* 1. **Introduction.**

**A. Reasons for undertaking research.**

At the times of Soviet Union, there wasn’t not only small or middle business, there was not *any business* at all, everything was public and there was no owners; so all countries of ex-Soviet Union have to develop their small enterprises intensively. For Kazakhstan, it was very difficult, mainly because Kazakhstan had more mineral industry and a little of agriculture, for the most part - grain. Processing industry was very weak. When USSR broke up and young Kazakhstan had to care about itself, enterprises needed huge amounts of money to buy necessary equipment, employ qualified workers to work in mineral industry and to develop processing industry, which demand, by the way, more expenses. However, firstly, government and banks did not have enough money to give credits to the enterprises and secondly, it was much easier to create monopoly. Thus, our system of supporting small business was not correct from the very beginning. But still, 10 years later when it seems that Kazakhstan had grown roots and almost everything going rather well, our system of supporting small business in a bad condition (see Appendix 1).

There are several reasons why our small business develops very slowly. **Firstly**, there was not any optimal government strategy it support small business. Government did not reveal the appropriate branch and regional priorities for small business. **Secondly**, another problem is corruption. As we know, officials can build huge barriers before entrepreneurs, for example, different checks, problems with registration, and others. **Thirdly**, a high taxes on enterprises.

Small enterprises pay more taxes than big ones. This system of taxation should be more fair, because for small enterprises there is no stimulus not to develop, but even to conduct their own business. **Lastly**, in our country there is no appropriate lending system. Banks do not want to credit small business, because there is more probability that business won’t go well, also there is big problems arises with preparing necessary documents in order to receive a credit, another problem is liquid enough pledge. So we can see, that enterprises collide with many problems when they are trying to receive a credit.

What for our country should support small business? Small business creates new workplaces, form middle class, develop trade and production. If we would not develop small business, there will be no competitive market, thus there will be no improvements in our market, in products and services. So, we should develop small business in Kazakhstan to build up our economy, particularly we should improve our crediting system of small enterprises, because small firms have to develop themselves, but they can not do that without money. Thus, our research problem is with which problems small business meets, when it is trying to receive a credit.

**B. Research structure.**

Our research structure:

* + - * 1. Necessity to credit small business. In this chapter, we will tell you about needfulness of developing small business and some ways to realize financing and investing support.
        2. Goals for receiving a credit. In this chapter, you will read about aims of entrepreneurs who are trying to receive a loan and on what kind of goals banks lend money.
        3. Terms for receiving a credit. You will read about necessary documents, required in banks and difficulties with preparing these documents, about meeting with representative of credit department, about pledge and interest rates.
        4. Interest rates and repayment. In the chapter we will tell you about one of the most important things, with which each entrepreneur meets when he receives a loan – interest rates. Another important thing you will read in this chapter is a day or period of repayment.

**C. Research methodology.**

We conducted our research on case study and survey. We reviewed literature, Internet, publishing information, periodical, science magazines, and reports of different banks. We conducted an interview with respondent Ms Sahauyeva Zhanar, who is working as a chief accountant in “Oasis” company, this interview was organized in 3 of April (checklist, see Appendix #1).

* + 1. **Necessity to credit small business.**

First of all, let us define the notion of small business. According to the existing law, to small business refer new and working enterprises, in which number of employee not more than 50 and total cost of assets not more than 60 000 calculation indexes ( Law of Republic of Kazakhstan from 19 July 1997 N 131-1 O gosudarstvennoi poddershke malogo predprinimatelstva (with amendments to this law in 10.07.98 № 283-1; in 26.07.99 № 458-1; in 29.11.99 № 488-1)). Thus, for today maximum amount for assets of small enterprises cannot exceed 46 500 000 tenge. Small and middle business – the basis of market economy, it overcomes monopoly, provide employment (see Appendix 2), provide revenues from its activity to government, provide more innovations than other forms of business.

It is important to credit small business. Most of small enterprises had to limit their activity because of lack or inaccessibility of credits. Thus, now the weakened business cannot carry out its functions, which is create new workplaces, form middle class, develop trade and production, and which is effective especially in sphere of agriculture, tourism, rendering of services to the population, etc. Therefore, financing and investing support is the most important for effective development of small business.

Finance and investing support for small business can be realized in the following ways:

* Crediting by second tier banks priority projects by tender system on the preferential conditions;
* Creating and development of guarantee credit system in a second tier banks, on a basis of forming pledge funds in regions;
* Promotion of stimulation of second tier banks;
* Continuation of budget and second tier banks financing of projects;
* Development of venture financing;

Encouragement of credit partnerships creation, mutual insurance societies (Finansirovanie I kreditovaniye subyektov malogo biznesa, 2001).

**Summary.**

Thus, we can see, that it is very important to develop investing and financial support of small business in Kazakhstan. Small business needs money to expand their business, buy equipment, employ more workers, that is why the key in developing small business is investment in it.

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Law of Republic of Kazakhstan from 19 July 1997 N 131-1 O gosudarstvennoi poddershke malogo predprinimatelstva (with amendments to this law in 10.07.98 № 283-1; in 26.07.99 № 458-1; in 29.11.99 № 488-1).

###### Goals for receiving a loan.

There are many goals pursued by entrepreneur when he is asking for credit, but not for all purposes it is given. For example, EBRR gives credit for increase in working capital, investments like purchase of real estate, etc. (Krediti dlya malogo biznesa EBRR , 2001), Kazkomertzbank offer credit for increasing turnover, increasing working capital for further growth, expansion of production or volume of services, purchase of machinery, equipment, row materials, improvement of manufacture, purchase, construction and maintenance of real estate, and other capital investments (Kreditovaniye, 2001).

In our survey, we conducted an interview with chief accountant of “Oasis” company. This firm was organized in 1997 and busy in selling wholesale trade of medicines, the authorized capital was formed from personal savings, and number of employees is equal to 12. This company took a credit from Centercredit Bank in year 2000. They took a credit in Centercredit Bank because firstly, they have served in this bank and secondly, there was program on supporting small business, which were conducted by EBRR. The goal of receiving a credit was increasing turnover. With this credit, the company gained 30% income - they made 3 contracts on the total amount of $19,000. Thus, the company got profit from receiving a credit (Sahauyeva, 2001).

**Summary.**

Thus, we can conclude, that there are many reasons for the enterprises to give an application to the bank in order to receive a credit, and one of the main reason is investing, i.e. buying an equipment, building. However, banks give credit mainly in order to increase turnover. In our case, the company took credit exactly for this purposes (increasing turnover), and gained a profit.

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Sahauyeva Zhanar, 2001, interview

## Terms for receiving a loan.

#### A. Necessary documents

There are several documents, which are required in order to receive a credit, they are:

* Application
* Constituent documents
* Registration certificate
* Statistical card
* Confirmation of RNN by RNI
* Borrower form and chiefs biographical data
* Financial reporting for the past 3 years
* Contracts
* Cards with a sample of signs
* Documents establishing right for an object of pledge
* Certificate about number of employee with chief’s and accountant’s signs with seal
* Marketable securities prospectus
* Marketable securities registration certificate
* Certificate from tax inspection and from extra-budget fund about absence (or presence) of debts (Kreditovaniye, 2001).

These are the main documents, demanded by banks, but representative of credit department of the bank may require extra documents, depending upon financed project (Sahauyeva, 2001).

**B. Difficulties with preparing documents for receiving a loan.**

Since half of the year 2000 banks simplified scheme for giving credits. Until year 2000 the main problem in preparing documents in order to receive a credit was business-plan, but now, after simplifying scheme, the main problem became – preparing annual financial statements, because banks intensify requirements for financial position and accounting documents. Why did they intensify? Now the majority of small enterprises and not only small conducts double accounting - one accounting for tax purposes and another for presentation to banks and investors. In financial statement for tax purposes, for example, the company decreases its revenue or has losses, in order to pay fewer taxes, and if this company will bring the same financial statements to the bank to borrow money, most probably the bank will deny for the loan.

Nowadays there are many organizations, which helps entrepreneurs to make up different kinds of documents like financial statements, pledge documents, which are demanded in banks, but there is absolute no guaranty that with this financial statements you will receive a credit, simultaneously services of these firms rather high.

In our interview, our respondent – Sahauyeva Zhanar, chief accountant of “Oasis”, said, that there was more difficulties with annual financial statements, than with other documents. Representative of the credit department of Bank Centercredit demanded annual financial statement for the last two years, which was given to the Tax Committee of Republic of Kazakhstan. As was written before, some small companies conduct double-accounting, and banks know about this, that is why Bank Centercredit have demanded financial statements for tax purposes. By the way, “Oasis” company did not addressed to the companies that help enterprises to prepare necessary documents to gain a credit, but they received a credit. (op.cit).

## Graph #1



This diagram shows in what level each factor influence on decision of the bank, when it is giving a credit to the enterprise. As we can see, the most important is financial report – 31%, that is why it is very important for the enterprise to prepare it in a best way. After financial statement of the company, follow market, which takes 16%, this means information about customers, suppliers and enterprises’ borrowers, and lenders. The next is pledge –15%, we will consider it in more details later.

(Source of the diagram: Osnovniye prinzipi kreditovaniya MP, 2001).

Another problem is getting sanction for realization a project. This is due to difficulties with receiving confirmation in different state organizations. There are several supervising organs whose corroboration you have to receive, but they are varying depending on the project itself.

* Ministry of Ecology and Natural Resources regional representations
* Sanitary-epidemical services
* State Supervision of architecture and construction
* Standardization and certification organs
* Fire services
* Custom services (Dauanov I., 2000)

Mainly, because of imperfectness of our organs, and especially due to corruption, getting through the expertise takes 6 or more months.

**C. Meeting with representative of credit department.**

No credit can be given until a meeting of banker and entrepreneur. During this meeting borrower should show and tell about his business, how it works, in short, he should do the best to present his business. Banker will ask him questions about financial statements of the company, about revenues and losses, so borrower should be prepared for questions like

this. Credit interview is often held in bank or in enterprise office. By the way, entrepreneur should always offer to visit his office, and not only because owner is proud to present his business, but also to present additional information about his business like first appearance of the office, other rooms and buildings; site, neatness of the office; show employees, equipment. This information will improve impression of representative about business (Sahauyeva, 2001). Representative in his turn has to be in connection with borrower, keep abreast with the needs of the company, should offer bank in order to solve financial problems of the enterprise, and should offer to submit application for a loan. Thus the representative has to understand how business works, risks connected with making deals with this company, keep up that everything is legal, and look after how borrower spend credit (Osnovniye prinzcipi kreditovaniya MPS, 2001).

From the interview with Sahauyeva Zhanar we learned that “Oasis” company also prepared to the meeting with representative of credit department. Executor looked through office rooms, presence of the basic, and turnaround means, in general he was satisfied with total condition of the business (Sahauyeva, 2001).

**D. Pledge.**

**1. Required pledge.**

Banks have to ensure their credits, which are given to entrepreneurs in case of bankruptcy. Thus, all banks demand pledge maintenance from borrowers. Banks accept as a pledge property, guaranties of other legal persons, and other types of pledges. For instance, European Bank of Reconstruction and Development accept real estate, motor vehicles, personal property, enterprises’ property and goods, which are in business (Yevropeyskiy bank rekonstrukzii I razvitiya, 2001). In our considered “Oasis” company, the pledges were real estate of the founders and commodity stocks. Estimated value of the commodity stocks was equal to 20 mln. tenge.

**2. Difficulties of enterprises with providing a pledge.**

It is very difficult to receive a credit on ordinary terms, offered by banks. This is due to most enterprises are not able to provide a pledge required by banks or their pledge is not liquid enough.

There are several problems, which are arising with providing a pledge to bank. The most important is illiquidity of the pledge that if offered by enterprises. Banks accept movable and immovable property, which is owned either by enterprise or entrepreneur, guaranties of other legal persons, marketable securities (Kreditovaniye, 2001). Another important thing is that banks usually underestimate cost of the pledge. And the last thing is registration of documents confirmed your ownership of the pledge. Banks, when they are giving out a credit, demand these last two items. Thus, if the estimation of the pledge that is carried out by experts of the bank is free of charge, then confirmation of ownership is carried out at the expense of the businessman. (Dauranov I., 2000).

As we already mentioned, the pledge of “Oasis” company to the bank were real estate and commodity stocks. But firstly, “Oasis” company offered only real estate as a pledge, but in bank said that this is not enough, and then company added commodity stocks (Sahauyeva, 2001). Most probably, that bank underestimated the cost of real estate, and then demanded more property in order to ensure its money in a best way. It is well, that “Oasis” company could offer commodity stocks, but if there were another company with not very big amount of assets, we think, that bank would deny in borrowing money, because there are so many companies that needs money to increase their turnover or to buy some equipment, that banks could just choose the biggest company with a big amount of assets. This is support the idea that banks are more pleased to work with big companies and with big money, rather than with small enterprises.

Thus, it is very difficult to receive a credit. You may have problems with providing a liquid pledge, demanding by banks. Even if your business goes well and profitable, your company could just have not enough assets to offer it to the banks, moreover, you are asking a loan to buy an equipment, to increase your assets, but bank gives loans only to those, who already developed. Thus, there is a situation, that rich become richer and poor become poorer.

**E. Interest Rates and Repayment.**

Now, let us consider interest rates, which enterprises have to pay as a payment to the banks for lending money. For example, interest rates of NSBK are determined in dependence with concrete case and project:

* On credits in national currency – from 24%
* On credits in national currency with fixation of currency equivalent –from 17 %
* On credits in foreign currency – from 17% (Kreditovaniye, 2001).

These interest rates looks pretty high, but there are a lot of programs on supporting small business, and many banks support this policies and offer credits to enterprise on less interest rates. For instance, Kazkommertz Bank offer 1% on foreign currency credits (Kreditovaniye (kkb), 2001). For example, our case company “Oasis” took credit under program of supporting small business and took a credit in Bank Centercredit in national currency under 10%.

The scheme of repayment of the credit and interest is usually in most banks on personal scheme. “Oasis” company’s payment schedule also was personally scheduled. They took credit on 9 months and made monthly payments: part of the credit itself and part of interest rate. In first months repayments interests charged on low rate, but closer to the 9th month interest grew.

**Summary.**

Thus, we can conclude, that entrepreneur has to prepare many documents, prepare to meeting with executive of credit department of the bank, have a liquid pledge, and have enough assets to give it as a pledge in order to be able to satisfy the bank’s requirements. There are so high interest rates, but still there are many programs on supporting small business lending and enterprises have to discover first, which bank is more suitable and then go and find out its personal specific terms.

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1. **Data Analysis**.

Now we will summarize all research paper.

It is very necessary to develop lending system in Kazakhstan. There are many reasons for this: small business creates new workplaces, form middle class, develop trade and production, and it was notices that mainly small business develops and invents new goods and services, because in that way small business has a chance to be marked and successfully manage the business. In order to carry out these functions, enterprises needs money to increase its turnover, employ more workers for development, buy new equipment, buildings, to make capital investments in other companies, etc. For these purposes enterprises are usually demanding money, but most banks most likely to give loans to increase turnover, this is connected with assurance of the loan. For example, our considered “Oasis” company took loan in order to increase working capital, may be bank was fulfilled by this purpose of the company and may be this was one of the reasons of receiving a credit.

There are many documents, demanded in banks from companies, which are trying to receive a loan. But the most important for decision-making is financial statements of the prospective borrowers. Many firms conduct double-accounting, this means, that they give one variant of the financial statements to tax commission and another to investors and banks. It is easy to understand why enterprises do so, they are trying to survive and cheat, and there are many reasons to do this, and one of them high taxes. But, banks know that enterprises conduct separate accounting for them and try to prevent it. For instance, Bank Centercredit, which lent money to “Oasis” company, demanded annual financial statements of the company, which were given up to the tax commission. It is difficult to run a business so, that its financial statements would satisfy banks and enterprises tax aversion.

Another important thing is meeting with representative of credit department of the bank. And it is necessary that your business left a good impression. You will have to show your business, show how it works, your equipment, employees, offices. Each enterprise have o meet with representative if company really wants to receive a loan.

A huge problems arises when enterprise have to assure a loan by giving a pledge to the bank. Two main problems are: that banks underestimate the cost of the pledge and difficulties with preparing documents confirming your ownership of the pledge. Banks prefer real estate as a pledge, but small enterprises do not have any buildings, because they are limited in money. Thus, our banks want more, than enterprises are able to allow themselves.

Important item in receiving a loan both for enterprises and banks is interest rates. As it is expected banks demand too high payment for lending money. Interest rates are too high and most enterprises do not asking for a loan because there will come a day and you will have to pay everything back with high payment for the banks services. Nevertheless, not everything is so bad, there are special programs of supporting small business, which offer lower interest rates, and this is a real chance for enterprises. However, arises another problem: there are too many firms, desiring to receive a loan on lower interest rate. Thus, increase control over maintenance, financial situation of the company, etc. Repayment date is also important, but banks usually make a personal schedule for repayment. Usually there are monthly payments with increasing interest rate.

We can see, that there is many difficulties arise with receiving a loan. Many problems due to banks want to ensure their loans, they want more safe, but enterprises are not able to suit banks’ requirements, thus there are problems with documents, providing liquid enough pledge, meeting with representative of credit department and many-many others.

1. **Conclusion.**

From the conducted research we can conclude, that enterprises meet with a very many problems, when they are trying to receive a credit. Our lending system needs to be improved. First of all, banks should be more indulgent to small enterprises, which are not able to meet some requirements of the banks, especially about pledge.

Secondly, there should be more programs on supporting small business, like decreasing interest rates, give credits for a more long periods of time, etc.

Thirdly, banks should stop working only with “big people” with “big money”, but also help small enterprises to enter into market and freely functionate.

There some measures, which were applied in order to improve our lending system, and they are works, but there should be more support to small business, because it is so weak in Kazakhstan. Some enterprises, which are pretty big, rather than others, are gain on these programs, but there should be some support to the beginners.

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# Appendixes.

# Appendix 1

**Checklist.**

Respondent: Ms. Sahauyeva Zhanar, the chief accountant of “Oasis” company.

1. Information about company.
   1. For what purpose company was organized?
   2. Sources of funded capital (relatives, savings, sponsors)?
   3. In which sphere do you work (trade or production)?
   4. How many employees do company has?

2. Goals of receiving a loan.

2.1. How do you think, do small enterprises need to be credited?

2.2. How company used a loan?

2.3. What amount of gain did company received from the loan?

3. Loan.

3.1. In what bank do you prefer to receive a loan?

3.2. What liquid pledge did the company provide?

3.3. What interest rates did the company pay?

3.4. In which terms the company can made a repayment (monthly, quarterly or in the certain date)?

**Appendix 2**

**Table #1**

|  |  |  |
| --- | --- | --- |
| Regions | For the 1 October 1997 | For the 1 April 1998 |
| Parity of small business wages and region’s (%) | Parity of small business wages and region’s (%) |
| Akmolinskaya | 64.5 | 74.9 |
| Aktubinskaya | 53.8 | 46.0 |
| Almatinskaya | 91.5 | 75.9 |
| Almaty | 80.2 | 70.9 |
| Atirauskaya | 52.2 | 50.3 |
| Zhambilskaya | 40.3 | 36.9 |
| Karagandinskaya | 38.3 | 35.6 |
| Kizilordinskaya | 45.2 | 41.9 |
| Kostanayskaya | 75.7 | 63.8 |
| Mangistauskaya | 75.2 | 66.7 |
| Pavlodarskaya | 63.5 | 55.9 |
| Total | 680.4 | 618.8 |

(Source: Tukayev, 1998).