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**SUCCESS STORIES**

# BEIR & KSBD

**KAZAKHSTAN KYRGYZSTAN TAJIKSTAN**



Implemented by  
The Pragma Corporation

**AUGUST 2009**

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# **SUCCESS STORIES**

**Business Environment Improvement Project (BEI)**

**&**

**Kazakhstan Small Business Development Project (KSBD)**

**August 2009**

**DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## Support for Small and Medium Enterprises

### The Kazakhstan Small Business Development project promotes best practices and builds capacity

The Kazakhstan Small Business Development (KSBD) project is pleased to present representative success stories from its second and third years of activity. KSBD is a four-year project jointly funded by USAID and the Government of Kazakhstan and implemented by The Pragma Corporation.

KSBD's activities focus on two major areas. First, KSBD assists the Government of Kazakhstan in supporting the development of small and medium enterprises (SMEs). The Government recognizes the essential role of the SME sector in developing a competitive, diversified, and innovative market economy in Kazakhstan. Moreover, it knows that support for the SME sector is especially critical during the current global economic downturn. KSBD works with the Government both to improve the legal and regulatory framework for SMEs and to increase the capacity of government agencies and organizations to design, manage, and evaluate programs and policies supportive of SMEs. To develop a better environment for SMEs, KSBD helps the Government apply international best practices through the following activities:

- Participation in Government-sponsored public and private sector working groups, including those focused on policy and access to credit for SMEs
- Conferences and workshops on topics such as competitiveness and microfinance
- International study tours for government officials and private sector representatives
- Visits by international experts to discuss issues such as public-private partnerships.
- Research on relevant trends, analyses of best practices, and the experience of countries with similar needs and conditions (including comparative analyses with Kazakhstan)
- Capacity building within government institutions, including improved strategic planning

Second, KSBD helps build the capacity of training and consulting business service providers throughout Kazakhstan to enable them to support entrepreneurs and small business managers. KSBD has developed a national portfolio of products that service providers can use to support SME development including *Start Your Business* (for entrepreneurs), *Business Essentials* (for small business managers), *Consulting Essentials* (for consultants) and an *SME tool kit of management tools* to improve business performance.

KSBD has made good use of public and private sector partners to leverage project resources and expand its impact. These partners also enable us to target particular social and economic groups, and provide a basis for continuing programs beyond the life of the project. In particular, KSBD has worked with ExxonMobil to provide business training to women in Kazakhstan, and with Baker Hughes and Chevron to provide a special entrepreneurship course, *Know About Business*, in vocational schools across the country.

As the following stories show, our successes to date are impressive. These successes are an encouragement to those of who work on KSBD and make us confident that our work with public and private partners will continue to catalyze economic growth and promote the public welfare.

Greg Hemphill  
Chief of Party  
USAID Kazakhstan Small Business Development Project



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## **A Better Business Environment for Economic Growth**

### **The Business Environment Improvement project fosters reform in Kazakhstan, the Kyrgyz Republic, and Tajikistan**

Success is always something to be proud of, and success measured in terms of positive impacts on the lives of others is particularly satisfying. Thus, we at The Pragma Corporation are especially pleased to share selected stories of the successes achieved by the Business Environment Improvement (BEI) project from January 2008 through September 2009.

The BEI project, funded by USAID and implemented by Pragma, works in partnership with national and local governments, business associations, media counterparts and other partners in Kazakhstan, the Kyrgyz Republic, and Tajikistan to improve the legal environment for small and medium enterprises. BEI focuses on reducing legal barriers to business activity, streamlining regulatory procedures, enhancing the security of property rights and the returns on labor and capital investments in economic activity, and participating in the policy-making process. These reforms will stimulate the economies of the target countries by reducing burdens on business and allowing the development of a market-driven economy. In turn, a healthy and viable business sector will improve the lives of citizens through increased jobs and better services and goods.

The BEI project has achieved significant success working in collaboration with the governments and private sectors of the target countries. This success is reflected in the 2009 World Bank publication, *Doing Business*, which recognized the Kyrgyz Republic as the third best reformer in the world. A fair share of the credit for the reforms undertaken by the Kyrgyz government goes to BEI. Kazakhstan and Tajikistan have also seen significant improvements according to the indicators used in *Doing Business*. Beyond those reforms captured by the World Bank indicators, BEI has succeeded in initiated a series of reforms and government restructuring efforts related to inspections, licensing, and the elimination of redundant, illegal and excessive requirements in Kazakhstan and the Kyrgyz Republic.

Changing rigid legal regimes to support a less restrictive market-oriented economy is complicated and takes time. We believe the results – greater economic opportunity and prosperity for current and future generations – are worth the effort. We must unshackle rugged individual entrepreneurs and risk-taking visionary investors from government interference, corruption, and inefficiencies as it is these individuals who will drive future economic growth and security. We at the BEI project look forward to providing continued support for legal reforms and the effective implementation of pro-growth policies in Central Asia. As these stories show, our efforts are making a difference.

Terence Slywka  
*Chief of Party*  
*USAID Business Environment Improvement Project*



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# TABLE OF CONTENTS

## **Kazakhstan**

- Reforms Make Taxes More Palatable
- Amendments to Law Protect Property Owners
- BEI Cuts Red Tape from Land Registration Process
- Center for Entrepreneurial Development Opens Doors in Satpaev City
- “Start Your Business” in Kzyl-Orda!
- Kazakhstan Overhauls Approach to Business Inspections
- Kazakhstan Sends Old Permitting System to the Guillotine
- International Consortium Finances KSBD Course for Trainers
- Consulting Center Offers Tools for Small and Medium Enterprises
- New Consulting Center Established in Zhezkazgan
- Public-Private Partnership Opens Door to Entrepreneurship
- Kazakhstan Takes Big Steps to Protect Investors

## **Kyrgyzstan**

- New Law Establishes Clear Legal Hierarchy for the Kyrgyz Republic
- One-Stop Shop Approach Streamlines Business Registration in Kyrgyz Republic
- BEI-Sponsored Study Tour Benefits Participants and Hosts
- A Well-Planned PR Strategy Catalyzes Reform in Kyrgyz Republic
- Not-so-Lucky Plan for Bishkek Businesses Defeated by Joint Efforts

## **Tajikistan**

- Legal Changes Stimulate Tajikistan’s Business Environment
- BEI Tastes Success in Helping Tajikistan’s Canned Goods Exporters
- Tajikistan Revives Trade Along the Great Silk Way
- BEI Partner Protects Tajik Businesses from Unlawful Taxes
- Reduced Charter Capital Requirements Aid Tajik Business Startups



# REFORMS MAKE TAXES MORE PALATABLE

## Improved tax services increase customer satisfaction

**C**ustomer satisfaction with Kazakhstan's state-provided tax services has doubled since the Tax Committee adopted recommendations provided by USAID's BEI and EREC projects—and is expected to increase further as the result of a new order that focuses on increasing the quality of such services. A new order will considerably improve the quality and image of state-provided tax services, reduce administrative constraints hindering business development, and increase knowledge of tax payment processes.

Worldwide, taxes are viewed—as best—as a necessary evil. But when the tax paying process is complicated by unnecessary administrative hurdles and poor customer service, citizens become frustrated and dissatisfied.

In 2007, to address concerns about Kazakhstan's tax services, the USAID BEI and EREC projects partnered to provide a grant to the Association of Taxpayers of Kazakhstan. The grant funded a comprehensive survey of Kazakhstan citizens and companies regarding attitudes and issues related to tax services. The survey showed that less than 41% of customers were satisfied with the quality of Tax Committee services. Based on the study results, recommendations were crafted for the Kazakhstan Tax Committee and the concept of streamlined, service-oriented processes was introduced into Kazakhstan's tax regime. A follow-up survey in 2008 revealed that the improvements had doubled the level of satisfaction among businesses regarding tax services and reduced processing times by 40%, even though the overall number of visits to Tax Committee offices had increased slightly. One reason for the shorter processing time was that electronic forms were adopted for the preparation and submission of tax forms. The 2008 survey

covered all 16 regions and major cities of Kazakhstan, and included interviews with 1,238 legal entities, 735 physical entities, and 322 employees of tax service offices.

In February 2009, the USAID BEI and EREC projects offered additional recommendations to improve tax services and increase customer satisfaction. Based on these recommendations, the Tax Committee issued Order #110, "Issues on Tax Services' Quality" on April 6, 2009. This order will further improve tax service standards through monitoring the activities of tax bodies, simplifying procedures at call centers, extending electronic services and providing tax terminals in micro and rural districts, and implementing international best-practice principles. The order, which takes effect in 2009, is expected to increase the customer satisfaction of companies from the 2008 rate of 81% to 83.3% by the end of 2009 and to 90% by 2012. Likewise, the customer satisfaction rate of individual tax payers is expected to increase from the 2008 rate of 72% to 76.5% during 2009 and to 90% by 2012. Targets were also established for satisfaction levels regarding taxpayer access to information: the 2008 level of 74% is expected to increase to 78% in 2009 and to 90% by 2012.

The Association of Taxpayers of Kazakhstan feels good about the progress to date. According to Zhannat Ertlessova, Chairman of the Managing Council of the Association, "the latest improvements in tax service quality are the result of the implementation of standards for state services, better provision of information, and a customer-oriented attitude." The Association also made the following comment about the survey results: "solutions to the remaining problems are possible thanks to the effective cooperation among taxpayers, public organizations, and state bodies. Our ongoing research helps define standards for state services and enables effective monitoring."



Participants at the round table gathered to review the monitoring results on tax service quality (February 18, 2009) and examine the new customer satisfaction data.



# AMENDMENTS TO LAW PROTECT PROPERTY OWNERS

## New approach to late property registration fights corruption and supports Constitution

**K**azakhstan citizens can now be assured that failure to register new properties within the required six month period won't threaten their ownership rights or make them subject to exorbitant fines. On April 22, 2009, President Nazarbayev signed amendments, recommended by USAID's BEI Project, to Kazakhstan's law on the registration of real estate. These amendments eliminate a conflict between normative legal acts and the Constitution and will help protect property rights for Kazakhstan's citizens.

According to Article 9 of the law "On State Registration of Rights for Real Estate and Transactions" a property buyer in Kazakhstan must register the property within six months of the transaction date. Previously, purchasers who failed to register within six months were required to appear in court to explain the reason for the delay. There was no guarantee that the state permit would permit late registration—thus, the property rights of the owner were threatened. In addition, there were no standardized administrative fines—all such decisions were up to the court. The process of requesting late registration typically took two to three months and involved multiple court appearances and the payment of legal fees ranging from \$85 to \$170 US for individuals or \$170 to \$255 US for legal entities. As if this were not enough, a state duty amounting to 1% of the charge for individuals and 3% for legal entities was also levied.

This procedure not only contributed to official corruption, it was at odds with the Constitution of the Republic of Kazakhstan. The Constitution supports secure property rights at all stages of ownership, including during title change; these rights are meant to apply to all procedures and decisions by state bodies and officials. To harmonize the law on state registration with the Constitution, BEI advisors recommended that the Ministry of Justice remove the legal risk associated with Article 9 of this law.

On April 22, 2009, President Nazarbayev signed Law #151-IV 3 RK, which amended the law on property registration by removing the requirements for court appearance and payment of state duties in cases of delayed property registration. This change secures property rights at all stages of ownership, significantly reduces opportunities for corruption, and keeps expenses for associated with late registration at a reasonable level.



Applicants wait at an Almaty, Kazakhstan Public Service Center. Failure to register a property transaction within six months at a local center formerly resulted in excessive fines and an uncertain future for property owners.



# BEI CUTS RED TAPE FROM LAND REGISTRATION PROCESS

## Streamlined registration makes life easier for Shymkent property owners

**S**hymkent businessman, Mr. Zhursin Rayev, was not looking forward to going through the time-consuming process of land registration. The process could take up to several months and still had a 30% refusal rate if there were simple errors on his application. Thanks to the efforts of SocBI, a partner on the USAID BEI project, the time required for an applicant to obtain an approved property registration has been greatly reduced. Mr. Rayev can now expect the registration process to be shortened by nearly two weeks, and will have a simple application form to guide him through the process.

Until recently, the process for obtaining and registering property and land-use rights in the South Kazakhstan city of Shymkent was complex. A property owner was required to submit an application to the Akimat or City Council, which forwarded it to the Akim (Mayor) for approval. Finally, the approved application was sent to the Land Department, which then requested data about the plot from the Architecture and Cadastral Office. Only after this information was received could the application processing begin. On average, this process took 1 month to complete for each of the 12,000 applications received each year. To make matters worse, no standards were provided to guide applicants through the process, and the result was a 30% refusal rate due to insufficient applicant information, which required subsequent resubmittal by applicants and an additional wait.

The final property registration required the signature of all 13 members of the Akimat before it could be issued to an applicant. As a result, this step took an average of 20 working days, during which time the applicant was expected to hunt down each Akimat member and secure their signature for approval.

SocBI, a business incubator in Shymkent and partner in the USAID BEI project, recommended the procedures for property registration be simplified, in two ways, to speed up processing. First, SocBI recommended the development of an application form that included town

zoning and details of required documents to be forwarded to the Akimat. In conjunction with the form, maps showing town zoning were placed in the Akimat, Cadastral Office and the Land Department offices to speed the process of zoning identification, and the Akim was removed from the approval chain. The Akimat approved this recommendation and now documents are sent daily directly to the Land Department for processing.

SocBI's second recommendation was to reduce the number of signatures required for the final issuance of the registration. In accordance with BEI's recommendations, the Shymkent Akimat adopted Decree #286, "on staff of Akimat in Shymkent," which reduces the number of Akimat members required to sign the final document to seven. As a result, it now takes an average of seven working days for an applicant to obtain the signatures needed to finalize the registration document.

Ms. Begaim Bakhtybayeva, Head of Organizational Department of the Shymkent City Akimat, says, "it was a challenge for us to start revising the application processing approach within our department. Now that we see how the process has been optimized, the solution appears to be incredibly simple!"

These changes will greatly reduce the time required for processing land registration applications, as well as the incidence of refusals. In addition to the 1-month processing time saved for each of the 3,600 applications that had to be reprocessed each year because of missing data, these changes save applicants over 4,250 working days of their own time, which was formerly needed to oversee the application and final approval process. Considering that the estimated daily wage in Kazakhstan is \$30, this represents a total savings of over \$127,000 per year that was formerly lost compensation to citizens.



Kazakhstani businessman, Mr Zhursin Rayev (left), receives his official property registration from Ms. Begaim Bakhtybayeva, Head of the Organizational Department of the Shymkent City Akimat (right). The document was issued much more quickly than in the past because of recent process changes initiated by BEI's Shymkent partner SocBI.



# CENTER FOR ENTREPRENEURIAL DEVELOPMENT OPENS DOORS IN SATPAEV CITY

## KSBD expands its partnership network in Karagandinskaya Oblast

**In March 2009, KSBD provided technical assistance to the Department of Entrepreneurship Development in Satpaev City (Karagandinskaya Oblast) and to the Institute of Partnership and Business to help open the new Center of Entrepreneurship Development. The main purpose of this center is to conduct events that promote business in the city. For example, the center offers consulting services, KSBD-sponsored business training such as “Business Essentials” and “Start Your Business”, marketing research, and development of investment projects.**

Satpaev City, located in Karagandinskaya Oblast, is an industrial center and the location of the largest employer in the region. The population of the city is around 75,000, about 1,200 of which are businessmen. These entrepreneurs suffer from lack of training and a dearth of consulting companies that could provide new knowledge related to entrepreneurial endeavors. The city has a high enough standard of living and customer demand to offer a good base for business development and the local Department of Entrepreneurship is keen to support local entrepreneurs. This dovetails perfectly with the KSBD project, which conducts business seminars to increase the general potential of entrepreneurs in the region.

During March 2009, KSBD worked with the Department of Entrepreneurship Development and the Institute of Partnership and Business to help them open a new Center of Entrepreneurship Development. KSBD continued to actively support the new center after it opened, conducting five Business Essentials seminars during May and June 2009 and training 75 existing entrepreneurs in the

region. In June 2009, the KSBD Start Your Business training course was delivered to 20 unemployed and start-up businessmen. KSBD is also providing methodological assistance for educational programs and consulting services to businessmen and startups. The center is developing new seminars on topics of vital importance to businessmen such as accounting and costs management at the enterprises.

The positive results experienced by the new center confirm that it will become a self-financing organization. Within the first two months of opening, the new center launched the KSBD Business Essentials and Start Your Business seminars, initiated 10 marketing surveys, held a round table discussion on implementation of ISO (International Organization for Standardization) standards by the local enterprises, developed five business plans, and provided more than 50 consultations with local businessmen. The Center also organized a city contest for the “Best Entrepreneur of the City,” which resulted in five nominations.

By investing in the new Satpaev Center for Entrepreneurial Development, the KSBD project has expanded its partnership network in the region. The end result will be an increased level of professionalism among local businessmen and business service providers.

According to Magzum Isebayev, a private entrepreneur who produces cabinet furniture and participated in the Business Essentials seminar at the new Satpaev center, “The knowledge I got at the seminar allows me to skilfully plan my activity. Now I see at once how all my actions are linked, which gives me an opportunity to make necessary changes and to correct my actions without being afraid of some uncertainty”



Participants in the KSBD training at the Satpaev Center for Entrepreneurial Development



## “START YOUR BUSINESS” IN KZYL-ORDA!

KSBD seminar offered to new rural entrepreneurs in Kazakh language

**M**ay 2009 was a special month for KSBD as it marked the successful launch of the Start Your Business training course in another region of the Kzyl-Orda Oblast, the Terenozek settlement. Also, for the first time, KSBD conducted the seminar in the Kazakh language and ensured that all materials were translated into Kazakh, especially for participants from rural regions. The seminar, which was co-financed by the Regional Department of Entrepreneurship, covered general topics related to business start-ups as well as specific information about the business climate in Kzyl-Orda Oblast.

The KSBD Start Your Business seminar is designed for those wishing to start businesses as well as for existing entrepreneurs. In May 2009, KSBD trainers Lyazat Aldongarova and Zhanat Saparzhanova from “Preko Consulting” Ltd offered this course in the Kazakh language for the first time. The Kazakh-language course was launched in the Terenozek settlement of the Kzyl-Orda oblast and was co-financed by the Regional Department of Entrepreneurship.

Twenty-five participants—all potential businessmen—got their first business lessons on topics such as the generation of business ideas, marketing, business plans, and finances for non-financiers. The experienced trainers explained how to conceive an idea for a new business and how to evaluate the concept. They also led the group in a game that illustrated many important business principles such as assessment of supply and demand, market diversification, how to attract clients, and how to analyze business plans.

In addition to general information relevant to all business start-ups, the course got into specifics about the business environment in the Kzyl-Orda oblast. This information is especially important now, as considerable resources are being allocated to village development and credit is becoming more available for business start-ups. For example, participants discussed current local interest rates (annual rates of about 9.5 %), crediting terms (from 7 to 24 months), and sectors that might attract local entrepreneurs to start their own business in priority areas for Kzyl-Orda oblast such as plant cultivation, cattle breeding, and development of commercial activity.

During the training course the participants developed five viable business ideas: a mini-bakery project, a mini-grocery project, a cattle feeding operation, an operation to increase livestock production and meat sales, and an accounting services company for entrepreneurs. One or more of these proposed projects may be supported and provided with a loan by the Regional Department of Entrepreneurship.



Participants at the KSBD Start Your Business seminar in Kzyl-Orda oblast, May 2009



# KAZAKHSTAN OVERHAULS APPROACH TO BUSINESS INSPECTIONS

## BEI helps design an efficient inspection regime focused on high-risk operations

**In Kazakhstan, as in most former Soviet republics, government business inspections are widely viewed by the business community as an onerous and disruptive form of state regulation. The inspection regime was derived from the risk-management model of command and control regulation, in which set rules for acceptable behavior are reinforced by legal sanctions and enforced by full inspections. In July 2009, as a result of assistance from BEI and other partners, legal changes were adopted that significantly improved the inspection process. In particular, all inspection agencies are to develop priority lists that help them focus their resources on high-risk establishments. Agencies are also required to develop and use standardized checklists during the inspection process.**

*According to Serik Akhmetov, Deputy Prime-Minister of the Republic of Kazakhstan, “the Number of scheduled inspections will be reduced for law-abiding and honest businessmen whose business is not associated with high risks for the public.”*

In early 2008, the Republic of Kazakhstan realized it was time to change the inspection system used by the government to monitor businesses, partly as a result of complaints from entrepreneurs and an analysis of problems related to inspections made by the Forum of Entrepreneurs of Kazakhstan and the USAID-funded BEI project. President Nazarbayev declared a moratorium on inspections of businesses from February 21, 2008, to July 1, 2009, to allow time for the Government to develop and enact improvements that would reduce the intrusiveness and improve the efficiency of the inspection system. In the fall of 2008, a new Concept for Inspections, developed with BEI assistance, was adopted. This concept laid out an inspection regime based on free-market principles that would analyze the risk of business behavior according to objective criteria and assign inspection resources to higher risk operations, thus minimizing the inspection burden on compliant companies while increasing government professionalism and reducing management costs.

In March 2009, the Government established an Anti-Recession Council under Prime Minister Massimov. In collaboration with BEI and other partners, the Council produced a package of legal changes needed to implement the new inspection concept. A new law was signed by the president on July 17, 2009 (“On Modifications and Additions in Some Acts of the Republic of Kazakhstan Concerning Private Entrepreneurship”) and amendments to the existing law on private entrepreneurship, which introduce new rules for inspections of private enterprises, were approved. The amendments included the following, significant improvements:

- Clear definitions of an inspection (i.e., an investigation that can result in a fine) and an investigation.
- Explanation of the principles of prioritized, free-market based risk management including the use of objective, public welfare criteria to determine when inspections are needed.
- Requirement that all inspections and other forms of investigation be carried

out according to a schedule developed using the approved risk management system (i.e., with a division of businesses into violation risk/inspection priority categories of high, medium, and low).

- Requirement that all investigations (except criminal investigations) be registered, at least 30 days in advance, with the Committee on Legal Statistics of the General Prosecutor’s Office.
- Terms that limit the inspections of large businesses to 30 days, medium businesses to 20 days, and small businesses to 10 days.
- Requirement that each government inspectorate develop and use standardized checklists, based on the agency’s risk criteria, during inspections; any inspection conducted without the use of such a checklist tool is prohibited.
- Strengthened rights of businesses in relation to government inspectorates and their officials; businesses can now deny access if an inspection is deemed improper and can record the activities of inspectors.

These extensive improvements to the law on private entrepreneurship strengthen the fundamentals of Kazakhstan’s regulatory system by requiring that each inspecting body identify major risk factors in its sector and develop prioritization criteria that allow them to categorize businesses as having serious, medium, or insignificant risks. These elements will become part of the risk management system of each government inspectorate and will be used to prioritize inspection activity.

On July 21, 2009, Prime Minister Massimov ordered all inspection agencies to complete the development of new risk management systems and checklists within six months of the publication (on July 23, 2009) of the amendments. The BEI project and partners will support full and effective implementation based on the specific technical areas of the inspectorates and the needs of the Government of Kazakhstan.



# KAZAKHSTAN SENDS OLD PERMITTING SYSTEM TO THE GUILLOTINE

## BEI assists with modernization of business licensing and permitting

**L**ike many former Soviet republics, Kazakhstan's business sector was saddled by a permitting system that was both cumbersome and antiquated. On the advice of USAID's BEI project, Kazakhstan's Prime Minister Massimov ordered the Government to perform a rapid, comprehensive review of all state permitting regulations, demanding that all 22 ministries and agencies justify the regulations they wish to retain while eliminating at least 50% of the current regulations. The process, which is to be completed by the end of June 2009, will significantly reduce state-imposed burdens on the business community.

Despite legal changes introduced in 2007 that reduced the number of licenses and sublicenses, Kazakhstan's business sector remained weighed down by several thousand ministerial and agency regulations. Many government agencies did not even know the full number of laws and regulations pertinent to their scope of work, some of which had remained in effect since Soviet days. These regulations, particularly those pertaining to permitting of businesses, posed a crucial and onerous problem for Kazakhstan's entrepreneurs.

The USAID BEI project, in an effort to modernize Kazakhstan's permitting system, hired Mr. Igor Gutan to recommend actions for eliminating excessive permitting requirements. The study focused on the "guillotine" approach, which has been used in countries such as Moldova, Ukraine, Mexico, and Korea to eliminate unnecessary regulations. Using this approach, both Ukraine and Korea eliminated half of their existing 10,000+ business regulations within a year of initiating work, while Moldova amended more than 35% of its existing 1,130 regulations and eliminated another 12%.

Based on BEI recommendations, Prime Minister Massimov ordered that Kazakhstan's involved ministries and agencies reduce the number of regulatory permitting controls by at least 50%. This order was made in a decree issued on December 23, 2008, which focused on immediate actions to stabilize the economy and financial system of Kazakhstan, including the use of a modified regulatory guillotine. On March 30, 2009, the Prime Minister issued an implementing order (#47-r) for improving the business permitting system. An oversight Expert Group formed under Vice-Prime Minister Orynbaev included the participation of interested donor organizations as well as representatives from each of the 22 government ministries and agencies and from private-sector business associations. In addition, 22 working groups (representing all ministries and agencies) were created to perform a comprehensive review of all regulations governing state permitting activities (licenses, sub-licenses, permits, etc.).

The working groups are to review the remaining 378 licenses and sublicenses as well as the several thousand certification and permitting regulations, and will provide an inventory of those to be retained by the end of April 2009. During May, each ministry and agency must justify, before the Expert Group, every regulation that is to be retained. All regulations not approved by the Expert Group will be eliminated. The Expert Group is scheduled to submit to a final set of recommended regulations to Prime Minister Massimov by June 24, 2009. Following this comprehensive review of state permitting documents, the Government expects to champion similar efforts at the local administrative level.



BEI international advisor Igor Gutan concludes a presentation on rapid permitting system reform and the experiences of Moldova's successful regulatory guillotine.



# INTERNATIONAL CONSORTIUM FINANCES KSBD COURSE FOR TRAINERS

Nineteen certified trainers now available to teach entrepreneurship course in West Kazakhstan

**In October 2008, Karachaganak Petroleum Operating b.v invested US \$16,000 to train trainers to teach the KSBD project's "Start Your Business" session in Aksai for rural entrepreneurs. The KSBD project selected trainers from its regional network to deliver the course; the end result was the certification of 19 new trainers who can teach this course to entrepreneurs in rayons throughout West Kazakhstan.**

Increasing the knowledge and skills of Kazakh entrepreneurs and small and medium enterprise (SME) managers is the first step to develop a robust, diversified, competitive, and growing SME sector. For the last three years, DAMU, a KSBD business service provider partner, has distributed micro-loans from the Karachaganak Petroleum Operating b.v. (KPO), a natural gas consortium of four international companies, to rural entrepreneurs in five rayons. A key element of this micro-lending program includes training borrowers, and Mr. Serik Kairshin, chairman of DAMU, agreed to use KSBD's "Start Your Business" course to achieve this goal. This is a 60-hour course comprising both theoretical and practical tasks aimed at improving the skills of entrepreneurs interested in starting a business.

KPO provided US \$16,000 for a training of trainers course that was held in October 2008. KSBD co-financed this event by selecting trainers from its regional network to deliver the course. At the completion of the course, KSBD certified 19 trainers, all

of whom are now fully qualified to teach this course to small and medium enterprises (SMEs) throughout West Kazakhstan. KPO plans to use the new certified local trainers to provide additional courses in rayons to foster Kazakhstan's continued economic growth and development. Mr. S. Adilaliev, Director of the Regional Department of Entrepreneurship and a participant in the training of trainers event, expressed his wish to *"disseminate the skills acquired through this course not only to businessmen who live in and around the Karachaganak oil deposit, but to those throughout the region."*

To build upon these initial gains, KSBD submitted a proposal to KPO in December 2008 for funding to develop a portfolio of financially sustainable business service providers operating throughout West Kazakhstan. The proposed multi-faceted program would provide both KSBD-based retail trainings and direct consulting assistance using the SME Improvement Tool-Kit to a wide group of SMEs.



Representatives from KSBD, KPO, and DAMU at a press conference following the "Start Your Business" training-of-trainers session in Aksai (West Kazakhstan).



# CONSULTING CENTER OFFERS TOOLS FOR SMALL AND MEDIUM ENTERPRISES

Strategic alliance between KSBD and the Alim Company nurtures SME services

**In July 2008, the USAID-funded KSBD project partnered with Alim, a leading Kazakh construction firm to co-finance the new Alim Consulting Center in Uralsk. This center, which provides technical assistance to small and medium enterprises, is owned and operated by two trainers certified through the KSBD project to train enterprises in the use of various management tools to help improve profitability. To date, the center has helped nine enterprises complete strategic action planning sessions and is poised to assist clients throughout West Kazakhstan.**

In line with its two goals of assisting small and medium enterprises and building the capacity of training and consulting services in this area, the USAID-funded KSBD project recently joined forces with Alim, a leading construction firm, to launch the Alim Training Center. This new, privately owned consulting center in Uralsk, Kazakhstan offers assistance to SMEs in the form of toolkits developed by the KSBD project. As per the memorandum of cooperation between the two financing partners, KSBD provides direct technical assistance, while Alim provided \$40,000 for the first six months of operation. The expectation is that the center will be financially self-sustaining by the beginning of 2010.

With KSBD's assistance, the owners of the new training center, Margarita Suleimenova and Beibit Muksenov, were trained in the use of KSBD's SME Improvement Toolkit, a portfolio of management tools to help entrepreneurs improve profitability. After receiving training, Margarita and Beibit conducted their first strategic action planning intake session in Uralsk from August 16 to 28, 2008 with

oversight from Alina Hakalo, KSBD's Business Service Provider Development Director.

Through the combined efforts of the owners and KSBD, the Alim Training Center successfully completed strategic action planning sessions for nine subsidiary enterprises operating in the construction, logistics, and window production industries. Feedback from these clients was very positive. According to Nadkir Kurumbayev, Alim's General Director, *"For the short time we've spent together, business advisors have managed to present strategic action plans that entailed reshuffling our plans for the future."*

Using a mentor-protégé model, Margarita and Beibit have increased their proficiency as trainers and are now well-situated to replicate delivery to other SMEs throughout West Kazakhstan. KSBD will continue to assist the Alim Consulting Center to attract new retail clients as well as to establish a competitive pricing structure to help it remain a self-sustaining leading provider of high-quality SME consulting services.



Beibit Muksenov, KSBD certified trainer, explains the framework of the strategic action planning process.



# NEW CONSULTING CENTER ESTABLISHED IN ZHEZKAZGAN

## KSBD business service provider supports SME development in Karagandinskaya Oblast

**In March 2008, the Institute of Professional Accountants, a KSBD business service provider partner, received approximately US \$16,700 from the Karagandinskaya oblast SME Department to establish a new Information Consulting Center (ICC) in Zhezkazgan. The KSBD project provided both financial and methodological assistance to the new center, ensuring that up-to-date training materials were available and that trainers were able to hone their skills through additional coursework. In addition to training 85 participants in KSBD seminars, the Institute of Professional Accountants has taken in approximately US \$11,700 in revenue for business consulting services.**

The Institute of Professional Accountants has actively provided KSBD-sponsored retail training and consulting services to small and medium enterprises (SMEs) throughout the Karagandinskaya Oblast of Kazakhstan. In an effort to expand project impact in this region, KSBD signed memorandums of cooperation with the SME Departments of Saran, Satpayev, and Zhezkazgan. This agreement is strategically important for SME development, since these cities are the industrial centers of this oblast and have a strong concentration of firms operating in mining, metallurgy, and electrical equipment production. In March of 2008, the Karagandinskaya Oblast SME Department provided the equivalent of about US \$16,700 to the Institute of Professional Accountants to enable it to establish an Information Consulting Center in Zhezkazgan.

Since opening the new center, the Institute of Professional Accountants has trained 85 participants in Balkhash, Karkalinsk, Karazhal, Abay, Saran, and Aktas using KSBD's Business Essentials and Consulting Essentials courses. Significant local funding was provided for these courses; also, KSBD contributed

both financial and methodological assistance by partially funding several courses in the more remote locations, and by providing revised training materials and enabling trainers to further their expertise through KSBD's Core Consultancy Skills training.

According to Viktoriya Valilyeva, an accountant for Togay and a participant in the retail course, *"these trainings helped me plan our firm's advertising activities more concisely and better define our market segments. Additionally, by using the techniques outlined in these trainings I can professionally select and motivate staff to achieve our company's goals."*

The Institute of Professional Accountants has also generated approximately US \$11,700 in revenue by providing retail-based consulting assistance based on KSBD's SME Improvement Toolkit in the areas of tax and law, financial management, and strategic and business planning to 73 entrepreneurs. KSBD plans to continue providing technical assistance to the new center in Zhezkazgan to assure that it achieves commercial sustainability.



# PUBLIC-PRIVATE PARTNERSHIP OPENS DOOR TO ENTREPRENEURSHIP

New vocational course will prepare Kazakhstan's youth for business careers

**International surveys indicate that Kazakhstan's education system has not provided the country's youth with the entrepreneurial knowledge and skills required to develop a competitive, diversified, and innovative 21st century economy. Two American oil and gas companies have partnered with the KSBD project to provide a nationwide program that will instruct 100,000 vocational students in the principles of entrepreneurship each year beginning in the fall of 2010.**

The backbone of a thriving, competitive economy is a strong entrepreneurial sector. However, recent international surveys have shown that Kazakhstan's educational system does not prepare young people for careers as entrepreneurs. To remedy this, the KSBD project has partnered with two American oil and gas companies, Chevron and Baker Hughes, to develop a nationwide program to encourage entrepreneurship among Kazakhstan's youth.

This new program is significant for two reasons. First, it focuses on the modernization of Kazakhstan's vocational education, which has been largely neglected by both the government and donor organizations. Second, it uses a "horizontal" strategy that networks a wide number of vocational schools and students by implementing one key course across the country. Previous donor programs attempted to use a "vertical" approach that focuses on complete modernization of a small number of pilot schools, a strategy that is resource- and time-intensive and does not adequately capture the efficiencies presented by standardization and example.

Chevron and Baker Hughes, both of which are active in Kazakhstan's oil and gas industry, have provided funds to KSBD (through USAID) to train over 400 teachers in all 16 administrative districts of the country to teach the standardized course

Know About Business (KAB) in vocational schools. This course was created by the International Labor Organization (ILO) to increase employment opportunities for youth through vocational education systems. The ILO has introduced KAB successfully in more than 20 countries in Central Asia, Africa, and Latin America.

The KAB course comprises nine modules including "What is an enterprise," "How to become an entrepreneur," "How to find a good business idea," "How to start your business," and "How to elaborate a business plan." The course also includes an innovative game which simulates the process of starting a business.



Gaukhar Yessentayeva Education Development Coordinator, KSBD



# KAZAKHSTAN TAKES BIG STEPS TO PROTECT INVESTORS

**K**azakhstan was ranked 53rd (out of 181 countries surveyed) in *Protecting Investors during the latest Doing Business 2010 report*, however this moderate rating concealed ongoing problems, particularly the lack of information available to shareholders and their subsequent inability to hold company officials responsible for misconduct. In July 2009, the President signed a new law that requires increased disclosure of information for investors in joint stock companies. The new law mandates that company directors disclose outside interest to the company and that companies publish annual reports—that include any related-party transactions—in publicly available mass media. This increased transparency is expected to help attract foreign and domestic investment in Kazakhstan.

A pervasive problem that plagues economically developing countries is the issue of “related-party transactions,” or transactions that occur when a company manager or director uses his or her influence to steer company finances to favored third parties, despite the availability of more attractive market options. This behavior leads to the inefficient use of company funds and to a distorted marketplace that rewards personal connections rather than wise capital allocation. It is a serious issue for shareholders, who expect the maximum benefit from their investments and because of this it is included in the World Bank’s *Doing Business* survey under the “Protecting Investors” indicator.

On July 14, 2009, the President of Kazakhstan signed a new law, “On Payments and Remittances, Accounting Reports and Financial Statements for Financial Institutions and the National Bank,” which was developed with BEI assistance by the Agency for Financial Supervision. This law amended the existing law “On Joint Stock Companies” by requiring increased disclosure of information for investors. Previously, joint stock companies were not required to publish full annual reports in publicly available mass media (in print or online form), and thus it was difficult for shareholders, investors, and the public to obtain information on conflicts of interest or transactions between the company and “related parties.” Now, thanks to the new law, directors must disclose outside interests to the company and companies must publish annual reports in publicly available mass media, and include any related-parties transactions.

Earlier additions and amendments to the law on accounting and financial reporting required joint stock companies to prepare their accounts and financial reports in accordance with international financial reporting standards. Standard 24, Related

Parties Disclosures, mandates that companies disclose related-party transactions in financial reports. The July 14 amendments require that these disclosures become publicly accessible information, available in either print or online form at the company’s web site or a central government repository. The requirements conform to international best practices for corporate governance and bring Kazakhstan’s business environment into greater harmony with the expectations of international investors regarding attractive markets.

These new reporting requirements will increase transparency and assist in attracting foreign and domestic investment in Kazakhstan. The additional information provided by companies will allow potential investors to assess the risk associated with a given company, and will enable shareholders to take legal action against a company if they discover a related-party transaction may be harmful to the company’s financial well-being. The new requirements are also an important step toward protecting minority shareholders, who previously had few opportunities to obtain information about company operations.

The change in reporting requirements is also expected to improve Kazakhstan’s rating in the World Bank’s *Doing Business* survey under the *Protecting Investors* indicator, by improving the underlying “Disclosures in published periodic filings” measurement from its current rating of zero to as high as 2. The possible subsequent increase in the Disclosure Index from 7 to 9 could improve Kazakhstan’s overall *Protecting Investors* rank from 53 to as high as 24. Although the reforms took place after the June 1, 2009, cut-off date for the *Doing Business 2010* survey, the World Bank *Doing Business* team has confirmed that the improvements will be considered in the *Doing Business 2011* edition.



# NEW LAW ESTABLISHES CLEAR LEGAL HIERARCHY FOR THE KYRGYZ REPUBLIC

**W**ith assistance from the USAID-funded BEI project, the Ministry of Justice of the Kyrgyz Republic drafted a new law on normative legal acts (regulations). Previously, the Kyrgyz Republic lacked a defined legal hierarchy for establishing the precedence of laws and regulations, which led to confusion and contradictions in enforcement. The new law establishes clear procedures and ensures that regulations are subject to public dissemination and discussion before final approval.

The principle of legal hierarchy enables lawmakers, officials, and judges to ascertain which law or regulation is most applicable to or takes precedence in a given situation. Although constitutional laws were clearly the top rung of the legal ladder in the Kyrgyz Republic, the government lacked a clear hierarchy to apply to its regulations, or normative legal acts (NLA), despite the existing law on normative legal acts. This resulted in a number of problems:

- Unclear requirements concerning the publication and adoption of NLAs
- Lobbying of departmental interests: many NLAs contained intra-departmental interests and in some cases directly contradicted approved state policy
- Distortion of legal norms by lower-level NLAs and officials

Other issues included a lack of mechanisms for public participation, particularly the participation of the business community, in the development of legal acts. Also, many laws and NLAs dated back to the Soviet Union when a completely different administrative, economic, and political environment existed.



Ministry of Justice Secretary of State Aida Salyanova, BEI Deputy Country Manager Sabyr Akimbaev, BEI Lawyer Roza Djailobaeva, and Deputy Minister of Justice Jyldyz Mambetalieva (left to right) in deep discussion about the new draft Law on Normative Legal Acts.

Despite this confusion in legal hierarchy, a new version of the law on normative legal acts was delayed for over nine years. During this time, two USAID-funded projects — Legal Infrastructure for a Market Economy (LIME) and Trade Facilitation and Investment (TFI) — attempted to help complete a draft of the new law. Finally, during 2008 the USAID-funded BEI project made the completion of the law on NLA a priority. In close cooperation with the Ministry of Justice, a comprehensive new law was drafted. The new law, which was passed by Parliament on May 21, 2009, and sent to President Bakiev for his signature, does the following:

- Provides a hierarchy for NLAs.
- Establishes procedures for resolving contradictions between laws and NLAs.
- Excludes rule making by departments, restricting NLA adoption to the Kyrgyz Parliament, President, Government, National Bank, Central Elections Committee and local government representative bodies.
- Requires all NLAs be registered in the Unified State Register; those not registered are eliminated.
- Provides procedures for conducting regulatory impact analysis.
- Requires that draft NLAs be published and available for public discussion.
- Voids NLAs left over from the former Soviet Union.

The new law is also expected to stimulate continued reform of the investment and business environment in the Kyrgyz Republic. The framework it establishes for internally consistent, scientifically and logically justified laws and regulations helps set the stage for prosperous economic growth throughout the country.



# ONE-STOP SHOP APPROACH STREAMLINES BUSINESS REGISTRATION IN KYRGYZ REPUBLIC

**With support from the President and the Government, the USAID-funded BEI project helped simplify and improve the registration system for new businesses in the Kyrgyz Republic. The new one-stop shop approach incorporated an electronic system that allows applications to be easily stored and accessed by the various government bodies involved in registration. This approach saves time and trouble for entrepreneurs, who now have a single point of contact with the government. The success of the system is evidenced by the 106% increase in business registrations during the first several months of its use.**

*According to Bella Kazakova, legal officer for the “Leks” legal corporation, “the registration process, in comparison to previous years before the Government reforms, has become simpler, with reduced time and cost, allowing applicants to avoid corrupt contacts with representatives of the involved bodies and bureaucratic barriers.”*

In the Kyrgyz Republic, as in most countries, entrepreneurs must satisfy government requirements for registration before they can open the doors of their new business. In the past, excessive requirements and procedures in the Kyrgyz Republic deterred many would-be entrepreneurs from realizing their business dreams. An analysis performed by the BEI Project and Ministry of Justice in the fall of 2007 showed that Kyrgyz entrepreneurs were forced to complete eight different procedures, wait from 15 to 20 days, and spend over US \$115 in registration and processing fees in order to officially open a business. In the Kyrgyz Republic, this expense represents almost a fifth of the annual gross domestic product per capita. The combined official and unofficial costs drove many nascent Kyrgyz firms into the so-called “shadow economy” where they remained unregistered – or deterred entrepreneurs entirely.

These business registration issues were recognized as problematic by both USAID and the Kyrgyz Republic. In October 2007 President Bakiev said, “...we face a decrease with regard to business starts and their subsequent licensing.” The President directed the Government to pursue deregulation, reduce state interference, and eliminate extra-legal forms of permitting.

In the spring of 2008, the USAID-funded BEI project and the World Bank helped organize the “100 Days of Reform” campaign to simplify and improve the business registration procedure and thereby reduce the Kyrgyz shadow economy. A specific aim was to improve the rank of the Kyrgyz Republic for the World Bank’s Starting a Business indicator; in the World Bank’s 2008 Doing Business survey the Kyrgyz Republic had ranked 50th worldwide in this area.

Together with a government working group and other interested private associations and donor organizations, BEI advisors developed a new resolution (#182 of April 23, 2008) and law (#109 “On Amendments to the Law of KR on State Registration of Legal Entities”). Designed in close

consultation with the business community and under great media attention, the new resolution and law streamlined the business registration process by:

- Adopting the “one-stop shop” principle for business registrants that places the burden of application routing on the involved government bodies rather than the applicants
- Repealing the requirement for charter capital during registration
- Eliminating the requirement for a document confirming the legal address
- Removing the requirement for start-up businesses to obtain a permit for company stamps

The one-stop shop approach was made possible through an electronic database that tracks information from applicants and allows state bodies to transfer company registration information electronically. This new computer system, which was developed with the assistance of the BEI project and rolled out to seven oblasts and Bishkek City in May 2008, permits an entrepreneur to submit required documents at one time. Once the information is processed, reviewed, and approved, the entrepreneur receives a certificate of state registration.

Based on data received from the Ministry of Justice and the National Statistics Committee, the new registration changes are estimated to have saved over US \$28,000 for the 1,677 companies registered in the Kyrgyz Republic between May and September 2008. The Doing Business survey also reflected the success of these reforms; the Kyrgyz Republic moved up from a rank of 50 to 31 in the Starting a Business indicator for the 2010 survey. Most importantly, once the streamlined system was in place, the number of business registrations more than doubled (106% increase) over the same period in 2007. This validates the appeal of the new system, which removes barriers to entrepreneurship and improves the economic future for Kyrgyz entrepreneurs and their families.



# BEI-SPONSORED STUDY TOUR BENEFITS PARTICIPANTS AND HOSTS

## Kyrgyz delegation to Georgia helps both countries see themselves in new light

**To show local government and private-sector partners from the Kyrgyz Republic how the business reforms promoted by the World Bank's Doing Business program are put into practice, the USAID-funded BEI project turned to the country of Georgia, which had received the number one ranking as a reformer in the latest Doing Business survey. After returning from Georgia, Kyrgyz participants had a broader understanding of approaches to reform and provided impetus to the country's new reform program. As a result of hosting the study tour, Georgian leaders realized the value of their country's experience and created an international aid program to help share the knowledge gained from Georgia's own radical reform effort.**



Delegates from the Kyrgyz Republic meet with local construction companies to assess firsthand the impact of Georgia's construction-permitting and process reforms.

The country of Georgia has long been known among other former Soviet republics for fine wines, singing, movies, eccentric leaders, and the famous Georgian temperament. After the dissolution of the Soviet Union, regional news about Georgia focused on the ongoing electricity crisis, ethnic clashes, and territorial disputes—and finally, the Rose Revolution. But within three years of the Rose Revolution, Georgia made headlines throughout the entire development world by improving its ranking in the World Bank's Doing Business survey from 150th to 30th, moving it from one of the worst “business reform” countries to one of the frontrunners.

USAID's focus in Kyrgyzstan on business environment reforms is similar to those measured by the Doing Business survey, including areas in which Georgia showed significant reforms—tax administration, business registration, and construction permitting and oversight. It was only natural, then, that when the USAID-funded BEI project wanted to expose Kyrgyz government officials and business representatives to successful reforms in these areas, it turned to Georgia. A 13-person study tour, which included several deputy ministers and staff from the Kyrgyz presidential and prime minister's offices as well as delegates from Kazakhstan and Tajikistan, traveled to Georgia in June, 2008 to witness Georgia's successful reforms firsthand. Although the majority of the tour's participants started out as skeptics of Georgia's progress and the effectiveness of Georgian reforms, all were highly interested, especially since the Kyrgyz President and Prime Minister had placed a high priority on reforms related to the Doing Business indicators, making them a focus of “100 Days of Reform” campaign that began in the spring of 2008.

The Kyrgyz delegation set out to answer a specific question: “What are the keys to Georgia's recent success in business climate reform?” After five days of meetings

with counterparts from Georgian governmental and nongovernmental organizations, participants had an answer: a combination of political will and radical, market-oriented reforms. Though Georgian reforms were harsh at times—including laying off almost all employees of the tax and customs authorities—the logic was clear, that big problems require big changes.

Participants from the Kyrgyz Republic returned home and delivered this message to their superiors and to the media. They and their colleagues began to understand that the Kyrgyz reform approach had been more “evolutionary” than radical, addressing issues singularly rather than attacking systematic, deep problems. The enthusiasm of the tour participants helped make the “100 Days of Reform” campaign a success, and set the stage for the follow-up implementation work, which will continue through 2009.

Georgia was also changed by the study tour. Georgian leaders openly shared with their 13 Kyrgyz guests the not-so-rosy aspects of the recent revolution and reforms including high unemployment and public dissatisfaction, bringing home the point that improving a country's reform rank does not translate to immediate improvements in the day-to-day life of businessmen and other citizens. The emphasis is on setting the stage for growth; well-thought through reforms plant the seeds for economic improvement. Georgian Prime Minister Lado Gurgenidze, who helped host the delegation, was impressed by seeing what Georgia had to offer countries such as the Kyrgyz Republic. As a direct result of the study tour, he decided to create a Georgian agency for international development. Thus the Georgian International Technical Assistance Program was conceived, with an initial budget of US \$700,000 in 2009, to assist other countries attempting reforms similar to those Georgia had enacted.



# A WELL-PLANNED PR STRATEGY CATALYZES REFORM IN KYRGYZ REPUBLIC

## Success of “100 Days of Reform Campaign” attributed to unified message

**In March 2008, the Kyrgyz Government decided to take aggressive steps to improve the country’s business environment based on the World Bank’s “Doing Business” methodology. The reforms were expected to be difficult due to the economic and political climate, and the short time frame (100 days) allocated for completion. The USAID-funded BEI project and the Government believed the key to successful reform included two main components: professional expertise and massive public information exposure to generate momentum for change—and the success of the campaign proved them right.**

*Mr. Uluk Kydyrbaev, Executive Director of the Bishkek Business Club and Chamber of Tax Consultants, was quoted in December 2008 as saying, “I am positive that the success of Kyrgyzstan in its Doing Business project is achieved due to ... the harmonized ‘teamwork’ of all parties holding a unified and constant dialogue with the media.”*

At the March 2008 meeting of the Investment Council under the President of the Kyrgyz Republic, experts from the World Bank and USAID BEI project presented an action plan for implementing reforms to improve the Kyrgyz business environment. The Prime Minister and his Cabinet agreed to implement the proposed plan, but wanted it to be accomplished in only 100 days, before the World Bank’s next Doing Business survey assessment was to take place. Great things were expected: in his speech on April 14, 2008, Prime Minister Chudinov stated that, “we aim to be among the top ten reforming countries with a favorable business climate.”

One of BEI’s roles as the official partner was to assist in the distribution of information, as it was clear that media exposure and promotion of reforms would be essential to realize the planned legislative improvements. Past reform efforts that failed to galvanize public support showed poor results because the public lacked the knowledge needed to hold public servants accountable.

The BEI team developed a public relations strategy for its own experts and for partners from the government and business associations. This plan detailed the main message of the reforms, means of distributing information, and an action plan for partners. All partners were to focus on their own areas of expertise, but speak with one message and concentrate on the 100 days of reform. The two-month plan covered press conferences, round table discussions, television programs, newspaper articles with analyses and forecasts, internet articles and news releases, and radio interviews on critical reform topics. In April 2008, the partners put the strategy into action, highlighting the positive impact the reforms were expected to have.

Business associations such as the Bishkek Business Club, International

Business Council, and Union of Entrepreneurs of Kyrgyzstan, and Government partners from the Ministry of Economic Development and Trade and the Prime Minister’s press service led the dialogue with mass media and effectively coordinated a unified message. During April, May, and June 2008, the BEI project and its media partners produced over 64 articles and news releases that were distributed through different media agencies, newspapers, and magazines to arm the public with knowledge of the reform process and legislative changes related to the business environment. Television programs and radio shows broadcasted information about the Doing Business reform topics into the homes of Kyrgyz citizens, aiming for the widest media audiences available. For example, special editions on the new measures were presented during the “Open KG” TV show, and open interviews were given during the “Expert’s Opinion” show on Manas FM radio.

In the short-term, the efforts of the Government and its donor organization and private sector partners were a success. This was demonstrated by the World Bank’s Doing Business appraisal, which met the goal of the Prime Minister when it placed the Kyrgyz Republic third among the top 10 business reformers of 2008. More importantly, the focused media efforts have had a lasting impact on the business reform environment in the Kyrgyz Republic. For example, the public relations campaign heightened public and media interest in economic reforms—a year after the campaign, in a single month (June 2009), the continued work of the BEI project generated over 140 media mentions. This breakthrough in public attitude is the result of the unified work of the reform partners as well as the constant dialogue that was established through the media and with the public, presenting the reforms and their evolving results.



# NOT-SO-LUCKY PLAN FOR BISHKEK BUSINESSES DEFEATED BY JOINT EFFORTS

Illegal lottery practice denounced by Kyrgyz business community and Prosecutor General

**When Bishkek City implemented a new lottery scheme to recover tax revenue lost to shady business reporting, the hotline for administrative abuses—sponsored by the USAID-funded BEI project and the Union of Entrepreneurs—got an earful of complaints. Although the city had set aside a budget for the lottery, the new resolution included an unfortunate demand that businesses pay out the smaller, more common cash prizes directly to consumers. This illegal payment scheme drew the fire of both the business community and the Prosecutor General, who demanded the scheme be discontinued. Though the impact of the lottery can never be fully known, the most memorable circumstance may be that the business community and government officials worked together to defeat excesses in government.**

Businesses in the Kyrgyz Republic city of Bishkek are required by law to maintain cash register receipts and pay taxes to the city budget based on their total receipts. The Bishkek City Mayor's Office, however, suspected that city businesses were underreporting taxes to the treasury by over 200 million som per year (about US \$5 million). To address this suspected tax fraud, the Mayor's Office conceived Bishkek's first taste of lottery for public control. The scheme was simple: lottery tickets would be distributed to all city businesses, which would be required by law to provide tickets to all purchasers of goods or services in quantities proportionate to their purchases. Winning tickets were to be submitted to the city along with the original register receipts. In this way, the city could identify businesses that were cheating on their taxes. The resolution that introduced the lottery, however, demanded that businesses redeem the more common, instant-win cash prizes worth less than 1,000 som (US \$25) directly from their own cash reserves. The Mayor's Office set aside a 77 million som budget for the lottery and ordered 54 million lottery tickets. About 20 million of these were distributed to businesses at the time the new lottery and its enforcing regulation were introduced.

Almost as soon as the "Lucky Lottery" was announced, the hotline for administrative abuses—sponsored by a BEI project grant and the Union of Entrepreneurs—began receiving calls from entrepreneurs complaining about the scheme. Even though a business that paid an instant-win cash prize could receive reimbursement from the city, this required that the business owner make a physical trip, with all documentation, to the State Tax Inspections office. There, the reimbursement was made through a process of "tax netting," which offset the debt against the business's future taxes. In practice, businesses chose to skip the reimbursement process, as it was both time-consuming and was used as an opportunity by the Tax Inspectorate for impromptu

audits. In effect, the cash prizes constituted an additional tax on businesses to pay for the lottery scheme.

Based on both the hotline calls and complaints made by their own members, the Union of Entrepreneurs and the International Business Council, both BEI partners, raised the issue of the lottery during the May 2008 Consultative Council meeting under the Prosecutor General's Office, which was organized by BEI. Prosecutor General Elmurza Satybaldiev announced that his office had already notified the Mayor's Office about the legal insufficiency of the lottery, as it violated several regulatory acts of the Kyrgyz Republic, specifically with regard to the unfair payment obligations forced on private

*According to Mr. Elmurza Satybaldiev, General Prosecutor of the Kyrgyz Republic, "the Bishkek authorities have unreasonably assigned payments of winnings to businesses. The two months of 'happiness' are suspended; the Bishkek Mayor's Office issued the 'Lucky Lotteries' illegally."*

businesses. On June 10, 2008, the Prosecutor General's office issued order #11 p-08 demanding the discontinuation of the lottery.

A new Bishkek City Mayor, Nariman Tyuleev, took office in July. He cancelled the lottery as of August 10, 2008, and asked for all undistributed tickets to be returned. There will likely never be an accounting of how many tickets were used or how much money was paid out by businesses under the "Lucky Lottery," but the experience will remain as a cautionary note: violating the law to encourage compliance is a bet that never wins.



# LEGAL CHANGES STIMULATE TAJIKISTAN'S BUSINESS ENVIRONMENT

Changes simplify registration and bankruptcy processes and protect shareholders

**A**s a direct result of recommendations made by USAID's BEI project, the President of Tajikistan signed a new law and two amendments that will significantly improve the processes of business registration and bankruptcy, and will provide enhanced protection for shareholders of joint-stock companies. These much-needed changes, which became effective in July 2009, are expected to stimulate Tajikistan's business environment and improve its overall standing in the World Bank's *Doing Business* survey.

Business in the Republic of Tajikistan has long been regarded as difficult. In its most recent *Doing Business* report (2009), the World Bank ranked 181 countries worldwide according to various indicators. Tajikistan was 168th in ease of starting a business, 150th in protection of investors, and 97th in ease of bankruptcy processes.

The USAID BEI project is working with the Government of Tajikistan to help simplify and improve business regulation in these and other areas, as part of the country's Poverty Reduction Strategy and general response to current economic issues. Based on recommendations made by BEI, the Government of Tajikistan has made several important changes to the legal regime that will help reduce burdens on Tajikistan businesses. On May 19,

2009, Tajikistan President Emomali Rakhmon signed the law "On State Registration of Legal Entities and Individual Entrepreneurs," which supports a streamlined, simplified process for business registration, improves transparency, and removes various barriers to business development. He also signed changes and amendments to the laws "On Joint-Stock Companies" and "On Bankruptcy" that provide improved processes for increased investor protection in joint-stock companies and company bankruptcy. These new changes took effect on July 1, 2009.

The new law for the registration of companies and entrepreneurs uses a one-stop shop approach that reduces the number of government bodies involved in registration (from 4 to 1). It also substantially reduces the time required for registration (down to 5 days from 49 days), and decreases the number of documents required (down to 6 from 10). The new law removes the requirement that companies set aside charter capital funds before registration—a significant burden on small startup businesses—instead allowing them to take up to one year after registration to set aside these funds. Nusratullo Davlatov, Chairman of the Tax Committee under the Government of Tajikistan, provided this comment about the new law: "This law is a decisive step for realizing the one-stop shop principle, for increasing the investment attractiveness of the country, and for reducing the level of unemployment."

Changes to the existing law "On Joint-Stock Companies" also foster business development. According to Farruh Khamraliev, the Chairman of the State Committee on Investments and State Property Management, "thanks to the changes made to the law 'On Joint-Stock Companies' the shareholders, regardless of the size of their share, can require that

an audit be conducted of a joint-stock corporation. This measure contributes to increasing the investment attractiveness of the Republic." The amendments grant minority shareholders (those with less than 10% shares) new rights: (1) if an improper related-party transaction has occurred, they can file suit against company officials or the board of directors and hold them liable for damages to the company and shareholders; (2) they can demand that an external body review transactions in which company managers have an interest; and (3) they can require that the company discloses information about transactions with persons whom directors or managers have a financial interest (so-called "related parties") to shareholders and in company publications.

Finally, the changes to the law "On Bankruptcy" reduce the time required to close a business from 3 to 2 years through the elimination of excessive procedures. It also reduces the bankruptcy costs from 9% to 2% of total asset values, and increases the ratio of funds recovered for investors from 25.4 cents per US\$1 to 35 cents per US\$1. Takdir Sharifov, the Director of the Association of Trustee Managers of Tajikistan, has this to say about the new bankruptcy amendments: "these changes will help prevent a business crisis. Besides, the country will get rid of unprofitable enterprises—a measure that will lead to economic growth and the closing of old debts."

These new legal changes support elements of Tajikistan's ongoing Poverty Reduction Strategy and the President's 2008-2009 address to Parliament and the Government. They will also contribute to an improved rating for Tajikistan in the 2010 World Bank *Doing Business* survey, especially with respect to indicators for starting a business, protecting investors, and closing a business.



## BEI TASTES SUCCESS IN HELPING TAJIKISTAN'S CANNED GOODS EXPORTERS

**Exports of canned fruits and vegetables from Tajikistan bring in US \$23 million per year; not only is this income essential for the livelihood of small farmers, the products are well-regarded internationally. Because of the importance of this industry, USAID—first through the Trade Facilitation and Investment project, and then its successor, the Business Environment Improvement project—worked diligently to help the country's exporters get out from under government requirement for additional documentation that was both expensive and onerous. In the spring of 2008 the government finally rescinded the orders that imposed the requirement, saving Tajik businesses over US \$250,000 in travel costs and direct fees alone, which can now be reinvested in the country's potential.**

Fruits and vegetables from the Republic of Tajikistan are famous in surrounding countries. But Tajik processing companies that export well-regarded canned products to Kazakhstan, the Russian Federation, and other CIS countries were faced with domestic regulatory hurdles that severely impacted exports and constrained the agricultural sector. Not only was the procedure for exporting canned products complicated, customs agencies required that each shipment have a "conclusion statement" from the Tajik State Universal Goods and Commodities Exchange before export would be permitted. To obtain a statement from the Exchange was not simple; businesses faced certain delay and the payment of both official and unofficial fees.

Beginning in 2005, under USAID's Trade Facilitation and Investment project, the Golden Valley agricultural association tried to eliminate the requirement for the conclusion statement on behalf of the 42 Tajik exporters; however, it took another three years and the intervention of the successor USAID Business Environment Improvement project to achieve results. With support from BEI, Golden Valley and the Union of Business Associations of Sughd Oblast analyzed the conclusion statement's cost to Tajik businesses. They found that, for 210 export shipments in

2007, the travel expenses incurred by representatives to visit Dushanbe and obtain the statement were an estimated \$96,000. Direct fees paid to the exchange, other unofficial payments, and 840 lost working days cost the exporters another \$155,000

With assistance from BEI consultants, the associations worked with the State Committee on Investments and State Property Management, Parliament deputies, and ministries to remove the requirement for a conclusion statement. BEI also helped the Customs Consultative Council of Sughd Oblast and the Customs Department of Sughd draft official letters to the Customs Service of Tajikistan in support of the association's petitions.

As a result, on March 5, 2008, the Tajikistan Government adopted Resolution #126 "On Agency for State Procurement of goods, works, services and arrangement of operations of exchanges." Paragraph 7 of this resolution canceled the 2001 order that required exporters to obtain a conclusion statement from the Exchange when exporting canned products. Starting in July 2008, the Customs Service discontinued the practice of requiring a conclusion statement, simplifying the export process and saving Tajikistan's fruit and vegetable exporters over US \$251,000 per year in extra expenses.



Mr. A. Kayumov, Chairman of the Golden Valley association (center) conveys progress on the repeal of the conclusion statement requirement to the Consultative Council of Business Associations and Department of Investments and Property Management of Sughd Oblast.



# TAJIKISTAN REVIVES TRADE ALONG THE GREAT SILK WAY

**The construction of a modern road along one of the old Great Silk Way routes through Tajikistan to the Kulma Pass failed to increase trade with China to the extent anticipated. One of the major problems was that the customs and border control post operated very irregularly, and the subsequent delays were expensive and frustrating for Tajik entrepreneurs. Members of the BEI partner association, Milal-Inter, which is located in Tajikistan's Gorno-Badakhshan Autonomous Oblast where Kulma Pass is located, finally succeeded in obtaining a President's order calling for the full operation of the Kulma –Karasu border post. A reliable border crossing at the Kulma Pass will help expand trade relations with People's Republic of China and revive the Great Silk Way, which is expected to increase Tajikistan's trade with China by more than US \$17,688,600.**

Trade and economic relations issues have always been of interest to the people of Tajikistan because of their position along one of the ancient Great Silk Way trade routes. This route, which wended through the mountains from China and then headed southward to Afghanistan, Pakistan, and India, became the pathway for a modern road, which was completed in 2004 by the Government of Tajikistan. The road crosses the border into China's Xingjian Province at the Kulma Pass, located in Gorno-Badakhshan Autonomous Oblast (GBAO). This pass provides the only direct link for land transport between the two countries. A customs and border control post was opened at the pass in May 2004, but it operated on a very irregular basis, with long delays occurring even during the May to October period, when weather permitted the pass to be open.

Tajikistan's experience with the new road showed that merely opening a transport corridor was not enough to ensure trade. The irregular operating schedule at the Kulma Pass, combined with the fact that goods were often delayed at the border up to 20 days before the post opened again, caused problems for businessmen. Tajik entrepreneurs incurred large additional expenses while waiting for their

shipments to clear customs and prices for transport truck rental quadrupled. Despite these drawbacks, the border crossing became invaluable to Tajik entrepreneurs sending goods and provisions to GBAO and Afghanistan.

BEI's partner in GBAO, the regional association Milal-Inter, raised the issue of the Kulma Pass and post control operations with oblast administration as early as 2004, but received no resolution until 2008. In December 2007 during a meeting of entrepreneurs organized with BEI assistance, the association succeeded in bringing the business community's distress over the border crossing and the associated economic impact estimates directly to the attention of the President. The President ordered the ministries to collaborate with the Chinese government and find a way to correct the problem, noting that full operation of the pass was in Tajikistan's interest.

In April 2008, the regional administration of GBAO received a letter from the Ministry of Foreign Affairs stating that the Kulma crossing post would operate on a full daily basis during the period from May to November. The Customs Department of GBAO anticipates that full border operation will triple trade, increasing it from US \$2.3 million to \$7 million per year, and will reduce the cost of transport for each of the approximately 2,160 trucks that cross the border each year from US \$8,000 to \$2,000 per truck. These changes represent an estimated direct savings of over US \$17.7 million per year for Tajik entrepreneurs. In addition, full border operation will enable the free ongoing transit of vital goods to Afghanistan along the most-developed land corridor for that country, or further west along the old Great Silk Way to Turkmenistan.



Alibakhshev Boymahmad, Chairman of the Milal-Inter Association says, "Full operations of the Kulma post will increase trade relations between the two countries and affect our neighbors—such as Afghanistan."



## BEI PARTNER PROTECTS TAJIK BUSINESSES FROM UNLAWFUL TAXES

**B**usiness taxes in the Republic of Tajikistan have long been extremely high—over 82% of profits—as well as complicated, but in 2007 when the State Tax Committee issued new orders revising how sales taxes were calculated, and demanded back payment of the higher amounts, BEI and its partner, the National Association of Small and Medium Business, went into action. The Tajik Economic Court ruled that the new requirements were unlawful and the Tax Committee rescinded the orders and returned over \$173,000 in seized back taxes.

*According to NASMB Chairman Ms. Uldjabaeva, “Tax rates should be justified and stimulate entrepreneurship development.”*

The state tax code in the Republic of Tajikistan has been changed twice since 1998, supposedly to pursue economic policy for the betterment of its citizens, but mostly to secure the funds needed to maintain the government budget. The impact of these changes on Tajikistan’s entrepreneurs was not considered by the tax administration, and by 2006, when the BEI project started work in Tajikistan, the tax rate on business profits was estimated by the World Bank to be over 82%—one of the highest in the world, and a huge thorn in the side of private-sector development. In fact, the high tax rate encouraged growth of the shadow economy, with many of the country’s businesses operating illegally. By 2007 the newest tax code, dating from January 2005, had been amended five times. Not only was the code difficult to understand, some of the amendments contradicted other legislation.

In the summer of 2007, the Tajikistan Tax Committee issued orders, #2/1282 and #2/1680 to all tax inspection offices, establishing new terms for calculating the retail sales tax. These orders defined retail sales tax as applying to the sales of all products, whether retail or wholesale, or sold to an individual or to a business. This new definition contradicted existing national legislation. To make matters worse, the orders demanded the back calculation of taxes based on the new definition, which imposed significant financial burdens on businesses.

BEI’s partner in Tajikistan, the National Association of Small and Medium Business (NASMB), works toward simplification of tax legislation and helps entrepreneurs advocate for their rights and interests with respect to taxation issues, including through court action. After the new orders were issued, the BEI project and NASMB sent several letters to the Tax Committee pointing out the problems with the orders and requesting that the orders be repealed. After receiving no response, the NASMB appealed on behalf of its members to the Economic Court of Dushanbe, asking that the court rule on the legality of the Tax Committee’s new order.

The case was decided in favor of NASMB on December 10, 2007, and the Economic Court cancelled the unlawful order. According to the court’s specific judgment, which is valid only for NASMB members, all illegally collected taxes must be returned. These tax refunds amount to at least \$173,000. NASMB plans to counsel other associations so that they can also challenge the Tax Committee to return unlawfully obtained back taxes paid by their members.



NASMB Chairman Uldjabaeva M. obtains feedback from entrepreneurs on the Tax Code during a round table discussion in Khujand.



# REDUCED CHARTER CAPITAL REQUIREMENTS AID TAJIK BUSINESS STARTUPS

**U**ntil recently, businesses in Tajikistan fought an uphill battle to try to get registered with the government. The process for registering legal entities was much more difficult than the registration of individual entrepreneurs; it was also several times more expensive. This was reflected in the World Bank's 2009 Doing Business survey, which ranked Tajikistan 168th for Starting a Business out of 181 countries worldwide. According to the survey, the registration process required 13 steps over 49 working days and cost US\$127. In addition, businesses were required to pay an additional minimum charter capital of US\$1,000—a very large sum in a country where the gross national income per capita is only US\$460 per year!

Minimum capital requirements are one of the most onerous barriers to the startup of a new business as they foster corruption and tie up funds required for operations. In 2007, the USAID BEI project began to investigate how to simplify the business registration process in Tajikistan through feedback obtained from public focus groups, surveys, and input from experts. Based on this information, BEI crafted high-impact recommendations for reforms to Tajikistan's business registration process. BEI's analysis and recommendations were supported by private-sector feedback and, in 2008, were submitted to the Government of Tajikistan through the State Committee on Investments and State Property Management and the Executive Office of the President.

As a result of BEI's recommendations and advocacy activities in conjunction with other donor organizations, the President

signed amendments to the laws "On limited liability companies" and "On joint stock companies" on October 6, 2008. These amendments reduce the charter capital required for limited liability companies (LLC) to about US\$114 from approximately US\$3,000, for closed joint-stock companies to US\$228 from about US\$2,280, and for open joint-stock companies to US\$1,140 from US\$5,700.

These changes are expected to lower the indicator for Tajikistan's LLC charter capital requirement, as calculated for the World Bank's Doing Business, from 216.8% of gross national income per capita to approximately 15.9%. For each of the estimated 100 new businesses registered each year in Tajikistan, the reduction in required charter capital will average nearly US\$2,800, with a cumulative annual estimated impact on all newly registered businesses of US\$280,000.



Owner of the newly registered LLC "Umedi asr" comments on amended law. "Changing the requirements on initial charter capital allows us to use the savings for business development!"