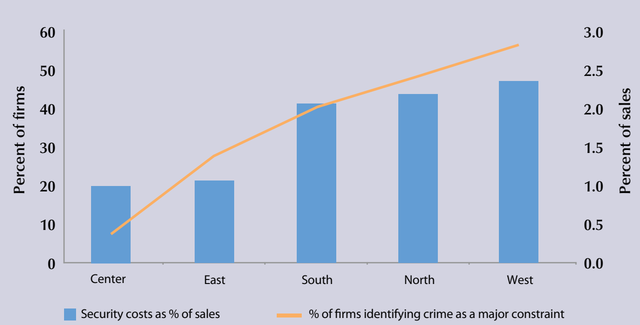
Source: Enterprise Surveys.

by different types of firms. Thirty-seven percent of other services firms are expected to make informal payments to get things done, compared to only 27 percent of retail firms. Among male managed firms, this percentage is 37 percent, as opposed to 24 percent in female managed firms. Forty-one percent of firms located in the South region are expected to give gifts in meetings with tax officials, an incidence substantially higher than that reported for other regions. Nearly 46 percent of large firms are expected to give gifts to secure a government contract, but this rate is only 10 percent for small firms.

The average Kazakhstan firm experiences three power outages in a typical month. The mean power outage duration is 6 hours, which ranks the 5th highest in the region. This duration is 8 hours for a manufacturing firm, and 3 hours for a retail firm. Not surprisingly, Kazakhstan firms report a relatively high number of sales lost due to power outages (4 percent of sales). Further, it takes 40 days to obtain a mainline telephone connection; only in Serbia and Poland is this delay longer.

Kazakhstan firms experience high levels of crime; losses due to crime (such as theft and robbery) are higher than in all other ECA countries (at 1 percent of sales). On average, the cost for security is 2 percent of total sales, being higher only in Azerbaijan, the Kyrgyz Republic, FYR Macedonia, and the Republic of Kosovo. Eighty-two percent of large Kazakhstan firms pay for security, while this percentage is 47 percent for small firms. Eighty-five percent of exporting firms pay for security, as opposed to 57 percent of non-exporting firms, and losses due to crime are only 0.1 percent of sales for the former versus 1 percent for the latter. Exporters are also much more likely than non-exporters to identify crime, theft and disorder as a major constraint (74 percent vs. 41 percent). The data suggest some regional difference in the incidence of crime against firms with both security costs (as a percentage of sales) and the share of firms that identify crime, theft and disorder as a major constraint being lowest in the Central region (figure 5).

Figure 5 **Firms spend more on security in regions where they identify crime as a major constraint**



Source: Enterprise Surveys.

How has the business environment changed over the past three years?

The Enterprise Surveys data provide the tools to monitor changes in the business environment across different rounds of surveys. In Kazakhstan, 77 of the 544 firms surveyed in 2008 were also previously surveyed in 2005.[6] Since the same firms are interviewed over time, this subset of data is more appropriate for evaluating the evolution of the business environment and the impact of business environment reforms than the full data sets for both years. Considering the full data sets would introduce effects that are the result of variations in the sample composition over the two years.[7] Therefore, the following analysis refers only to those firms that were interviewed in both rounds of surveys.

The value of collateral needed for a loan declined from 153 percent to 90 percent of the loan amount.

As noted earlier, exporting activity in Kazakhstan firms is low compared to most of the ECA region. Our data also suggest that this activity has been declining over time: Among the subset of Kazakhstan firms interviewed in both years, 12 percent were exporters in 2005 and only 5 percent remained so in 2008. Regarding the overall regulatory burden, among panel firms over the three-year period, the "time tax" has more than doubled from 2.4 percent to 5.6 percent of senior managers' time spent dealing with the requirements of government regulations. Average security costs have also risen from 1 percent to 2 percent of sales.

Further, data from firms interviewed in both 2005 and 2008 indicate substantial changes in firm financing. In particular, the value of collateral needed for a loan declined from 153 percent to 90 percent of the loan amount, and the share of bank finance in investment doubled from 21 percent in 2005 to 44 percent in 2008. However, it is important to note that due to the small size of the panel sample, it is not possible to make inferences for the whole country. There have also been marked changes in trade financing, with the percentage of sales sold on credit increasing from 14 percent to 29 percent, and the percentage of sales that are prepaid rising from 24 percent to 43 percent.

To summarize, firms in Kazakhstan report facing more constraints than the average firm in the ECA region along many dimensions of the investment climate. For example, corruption in Kazakhstan, as measured by the graft index, is worse than the ECA average, and firms are exposed to corruption particularly when applying for government contracts. Streamlining regulation to diminish opportunities for bribe collection is one possible way to overcome these challenges. Attention should also be given to crime and security, bank financing, the provision of electricity and to understanding why international trade in Kazakhstan firms is declining.

Notes

1. The Enterprise Surveys, implemented in Eastern Europe and Central Asia countries, are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and are jointly conducted by the World Bank and the European Bank for Reconstruction and Development for this geographic region.
2. The Center region includes the cities of Karaganda and Temirtau, the East region includes Semipalatinsk and Ust-Kamenogorsk, the North region includes Astana, Kokchetau, Kostanay, Pavlodar, and Petropavl, the South region includes Almaty, Kapchagai, Kyzylorda, Shymkent, and Taldykorgan, and the West region includes Aktobe, Atyrau, and Uralsk.
3. This figure presents the unweighted distributions by size, sector and location of the firms interviewed without any inferences to the whole economy.
4. The term "average firm" is used to convey the average firm characteristics from the Kazakhstan 2009 Enterprise Survey. The sample of firms interviewed is representative of the manufacturing and services sectors of the economy. For more information on the survey methodology please consult http://www.enterprisesurveys.org/Methodology/.
5. Firms with >= 10% of foreign ownership are defined as foreign-owned.
6. The information collected in 2005 refers to the characteristics of the firm at the moment of the survey or to fiscal year 2004.
7. The firms surveyed in both years may not be representative of the Kazakhstan's private nonagricultural economy since these are a subset of the full sample. Firms with fewer than five employees may be included among the firms surveyed in both years. The analysis presented is purely descriptive and does not aim at establishing causality between reforms and their intended effects.

* The ownership variables represent the average ownership composition within a firm. These variables do not represent the ownership composition across firms.

** The Incidence of Graft Index is the percentage of instances in which a firm was either expected or requested to provide a gift or informal payment during solicitations for public services, licenses or permits. This Index uses data from six survey questions for each firm. For purposes of Index computation, a refusal to answer a particular survey question is considered an affirmative answer. This Index is a modified version of the Graft Index defined in A. Gonzalez et al. (2007). World Bank Policy Research Working Paper #4394.

† ECA-29 includes Albania 2009, Armenia 2009, Azerbaijan 2009, Belarus 2009, Bosnia and Herzegovina 2009, Bulgaria 2009, Croatia 2009, Czech Republic 2009, Estonia 2009, Georgia 2009, Hungary 2009, Kazakhstan 2009, Republic of Kosovo 2009, Kyrgyz Republic 2009, Latvia 2009, Lithuania 2009, FYR Macedonia 2009, Moldova 2009, Montenegro 2009, Poland 2009, Romania 2009, Russian Federation 2009, Serbia 2009, Slovak Republic 2009, Slovenia 2009, Tajikistan 2008, Turkey 2008, Ukraine 2008, and Uzbekistan 2008.

‡ EU-10 includes 2009 data from Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia

The Enterprise Surveys measure the business environment in over 100 countries in the world. A standardized questionnaire, universe under study, and implementation methodology is used to make sure information is comparable across countries and time. The full data and documentation explaining the methodology are available at www.enterprisesurveys.org.

The Country Notes are a product of the staff of the Enterprise Analysis Unit. The findings, interpretations, and conclusions expressed in this note are entirely those of the authors. They do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the governments they represent.

THE WORLD BANK

International Finance Corporation
World Bank Group