Central Asia • Kazakhstan

Tengizchevroil: Boosting Small Business Development in Kazakhstan

Prepared by • Jens Trummer
Reviewed by • Aline Kraemer
Sector • Financial Services
Enterprise Class • Large Domestic Company
Executive Summary

In the 20 years since the dissolution of the former Soviet Union, Kazakhstan has experienced economic setbacks and an increase in poverty during its transition to a market-based economy. As a part of that process, Kazakhstan’s small business sector—a vital source of jobs and income—has also experienced a bumpy road. One major hurdle to small business growth, for instance, is lack of financing for loans.

The Central Asian nation has attracted investors, however. This caselet discusses the work of one of those investors, Tengizchevroil, and its subsidiary Small Business Development Group, and their role in stimulating regional economic growth and employment.

Chevron became the first major Western oil company to operate in Kazakhstan when it formed Tengizchevroil (TCO) in 1993. TCO then established the Small Business Development Group (SBD) with the twin goals of incubating Kazakhstan’s Small and Medium Sized Enterprises (SMEs), while also increasing the supply chain of locally produced goods and services. As a part of this process, SBD identifies and facilitates loans at no interest to aspiring and existing small businesses that support and include social and environmental goals.

Initially, the Small Business Development Group (SBD) incubated SMEs through a partnership with the United Nations Development Programme and an international commercial bank. Between 2002 and 2008, the partnership provided SMEs with technical, legal, administrative and financial support.

More recently, SBD has helped small businesses obtain interest-free loans. The project has taken place in Atyrau, one of Kazakhstan’s main harbor cities on the Caspian Sea and the capital of Atyrau Province. For those small and medium-sized businesses approved for a loan, SBD pays interest rates and bank charges. This saves the SMEs the burden of managing the loan, and enables them to better focus on growth and expansion. As the programme seeks businesses that will have a beneficial impact on social and environmental issues, local communities also benefit from the increased economic and human development opportunities. At the same time, TCO benefits from having a supply chain close at hand.

Context

Poverty is a major concern in Kazakhstan. Some 16.1 percent of Kazakhstan’s population still lives below the subsistence minimum of 5,427 Kazakhstani Tenge (KZT) per month (or about US$ 3.5 per day).  

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1 The exchange rate applied is 1550.5 KZT for 1 US dollar
2 Source: Terms of Reference for Outcome Evaluation, Poverty Reduction in Kazakhstan (2000-2005), UNDP
Such poverty is a part of Kazakhstan’s growing pains as it transitions from an internal Soviet republic to an independent democratic state and from a command economy to a free market economy. To reduce poverty and improve Kazakhstan’s economy, the government aims to tap into the country’s rich natural resource base. This strategy will also help generate jobs and diversify the economy. The Government of Kazakhstan also recognizes that small business development can play a key role in economic growth and diversification.

Kazakhstan’s high dependence on oil exports however poses a potential threat to the economy, given the possible volatility in the international oil market. Development of small and medium enterprises could solve this problem and make the economy more sustainable. At the moment, SMEs and manufacturing are underrepresented in Kazakhstan’s economy. Thus, the share of small and medium sized enterprises is approx. 25%. More than 60 percent of SMEs operate in the sector of tradable goods and services. On the whole, the social costs of the underrepresentation of SMEs in national economy are considerable, given the importance of SMEs in generating jobs and income. In Kazakhstan, for instance, SMEs already provide approximately 40 percent of total employment and have the potential to provide much more.

With these factors in mind, the Government of Kazakhstan has targeted SME development as a way to better diversify its economy and boost economic and human development. As a part of this approach, Kazakhstan has established major state policy strategies that will benefit SMEs, created a network of agencies to implement the policies, and signed a Law on Entrepreneurship in 2006.

However, SME development in Kazakhstan is constrained by difficulty in accessing capital, especially debt financing, at sustainable market rates. The banking industry also lacks confidence in SMEs. To offset perceived high risks and lack of collateral, some estimates show banks currently lending to SMEs at annualized interest rates of 18 percent or more. Such high rates, particularly in an economy where it is difficult to secure capital, can create serious negative consequences. These hurdles must be overcome if Kazakhstan wants to ease its heavy dependence on oil exports, and instead diversify its SME sector.

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3 Source: Ibid

5 Additional information on the state of SMEs in Kazakhstan, as of 1/1/2007 (Source: “Economic Diversification in the Republic of Kazakhstan, Through SME Development: Introducing New Models of Funding for SMEs”):
- There are 823,156 officially registered SMEs, 76 percent of which are currently operational. This figure represents 639,185 operating enterprises and has grown during the period 2002 to 2005 by 18 percent annually.
- SMEs account for the employment of 1.653 million people, who constitute 21.8 percent of the labor force. On average, this figure has grown by 8 percent annually.
- The SME share in the overall GDP of Kazakhstan is 24.4 percent.
Business Model

Tengizchevroil (TCO) is a Kazakh partnership that explores, develops, produces and markets crude oil, gas and sulfur. In April 1993, Tengizchevroil LLP was formed between the Republic of Kazakhstan and Chevron Corporation. Current partners include Chevron at 50 percent, Kaz Muni Gaz at 20 percent, ExxonMobil at 25 percent and LukArco at 5 percent.

The Tengiz field, which is operated by TCO in western Kazakhstan, was discovered in 1979. The site is one of the world’s deepest producing fields, with the top of the reservoir at about 4,000 meters below the surface. The Tengiz reservoir is 19 kilometers wide by 21 kilometers long, and measures approx. 1.6 kilometers in depth and has an estimated 750 million to 1.1 billion metric tons (6 billion to 9 billion barrels) of recoverable oil.

In addition to harvesting the oil, TCO aims to increase the percentage of Kazakh companies in its supply chain, thereby supporting Kazakhstan’s sustainable development through promoting the local private sector. Since 2006, TCO has spent approximately US$ 3.6 billion (432 billion KZT) on Kazakh goods and services, and nearly 60 percent of TCO’s total expenses were with Kazakh businesses by 2008.

TCO’s strategy in increasing its use of Kazakh goods and services focuses on four key objectives:

1. Creating opportunity
2. Growing manufacturing and production capabilities
3. Transferring skills
4. Maximizing local employment

TCO proactively identifies qualified suppliers to include in tenders, and helps develop others through the use of loans and educational forums. The company also partners with firms to help them adopt international standards.

This caselet in particular focuses on the role of TCO’s Small Business Development Group (SBD) in providing financing to these start-ups—particularly to small businesses that support various social and environmental goals. Local banks also play a role in the loan process, helping SBD analyze the financial performance of prospective SMEs.

Formed in 1997 as a Not-for-Profit Business Development Services organization, SBD concentrates on helping those small businesses that can create jobs and stimulate local economic development in the Atyrau region and throughout Kazakhstan. SBD’s core

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6 Tengizchevroil produces four high quality products for domestic use and for export to world markets – crude oil, liquid petroleum gas (LPG), sulfur and dry gas.
7 Tengizchevroil and Karachaganak – another leading Kazakh energy producer – co-hosted a Business Supplier’s Forum in 2008, attended by more than 40 Kazakh businesses and 42 Western businesses from 10 different countries. Representatives of local and international suppliers and state governments discussed the continued development of Kazakh suppliers to the energy business. The forum included workshops to help businesses learn standards, processes and best practices in working with TCO. Local companies also met with international suppliers to create potential joint ventures between Western and Kazakh companies. Such ventures help local companies develop products and services that comply with international standards.
objective is to strengthen the capacity of the local manufacturing industry while also enlarging TCO’s local supply chain. This program directly compliments Chevron’s initiative to support local economic growth through capacity building.

TCO has declared SBD’s main objectives as:

- Developing basic entrepreneurship skills
- Facilitating access to finance for SMEs
- Contributing to creation of new jobs and to the economic development of the region

In 2009 TCO incorporated new criteria for the selection of SMEs to be supported by SBD:

- SMEs providing services for the oil and gas sector
- SMEs providing environmental protection improvement services (waste management, etc.)
- SMEs providing goods required by oil and gas sector

SBD’s main function is to review and finance small businesses that can support TCO’s operations, as well as the broader business community. Small businesses with the potential to supply products and services to TCO receive priority, as do those in the manufacturing sector. Also prioritized are medical and dental clinics and other businesses that can provide social, economic (i.e. job creation) and environmental benefits. Financial assistance is provided through a financing program with several local banks.

As part of the program, SME candidates are initially identified and approved by the TCO-SBD Loan Board Committee for loan amounts less than US$ 100,000, and the TCO-SBD Contract Review Committee for loans greater than US$ 100,000. The applicant company’s information is then provided to the participating banks for a financial review and analysis. The bank makes the final decision on whether to finance candidates that are approved by TCO/SBD, based on whether the company has a reliable financial background.

Documents required for investment projects to be reviewed by TCO’s SBD include:

- Request for a loan
- Borrower’s Questionnaire
- Copies of CEOs IDs/Passports
- Business plan
- Business entity registration (re-registration) certificate
- Statistical card
- Copies of certificates/patents (for individual entrepreneurs)

The Review Committee (see Step 3 in Annex 5) consists of:

- Supply Chain Management (SCM) Manager
- Local Business Development Group Manager
- Accounts Payable and Risk Management Group Manager
- National and Local representatives
The Committee’s role is to review and approve investment projects, and to revisit the strategy, criteria and terms and conditions of the SBD program. Committee decisions on projects must be made unanimously.

For amounts larger than US$ 100,000, the Contracts Review Committee (CRC, see Step 3a in Figure 1) ensures:

- Process transparency
- Selection on a competitive basis
- Alignment with TCO’s internal contracting procedures

A graphic representation of the loan approval process is displayed in Annex 5.

Loans are made from the bank’s own capital and the bank takes responsibility for monitoring the performance of its clients and ensuring that they make timely repayments. The bank’s administrative costs are covered by TCO, allowing SMEs to receive interest-free loans. The total annual budget for the SBD program amounts to US$ 1 million and loan sizes range between US$ 5,000 and US$ 750,000. Loan periods must not exceed 42 months.

To summarize, TCO’s objective of increasing its local supply chain – thereby contributing to promoting regional economic growth and sustainability – is met by supporting the growth of local SMEs that can provide the company with goods and services (see Figure 2). Through its Small Business Development Group (SBD), TCO supports locals SMEs by facilitating access to interest-free loans from banks. For Kazakhstan, growth in SME’s is crucial for stabilizing the economy and creating jobs. The SBD program also contributes positively to the sustainable development of Kazakhstan by selecting and promoting small businesses that can have a positive social and environmental impact.

As part of TCO’s goal of procuring locally provided/produced goods and services — especially from SMEs — the company initiated a partnership with UNDP, Chevron and an international commercial bank between 2002 and 2008. The partnership established a business incubator—the Atyrau Business Incubator (ABI)—to provide SMEs with financial, technical, and legal assistance as well as office space. Thanks to funding by UNDP and its partners, the incubator initiative helped the new SMEs to become financially independent.

Between 2003 and 2008, the number of businesses supported by ABI increased annually by 500 percent, from five to 25. Along with the increase in the number of supported enterprises the number of employees also increased by 800 percent, from 16 to 129. Annual turn-over of the enterprises in the incubator increased by 600 percent as well, from US$ 600,000 to US$ 3.7 million (73 to 447 million KZT).

In spite of this success, the business incubator was not able to achieve financial independence and was discontinued once the partnership expired in 2008. The Annex provides a final report on this effort summarizing the impact this has had on regional SME development.
Figure 2: Stakeholder Map and Business Model

Source: Author
Business Model – Constraints and Solutions

The following table summarizes the typical challenges that inclusive businesses face in emerging markets—as described by the UNDP8—and demonstrates the solutions TCO adapted to address these shortcomings.

Table 1: Strategy Matrix

<table>
<thead>
<tr>
<th>Constraints</th>
<th>1. Limited market information</th>
<th>2. Inadequate physical infrastructure</th>
<th>3. Restricted access to financial products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lack of available information on potential local suppliers in Kazakhstan</td>
<td>Poor social infrastructure, transportation, healthcare, etc.</td>
<td>Lack of financial services for start-up SMEs without collateral</td>
</tr>
<tr>
<td>Solutions</td>
<td>Invest in Removing Market Constraints &amp; Taking Action</td>
<td>Invest in Removing Market Constraints</td>
<td>Adapt Products and Processes &amp; Invest in Removing Market Constraints</td>
</tr>
<tr>
<td></td>
<td>- Tengizchevroil (TCO) has a proactive approach to contacting and identifying entrepreneurs to be included in the Small Business Development (SBD) program</td>
<td>TCO has invested more than US$ 450 million to build access roads, provide healthcare facilities for TCO employees and suppliers, and fund social programs and projects for the community and employees since its creation in 1993.9</td>
<td>TCO’s Small Business Development Group (SBD) – the subject of this caselet – has been established to address this issue and provide loans to SMEs and start-ups for zero interest that meet the selected criteria.</td>
</tr>
</tbody>
</table>

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8 Market conditions in poor areas can often deter business investment. Functioning, well-developed markets have adequate infrastructure, steady flows of information and a regulatory environment that is friendly to business while limiting downsides. Market participants have skills, knowledge and access to financial products and services. But where poverty prevails, most of these factors are lacking—excluding poor people from meaningful participation in markets, and excluding businesses from the markets of the poor. The case studies in this report show how these limitations can affect businesses trying to engage the poor. They illustrate five general constraints: 1. Limited market information; 2. Ineffective regulatory environments; 3. Inadequate physical infrastructure; 4. Missing knowledge and skills; and 5. Restricted access to financial products and services. ("Creating Value for All: Strategies for Doing Business with the Poor", Growing Inclusive Markets (GIM), UNDP, July 2008)

9 Over the last 15 years, TCO has built hospitals and schools; funded improvements in roads, water and utility systems; and, most recently, built a vocational school in Kulsary. For more information see Annex.
Role of Other Actors

Apart from TCO’s SBD and the participating banks, there are no other actors involved in providing SMEs with interest-free loans.

The ‘Atyrau Business Incubator’ was made possible by a partnership with UNDP and an international commercial bank.

The UNDP office in Kazakhstan opened in 1993, soon after the country's accession to the UN. Since, UNDP has supported the implementation of more than 100 projects with a total worth of USD 48 million. The business incubator was part of UNDP’s Inclusive Development Initiative of Growing Sustainable Businesses. This project connected external companies with entrepreneurs/SMEs/producers, and fostered local ‘pacts’ between local government, businesses, and NGOs to work with investors.10

In 1998 an international commercial bank, with a full banking license from the National Bank of Kazakhstan, opened its doors to corporate customers. Today the international commercial bank is a major lending, transactional and investment bank for Kazakh corporations and financial institutions, as well as Kazakh subsidiaries and representative offices of leading international firms.

Results

Over the 12-year life of the SBD program, more than US$ 7 million (840 million KZT) has been loaned, 174 start-ups and small business have been funded, and close to 2,000 new jobs have been created. At least six of these businesses now supply goods and services as part of TCO’s supply chain in the areas of consumer goods, printing, and electrical services.

Since many of the small businesses applying for these loans are selected by SBD based on the criteria of addressing social and environmental issues, the consequent growth of SMEs in the region has a beneficial impact on not only the regional economy, but also on creating jobs, alleviating poverty and addressing environmental concerns.

Success stories of local companies that received loans include:

- Akberen PC manufactures road signs, business cards, banners and other products. The company used their loan to purchase modern printing equipment.
- Kazkomservice LLP provides fiber-optic communications and electric wiring services for TCO. The company used its loan to expand operations, employ new people and establish new construction contracts.
- TauKen LLP is a materials production and processing firm and provides broken stone for TCO. The company used its loan for expansion, hiring new workers and developing additional clients.

10 Source: UNDP Website Kazakhstan (http://www.undp.kz)
Raushan Farm has a contract to provide agricultural products and food for TCO’s general contractor, ESS. Raushan received a TCO loan to create a greenhouse where it could grow fruit and vegetables year-round. Raushan Farms are now a core supplier of food for workers at the Tengiz site and are known as a quality supplier in the region.

Bayterek-1 LLP has a contract for renting railway siding in Tengiz. Through their loan, Baiterek LLP expanded and improved railcar facilities used by TCO.

Tilekshi LLP previously provided fish products to ESS, and used their interest-free loan to expand operations, improve its capacity and employ more local fishermen.

**Conclusion**

In order for Tengizchevroil to achieve its long-term objective of increasing its regional supply chain, the company initiated SBD and worked with local banks to provide interest-free loans to local SMEs and start-up businesses in the Atyrau region of Kazakhstan. The selection criteria prioritized those SMEs that had a social or environmental component.

A UNDP-TCO partnership between 2002 and 2008 supported this initiative, serving as a business incubator for SMEs and providing technical, financial and legal support and office space.

The combined impact of these programs has helped several SMEs establish and grow, with many of these addressing social and environmental issues and concerns.

Given the current trend, TCO is well on its way of establishing its local supply chain in Kazakhstan and – by doing so – supporting the local economy through job creation and SME support. Since the SBD program has been so successful, further provision of interest-free loans and further support of businesses demonstrating social and environmental gains will also promote regional economic, social and environmental sustainability.
References

- “Final Report: Atyrau Business Incubator”, United Nations Development Programme (UNDP), the regional and local Akimats (governments of the province and the city), Atyrau Business Contact, and the sponsoring companies Chevron, Citibank, and TCO (Tengizchevroil LLP), 2002-2008
- “Small & Medium Business Development Program, Tengizchevroil LLP”, Tengizchevroil Presentation, March 2009

Internet Sources:


Interviews:

E-mail communication with Almagul Ermanova, St. Planning and Analyses Group Supervisor, Local Content Development, Supplier Chain Management, Tengizchevroil.
ANNEXES

1. Tengizchevroil Community and Infrastructure Investment Programs

Tengizchevroil (TCO) has invested more than US$ 450 million to fund social programs and projects for the community and employees since its creation in 1993. Over the last 15 years, TCO has built hospitals and schools; funded improvements in roads, water and utility systems; and, most recently, built a vocational school in Kulsary.

Egilik (a benefit organization in Kazakhstan), is currently one of TCO’s largest community investment programs. It was created as a follow-up to TCO’s Atyrau Bonus Fund—a five-year, US$ 50 million (6 billion KZT) program for community investment. In 1998, TCO created Egilik and committed US$ 8 million (960 million KZT) per year. Since 2003, TCO has invested US$ 12 million (1.4 billion KZT) per year in Egilik. In 2008, TCO announced that Egilik funding would be increased to US$ 20 million (2.4 billion KZT) per year.

TCO and the Atyrau Akimat province partner each year to choose and manage community investment projects. In 2008, TCO continued its eight-year gasification program in the city of Atyrau, providing gas lines to homes and buildings that were not yet connected to the natural gas utility system. TCO upgraded one of Atyrau’s water filtration stations, increasing the production of treated water in Atyrau by one-third. TCO has also designed and began construction of an electrical substation and distribution network to expand access to electricity for homes and businesses in Atyrau.

In the Zhylyoi Region, TCO helped fund the construction of a vocational school in Kulsary. The school includes workshops with high-tech equipment to train people to work in the oil and gas business and related industries.

In 2009, Egilik directed funding of more than US$ 15 million (1.8 billion KZT) toward a massive upgrade of the Kulsary water supply system. The project includes continued design and surveying work and new construction contracts. TCO will finalize the work on the Atyrau water filtration station and the electrical substation and distribution network.

In addition to Egilik, TCO invests more than US$ 1 million (120 million KZT) annually in social programs and projects in Atyrau Oblast to support education, health, basic human needs and cultural preservation. In 2008, TCO contributed an additional US$ 500,000 (60 million KZT) to support flood relief in southern Kazakhstan. TCO worked with the Red Crescent of Kazakhstan to supply relief aid to flood victims.
2. Poverty in Kazakhstan

Under the Soviet system, industrial facilities based in cities and regions were largely responsible for the welfare of the local citizens. The farms, factories, offices, and enterprises where most Soviet citizens worked provided everything from road maintenance to health care to childcare. When Kazakhstan ended state ownership of industry and agriculture, these large enterprises ceased to provide social services. At the same time, few new programs were established to fill that vacuum. Many Kazakh citizens, unable to find employment in the new market economy, lost their incomes or received reduced wages. In addition, social services were almost non-existent.

In the Soviet Union, most people lived at a roughly equal socio-economic level. The Soviet personnel system and the system of distribution of state resources such as housing and access to education were highly standardized. Such systems are inherently wasteful because the scarcity of goods and services is not efficiently or accurately represented. The end of communism and the advent of market economics introduced new efficiencies. At the same time, the period of transition to a market-based economy created possibilities for individuals in government or those with control over resources to amass great personal wealth. As a result, socio-economic gaps and sharp divides between rich and poor arose quickly.

With wealth often concentrated in towns and cities, those living in rural communities often suffered severely as government subsidies ended. Public services such as health, education, and other social services also ended abruptly. Many small towns that had been established during the Soviet period were essentially "company towns," that is, towns in which virtually all the population worked in one large factory. After the Soviet era, many of these communities turned into ghost towns as unprofitable factories teetered on the edge of bankruptcy, let go workers, and were unwilling to support the social services for the towns and villages.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Kazakhstan</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>2,073</td>
<td>1,281</td>
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<tr>
<td>United States</td>
<td>19,364</td>
<td>21,529</td>
<td>23,200</td>
<td>25,363</td>
<td>29,683</td>
</tr>
<tr>
<td>Russia</td>
<td>2,555</td>
<td>3,654</td>
<td>3,463</td>
<td>3,668</td>
<td>2,138</td>
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<tr>
<td>Uzbekistan</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>1,338</td>
<td>1,007</td>
</tr>
</tbody>
</table>


**Distribution of Income or Consumption by Percentage Share: Kazakhstan**

- Lowest 10 percent: 2.7
- Lowest 20 percent: 6.7
- Second 20 percent: 11.5
Distribution of Income or Consumption by Percentage Share: Kazakhstan

<table>
<thead>
<tr>
<th>Percentage Share</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Third 20 percent</td>
<td>16.4</td>
</tr>
<tr>
<td>Fourth 20 percent</td>
<td>23.1</td>
</tr>
<tr>
<td>Highest 20 percent</td>
<td>42.3</td>
</tr>
<tr>
<td>Highest 10 percent</td>
<td>26.3</td>
</tr>
</tbody>
</table>

Survey year: 1996

Note: This information refers to expenditure shares by percentiles of the population and is ranked by per capita expenditure.

SOURCE: 2000 World Development Indicators [CD-ROM].

3. Kazakhstan Poverty Headcount Index

Kazakhstan
Poverty Headcount Index -1996

From Kazakhstan: Living Standards During the Transition
World Bank Report, 1996

Source: [http://earthtrends.wri.org/povlinks/map/m_57.php](http://earthtrends.wri.org/povlinks/map/m_57.php)

Implemented by: United Nations Development Programme (UNDP), the regional and local Akimats (governments of the province and the city), Atyrau Business Contact, and the sponsoring companies Chevron, Citibank, and TCO (Tengizchevroil LLP).

Project Report


The project aimed to develop a national program of entrepreneurship through improving the infrastructure, or business environment, for local small businesses.

Objectives

Specifically, the project aimed to create a favorable environment for local entrepreneurs and sustain business development, by establishing a business incubator in Atyrau.

Results and Achievements

The project supported the Government of Kazakhstan's efforts to develop and cultivate a favorable business environment, or infrastructure, throughout the country. As a part of this goal, the project sought to increase government efficiency in developing a better business climate for local entrepreneurs through global knowledge sharing and the provision of expert, intellectual and financial resources to local government partners. The project also consolidated the efforts of local authorities, multinational organizations, donors, non-government organizations, and entrepreneurs as way to spark entrepreneurship in Kazakhstan.

The Atyrau Business Incubator (ABI) project was jointly implemented by the United Nations Development Programme (UNDP), the regional and local Akimats (governments of the province and the city), the Atyrau Business Contact (an NGO), and the sponsoring companies Chevron, Citibank, and TCO (Tengizchevroil LLP).

Primarily, the program provided services to facilitate entrepreneurship including a business incubator, office space for new business and through providing technical and business advice.

Partnership Strategy

One main achievement of the project was the collaborative establishment of a business incubator. Several organizations (UNDP, Atyrau provincial and city Akimats, Atyrau Business Contact, Chevron, an international commercial bank, and
TCO) also cooperated on the business incubator with the shared goal of creating favorable conditions for advancing entrepreneurship in the Atyrau province.

The partnership strategy also benefitted from the project, Study of the Necessity of Creation of the Business Incubator in Atyrau, completed with the participation of UNIDO specialists (2000-2001). Its implementation was a part of a government program supporting entrepreneurship in Atyrau province, and a tri-party memorandum of cooperation between Aikman of Atyrau region, UNDP, and Atyrau Business Contact.

**Project Activities and Implementation**

Following the project proposal and the development of project plans, the project met its objectives in two stages as follows:

1. The preparation stage completed with the achievement of Result 1;
2. The currency operations of ABI with the achievement of Result 1.

The preliminary or preparation stage of the project, based on the goals and working plans, took place from 2002 to mid-2003. The first step of the Atyrau Business Incubator—a joint project of the UNDP, Atyrau city and provincial Akimats, Atyrau Business Contact, and the sponsorship support by Chevron, an international commercial bank and TCO—was to establish a base of operations. The Atyrau province made this possible through its donation of a former manufacturing complex.

Donor funding was also used to complete restorations, renovations and maintenance, particularly for:

1. the construction of a water supply system;
2. building of a gas pipeline and interior gas supply system and installation of a boiler and heating system;
3. installing 50 telephone lines;
4. repairing the sewage system through the installation of a local septic tank;
5. renovating fences and buildings including the main manufacturing wing, the administrative building.

Aikman province also reconstructed the main road and smaller roads to the business incubator as well as had extended the route of a city bus.

In October 2003, the first five clients started operations in the business incubator thus achieving the preliminary stage of Result 1. The official opening was held on 16 June 2004. ABI operations were in place for five years (2004-2008).
The project breaks down on a yearly basis as follows:

<table>
<thead>
<tr>
<th>The year of realization of the Project</th>
<th>Quantity of the small and medium businesses (SMB) projects</th>
<th>Quantity of employees in the organizations of MSB</th>
<th>Yearly output in goods and services (In millions of KZT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>5</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>14</td>
<td>59</td>
<td>73</td>
</tr>
<tr>
<td>2005</td>
<td>16</td>
<td>68</td>
<td>118</td>
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<tr>
<td>2006</td>
<td>20</td>
<td>85</td>
<td>185</td>
</tr>
<tr>
<td>2007</td>
<td>23</td>
<td>116</td>
<td>240</td>
</tr>
<tr>
<td>2008</td>
<td>25</td>
<td>129</td>
<td>447</td>
</tr>
</tbody>
</table>

Over the duration of ABI, the program received 85 applications for new businesses. Some 30 projects were selected, and five businesses left the incubator and established themselves independently.

The number of ABI projects in those five years also increased fivefold (from five to 25), average employment also increased by a factor of eight (from 16 to 129 employees), and the volume of production of goods and offered services increased sixfold (from 73 to 447 million KZT).

Today ABI services available to potential entrepreneurs include:

- Consulting, business planning, manufacturing facilities, library, services of ORGTECHNIK, Internet access for internal and external clients of the business-incubator (Atyrau Business Contact);
- Micro-crediting and consultancy services (Micro-crediting organization FRMP—Atyrau).

ABI, the Union of Entrepreneurs and regional employers also organize seminars and discussion on credit and related topics, particularly credit with the local division of TCO and with the Fund of Development of Small Entrepreneurship (DAMU). In addition, the Atyrau branch of SPK Kaspiy launched a consultancy service to advise ABI’s clients.

The non-profit organization, Atyrau Business Contact, provided consultation to 1,600 small and medium-sized businesses (including internal and external clients of ABI) for the length of the five-year project, completed 233 business plans valued at 6.7 billion KZT (US$ 50.2 million) with 3,545 new jobs created.
Atyrau Business Contact also annually publishes a business directory of the same name. So far, there have been eight editions, with a ninth edition scheduled for print. The advertising content of clients of the business incubator and non-profit organizations is listed for free in the directory. The electronic version of the directory was launched on the website of http://business.atyrau-city.kz.

Thus, the second stage on the current operations of ABI was performed fully with the attainment of Result 2.

**Project Results**

Yearly results from ABI demonstrate successful attainment of the project's objectives. Currently, the project has achieved a 70 percent level of financial independence—and might break even if the revenues and costs are optimized.

However, ABI’s antiquated production and technical facilities are in need of modernization and substantial capital. Even so, financing from the Government of Kazakhstan is uncertain, given the absence of a suitable legal framework.

Therefore, the future of ABI remains uncertain, particularly in light of the current global financial crisis. For now, though, the business incubator project has substantially improved the business climate in the Atyrau region, and in turn, improved the prospects of local entrepreneurs and of Kazakhstan.

<table>
<thead>
<tr>
<th>For long-term results:</th>
</tr>
</thead>
<tbody>
<tr>
<td>☒ Positive change</td>
</tr>
<tr>
<td>□ Negative change</td>
</tr>
<tr>
<td>□ No change.</td>
</tr>
</tbody>
</table>

For immediate results:

| □ No (not achieved)    |
| ☒ Partially (only 2/3 or more of the quantitative objectives achieved) |
| ☒ Yes (achieved).      |

**Financial Aspects of the Project**

The budget has been controlled and monitored through budget audits and the quarterly expenses reports.

In 2008 the entire budget for the project constituted US$ 430,000, including funds from UNDP totaling US$ 230,000 (from the donor Chevronmunaygaz) and another
contribution from Atyrau Business Contact of US$ 200,000 (the donors are an international commercial bank and TCO).

<table>
<thead>
<tr>
<th>Financing of the Project (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions:</td>
</tr>
<tr>
<td>UNDP</td>
</tr>
<tr>
<td>Co-financing:</td>
</tr>
<tr>
<td>NPO Atyrau Business Contact</td>
</tr>
<tr>
<td>TOTAL in Contributions and Co-funding</td>
</tr>
</tbody>
</table>

The funds were implemented over the life of the project from 2002 to 2008.

**Conclusions and Lessons Learned**

**Positive Factors**

1. The successful development of the business incubator projects requires consolidated efforts from different organizations:
   - Active support by the state institutions;
   - Participation of the transnational companies, raising the status of the projects and providing the global experience from these companies;
   - Participation of large companies to assist with financing and to receive supply entrepreneurs;
   - Participation of citizen entrepreneurs.

This participatory process boosted the launch and development of the Atyrau business incubator.

2. Prior to the project, UNIDO experts assisted with a feasibility study, helping assess project specifics and potential problems.
3. The launch of the project was performed with consideration of the analogous experience of the Almaty business incubator.

4. The signing of a tri-party memorandum between UNDP, Akimat and Atyrau Business Contact helped the project advance.

**Negative Factors**

1. The absence of a legal foundation to regulate business incubators and a general lack of support for entrepreneurs significantly decreases the effectiveness of such projects, in particular:

   - authorities' inability to finance operations;
   - the absence of tax breaks and other benefits granted to organizations supporting entrepreneurship;
   - the declarative nature of development plans and programs (of the local government and institutions) for improving infrastructure for entrepreneurs.

5. **SBD Loan Approval Process (Source: TCO)**

   1. Request for a loan
   2. LBD reviews project for meeting criteria
   3. Committee reviews project for meeting TCO needs
   4. Bank reviews project
   5. TCO pays lump sum fee to the Bank and opens deposit for the period and amount of the loan
   6. Bank issues loan from their own funds
   7. Successful Borrower may be entered TCO database
   8. Borrower receives loan and uses it for the purpose

   Amount exceeding $100,000

   Source: Author
6. Map of Kazakhstan

Source: CIA World Factbook\textsuperscript{11}
