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## 4. Overcoming barriers: business consulting and lobbying in Kazakhstan

Gül Berna Özcan

### INTRODUCTION

This chapter provides a business case study for Kazakhstan, focusing on the Independent Businessmen's Group (IBG), a consultancy firm that took advantage of the demand for business services and day-to-day problem solving. The IBG case shows how energetic and imaginative entrepreneurship can turn business consultancy and lobbying into a successful venture by forging relational politics into a business for enterprise protection in Kazakhstan. This case study also shows that a new diversification of power structures and business consolidation is taking place with long-term consequences for the former hierarchical and vertical structures of the Soviet economy and society. Entrepreneurs widen their opportunities in relation, not in opposition to, the ruling elite in the market. The prevailing business norm is to accommodate the dominant powers that control economic resources as well as political incentives and tools. The IBG flourished on this assumption by forging political and patrimonial alliances through vertical and horizontal relations that its founder enjoyed as a close ally of the ruling elite as well as an old comrade of the president, Nursultan Nazarbayev.<sup>1</sup>

Before introducing the case study, I will discuss the main challenges facing business development in Kazakhstan and Central Asia in order to set the scene. In the first section I analyse why the delay of the emergence of lateral organizations and lack of societal trust are important impediments for the establishment of the market economy and strong civil society in Kazakhstan and post-Soviet Central Asia. The following section will examine the deep mistrust among individuals and institutions in Kazakhstan as reflected in current business perceptions of governance. Both EBRD data and my survey point out the degree of arbitrariness in law enforcement and governance problems for day-to-day management

of businesses. In the final section, the business case study illustrates an innovative entrepreneurial approach to bridging the gap between entrepreneurs' need to have bureaucratic guidance and protection for their business transactions and the arbitrariness they face on a day-to-day basis in the governance regime. The case points out the intricacies of emerging lateral organizations and the realities of interest representation in Kazakhstan today. The analysis illustrates that new lateral structures along with a growing small and medium-sized enterprise sector are bringing about deeper changes in economic relations, societal cohesion and the use of political power in the markets. The conclusion highlights the fact that the tolerance of the ruling elite in Kazakhstan is required for successful ventures and indicates the ways in which entrepreneurs imaginatively seek new ways of doing business within and along with elite social structures and clientelist networks.

### ECONOMIC REFORMS, RULING ELITE AND LATERAL STRUCTURES

Since their independence from the Soviet Union in 1991, Central Asian states have been struggling to establish the principles of a market economy and open society. Yet, the enthusiasm of the ruling elites for market and governance reforms has waned during the past decade due to a growing fear of political instability and more recently, a deep suspicion of Western involvement in 'coloured revolutions' that brought about leadership changes through popular uprisings in Georgia (2003), the Ukraine (2004) and Kyrgyzstan (2005). The political elites now recognize that structural change would destabilize their powerful interests and political networks. For more than a decade, former Communist Party elites managed to retain their political power and are now well established in ownership structures of emerging capitalist enterprises and the markets.

However, despite this general trend of slow-down on economic and political reforms, since the late 1990s a process of divergence has also evolved in the region in three main forms: neo-Soviet-style power consolidation, authoritarian developmentalism and chaotic governance. First, in Uzbekistan and Turkmenistan, former communist leaders consolidated political and economic power in a neo-Soviet style by curbing the operations of Western institutions and reasserting the single leader and party control in the economy and governance. Second, under another former communist leader, Nursultan Nazarbayev, Kazakhstan turned into an authoritarian and single-party dominated regime. However, the state-led developmental path brought about new economic reform policies with

successful implementation in the banking, finance and oil industries. Due to growing oil revenues since the end of the 1990s, the Kazakh government managed to stabilize macroeconomic indicators while also succeeding in co-opting interest groups and young cadres to the rank and file of bureaucracy and the single-party regime. A third path of divergence is seen in two small landlocked states, Tajikistan and Kyrgyzstan, in the form of constant political infighting and a chaotic process which can be described as dissolution of the state within the business and political groups and their self-governing mechanisms that increasingly control the governance of partitioned assets in these countries.

Foreign observers and natives agree that unlike other former communist regimes in Eastern Europe that quickly followed reform policies and the EU membership path in order to transform themselves into market economies and multi-party regimes, Central Asian countries continue to suffer from deep problems in building new institutions guarded by nation states. The lack of pluralistic traditions, ideological and social glue for nationalism and a common destiny have delayed the emergence of civil society action. Rather than the rule of law, individual powers and groups determine the governance regime by bending and circumventing procedures. Thus, even in reform-minded Kazakhstan, the new rules of the market economy are being defined according to the interests and priorities of the president's family and the ruling elite in a somewhat Soviet fashion. There are two characteristics of this ideological confusion and poor governance: sovietism and clientelism.

First, the legacy of Russian colonization and Soviet rule impinge upon the emergence of lateral structures and trust in post-Soviet societies. Mistrust and betrayal took root in societal turmoil as tribes and groups fought each other in order to protect their privileges with the colonizers during the late nineteenth century. Later the vertical structures of the Soviet command economy controlled resources and manpower while the Communist Party machine co-opted civil action into the layers of the party bureaucracy. This form of social mobilization uprooted two fundamental ingredients of vertical and lateral structures in these communities, namely societal and impersonal trust. Forming the main territorial line of Russian expansion and resettlement policies, the Kazakh steppe experienced colonization and Soviet engineering more profoundly than its neighbouring states (D'Encausse 2002; Soucek 2000). Uprooting nomadic steppe traditions, from the time of Tsarist colonial law enforcement, brought about massive population movements and great suffering during the famine in the early 1930s (Ertz 2005; Crews 2006). This, coupled with forced collectivization meant that Kazakhs had very little opportunity to be in charge of their own destiny (Shayakmetov 2006).

Second, the independence gained as a result of the dissolution of the Soviet Union has rested on a peripheral and subordinate state formation that had a weak base of legitimacy on its own without the Communist Party structure governed by a Moscow-based leadership. After all, Kazakh statehood was mostly manufactured by this leadership in Moscow, which appeased and co-opted Kazakhs within a folkloric nationalism without granting them national political legitimacy. While the Soviet top-down command and control mechanisms deteriorated in newly independent Kazakhstan, traditional-style patrimonial relations, which had been co-opted within the Soviet regime, became the main legitimizing force for the ruling elite. This unleashed deepening clientelism, a pattern which is also associated with clan politics to a varying degree across the majority of post-Soviet states (Collins 2006; Olcott 2002; Schatz 2004). Economic resources accumulated in the hands of the ruling elite and such opportunities were distributed within the network of patron-client relations leading to the emergence of neo-patrimonial states (Ilkhamov 2006).<sup>2</sup> Power relations within the ruling elite became the defining institution under the authoritarian presidential systems (Loung 2002, 2004).

The formation of intermediary lateral organizations and interest representation is essential for post-Soviet democracy-building and economic prosperity. Lateral and multiple social structures, unlike monolithic top-down ones, are better suited and more effective in arbitrating between economic resources and political interests. There is also a two-way relationship between deepening market relations and the growing sophistication of lateral organizations: they nurture each other. Diversification of associational ties and interest representation can also loosen the grip of the hierarchical patronage relations that currently dominate the state and market relations in the post-Soviet Central Asian countries. Understanding how entrepreneurship is shaped by these new structures and how entrepreneurs respond to them is important in order to discern future directions for enterprise development and entrepreneurship.

Consequently, the newly emerging entrepreneurial class has been subject to the permissiveness of the ruling elite and their success depended on the degree to which they developed a symbiotic relationship with the vertical structures through primordial networks and lateral organizations. The business case examined in this chapter illustrates the role of lateral and horizontal relations in a rapidly growing Kazakh economy. As argued later in the chapter, new economic structures and market relations have been in dynamic interaction with vertical and lateral patronage networks in the market and these have been dramatically changing societal relations, individual expectations and class structure in urban areas (Özcan 2006a). The next section illustrates the range of issues faced by entrepreneurs in their

dealings with the state bureaucracy and the markets that they try to address mostly through individual efforts.

## THE KAZAKH ECONOMY AND BUSINESS PERCEPTIONS

Starting from the late 1990s, Kazakhstan's economic outlook improved significantly, with new oil discoveries, growing foreign investment directed to its mineral extractive industries and the development of alternative pipeline routes. With increasing Western, Chinese and other investments and a growing international exposure of the domestic market, the dependency of the Kazakh economy upon Russia significantly lessened for the first time since its colonization in the nineteenth century. In addition to having a historical economic dependency and a long border with Russia, Kazakhstan has a large Russian population, estimated to be around one-third of the current population. Thus Kazakh governments, while strategically and gradually loosening their dependency to Russia, have also been careful in appeasing Russia's economic and political interests in the region (Olcott 2002).

The pattern of steady growth between 2000 and 2006, averaging above 9 per cent, has replaced the negative growth rates of the 1990s. This was the highest growth rate among Eastern European and the CIS countries, only surpassed by another oil-dominated economy, Azerbaijan. The robust growth increased GDP per head threefold from 2000 to 2005, reaching \$3250 and boosted the foreign reserves to an all-time high of \$30 billion in 2005 (EBRD 2006). With only 15 million people, Kazakhstan's vast territory and rich mineral and oil resources are likely to ensure continuing rapid economic growth for another decade.

Increased oil prices continue to generate massive earnings and boost the national economy.<sup>3</sup> The growing need for energy in the region, most notably by an energy hungry China, and European concerns to secure energy supplies and reduce dependence on Russian interference add a new importance to the position of Kazakhstan in Central Asia.<sup>4</sup> After securing a third presidential term in 2005, Nursultan Nazarbayev increased the momentum of state leadership in economic development and industrial policy by announcing a number of key measures. These included developing new industrial clusters, preparing Almaty to become an international financial centre, and corporate reforms such as the reorganization of large state assets for stock market offerings.<sup>5</sup> The government set up the 'Kazyna Joint Stock Company' and the Kazyna Fund for Sustained Development in 2006 in order to coordinate development initiatives and enhance the

governance of key institutions.<sup>6</sup> With an agenda of corporate modernization and reform, the Samruk Holding Company was set up in 2006 to preside over several large state companies including the state-owned oil company, KazMunaiGas. This recently launched reform process indicates a growing political will and self-confidence in directing the resource-rich economy toward economic diversity and sophistication rather than resource-driven dependency.

With bigger stakes in oil and resource-based industries the ruling elite have by and large left small and medium-sized enterprises (SMEs) alone, in contrast to their counterparts in Uzbekistan, which are constantly squeezed to generate tax revenues for the state.<sup>7</sup> Thus, compared to its southern neighbours, SME growth in Kazakhstan so far has been less negatively affected by tax and regulatory burdens. Weak agrarian and Islamic traditions leave Kazakhs mostly free from ritualizing conventions, unlike their more traditional but highly entrepreneurial neighbours, the Uzbeks. Consequently, Kazakhs adapt well to change and are able to achieve rapid organizational reforms relatively unhampered by social inertia. Kazakhstan is also better endowed with rich natural resources than its neighbours, which creates financial incentives for young professionals as well as old bureaucrats to be involved in new organizational design. These distinctions have enhanced economic reform in Kazakhstan without dismantling or liberalizing the top-down autocratic one-party rule. The political skills of President Nazarbayev as a shrewd former Communist Party boss have also helped to balance conflicting domestic and international pressures on Kazakhstan (Olcott 2002).

Organized representation of interests and collective action among emerging private business owners are still nascent in Kazakhstan and elsewhere in Central Asia. There are many well-documented instances of unjust inspection charges and arbitrary tax and customs duties to which small businesses tend to devise individual solutions. While large businesses exert great influence in shaping the underlying rules of the game through strong personal relationships, there is little evidence of solidarity among small and medium-sized businesses. The lack of any societal tradition of civil society organizations beyond those which the former top-down communist structures, such as Komsomol, youth organizations, unions and so on, offered is one reason why Central Asian countries in general and Kazakhstan in particular have weak civil engagement. The other factor is the insufficiency of societal and impersonal trust needed in order to forge alliances and new lateral structures for more open social and capitalist market relations.

The EBRD/World Bank Business Environment and Enterprise Performance Surveys (BEEPS) carried out since 1999 among 26 transition

countries indicate how firms perceive the quality of economic governance. These indicators show significant improvements in Central and Eastern Europe, including the Baltic States, since 2002. Some improvement is also noted in the Balkan and Central Asian states (Table 4.1). However, the perception of good governance by business owners is subject to the degree of freedom to express opinions about sensitive questions such as corruption and bribery by state officials, and also the degree of market competition allowed by the governments. For example, in Uzbekistan and Turkmenistan, in both of which there is tight state control over the market and society, there might be a misguided perception of stability. Similarly, as noted by the EBRD report (2005, p. 11), in countries with limited market growth, slow business generation and little competition, business owners may believe that the state intervenes on their behalf. This would mean little competition for existing entrepreneurs who sometimes enjoy a monopolistic or oligopolistic positions in the local markets.

With regard to corruption, the variety of forms and the differences between countries make it hard to measure its effect on businesses (Çokgezen 2004). The impact of the culture of gift-giving, kickback payments and tax and inspection extortions and other forms of state surveillance on businesses vary according to governance mechanisms and state-market relations across

Table 4.1 Changes in perceptions of economic governance in selected CIS countries, 2002–05

Selected CIS countries	Judiciary	Crime	Corruption	Customs	Business licensing	Tax adm.
Armenia	0.12	0.22*	0.21*	<b>-0.35</b>	0.05	-0.07
Azerbaijan	0.11	0.27*	0.37*	0.35*	0.33*	0.57*
Kazakhstan	0.16*	-0.11	-0.06	-0.05	0.12	-0.04
Kyrgyz Republic	0.04	-0.11	0.32*	0.00	0.08	0.26
Russia	0.07	-0.01	0.19*	-0.06	-0.01	-0.06
Tajikistan	-0.11	<b>-0.20</b>	<b>-0.32</b>	<b>-0.49</b>	-0.15	-0.16
Ukraine	-0.08	<b>-0.36</b>	<b>-0.26</b>	<b>-0.35</b>	<b>-0.27</b>	<b>-0.44</b>
Uzbekistan	-0.12	-0.11	-0.13	-0.14	0.14	<b>-0.20</b>
Average	0.01	<b>-0.13</b>	<b>-0.10</b>	<b>-0.18</b>	-0.02	<b>-0.25</b>

Notes: A negative sign indicates improved perceptions; statistically significant improvements are shown in bold and statistically significant deteriorations are shown with an asterisk.

Source: EBRD (2005) and data taken from BEEPS 2002 and 2005.

countries. In this respect, it is not easy to make meaningful international comparisons. However, the indicators in Table 4.1 show the broad trends and the position of Kazakhstan among the CIS countries. Kazakhstan, with the exception of attitudes toward the judiciary, displays a consistent trend, with no significant improvements or deteriorations in perceptions of governance; unlike the Ukraine, with positive trends, or Azerbaijan, with negative trends. Indeed, this result is in parallel with the argument that Central Asian states are at a stage of reform saturation in which transition to markets is slowing down.

Despite slightly improved perceptions of the business environment noted in the BEEPS surveys, the day-to-day problems faced by small business owners remain mostly unresolved in all CIS countries, including Kazakhstan. The author's survey across Central Asia indicates that there is a high degree of mistrust among business owners of state institutions and law enforcement agencies. The face-to-face interviews with proprietors of 183 small and medium-sized businesses in Kazakhstan, Kyrgyzstan and Uzbekistan show that many business owners encounter unfair and arbitrary treatment at the hands of state inspectors, administrators and tax collectors. Corruption is the most common problem faced. As shown in Table 4.2, between one-third and a quarter of respondents in each country identify the impact of corruption in bureaucracy as 'very' serious. This rate is the highest in Uzbekistan (37 per cent). Those who identify the degree of the impact of corruption on business as 'quite high' are also significant: 24.3 per cent in Kyrgyzstan, 17.4 per cent in Uzbekistan and 27.6 per cent in Kazakhstan. While Uzbekistan stands out as having the most inhospitable governance regime for businesses, Kazakh and Kyrgyz businesses express a degree of accommodation and do not feel as oppressed by state bureaucracy and corruption as their Uzbek counterparts. There was also a degree of fear among respondents in Uzbekistan and many, when answering governance-related questions, indicated that they would hesitate to express their negative feelings in public.

The most commonly identified business issues are related to abuse by tax officials and state inspectors, unpaid debts, illegal extortion by criminal gangs, and bureaucratic hurdles. In this respect Kazakhstan shows similarities with other Central Asian states. In dealing with these problems a great majority of respondents (84 per cent) prefer to sort out their business problems on their own. Along with personal strategies, many entrepreneurs commonly use their friendship and kinship relations to address these problems (Özcan 2006a, 2006b). Seeking personal connections to officialdom and bribing when necessary are the two most common strategies of 'getting by' (Tables 4.2 and 4.3). In Kyrgyzstan, there is

Table 4.2 The perceived effects of corruption in bureaucracy on business in selected countries

	Kyrgyzstan	Uzbekistan	Kazakhstan	Total
Don't know	1	1	0	2
% within bureaucracy and bribery	50.0%	50.0%	0%	100.0%
% within country	1.4%	2.2%	0%	1.1%
Not	25	16	16	57
% within bureaucracy and bribery	43.9%	28.1%	28.1%	100.0%
% within country	33.8%	34.8%	27.6%	32.0%
Some	9	4	12	25
% within bureaucracy and bribery	36.0%	16.0%	48.0%	100.0%
% within country	12.2%	8.7%	20.7%	14.0%
Quite	18	8	16	42
% within bureaucracy and bribery	42.9%	19.0%	38.1%	100.0%
% within country	24.3%	17.4%	27.6%	23.6%
Very	21	17	14	52
% within bureaucracy and bribery	40.4%	32.7%	26.9%	100.0%
% within country	28.4%	37.0%	24.1%	29.2%
Total	74	46	58	178
% within bureaucracy and bribery	41.6%	25.8%	32.6%	100.0%
% within country	100.0%	100.0%	100.0%	100.0%

Note: Missing cases are not included. Total sample of 183.

Source: The enterprise survey was carried out by the author between 2004 and 2005. The fieldwork data was gathered from small business owners employing less than 50 workers in the following cities: Bishkek, Osh, Karabalta, Cholpon-Ata and Karakol in Kyrgyzstan; Almaty, Astana, Karaganda and Semey in Kazakhstan; and Bukhara, Tashkent and Samarqand in Uzbekistan. The survey sample was randomly selected from the lists of local banks that ran the micro-finance programme initiated by the EBRD.

Table 4.3 The use of business associations by Central Asian entrepreneurs to address problems or consult business issues in selected countries

	Kyrgyzstan	Uzbekistan	Kazakhstan	Total
Never	50	33	43	126
% within business associations	39.7%	26.2%	34.1%	100.0%
% within country	71.4%	73.3%	74.1%	72.8%
Rarely	10	4	9	23
% within business associations	43.5%	17.4%	39.1%	100.0%
% within country	14.3%	8.9%	15.5%	13.3%
Often	5	1	5	11
% within business associations	45.5%	9.1%	45.5%	100.0%
% within country	7.1%	2.2%	8.6%	6.4%
Very often	5	7	1	13
% within business associations	38.5%	53.8%	7.7%	100.0%
% within country	7.1%	15.6%	1.7%	7.5%
Total	70	45	58	173
% within business associations	40.5%	26.0%	33.5%	100.0%
% within country	100.0%	100.0%	100.0%	100.0%

Note: Missing cases are not included. Total sample of 183.

Source: The enterprise survey carried out by the author between 2004 and 2005.

low engagement with associations while 74.1 per cent of those Kazakh businesses interviewed never dealt with the appropriate business associations. In Uzbekistan, there is a higher degree of associational involvement as a quarter of businesses address their issues through associations. However, this is mainly due to the fact that the government regulates business and craft associations and monitors them through territorially-structured vertical bureaucracy.

For the time being the behavioural norms of 'getting by' seem to have entrenched business uncertainty in efforts to ensure marginal survival in Kazakhstan. However, such accommodation strategies are neither optimal nor sustainable for long-term business interests. Conformity with the arbitrariness of the rule of law brings only ephemeral gains for small

businesses. Despite widespread discontent with corruption, and poor tax and inspection systems, there are very few cases of collective efforts by entrepreneurs to alleviate such commonly faced difficulties in day-to-day business practices. By the logic of collective action that Olson (1971) describes, this is not so surprising. Olson argues that individuals do not follow rational behavioural patterns in order to maximize their common gains through collective action. He stresses that unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, rational self-interested individuals will not act to achieve their common or group interests (Olson 1971, pp. 1–2). However, Olson also points out that when there is a possibility of making a gain that would match everybody's interests, we see collective action making a difference, such as when trade unions, business and lobby groups are formed. In Western democracies collective action in business and society is an important part of democratic life, playing a crucial mediating role between the state and interest groups.

Groups need social glue to forge collective action. A vision, a sense of belonging and a common language and purpose are essential to formulating and acting together for shared interests. One of the fundamental ingredients of that glue is societal, interpersonal (between individuals) and impersonal (between individuals and institutions) trust, which is needed in order to build alliances and social movements, and to demand change. In post-Soviet Central Asia interpersonal trust beyond family, friends and tribal relations is weak. This deficiency, along with the imposition of authoritarian presidential regimes, is a major obstacle for lateral interest formation and representation in politics as well as for new institution-building. The business case below illustrates how innovative entrepreneurship can address these societal shortcomings by forging new alliances in the markets for collective goods.

## CAPITALIZING ON BUSINESS INTERESTS: THE CASE OF IBG CONSULTANCY

### Lobbying and Collective Action

Much emphasis has been placed in academic literature on the barriers to entrepreneurship and innovation in all post-Soviet countries. The dissolution of the Soviet command economy has become associated with high levels of unemployment, corruption and a growing informal economy. As noted earlier, in Central Asia this has been accompanied by weak systems of political legitimacy installed by authoritarian presidential regimes. Business growth is often hampered by market failures, infrastructural problems and,

more importantly, insecure property rights. Many small businesses have to cope with state extortion or organized crime to ensure a modicum of protection. But at the same time post-Soviet market distortions create many opportunities for businesses to fill gaps between demand and supply. Thus, there is plenty of room for small businesses to thrive; and entrepreneurs are increasingly developing sophisticated ways to adapt to post-Soviet governance idiosyncrasies and uncertainty.

However, the author's survey and anecdotal evidence indicate that businesses rarely form a common platform to address their day-to-day survival problems. After decades of imposed, but now discredited, collectivization and communist ideological indoctrination, there appears no moral base for collective action and impersonal trust beyond tribal and family ties. Low levels of institutional and impersonal trust are observed in all post-Soviet states and empirical studies show considerable differences between regions and sectors in terms of entrepreneurial strategies. In their three-country study (Estonia, Russia and East Germany) Welter et al. (2004) found that Russian and Estonian entrepreneurs were least likely to search for outside help in their business ventures beyond their known network of friends and family. My results indicate a somewhat similar trend; most of the businesses never consult any business association or local or foreign consultancy firms in solving their day-to-day problems. There are hardly any records or reliable company data available. Business directories are only recently being developed by local authorities and only state-sponsored chambers of commerce and industry have some listings of businesses. Most of the time information about the nature and size of businesses remains in segmented quarters of officialdom. A great majority of businesses are not part of any association and have never engaged in collective action.<sup>8</sup>

Collective action not only runs into the problems defined by Olson (1971), it also faces post-Soviet nihilistic attitudes and obsessive self-sufficiency in pursuit of wealth. While the existing system for the distribution of property rights lacks legitimacy, there is an all-out war between players for survival in the market, with no allowance for mutual trust. Under these circumstances, business protection itself is an entrepreneurial activity and even a recognized function of influential businesses. Since small businesses tend to be opaque in terms of their legal status and have high birth and death rates, their long-term engagement with associations tends to be weaker than other groups in general. This is also a common phenomenon in newly industrializing market economies where state coercion plays a crucial role in interest representation (Çokgezen 2000).

Nevertheless, economic growth in Kazakhstan has widened business opportunities in recent years and a growing number of small and medium-sized businesses have sought further protection. The traditional

state-sponsored chamber of commerce and industry (CCI) used to be the sole body in which businesses were grouped. Despite the continuing dominance of this structure, new solidarity groups are also emerging. An increasing number of business associations indicate that alternative mechanisms for solidarity are emerging and that they facilitate transactions and daily operations along with ad hoc groupings and rudimentary forms of solidarity. Permissive authoritarianism in Kazakhstan has recently fostered suitable conditions for business interest representation, as long as these business groupings remain politically neutral and peripheral to and/or not in competition against the major interests in sectors such as banking, rich mineral resources and oil exploration.

The newly emerging associations are being shaped by the diverging needs and expectations of the second generation business elite. In 2005, there were nine business groups with headquarters in Almaty and some had branches in other towns as well.<sup>9</sup> Many of these associations are run by charismatic well-connected businessmen, with good ruling party links, who establish and nurture a common pool of connections and networks for the expansion of business opportunities and new ventures among the member entrepreneurs. One of the most notable of these is the Independent Businessmen's Group which was established on a novel structure by a former factory manager. The originality of IBG is that it is a businesses consultancy firm established on the basis of business solidarity. The IBG case elaborated below illustrates the nature of emerging business interest formation and consultancy services through horizontal business and social network expansion by entrepreneurs within a predominantly vertical power base.

### **The IBG Business Case**

The founder and manager of the consultancy company called the Independent Businessmen's Group is an energetic former manager of Karmet, one of the largest Soviet steel mills, in Termirtau near Karaganda. Mr Temir<sup>10</sup> diversified his business knowledge and links while working in the construction sector for 20 years, followed by five years of experience in banking. His 25 years of business experience in the state sector provided him with the necessary political links and a good understanding of economic matters. With the growing private business sector, he identified the lack of consultancy advice available in the market. Many of his friends sought his help in establishing a business or developing a new contact. Initially happy to offer advice to individuals and small partnerships, with time Mr Temir realized that his business skills and connections had value beyond one-on-one advising. He also realized that he could no longer manage these links and constant phone calls on his own. Thus, he decided

to establish his own business, what now is the IBG consultancy. With only a few secretaries and accountants, the company originated in a small office space in his native Karaganda in northern Kazakhstan in 1999. Mr Temir's business grew quickly and reached 1600 clients in 2005. In 2002 he moved the business headquarters to a large modern building in Almaty.

In essence his business carries the characteristics of a consultancy company as well as a lobby group. The majority of clients are owners of SMEs from a variety of sectors. The largest single group consists of retailers of foodstuffs and convenience store owners (around 600). The early reputation of Mr Temir as a respectable member of the old guard and an effective contact to address business issues and bureaucratic problems grew quickly through networks of businessmen and clan relations; an effective social network provider in Kazakh society. The IBG became a popular address for accounting, business advice and bureaucratic handling. Growing small and medium-sized businesses increasingly sought to outsource routine accounting and paperwork to those who have resources to handle the complicated and opaque state bureaucracy. This made IBG popular. Mr Temir knew how to handle this demand and his business model was a success, with seven branches across Kazakhstan in Almaty, Karaganda, Petropavlovsk, Uralsk and three smaller northern towns.

Mr Temir is well positioned to take advantage of establishment power structures and also has access to critical primordial ties in Kazakh society. There are three key aspects of his business success. First, Mr Temir enjoys very important vertical connections, most importantly friendship ties with President Nazarbayev. Both worked at Karmet as comrades during the Soviet period.<sup>11</sup> As friendship and clan ties matter to a great extent in business dealings, Mr Temir can leverage such connections and other strong links to the state bureaucracy. Second, as an experienced manager, he has good business aptitude and an understanding of the needs and expectations of the emerging entrepreneurial class. Third, he is a good communicator, network builder and a charismatic individual. These qualities make him a popular leader of the business community and liked by the political and bureaucratic elite.

Moreover, Mr Temir's main headquarters provide good links to businesses through quick and open access to state bureaucracy and influential officials. As a display of power and respect for state authority, his office, located in a new large building, is decorated in a stately fashion, with official desk fixtures, maps and national symbols. Mr Temir spends hours nurturing connections with businesses and within the bureaucracy, while routine services are carried out by his 80-strong staff. He proudly proclaims that 'every new day is the beginning of another troubleshooting operation'.



IBG has a centralized accounting department employing 40 staff who advise as many as 500 businesses on accounting standards and problems. Making sense of accounting and tax law is a highly valued service for businesses because of the widespread irregularities and complications in the interpretation and implementation of the tax code. Those who receive these services can also get advice on new business ventures and market research at any time, providing that they pay additional charges above their membership fees. There are also legal advisers working with 80 fee-paying businessmen. Mergers and acquisitions are another area in which relationships are cultivated and deals are secured by Mr Temir through long negotiations and bureaucratic pinpointing. The IBG works closely with municipalities, which are important players in business formation and survival since they issue business permits and control land and building regulations. The flexibility of IBG allows businesses to participate when they feel it is necessary. There is no electoral competition and Mr Temir is the business owner as well as a self-appointed popular representative and voice of the rapidly growing second generation entrepreneurs in his group.<sup>12</sup>

#### **Emerging Business Elite**

There are informal channels of participation, political lobbying and socialization among the clients of IBG. The clients are attracted by the idea of being part of a solidarity network. These businessmen often feel the need for flexible and non-binding cooperation in order to cope with the idiosyncratic state bureaucracy, constantly changing legal environment and other uncertainties of transition. This is all the more important as they are reluctant to unite their businesses or amalgamate in order to reach economies of scale. Strong social bonds cement loose business solidarity. Tribal and traditional symbols that are valued by Kazakh society are frequently used. Kazakhs, as do other Central Asians, devote enormous energy and importance to meals as a form of courtesy to others and eating is often a symbol of bonding. Dining, often with lots of alcohol, is one such important ritual area, where loyalty, respect and trust are expressed and forged between men. It is commonly noted that business deals and bonding ties cannot be struck without getting drunk with fellow businessmen. In addition to single-gender gatherings, many social occasions are also attended by children and spouses. Another common practice is to exchange gifts, signal tribal and geographical links and offer connections to common friends and colleagues. These exchanges begin to establish a base of trust and initiate new business opportunities and social networks for entrepreneurs in an open and flexible manner.

The IBG incorporates these social elements and provides a forum for further social exchanges and business transactions to its clients. As in the case of food retailers within IBG, cooperation can forge a significant grouping which brings business advantages and social prestige to a sub-group. Knowing that a business needs to be enriched and solidified by social relations, IBG organizes many social activities for families, runs a modest football club, offers karate courses for children and issues a socially-oriented magazine for business members in both Russian and Kazakh in which all the group's activities are illustrated with photographs, alongside the business news.

However, this emerging Kazakh business solidarity and business-based social networks exclude marginal people and the dispossessed. Social networks are most effective when they have dense and rich relations arising from the wealth and good connections of their participants. Increasingly, social networks of businessmen are being shaped by ties that are less socially inclusive but more conscious of wealth and power. There is now a widening gap between social groups and the new business elite, representing a deepening gulf between poor and rich social networks, exemplified by network opportunities, consumption tastes and cultural attitudes. Many emerging social networks built on business interests exclude the poor and the marginalized; among them many Soviet-era labourers and semi-skilled workers. Nazpary (2002) illustrates how in post-Soviet Kazakhstan 'class' is increasingly playing a central role in social relations. Despite tribal and family solidarity, poor people are excluded as individuals cultivate social networks where they believe that they can trade relations, favours and exchanges. Dispossessed and marginalized Kazakhs have poor network endowments and consequently they have underprivileged networks, which are often abandoned by their more resourceful relatives. Another phenomenon is linked to the emerging Kazakh national identity where rural Kazakhs are looked upon as backward by their urban compatriots.<sup>13</sup> Ethnic differences in utilizing support networks deepen existing inequalities for Russians and other Slavs who do not have the extended family and clan relations of indigenous peoples.<sup>14</sup> The effect of the government policy of 'soft Kazakhization',<sup>15</sup> in response to the long-term marginalization of Kazakhs vis-à-vis other settlers, is also putting stress on professional and business development for non-Kazakhs.<sup>16</sup>

#### **Loosening Top-down State Control**

The IBG's relationship with the state and bureaucracy is another example of changing state control over business and the loosening of the vertical

command structures, as evidenced by its influence among key power brokers. First, IBG is setting a good example to those who seek better treatment from officialdom and less burdensome bureaucracy. The message is that through pressure groups and activists like Mr Temir, business will run more smoothly, with fewer day-to-day problems. Second, IBG forges impersonal trust and attracts more members than state-sponsored chambers of commerce. This helps to dissolve the top-down state control of businesses and their transactions through CCIs. The national CCI is finding it hard to attract new members although it operates 16 branches across the country and works as an extension of the state apparatus.

Entrepreneurs appear increasingly less keen on being part of this bureaucratic organization. They seek to form smaller and stronger solidarity networks and associations where they can resolve matters more quickly in the absence of the intermediary role played by minor bureaucrats in CCI branches. In the third largest city after Almaty and Astana, and one of the main industrial centres, Karaganda, the Kazakh CCI was reduced to only 30 business members,<sup>17</sup> in contrast to the 20 employees of the CCI office. This high staff ratio can only be justified as a state employment policy in order to maintain state bureaucracy. The interpersonal ties of businessmen with various ministers and high-ranked bureaucrats determine the extent and importance of the service they obtain from the CCI. But, as IBG illustrates, businessmen are willing to pay a fee for external services, and value being part of a business network with many external benefits.

The chairman of one of the CCI branches took time off in order to help President Nazarbayev's December 2005 election campaign – evidence of the extent of state co-option of the CCI and the degree of their involvement in the presidential system. However, this political involvement is not surprising as all CCI national chairs are appointed by the president. The CCI staff claim that their offices extend 'protection' and 'justice' to their members. This claim itself indicates the degree to which political protection matters for the day-to-day management of business. Nevertheless, there is a notable difference between total state co-option in Uzbekistan and partially liberal state co-option in Kazakhstan. Not only the emergence but the success of a lobby and consultancy business like IBG indicates a new trend towards loosening top-down state control in Kazakhstan; allowing some room for manoeuvre in growing the SME sector.

## CONCLUSION

In Kazakhstan there is a growing and dynamic entrepreneurial class. However, for more than a decade entrepreneurs, as practitioners and builders

of a market economy, hid behind their personal ties and social networks in order to handle their day-to-day issues and address distorted law enforcement and weak institutions in turbulent periods of transition. In doing so they mainly utilized their instinct for survival, demonstrating a deep cynicism towards justice and the rule of law. After decades of imposed collectivization and communist ideological indoctrination, it is astonishing to note that there seems to be no societal and impersonal trust for collective action beyond tribal and family ties, as can be seen elsewhere in Central Asia (Çokgezen and Özcan 2007). However, in recent years, while private businesses have been increasing in number, state-market relations have started to change, with the formation of new interest groups. There are signs that old norms are changing along with new economic incentives, and business groups are increasingly interested in forging collective action to facilitate business transactions, to minimize bureaucratic hurdles and to limit state extortion. The emergence of business groups is a positive development in the direction of more complex economic relations and the evolution of denser markets. If such developments continue to generate business diversity, this might be the beginning of a new awakening for the steppe.

The case study presented in this chapter illustrates the emergence of lateral organizations beyond kinship and family, which offer a sign of a new diversification of power structures that is overcoming the Soviet legacy of hierarchical and vertical command structures. While the Kazakh economy continues to perform well, the country is becoming an oil and gas hub between East and West. Although its positive economic performance is mostly resource-driven and the country remains subject to political uncertainties such as the opaqueness of the presidential succession and weak democratic institutions, along with loosening state control, the positive performance stimulates business diversification and a growing need for interest group representation.

The Independent Businessmen's Group shows that strong political careers can serve business interests and induce impersonal trust for profit. Where vertical power and authority is still important, political connections are used to solidify horizontal business interests. Thus, a mixture of primordial network relations and vertical political and bureaucratic structures creates new opportunities for business solidarity, especially when this form of interaction is permitted without direct state coercion or co-option. The ruling elite in Kazakhstan allows new formations as long as they pose no political threat to the regime. Thus, many entrepreneurs widen their opportunities in relation, and not in opposition to, the national elite in the market. The prevailing business norm is to accommodate the dominant powers that control economic resources as well as political incentives and tools. This is mainly because the positive spillover effects of this symbiotic

relationship in the oil revenue-rich economy are much greater for SMEs than the alternatives of indifference or confrontation.

## NOTES

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1. Max Weber's term, 'patrimonialism', refers to a system of rule based on administrative and military personnel who were responsible only to the ruler. Some analysts argue that post-Soviet states evolved into neo-patrimonialism after the collapse of the USSR (Ilkhamov 2006).
2. Neo-patrimonialism is a term used for ruling groups – patrons – using state resources for their benefit and also in order to secure the loyalty of clients in the general population. Neo-patrimonial states rest on informal patron–client relationships in politics and resource allocation in the economy.
3. Pomfret (2006) offers a detailed analysis of Kazakhstan's early rocky economic performance and reform path in the 1990s and explains how the oil boom has been a major contributor to the macroeconomic improvements of recent years.
4. Kazakhstan is taking advantage of a new demand for diversification in energy supply routes by Western governments and major regional players such as China and India. This trend, combined with the new large oil reserves discovered in Karachaganak in the Caspian Basin, contributed to the growing attraction of Kazakhstan and the Baku–Tbilisi–Ceyhan pipeline for Western oil companies and markets. With the newly planned routes and those that are under construction, Kazakhstan is expected to be at the centre of major energy routes between Asia and Europe, challenging the long-term domination of Russia.
5. During his visit to the UK in November 2006, Nazarbayev signed agreements with the London Stock Exchange to boost Almaty's financial status in Central Asia. Four Kazakh companies are currently listed on the London Stock Exchange's main market, and a further ten companies with operations in Kazakhstan are quoted on AIM. Kazakh companies have raised a total of \$4.2 billion in 2006 (see <http://www.londonstockexchange.com/en-gb/about/Newsroom/pressreleases/2006/kazakh.htm>, accessed 2 December 2007).
6. Several major state funds were brought under Kazyna JSC. These include the Development Bank of Kazakhstan, the Investment Fund of Kazakhstan, the National Innovation Fund, the Centre of Engineering and Transfer of Technologies, State Export Credits Insurance and Investments Corporation, the Fund of Small Business Development, the Centre for Marketing and Analytical Research, and Kazinvest.
7. Interview with the BBC correspondent to Central Asia, Ian MacWilliam (October 2005), Almaty.
8. In Uzbekistan, many craftsmen and businesses are co-opted into state-sponsored chambers of commerce and crafts associations.
9. The following associations have offices or representatives in Almaty: the Independent Businessmen's Association, Association of Construction Companies, Employers' Confederation of Republic of Kazakhstan, Kazakhstan Association of Logistics Companies, Association for the Development and Support of Construction in Kazakhstan, Kazakhstan Tourism Association, the Association of Manufacturers' and Service Companies in the Oil and Gas Sector, Kazakhstan Entrepreneurs' Forum, the Association of Markets and Entrepreneurs of Kazakhstan.
10. This is a pseudonym.

11. Olcott (2002) notes that Nazarbayev worked in Karmet (Karaganda Metallurgical Combine) for five years from 1965 to 1969. Karmet was the sixty-seventh largest steel mill in the world when it was privatized and sold to Ispat, the Indian steel giant in mid-1995 (*ibid.*, p. 140). Ispat-KarMet eventually became Mittal Steel Temirtau.
12. Interview with the chairman of the Independent Businessmen's Group (October 2005), Almaty.
13. There are many ethnic slurs among Kazakhs as well as between Kazakhs and Uzbeks. As Nazpary (2002) explains, the terms 'backward' and 'stupid' were used by Russians to insult Kazakhs while urban Kazakhs use these terms for their fellow Kazakh villagers.
14. Interview with the BBC correspondent of Central Asia, Ian MacWilliam (October 2005), Almaty.
15. Kazakhization refers to increasing influence of ethnic Kazakhs in state affairs and private businesses reducing the traditional domination of Russians and other Slavs in the upper echelons of bureaucracy and management.
16. The Kazakh leadership embraces the multi-ethnic character of the country in public discourse. However, there has been a concerted effort to mobilize young Kazakhs to responsible positions in government and business. This policy is in response to the disproportional domination of Slavic people in urban occupations, bureaucracy and managerial positions during the Soviet era.
17. Interviews with the former marketing manager of Karaganda CCI and the chief administrative officer (October 2005), Karaganda.

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