

ADB

CREATING AN ENABLING ENVIRONMENT FOR VENTURE CAPITAL FINANCING IN KAZAKHSTAN

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FOREWORD

Venture capital refers to investments in early-stage innovative small companies, called startups, that show potential for growth. Whether financing comes from the government, private investors, large corporations, or institutional funds such as pensions, the investment always carries an element of risk due to the high rate of startup failures.

Venture capital is important for the digital economy and for it to thrive, an enabling ecosystem is needed. The backbone of this ecosystem consists of a legal framework that encourages innovation, eases the process of setting up, operating, and closing business, and accepts startup failures as part of the growth process. Laws that foster a dynamic capital market and strong human capital base complete the venture capital ecosystem.

While venture capital ecosystems are evolving worldwide, Kazakhstan has also made good progress in creating an environment that allows technological innovations from the private sector to be the new drivers of economic development. Continuous progress is needed for building a knowledge-based society by further improving legislative frameworks and legal instruments that can support entrepreneurs and venture capital investors simultaneously.

This report aims to contribute to Kazakhstan's sustainable growth objectives by examining the national ecosystem for venture capital, analyzing the legal framework supporting venture capital investments, and discussing the importance of developing human capital that can effectively respond to a constantly evolving venture capital market. The report provides a range of recommendations for how the current ecosystem can be bolstered to enable venture capital to flow into Kazakhstan. For a deep dive on policy actions that would support the venture capital ecosystem in the short term, a separate Technical Note for the consideration of the Government of Kazakhstan was also created.

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This report does not necessarily reflect the views of ADB or the Government concerned, and neither the ADB nor the Government shall be held liable for its contents.

ABBREVIATIONS

4IR – 4th Industrial Revolution

AI – Artificial Intelligence

AIFC – Astana International Finance Center

AML – Anti-money Laundering

AR – Augmented Reality

ARD – American Research and Development Corporation

ASEAN – Association of Southeast Asian Nations

CRA – Community Reinvestment Act, US

CRM – Customer Relationship Management

GDP – Gross Domestic Product

ICT – Information and Communications Technology
(or Technologies)

IPO – Initial Public Offering

JSC – Joint Stock Company

KBTU – Kazakh British Technical University's Incubator

KDA – Digital Kazakhstan Accelerator

KPMG – Klynveld Peat Marwick Goerdeler (firm)

KYC – Know Your Customer

LIVF – Law on Investment and Venture Funds

MDDIAI - Ministry of Digital Development Innovation and
Aerospace Industry

NBK – National Bank of Kazakhstan

NURIS – Nazarbayev University Research and Innovation
System

OECD – Organization for Economic Co-operation and
Development

PE – Permanent Establishment

PECA – Private Equity Country Attractiveness

PIP – Priority Investment Projects

PIT – Personal Income Tax

QTV – QazTechVentures

ROK – Republic of Kazakhstan

SBA – Small Business Administration, US

SBIC – Small Business Investment Corporation

SBIR – Small Business Innovation Research

SCPD – Stanford Center for Professional Development

SEC – Securities and Exchange Commission (US)

SME – Small and Medium Enterprise

TRIPS – Trade-Related Aspects of Intellectual Property Rights

VAT - Value Added Tax

VCF – Venture Capital Funds

VCT – Venture Capital Trust, UK

INTRODUCTION

Since its independence in 1991, Kazakhstan has made significant moves toward an innovation economy. These efforts picked up in the 2000s, with the Government of Kazakhstan making a concerted effort to increase research and development (R&D) activity. To narrow the persistent productivity gap and, in the longer term, move toward a growth model less dependent on commodity exports, it launched major legal reforms, strategies, and programs to boost science and technology.¹

In 2020, Kazakhstan ranked 86th out of 100 countries in the recent Global Ranking of Startup Ecosystems, falling 17 places from its 2019 ranking. In terms of the former Soviet Union countries, Russia ranks 17, Ukraine 29, Armenia 57, and Belarus 63, all higher than Kazakhstan. Various experts attribute this to Kazakhstan's lack of conditions conducive to stimulating the emergence of scalable startups working in the technology space. This is mainly because Kazakhstan's regional market is small, especially in terms of consumer products. Another reason is the brain drain that Kazakhstan experiences as both new and seasoned IT professionals emigrate to work for companies abroad and those who stay are hired by Kazakhstan's large companies.

Despite these grim statistics, Kazakhstan's startup ecosystem has experienced growth over the last decade. The government has sought the assistance of international organizations to support its efforts in creating an ecosystem conducive to entrepreneurship and venture capital.² According to Startup Genome 2018 Report, Nur-Sultan ranked second as the world's youngest fast-growing startup ecosystem and ranked in the global top five ecosystems for affordable talent in 2019.^{3, 4} The current number of players, startups, and intensity of activities in the startup ecosystem paints an optimistic view of the future.

In addition, the government adopted amendments to the Law on Investment and Venture Funds in 2018. The law is aimed at the ecosystem of digital developers and other innovative solutions to increase innovative activity, attract foreign investment, and create new jobs and an inflow of intellectual resources to the national economy. However, the government recognizes that the law is far from sufficient. It has inadequacies that could benefit from lessons of good international practices and is operating within the context of other laws governing commercial activity.

Against this background, this report analyses the laws and regulatory environment for venture capital in Kazakhstan and offers solutions on how to further stimulate venture capital financing in the country. The report is structured as follows. Section 1 provides an overview of the main actors and programs in the venture capital ecosystem. Section 2 analyzes Kazakhstan's venture laws. Section 3 explains why developing the human resources skilled in venture capital is as important as getting the venture capital regulatory framework right. Based on previous sections, Section 4 provides concluding remarks and policy implications for creating an enabling environment for venture capital investments in Kazakhstan.

1 Kazakhstan jumped eight positions to reach 28 in the World Bank Group's Doing Business 2019 report that ranks the world's top economies for their ease of doing business. Kazakhstan's ranking places it ahead of number 30 Spain, number 46 China, and number 77 India. World Bank, 2019.

2 As an illustration, Kazakhstan has implemented the Technology Commercialization Project (TCP) and Fostering Productive Innovation Project (FPIP) financed by the World Bank aimed at technology commercialization, start-ups, and developing a venture ecosystem. The Early-Stage Venture Capital (ESVC) is being implemented under the auspices of FPIP.

3 Startup Genome is a California research and consulting firm specializing in startup ecosystem development across the globe and has its own ranking of regional startups ecosystems.

4 Nur Sultan's ranking dropped in 2020.

SECTION 1. OVERVIEW OF KAZAKHSTAN'S VENTURE CAPITAL ECOSYSTEM

1. The high dependence of the Kazakhstan economy on external factors such as commodity prices creates a paradox. On the one hand, the abundance of foreign direct investment (FDI) and hard currency due to commodity exports favors trickle-down investments in the economy, and on the other hand it fosters a dependence on export trade and commodity prices, which creates external vulnerabilities. The impact of COVID-19, for example, caused the annual GDP growth rate to drop from 4.5% to -2.6% between 2019 and 2020. Political conditions also influence the perception of investors as reported by Nikkei Asia in 2019. Naturally, this volatility does not go unnoticed by venture capital fund managers (VCF), who sense the implied risk involved in making long-term investments in such environments.

2. When VCFs are interested in a country's venture capital ecosystem, the value chains of technology firms are taken into consideration. Before investing in a startup, venture funds identify risks ex-ante by looking at the registered legal form of the entity. Hence, the legislation associated with the entry point for a startup, such as registration of an entity and existing terms for the protection of shareholders' rights, are crucial for venture funds.⁵ Furthermore, the existing exit terms, including initial public offerings (IPOs) should a startup succeed, or regulations governing bankruptcy should a startup not survive, are equally important factors.^{6,7}

3. Another important factor is the structure of capital markets in Kazakhstan. The state still plays a key role in the economy. Ongoing privatization processes allow the role of the state to be reduced in favor of the private sector. To date, however, assets have been allocated unevenly in the private sector, with a few high-net-worth individuals playing a significant role. According to a KPMG report (2019), Kazakhstan's economy is limited in terms of stock market liquidity, which is a clear driver for VCF decisions to set up operations in the country. This indicates difficulties for domestic companies to grow rapidly, which is one of the basic requirements for venture capital activity. This is further supported by the fact that in 2020, the share of GDP taken up by medium-sized businesses was only 6.6% and 26.5% for small-sized businesses.

4. In the field of venture capital, the government has emphasized the creation of strategic public-private partnerships (PPP) centered on the economic development of the industrial complex based on technological innovations following the example of successful countries.^{8,9} The government advanced three basic PPP models of Kazakh venture investment:¹⁰

- i. The Fund of Funds model, where the government forms a national Public-Private Venture Fund (PPVF) at the expense of the government and non-budgetary funds. Under this model, the PPVF managing company can be wholly state owned, public-private, or entirely private.
- ii. The Pilot Region model, where the government focuses on a region with uneven economic development.
- iii. The Investment Innovative Companies model. Such companies are established and managed by private investors and employ the funds of a central ministry or agency on a competitive basis. Companies operate on the principles of venture capital business and serve as a catalyst for innovation growth.

5. In this taxonomy, the venture capital ecosystem in Kazakhstan stands out as an ecosystem in evolution. At the beginning, the state acted as the sole initiator in developing venture funding mechanisms. In 2003, the Joint Stock Company (JSC) National Innovation Fund was established and later (2012) reorganized as the JSC National Agency for Innovation Development of the Republic of Kazakhstan, or QazInnovation, as a state-owned enterprise (SOE). This SOE promoted venture activities by funding innovative projects, thereby fostering the development of a network of private venture capital funds in the country. Then, in 2018, the government created the Astana International Finance Center (AIFC), with a mandate to provide a better legal environment for venture capital investment activities under the Common Law.

6. The volume of venture transactions in Kazakhstan in 2020 amounted to about 21 million USD. Over 90% of these transactions related to pre-seed and seed stages, and the average check amounted to approximately 363,000 USD. The total volume of observable deals for 2020-2021 equaled 280 million USD, with an average check-per-deal equaling 50,000 USD. As provided by SmartGenome, the total early-stage funding in Kazakhstan amounted to less than 50 million USD, and the median seed round average deal does not exceed 300,000 USD in Nur-Sultan.^{11,12}

7. Startups in Kazakhstan have received financing from a few local and international venture funds over the last few years. Venture funds that have established a footing in the country are Quest Ventures Asia Fund II, Sturgeon Capital, Singularteam, ABC-I2BF Seed Fund, Business and Technology Services (BTS) Digital Ventures, TechGarden Ventures (TGV), and GVA Alatau Fund (a Russian American joint venture fund). Startups may apply for financing from multilateral organizations such as the World Bank and the ADB (ADB Ventures). In 2021, the World Bank, in coordination with the MDDIAL, declared the establishment of a venture fund for early-stage financing. This fund (17.5 million USD) is mandated to provide startups with 50% of the necessary finances through venture funds, with the remaining 50% of finances raised through private investors. The organization and coordination of the selection process for assigning a management company have been granted to the national info-communication holding company Zerde.

8. Investment activity in financing high-risk business ideas or early-stage products has not changed over the years.

5 The Entrepreneurship code; The laws for various forms of a legal entity registration, including on Partnerships with limited and additional liability, On Joint-Stock companies, On Commercial partnerships and some others.

6 Law On securities

7 Law On bankruptcy and rehabilitation

8 PPP is based on the project financing concept which implies the use of various sources of financial resources: company's own funds (share capital, depreciation, retained earnings, land plots, fixed assets), money loans and credits, commercial credits, proceeds from share issues, bond issues, financial leasing, user charges. Budgetary funds in the form of credits, subsidies, guarantees, tax incentives and functional for the investor are often used. PPP matches the private sector's striving for profit and the public sector trying to find the ways to attract non-budgetary investment enabling it to implement projects significant for the country.

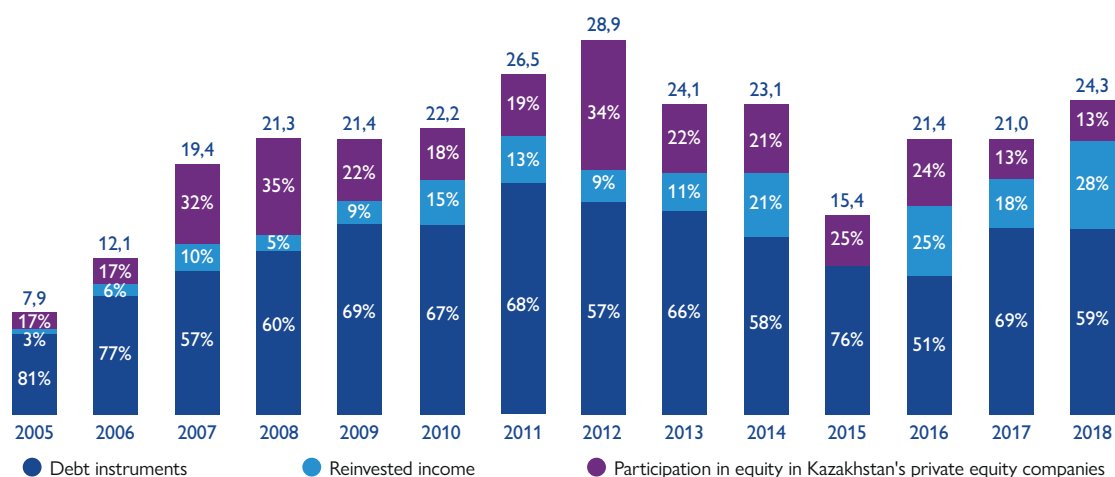
9 Venture capital investment based on the government and venture fund partnerships are efficient tools for the state to support of innovation. The USA has 45 years of experience in this area, Europe 25 and Israel 15. The cooperation between the government and private investors based on the creation of public-private venture funds (PPVF) contributes to the enhancement of innovation and national economy competitiveness.

10 Shakirtkhanov, B. 2020. Venture Funds as one of the Major Sources of Investment for Innovative Entrepreneurship in the Republic of Kazakhstan 20(2B) European Research Studies Journal. 2017. <https://www.ersj.eu/journal/683>

11 <https://startupgenome.com/ecosystems/nur-sultan>

12 KPMG and Kinstellar. 2020. AIFC Venture Capital Practical Guidebook (Volume 1). <https://tech.aifc.kz/files/pages/2024/documents/6/aifc-venture-capital-practical-guidebook.pdf>

Figure 1: Foreign Direct Investment Dynamics, US\$ billion



Source: NBK (2018)

Participation of FDI in the equity of Kazakhstan's private equity companies has remained the same over the last 20 years (Figure 1).

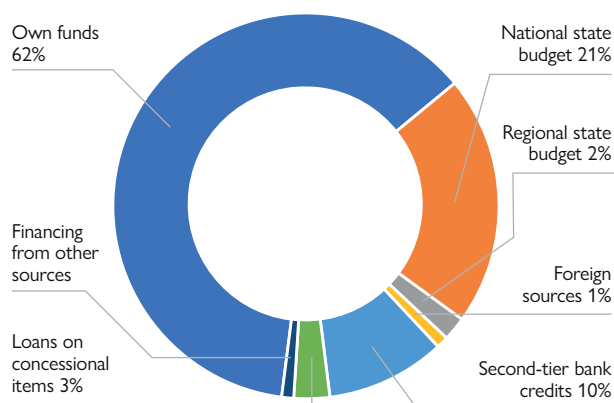
9. Kazakhstan has the potential to expedite the growth of its venture capital ecosystem. Around 12,000 Kazakh nationals have a personal capital of at least 5 million USD. Faced with economic stagnation where traditional sectors can no longer provide sustainable income and purchasing power is diminishing, venture financing can offer new sources of income for these individuals. Hence, an upward momentum of investments through brokerage services has been detected in startups providing services of collective financing such as *starttime.kz*, *IKapitalist*, and the investment fund *Freedom Finance*.^{13, 14, 15}

10. Financing for science in Kazakhstan amounts to only 0.13% of GDP (2020).¹⁶ Annually, the number of scientists, publications, patents is declining. Grants for scientific institutions to purchase expensive equipment are also declining. Some research institutes are in short supply of high-tech equipment. Young scientists go abroad to leverage their scientific and intellectual potential in a country where science is better financed.

11. Today, the share of Kazakhstani high-tech products in the world market is almost zero. The same indicator of the effectiveness of scientific, technical, and innovative activity in European Union countries is 35%, in the USA 25%, and in Japan 11%. The reason is the lack of business interest in developing and implementing the results of domestic science into production. Investment in R&D is to a large extent funded by researchers themselves (Figure 2).

12. Entrepreneurs have very sources of financing, even if their business plans are attractive. At present, the financial instruments employed in Kazakhstan do not satisfy the needs of local entrepreneurs. To improve the financing, all stages of business growth and development should be considered. Even in the presence of various later-stage sources of financing, including venture funds, the Kazakh market needs more financing and players.

Figure 2: Sources of R&D and innovation Financing in Kazakhstan (2020)



Source: Bureau of National Statistics, Agency for Strategic Planning and Reforms of the Republic of Kazakhstan.¹⁷

1.1 VENTURE FUNDS

13. To date, all the typical elements of a venture capital ecosystem are in place (i.e., venture funds, regional and international representatives, business angels, and private investors) but they are few and far between. At the same time, venture funds sponsored by the participants in Kazakhstan's startup ecosystem, such as large industrial groups, accelerators, and incubators, have begun to populate the venture capital ecosystem by launching their venture funds, either as sole investors or in a joint venture with financial organizations in the country. Notable examples (not exhaustive) include:

- On a corporate level: BI Group Construction Holding (BI Group) with BI Ventures, and Eurasian Resources Group (ERG) with BTS Digital venture fund.
- MOST Incubator among private startup development organizations with MOST Ventures
- Nazarbayev University Research and Innovation System (NURIS) among universities with ABC-I2BF Seed fund.
- Autonomous cluster fund Park of Innovative Technologies

¹³ <https://start-time.kz/main>

¹⁴ <https://www.ikapitalist.kz/>

¹⁵ <https://fin.kz/en>

¹⁶ By contrast, South Korea's is 4.29%; Australia is 2.20%, Finland is 3.17% and Switzerland is 2.97% (World Bank database)

¹⁷ <https://stat.gov.kz/official/industry/23/statistic/6>

as a representative of the state-owned technology park with TGV fund.

14. IESE Business School's Venture Capital and Private Equity Country Attractiveness Index ranked Kazakhstan's venture capital industry as 57 out of 125 countries. This is partly due to the establishment of the national operator QazTechVentures (QTV) and Fintech Lab at the AIFC.

15. The QTV was established in May 2019 with the adoption of its organizational structure and framework.¹⁸ Based in Nur-Sultan, QTV is part of the National Management Holding Baiterek JSC and employs 53 associates working in three functional blocks, (i) venture financing, (ii) business incubation, and (iii) technology consulting. According to its strategy, QTV aims to become the main driver of venture financing in Kazakhstan by becoming a 'fund of funds', investing only in venture funds and supporting the development of existing incubators.

16. QTV partnered with Singaporean Quest Ventures and created Quest Ventures Asia Fund II, a 50 million USD joint venture fund in 2020. Through this fund, QTV intends to select and finance startups based in Kazakhstan and Central Asia in the next three years. Through one of its programs, the Digital Kazakhstan Accelerator, QTV has financed twenty projects, each receiving 50,000 USD, except for Clockster, which received 750,000 USD.¹⁹ Apart from Quest Ventures Asia Fund II, QTV has also participated in global joint venture funds with US-based 500 Startups, in which QTV has a stake of 10 million USD (6.6%), with an objective size of the fund standing at 150 million USD.²⁰ Kazakhstan's early-stage startups can get up to 250,000 USD from this fund (two million USD will be spent only for Kazakhstan). The most noticeable deals managed by QTV Quest Ventures Asia Fund II include the startups Clockster, Cerebra, ApartX (Success), IN-VR, Recruit.ai, Campeat, along with other 14 startups.

17. NURIS, the innovation cluster of Nazarbayev University, together with the international fund I2BF Global Ventures, established a venture fund ABC I2BF Seed Fund, in 2018. The goal of the fund is to work with and finance startups that came out of previous acceleration and incubation programs supported by NURIS. The stages of financing provided by this fund are either pre-seed or seed financing rounds through convertible loans or equity with up to 100,000 US dollar investments per deal. Several other investments have been made by ABC I2BF, but their status has not been disclosed yet.

1.2 ANGEL INVESTORS

18. Kazakhstan boasts a growing number of angel investors. However, not all Kazakh angel investors are open to the public or have much experience with technology startups. QazAngels is Kazakhstan's first Business Angels Club. It acts as a community of successful entrepreneurs and private investors who make joint and syndicate investments in startups from Kazakhstan. QazAngels boasts a portfolio of well-known Kazakh technology investors, such as Anuar Seifullin, Ruslan Rakymbay, and Olzhas Zhienkulov. QazAngels has a large network of partners that provide the club with information on the status of Kazakh startups, their viability for financing,

and whether they are actively seeking investments. QazAngels has disclosed only a few of its deals. These are: ToiDriver and CTOgramm, both founded by Zhandos Tursumbayev. The total size of both investments was 200,000 USD. Key individual angel investors include:

- i. Adil Nurgozhin is a Kazakh business angel who provided financing to startups such as Moomkin, and Nommi,
- ii. Timur Khudaibergenov is a well-known Kazakh entrepreneur responsible for funding two major franchises in Kazakhstan, Yandex Taxi and Uber. He has a solid track record of investing in startups using blockchain and data science solutions,
- iii. Murat Abdrakhmanov is a major private investor and business angel operating in former Soviet Union countries. He has a diverse portfolio of deals ranging between 50,000 USD and 1 million USD, among which are OrionM2M, SkyWorker, Faceplate, Jiji, 2C2P, Genesis & Better me, and Nommi. His current investment portfolio is valued at 12.5 million USD,
- iv. Nurzhas Myakishev is a US-based Kazakh investor. Mr Myakishev has invested in several well-known startups which have a global reach, i.e., Lyft, Robinhood, Beepi, and Zoomcar, Bluesmart. He has made several investments in Kazakh companies that have yet to be disclosed,
- v. Olzhas Zhienkulov is a Kazakh native based in Singapore. He is the founder of Paladigm Capital and Tesla Capital (both based in Singapore). He invests in Kazakh startups, such as SmartSatu,
- vi. Timur Turlov is the founder and CEO of Freedom Finance. Mr Turlov has invested in Naimi.kz (1 million USD), and Arbuz.kz (500,000 USD). His latest major investment of 1 million USD was for Cerebra AI,
- vii. Talgat Ismail is a Kazakh business angel whose portfolio of about 20 startups include Kid Security, Kitchen's, SmartSatu and others,
- viii. Marat Tolibayev is a private investor and a well-known businessman and public figure in Kazakhstan, who once worked for a government ministry. Mr. Tolibayev is the founder of Pragmatic, a school for investors, and Activat, a startup club. His investment portfolio in technology startups include QUODA, bai.kz, Inari, and I-teka.

Investors Nurgozhin, Abdrakhmanov, Myakishev, Zhienkulov Turlov, and Ismail have all invested in one e-commerce startup called ChocoFamily, founded by Ramil Muhoriapov (see para 67).

19. The number of private investors in Kazakhstan suggests the potential for exponential growth. However, most affluent Kazakh nationals make investments in traditional industries. To steer them away from traditional investment avenues, QazAngels and Almaty Venture Club aim to link these affluent nationals with innovative local startups with the potential to use their investments. In the current investment landscape, it will take some time for this large number of private investors to be transformed into professionals (business angels, founders, or limited partners (LPs) of venture funds) capable of rejuvenating Kazakhstan's venture financing industry.

1.3 GOVERNMENT GRANTS

20. There are three stages in the funding process for government grants depending on the development stage of a startup. In the first stage, funding is given to startups that have (i) completed scientific or scientific and technical studies, have an experimental product prototype, or an initial design (MVP);

¹⁸ <https://qaztech.vc/about-company/strategic-development/>

¹⁹ KDA consists of five streams of 10 startups to be organized within three years, starting from 2020. Each stream undergoes training in a program lasting up to three months and investments are made in each startup up to 50,000 USD in exchange for a share in the project of up to 9%. To date, two streams with total of 20 startups were passed.

²⁰ <https://500.co/>

(ii) a team of no more than five qualified professionals, including a commercialization specialist with experience in marketing research; and (iii) successfully completed the acceleration program and have a certificate of completion. Passing the first stage is a prerequisite for admission to compete for the second and third stages.

21. In the second stage, startups are required to have (i) a product ready for production or sales; (ii) a team of no more than seven qualified specialists, including a project manager and a commercialization specialist with at least three years' experience in business, capable of conducting marketing research, a financier and narrow project specialists; (iii) an investment plan; and (c) able to attract investments of at least 20% of the stage amount.

22. In the third stage, funding is contingent on calculating profit or loss, a product promotion marketing plan and customer description, and main sales stages.

23. The amount of funding that QazInnovation provides to the startups it supports depends on the company's development stage. In Stage 1, no more than 20 million tenge (approximately USD 46,500), the maximum implementation period is six months; Stages 2 and 3: no more than 80 million tenge (approx. USD 188,000), the implementation periods are 12 months for Stage 2 and 9 months for Stage 3. Co-financing from the applicant is required for at least 10% of the project amount. The grant program coverage for all three stages can be seen in Table 1.

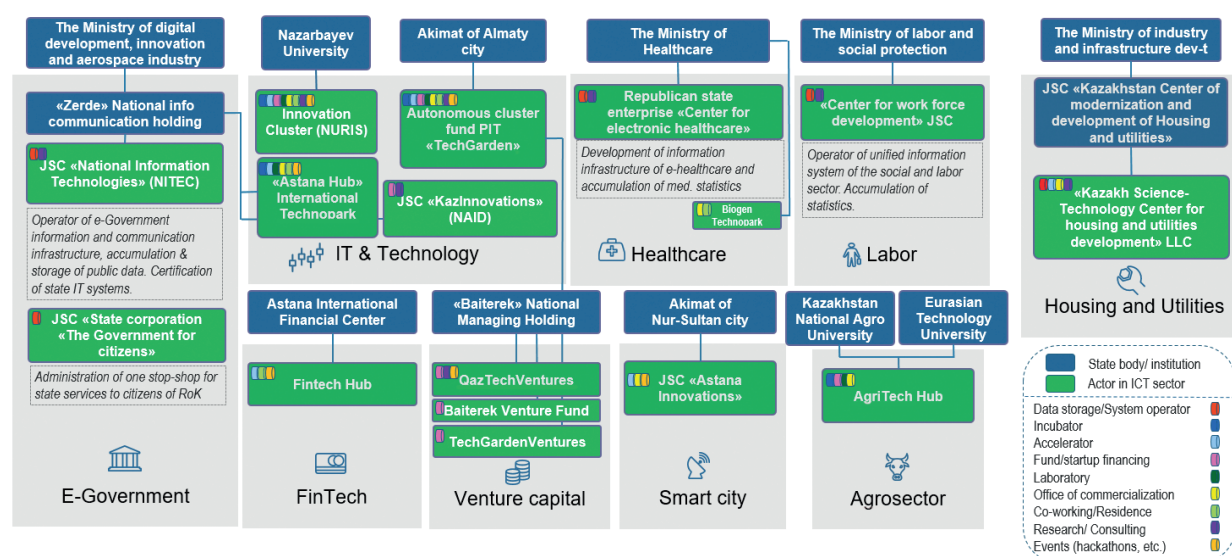
Table 1: QazInnovation Grant Financing Program

Program stage (duration)	Amount of financing ^a	Type of expenses covered	Should not exceed % of the total expenses
Stage I (6 months)	20 million tenge	Project team payroll, including taxes	40%
		Outsourcing	30%
		Office, warehouse, production premises rental	20%
		Travel expenses	30%
		Inventory, componential base purchase	30%
Stage II (9 months)	80 million tenge	The payroll of the project's team, including taxes	30%
		Outsourcing	30%
		Office, warehouse, production premises rental	10%
		Travel expenses	20%
		Equipment, licenses, and componential base purchase	50%
Stage III (12 months)		Project team payroll, including taxes	30%
		Outsourcing	30%
		Office, warehouse, production premises rental	10%
		Travel expenses	40%
		Equipment, licenses, and componential base purchase	50%
		Marketing expenses	60%

^a Applicant is required to co-finance at least 10% of the entire funding.

Source: QazInnovations

Figure 3: Key State Institutions in the Development of Venture Financing Industry, ICT Sector, and Startup Ecosystem



Source: Asian Development Bank.

24. After successfully pitching a project, an agreement on the provision of an innovative grant is signed between the applicant and the QazInnovation.

1.4 STATE OWNED AGENCIES SUPPORTING INNOVATION

25. Kazakhstan's Information and Communication Technology (ICT) sector is developing in several government-led directions. In each of these directions, government agencies are trying to establish institutions such as industrial technology hubs, venture funds, incubators, and laboratories. The most advanced sectors, which naturally have received the most funding, are e-government, FinTech, housing and utilities, agrotech, smart cities, and e-healthcare (Figure 3).

26. There are five main state-owned institutions that support innovation development and act as major players in Kazakhstan's venture financing and startup ecosystem:

- Astana Hub International Technopark
- Autonomous Cluster Fund «Park of Innovative Technologies» (TechGarden)
- Nazarbayev University's innovation cluster (NURIS)
- FinTech Hub of the Astana International Financial Center
- QazTechVentures

27. The **Astana Hub International Technopark** (Astana Hub) was established in 2017 and became operational in 2018. The core regulatory act under which the Hub operates is the Law on Informatization. The law stipulates that the operating rules for the Hub are developed and approved by the MDDIAI. The primary mission of the Hub is to develop Kazakhstan's innovative ecosystem, support high-tech projects in strengthening the country's economy, and become a development center for startups, IT companies, investors, and other stakeholders.

28. The Astana Hub acts as a multifunction center for developing startups and occupies 12,000 square meters. The Hub also allows extraterritorial residence. Since 2018, the Hub has completed eight acceleration programs for about 295 startups. The duration of these programs is three months (12 weeks), consisting of 200 hours of workshops with international experts, 240 hours of individual consultations, 30 educational modules with an individual tracker, and permanent access to the Hub's knowledge base and 17 internal and partner labs. To be part of these programs, startups must fulfill the following criteria (i) be at the stage of minimum viable product (MVP) or prototype development; and (ii) working on solutions using the Internet of Things (IoT), e-commerce, edutech, IT security, Big Data and machine learning, marketing, and sales solutions, software (enterprise resource planning, client relationship management) for corporations, FinTech, gaming, artificial intelligence, and Augmented and Virtual Reality (AR/VR).

29. The Astana Hub provided support to over 600 startups through its acceleration educational programs. These acceleration programs last three months, and allow startups to engage in other activities such as (i) roadshows (trips to international events in which startups can pitch their ideas to investors and potential customers); (ii) online tutoring and tracking (receive two months of intensive online support); (iii) organization and implementation of corporate innovation programs (opening research and development centers, competitions of ideas, and tech scouting); (iv) advanced three- and four-day school for investors; (v) an 'invest day' (all acting investors and VCFs attend for a one-day meeting with 10 preselected startups. During this event, startups that are not on the Astana Hub roster may attend, however, priority is given to its resident startups); (vi) Astana Hub's thematic labs for corporations and other partners (17 labs in total); (vii) multipurpose co-working space providing space for up to three people; (viii) access to R&D centers run by international tech leaders such as Huawei, Lenovo, IBM, Nokia, and Amazon. Astana Hub's R&D labs provide access to both hardware and

Figure 4: Incentives for Residents of Nazarbayev University Research and Innovation System

Corporate tax 0% for residents	Dividend and share value increase tax 5% < 3 years 0% > 3 years	Tax on royalty and on consulting services 0% for non-residents
Individual income tax 0% on earnings of employees	Social tax 0% on earnings of employees	VAT 0% on imports and goods/services sold within RoK
Tax on property transferred by a venture fund 0%		Visa simplified regime for residents of the Astana Hub

Incentives for Astana Hub residents

Tax on land and property 0%	VAT 0% on imports processed or used in production processes on the territory of Almaty TechGarden
Social tax 0% on earnings of employees*	Permission to hire foreign workforce Simplified procedure. Residents of Almaty TechGarden don't have to look for alternative (mandatory procedure) in the domestic labor market
Corporate tax 0% for residents	Land For Almaty TechnoPark resident land is provided for 10 years for free

Incentives for TechGarden residents

Corporate tax 0% for residents	Property and land tax 0% for residents	Customs duty 0% for residents
Land or property lease Place is provided by SEZ	VAT 0% on imports and goods/services sold within RoK	

Source: Asian Development Bank.

software solutions and consulting services by IT and technology experts in the fields of IoT, Smart Cities, Big Data, AR/VR, and blockchain.

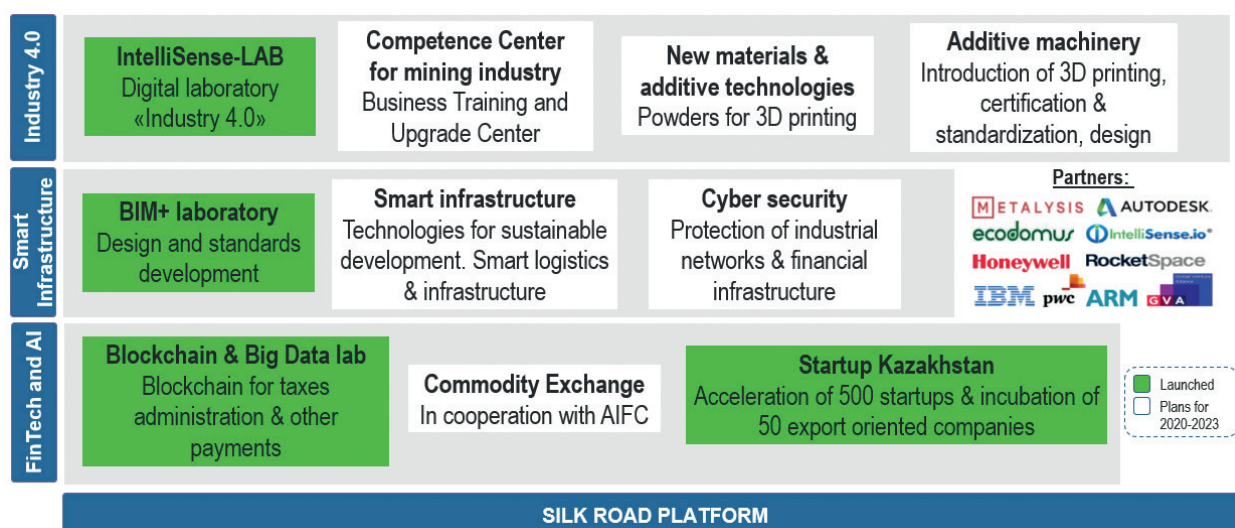
30. Apart from having registered residents, Astana Hub boasts the registration of 584 technology firms and startups as part of its vibrant ecosystem. At present, 510 of these registered participants are operational and 74 have become inactive or have gone out of business. Astana Hub also has a core group of 375 registered residents, 21 of which were founded by foreigners from the US, Spain, China, Germany, Estonia, and Singapore. This may be partly due to state preferential terms granted to the Hub's residents (Figure 4). However, there are limitations to the validity period of these preferential terms. For instance, the exemptions from corporate tax, individual income tax, social tax, and VAT for registered Hub residents are valid for eight years, until 2028. Astana Hub residents are also exempt from paying royalty & consulting services taxes for four years (until 2024).

this does not diverge from TechGarden's main objectives of increasing the share of Kazakhstan's innovative companies in the local high-tech market and creating a venture financing ecosystem.

34. TechGarden offers two acceleration programs: (i) a local acceleration program; and (ii) an international program called Startup Kazakhstan Acceleration. Both programs tackle key areas of interest for the country, i.e., smart industries, new materials and additive manufacturing, solutions for energy generation and distribution, cleantech solutions, smart environment solutions, fintech solutions, e-commerce, and smart solutions for both oil and gas and mining industries.

35. TechGarden's local acceleration program provides startups with an equipped office space and intensive master classes for capacity development run by national experts. This program provides startups the opportunity to solve tasks individually and streamline their goals and strategies with the

Figure 5: TechGarden's Innovation Cluster Projects



Source: Asian Development Bank.

31. Astana Hub aims to position itself as an international center for developing IT startups in which large IT companies, venture capitalists (funds, business angels), and experts from the field (trainers, mentors, trackers, others) provide full support to Astana Hub residents. Hence, it aims to create a community that generates, tests, and implements ideas, rather than simply acting as a place for the growth and promotion of startups.

32. Technopark Alatau was established by a President's Decree in 2003. The legal status of Technopark Alatau was transformed to a Special Economic Zone Park of Information Technologies (SEZ PIT) or "TechGarden" in October 2014. The legislation that regulates TechGarden's activities is the Law On the Innovation Cluster Park of Innovative Technologies enacted on 10 June 2014. To conduct its operations, TechGarden was allotted 17,000 square meters of land.

33. TechGarden established an IT quarter in its SEZ PIT, where startups and international IT giants (such as IBM, ARM, Autodesk) can work together. The rest of the facilities owned by TechGarden are used by companies that may or may not operate in the ICT and innovation ecosystem. However,

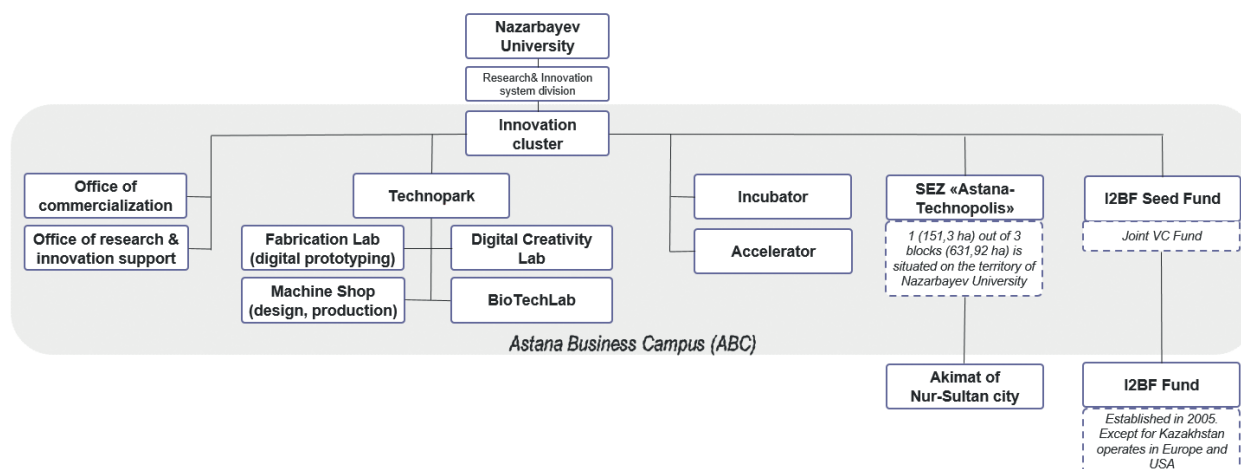
aid of the program mentors. The local acceleration program lasts 11 weeks and culminates with a Demo Day event where the startups meet with investors and present their projects. The selection of participants in this program is made through specialized events such as Startup Day, TechGarden Cup, and TechGarden Fair.

36. TechGarden is a conglomeration of institutions, including its IT Square, innovation labs for different industries, and internet platforms. The platforms connect TechGarden with users who can apply for developing proprietary innovative solutions by TechGarden's resident startups.²¹ besides this, TechGarden has provided many grants for resident and nonresident startups which have been part of its acceleration program. At present, TechGarden is focusing on corporate acceleration programs and deducts 1% of extraction costs from the subsoil users fund to finance startups that work in the optimization of operations of subsoil users.²² TechGarden

²¹ At this point, except for acceleration programs, there are no successful projects or platforms that deserve attention. One TechGarden associate responsible for the development of innovation labs confirmed that labs are basically non-operational and staff responsible for the development of innovation hub there lack experience, competencies and knowledge of techniques in the field.

²² https://en.techgarden.kz/project_financing; in Kazakhstan all deals and laws are written

Figure 6: NURIS Cluster Organizational Structure



Source: Asian Development Bank.

developed plans for establishing its own innovation cluster. For this cluster to become operational, certain requirements were to be met. To fulfill those requirements, TechGarden partnered with several companies to launch TGV (Figure 5).

37. TechGarden Ventures (TGV) was established in 2018 by TechGarden and a few other private limited partners. Despite the involvement of limited partners, TechGarden remains the major shareholder. Since its inception, this fund has heavily invested in startups from different countries, among which are Kazakhstan (42), Russia (45), Belarus (2), Kyrgyzstan (2), Ukraine (2), Uzbekistan (1), Norway (1), and Poland (1), under its Startup Kazakhstan program. Three rounds of financing were finalized, one in 2019 and the subsequent two in 2020. Overall, 96 startups received funding from TGV. The size of investment varied from 20,000 USD to 250,000 USD. To date, 53 startups are active, and others have either terminated activities or are looking for investments for next rounds of financing. TGV has created a portfolio of projects and has stopped actively seeking startups able to receive funding through the organization of special programs devoted to the selection of startups. However, startups can apply to TGV and may be selected.²³

38. AIFC's **Fintech Hub** established the Venture Capital Support Division (VCSD) in 2020. The VCSD aims to create a healthy venture capital ecosystem. It also works to increase opportunities for attracting investment and closing deals with startups in Central Asia and former Soviet Union countries, and those possessing capabilities for structuring deals within the AIFC. The investor network also includes international venture capital funds, angel investors, corporate investors, accelerators, and family offices. Strong relationships are built with local and regional startup centers, IT parks, universities, and accelerators.

39. The Fintech Lab acts as a regulatory sandbox and operates under the auspices of the AIFC, which is comprised of 30 companies. It is expected this will reduce the cost of traditional financial services, which means that startups will not be the only players benefiting from these developments, but users of

financial services elsewhere will also reap these benefits. This sandbox allows AIFC residents to exchange experiences with 29 financial regulators and organizations and test new products and services with real customers simultaneously in several countries, including the US and the UK. In addition, Fintech Hub indicated there is a Venture Rocket Eurasia unit that aims to attract alternative regional and global sources of capital for startups, which are to be carefully selected and evaluated. The main task of the platform is to teach people who want to invest in technology startups, assess startups and risks, and understand the nuances of concluding investment deals.

40. **Nazarbayev University Research and Innovation System (NURIS)** was established by Nazarbayev University, a private foundation, which was tasked to develop an innovation cluster on the premises of the university (Figure 6). To do this, NURIS must partner with stakeholders capable of filling the gaps in the innovation cluster. The facilities in which NURIS resides are divided into an industrial section (covering 800 square meters) and office space (3,000 square meters). NURIS has sponsored two programs thus far, i.e., ABC Incubation and QuickStart, which resulted in developing 77 startups, 25 of which are NURIS residents). In addition to these developments, the Akimat of Nur-Sultan provided three blocks of its SEZ Astana Technopolis to NURIS to launch the ABC I2BF Seed fund in partnership with the venture fund I2BF.

41. NURIS provides startups with a multitude of opportunities and services and support ranging from the initial stages of idea generation and development to market scaling. The programs NURIS provides are (i) ABC Incubation Program, a 12-week program providing the university's best graduates with financial support of up to 3 million tenge; (ii) a QuickStart acceleration program lasting eight weeks; (iii) Markethon, a 24 hour contest where promising business ideas can receive prizes ranging from 200,000 to 3 million tenge; (iv) SocialHack, a 48 hour contest for prototypes; (v) School for Business Angels, a four-day training program for private investors; (vi) School of Technology Entrepreneurship, a four-day SciTech bootcamp; (vii) Creative Spark Case Competition sponsored by the British Council and Central Asia Startup Show consisting of Demo Days for startups where they can pitch their ideas. In addition, startups can use facilities owned by NURIS, such as co-working spaces, thematic labs, and prototyping centers. NURIS has two

using "subsoil" and one meaning behind it. <https://adilet.zan.kz/eng/docs/K1700000125>
https://online.zakon.kz/Document/?doc_id=31509244

23 Among those from Kazakhstan that have the most potential and are worth noting are Egistic, Verigram, Game of Drones, EcoPack, Kid Security, Koktem-2, Wwinnum, and Billboard Video.

Figure 7: Private Entities in the Venture Financing and Startup Ecosystem

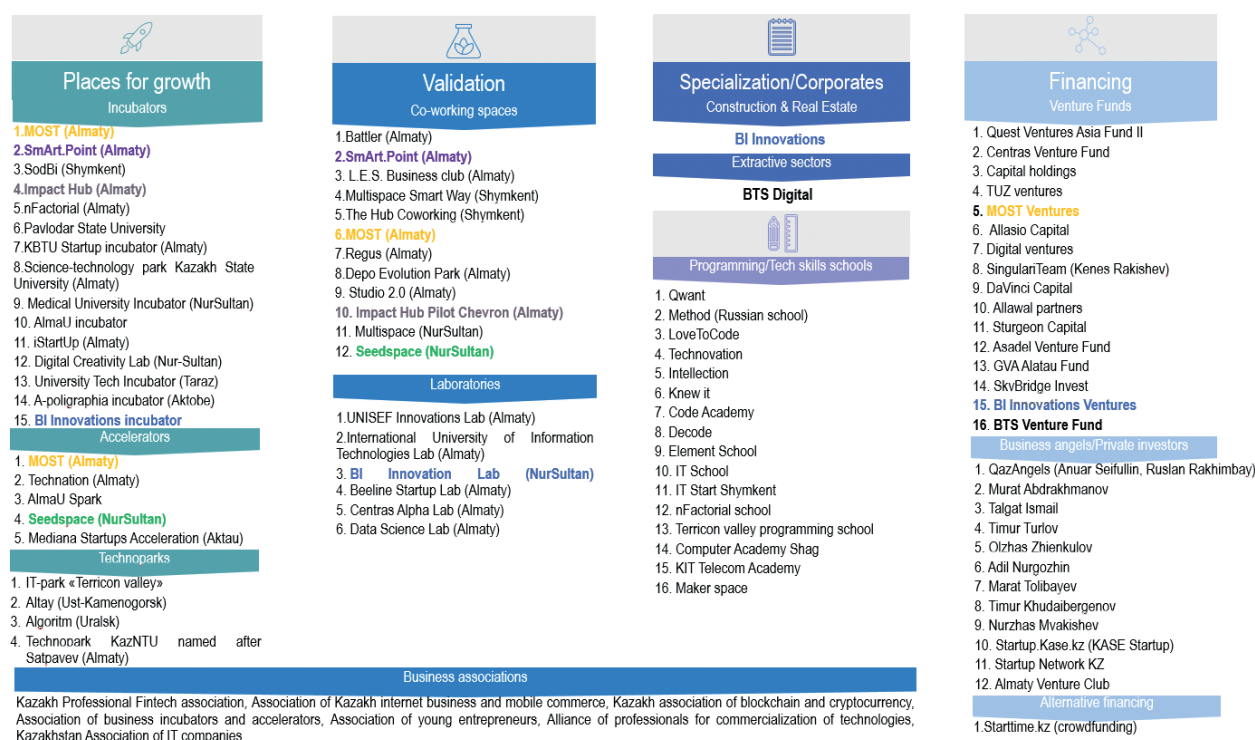
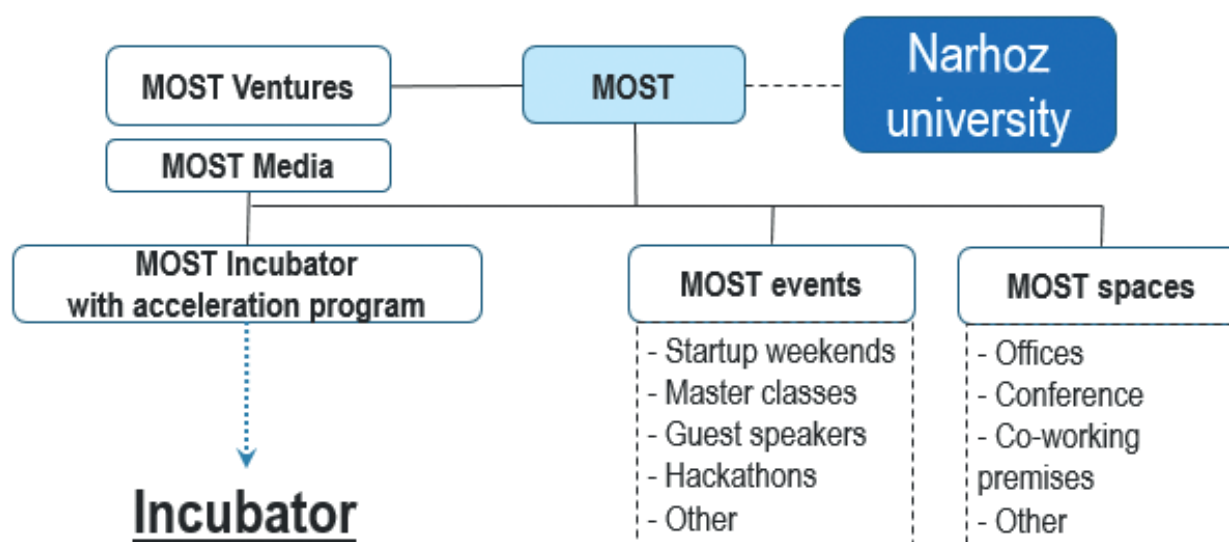


Figure 8: Organizational Structure of MOST Group of Companies



Source: Asian Development Bank.

technology parks: Technopark and SEZ Astana Technopolis. All residents of these technology parks enjoy certain perks, such as tax and customs exemptions.

1.5 PRIVATE SECTOR

42. Kazakhstan's startup and innovation ecosystem began developing in the private sector. While the ecosystem is still

in its nascent phase, with most players being micro or small businesses, startups can develop their products at each development stage (Figure 7).

43. The startup landscape in Kazakhstan revolves around two centers, Nur-Sultan and Almaty, the country's largest urban areas. Karaganda and Shymkent have also begun supporting startups. Other regions across the country are taking initial

Table 2: Top Startups that Graduated MOST's Incubation Programs

Name	Description
ApartX	Remote control of daily rental of owners' apartment' or hotel rooms.
Paloma365	Cloud service for automation of control, accounting of sales and warehouse for catering, trade, and services.
Sagrad Forms	Online support of outdoor inspections for insurance companies.
AV Software	Software programming company.
Easily	HR management information system makes blue collar routines interesting and productive.
Kompra	Counterpart reliability verification system.
UvU (YoYo carpool)	A ride-sharing platform for children.
Ava.kz	P2P sharing marketplace for women.
Game of drones	Online game with remote control of real drones, machines, and robots from anywhere in the world.
Logizi	Marketplace for logistic services.
Kid security	Remote monitoring and gamification instruments of to manage childrens' behavior.
MedElement	Automatization of processes for healthcare organizations, including ERP and CRM systems.
Budbeed	AI platform for educational organizations based on STEM training for children.
Bungallow	Online store of one-day delivery to any location.

Source: Asian Development Bank.

steps in creating an enabling environment where startups can develop. Almaty has several private incubators, accelerators, co-working spaces, and private venture investors, although not all can be considered business angels, that individually and collectively invest in startups through syndicates or venture clubs.

44. State owned institutions are not the only major players in Nur-Sultan's startup ecosystem. Two major holding companies, BI Group (a construction and real estate management company) and Eurasian Resources Group (a mining company that operates in 15 countries, including Kazakhstan) are sponsoring the development of the country's startup ecosystem. Terricon Valley is a major regional player in Karaganda, Kazakhstan's fourth-largest urban area. The founder of Terricon Valley facilitated a partnership between major education centers and the Akimat of Karaganda to develop a regional innovation hub.

45. By sponsoring incubation programs, universities such as the Kazakhstan-British Technical University serve as major sources of startup creation. The ecosystem is also supplemented by university graduates wishing to showcase their entrepreneurial acumen and spirit. Once these startups have developed an idea and have created their team, they can turn to a group of companies that provide incubation and investment services to startups (Figure 9). Kazakh startups can also turn to SmArt.Point should they wish to establish partnerships with existing firms or the broader business community in Kazakhstan.

46. **MOST Business Incubator** (MOST) is the first private business incubator in Kazakhstan supporting technology entrepreneurs at all stages of business development. The incubator started off as a university-sponsored program established as part of Narhoz University in 2011.²⁴ MOST provides support to young entrepreneurs wishing to establish or grow their micro and small enterprise. The programs MOST offers do not restrict participants by any means and works to

empower Kazakh women and support vulnerable segments of Kazakhstan's population.²⁵ MOST acts as a platform where startups and entrepreneurs can exchange experiences, receive mentoring from experienced businesspeople and facilitators, and attract capital to capitalize on their business ideas.²⁶ MOST has become an official member of organizations such as Youth Business International and Global Entrepreneurship Week, and partnering with Seedstars World, Startup Weekend, Get in the Ring, and other international startup initiatives.²⁷

47. By the end of 2021, MOST had organized 11 acceleration programs which have seen 100 graduated startups, with permanent incubation being reserved for 20 startups each year. Besides this, MOST has conducted five startup development programs in partnership with both international and national institutions. It provided 90 startups with access to investors who received investments at the pre-seed and seed stage (Table 2).²⁸

48. MOST launched its venture investment branch in 2020. This transformed MOST Business Incubator into MOST Ventures, a \$10 million US fund providing startups with financing in the pre-seed, seed, or round A stage (Figure 8).

49. **MOST Ventures** fund focuses on Central Asian startups looking for early-stage investment support ranging from pre-seed, seed to round A \$ 20,000 for the Pre-seed stage, (ii) up to \$400,000 for the Seed stage, and (iii) up to \$700,000 for series A stage investments. A MOST Venture acceleration program called Investment Readiness Accelerator provides startups the opportunity to receive financing and non-financial support such as mentoring, training, workshops, and meetings with industry practitioners, and other investors for potential co-financing with MOST or for later rounds of investment.

²⁵ <https://www.youthbusiness.org/member/most-business-incubator-kazakhstan>

²⁶ <http://most.com.kz/en>

²⁷ <https://www.devex.com/organizations/most-business-incubator-157890>

²⁸ <http://most.com.kz/en>

²⁴ <http://most.com.kz/en>

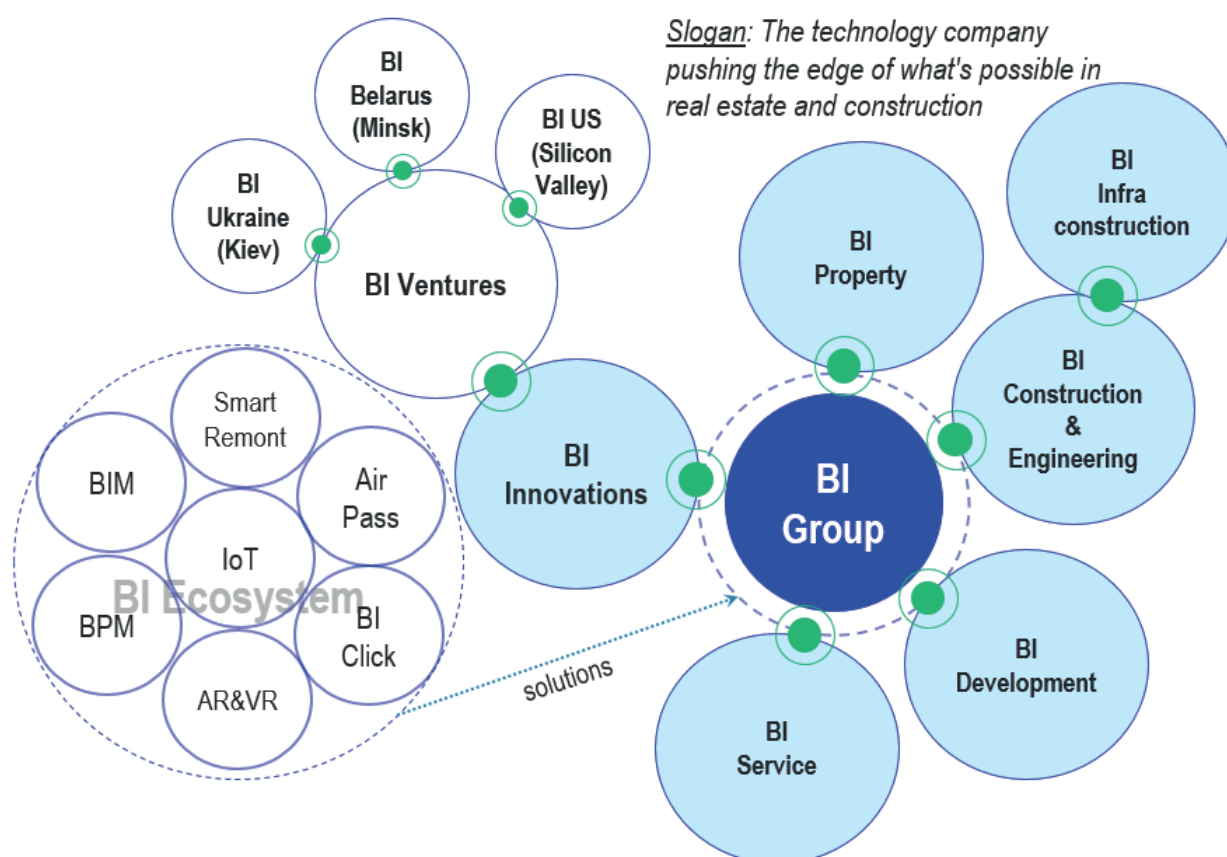
Table 3: Top Startups that Grew at BI Innovations Incubation Programs

Name	Description
OperaBuild	Administration of processes during construction
Tastamat	Terminals for express delivery (delivery nearby)
reKassa 1.1	Cash register for small-shop owners (neighborhood shops)
Parametrica	Automatic design and planning of new construction
BI clients	Support of communication between a management company and residents of a house
Connected Home	Smart Home concept implementation based on Artificial Intelligence
PriceGen	Flexible product revaluation based on pricing strategies and tactics, sensitive to market fluctuations
SmartRemont	Design, planning, and renovation of an apartment on a turn-key basis

Source: Asian Development Bank.

50. **BI Innovations** was established by BI Group Construction Holding (BI Group) in 2017. BI Innovations acts as a one-stop-shop where technology startups working on digital solutions in the construction and housing management space can interact with BI Group. BI Innovations provides startups with incubation and acceleration programs through which startups

51. In addition to BI Innovations, BI Group established BelnTech and BelnTech Ventures in 2018 to develop technology solutions for the real estate and construction sectors. This led to developing Building Information Modeling and Business Process Management solutions for BI Group. Both these programs were tasked with organizing acceleration of startups

Figure 9: Organizational Structure of BI Group and BI Innovations

Source: Asian Development Bank.

gain access to BI Group's large pool of in-house development teams, access to the Group's knowledge base, and its active customers and partners. This model provides startups with the opportunity to pilot their business ideas and projects in BI Group facilities or ongoing construction sites.

providing innovative solutions to the construction sector, thus improving BI Group's internal business processes, ranging from design and planning the building construction to property and real estate management solutions. Later BI Group added a capacity development center and several laboratories to

Table 4: Top Startups that Developed at BTS Digital

Name	Description
Kassa-24	Free mobile cash register
Onay Bazar	B2C and B2B marketplace
Aitube	Tries to get Kazakh audience from YouTube
Aitu Messenger	Tries to get Kazakh audience from WhatsApp

Source: Asian Development Bank.

BelnTech and rebranded it as BI Innovations. Currently, BI Innovations positions itself as a place for ideas and startups to grow and is not limited to the construction sector.

52. Over 300 associates are working for BI Innovations and about 20 startups developing their products. Innovation disposition in the BI Group's organizational structure is illustrated in Figure 9.

53. BI Innovations mainly focuses on the research, development, and implementation of innovative solutions in PropTech (property technology) and ConstructionTech. While partnerships and cooperation with international VCFs have not yet been established, BI Group has attracted foreign investments and co-investments for its in-house startups. One such example is the Smart Remont project, which received support from the Russian Build Up Accelerator and is currently shortlisted for further investments by a large development company in Russia. BI Innovations has an open-door policy for solutions developed outside its incubator and provides financial support to solutions it deems promising. Many of its incubation programs were designed to integrate outsider startups into the BI Group startup ecosystem. However, only a few startups that provide services outside of the scope of interest of BI Group's operations have been inducted into its ecosystem (Table 3).

54. The Eurasian Resources Group (ERG) established Business and Technology Services (BTS Digital) in 2018. BTS Digital has positioned itself as a Kazakh startup that develops digital products and services for everyday use and cooperates with both the private and public sectors (Figure 10).

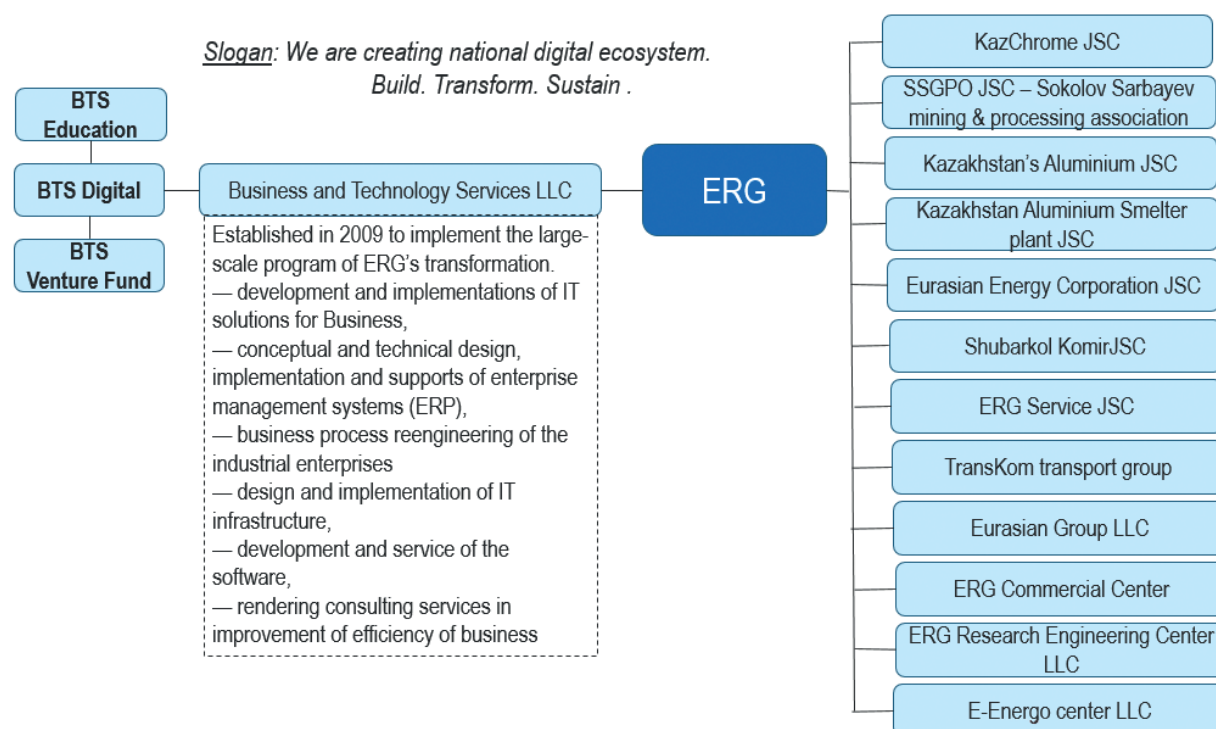
55. BTS Digital does not have a set of priority sectors in which it operates. However, since it became operational, it has worked intensively on the digitalization of business processes within the ERG ecosystem and providing support in Smart City initiatives. BTS Digital seeks solutions in various B2C and P2P markets and has over 400 employees.

56. One of its commendable campaigns is BTS Education. BTS Education develops platform solutions for the formation of an ecosystem of sustainable human development. BTS Education provides consulting services in sales based on modern educational solutions for sustainable development. One of its digital instruments, Digital ID, was handed over to the Kazakh Digital Government for Citizens (E-Government) in 2019. This instrument allows people to obtain an electronic digital signature from the government to use in any interaction with government bodies and institutions. During the COVID-19 pandemic, the system created over 1 million Electronic Digital Signatures for Kazakh nationals. Another notable aspect of the

Table 5: Events Facilitating Awareness and Emergence of Startups in Kazakhstan

Name	Description
EMERGE International tech conference	Annually, organized once in 2020
Digital Bridge	Annually, organized under annual Digital Bridge Forum
Digital Almaty	Annually, organized under annual Digital Almaty Forum
Startup Day	Annually, organized under annual Astana Finance Days conference
Startup Kazakhstan program with trips to Silicon Valley	Every time the group of startups is formed. Conducted by GVA Capital (Russian American joint venture fund). Plans the establishment of an innovative laboratory in San Francisco based on the Hack Temple platform for startups from Kazakhstan
Go Viral Festival	Annually, two have been conducted so far
Global Entrepreneurship Week	Annually, its key partner in Kazakhstan is the MOST incubator
Seedstars CEE	Annually, as a part of global challenge series of events
Techstars Startup Week	Annually, as a part of global challenge series of events
e27 Echelon	Conducted a couple of events so far
Astana Innovations Challenge	Depending on topic and event, organized by Astana Innovations
FintechStars	Biennially. Bootcamp for several days with the demo day in the end. Startup pitches to large companies and potential investors
Various contests, Hackathons, Demo Days	Permanently conducted by large companies such as ADB, VISA, Intel, Sberbank, Yandex, Beeline

Source: Asian Development Bank.

Figure 10: Organizational Structure of ERG Group and BTS Digital

Source: Asian Development Bank.

BTS Digital portfolio is a Smart City solution designed and implemented for the small town of Akkol in 2018 and 2019. Other projects that grew out of the BTS Digital program are shown in Table 4.

57. **Terricon Valley** was established in 2014 as a result of the collaboration between Karaganda State University and Karaganda Technical University. Terricon Valley led the creation of Kazakhstan's Association for IT Development which aims to unify startups and technology firms from the Karaganda region. Besides Karaganda State University and Karaganda Technical University, Terricon Valley has an extensive partner network consisting of the Technical and Construction College, Karaganda Politechnical College, the Eurasian Foods Group of Companies, and the Supera Business Incubator.

58. Terricon Valley established the IT Park Initiative, which has 1,000 square meters of office space, co-working zones, computer rooms, lecture rooms, and meeting rooms. Terricon Valley also uses its venue to organize hackathons, startup weekends, knowledge transfer events with renowned guest speakers, and other events (15 events organized in 2019). In 2020, Terricon Valley opened the WOOPPAY Fintech Lab and the XNET urban development lab.²⁹

59. Besides becoming a regional center of gravity for startup development, Terricon Valley aims to become an education center for IT specialists in Kazakhstan. It has done so by launching a massive online education program in 2020, which caters to students from partner education organizations and other groups of people. Terricon Valley aims to train 10,000 software programmers, data scientists, and specialists in other IT spheres. Terricon Valley has partnered with the regional Akimat of Karaganda in providing a comfortable urban environment. It has created joint plans with the Center of

Urban Development to develop certain parts of Karaganda city and its urban satellite settlements. The XNET urban development lab acts as the kickoff project for these activities.

60. **The Kazakh British Technical University Incubator (KBTU Incubator)** was established in 2017 and was designed to support the innovative ideas of the university students. Despite catering to its students, KBTU Incubator is open to other entrepreneurs with innovative IT solutions with cross-sectoral applications.

61. KBTU Incubator has completed eight incubation programs thus far, with another one underway. Its programs have resulted in some early-stage startups becoming successful companies. These incubation programs focus on scale up startups and stimulate a cross-functional interdisciplinary exchange of ideas, thus creating solutions at the intersection of these disciplines. This includes a four-week advanced program, after which startups that have graduated can transfer to Astana Hub (official partner of KBTU Incubator). The program has resulted in developing solutions in sectors such as robotics, energy supply, EduTech, renewables, smart cities, smart home solutions, safety control systems, IoT, and production automation.

62. KBTU holds the title of the best tech university in Kazakhstan, as most software developers entering the Kazakh workforce graduate from there. KBTU develops innovative solutions through its programs in close cooperation with major oil and gas, mining, and production companies in Kazakhstan.

1.6 STARTUPS AND IT COMPANIES

63. Kazakhstan's startups have the advantage of proximity to Central Asian consumer markets due to the similarity of consumption behavior of their nationals. State support and

29. Wooppay - e-wallet and management of personal accounts

partnerships with large IT companies can provide Kazakh startups with access to promising consumer markets and investment opportunities.

64. Another important factor in developing Kazakhstan's startup ecosystem is the ability of incubators and accelerators to access events organized by regional and global organizations and thought leaders on topics related to entrepreneurship and startup emergence. These events are summarized in Table 5.

65. Kazakhstan's first unicorn, **Kaspi.kz**, emerged from a traditional commercial bank. Since then, the country's startup community has become more confident in its ability to succeed.

66. Kaspi Bank is a retail second-tier bank serving individuals with a very limited group of legal enterprises. Before undergoing extensive rebranding in 2009, Kaspi Bank was a regular commercial bank (Bank Kaspiskiy) operating since 1991. Kaspi.kz emerged from Kaspi Bank, and acts as a high-tech company that offers financial and banking services and products for retail and commercial banking. It provides interconnected, technologically advanced, seamless products and services that help Kazakh nationals make payments and purchases, get a credit line, and manage their finances. Since 2015, Kaspi.kz has introduced a peer-2-peer transaction system allowing users to transfer any amount of money at no cost (i.e., banking fees were suspended). This allowed it to revolutionize Kazakhstan's financial transaction sector, securing a large share of cash payments and online money transfers from other banks. By implementing these new mechanisms, Kaspi.kz has become Kazakhstan's leader in retail banking, accounting for 70% of all digital banking in the country.³⁰ An IPO was launched on the London Stock Exchange in October 2020 through Kaspi Holding Group, the owner of Kaspi.kz. On the first day of becoming a publicly traded company, Kaspi.kz reached a capitalization of 6.5 billion USD (+20% markup on its initial offering).³¹

67. **ChocoFamily** Holding (ChocoFamily) is the largest non-FinTech IT company in Kazakhstan and was established in 2010. ChocoFamily is an e-commerce holding company that provides six services through its digital platform, (i) online travel service (Chocotravel, Aviatra), (ii) food delivery service (Chocofood), (iii) healthcare platform connecting patients and doctors (iDoctor), (iv) a discount purchasing service (Chocolife.me), (v) payment service app (Rakhmet), and (vi) an online shop for contact lenses (Lensmark). ChocoFamily employs 650 associates and claims it has over 1 million users registered on its platform.³² ChocoFamily raised its first investments (\$105,000) in 2011. The founder of the startup, Ramil Muhoriapov, raised this capital from family and friends. ChocoFamily received another round of financing (\$400,000) from Demus Capital in 2013. It received three additional rounds of investments: \$1 million from Murat Abdrakhmanov (2016); \$1 million from Timur Turlov (2017) and \$5 million from Aidyn Rakhimbaev (2019).

68. **SmartSatu** was established in 2016 when it won the Seedstars CEE International Competition. It received its first investment check worth \$300,000 from a business angel. It later received a seed stage and A-round of investment worth \$5 million. SmartSatu's platform unites customers and vendors, allowing them to plan and organize supplies in advance by optimizing delivery time and logistics costs. Additionally, SmartSatu records transactions and analyzes previous supplies

and business processes through an Enterprise Resource Production (ERP) system. SmartSatu relocated its development office to Minsk, Belarus, in 2018 and has a global reach. The company boasts an impressive vendor and partner list consisting of VISA International, Mars, Johnson & Johnson, and many other large global retail outlets.

69. **RoboWunderkind** was established in 2013 with 250,000 obtained through a Kickstarter campaign. The company produces modern educational tools that change the way children learn to code. All the components that make up the company's robotics kits are produced in China, whereas software production and support of sales are run in-house. RoboWunderkind's products are available on Amazon. Since 2017, RoboWunderkind has relocated to Austria, as most of its sales are made in Austria and Germany. The company raised \$2.2 million in investments from various venture funds and private investors.³³

70. **Nommi (Nomadic MyFi)** is a personal router that operates on a built-in eSIM or external nanoSIM card that can be used in 150 countries worldwide. The Nommi Power device combines a Wi-Fi extender, LTE, a built-in VPN, and a powerbank that can last up to 48 hours. The cost ranges from \$170 to \$190.³⁴

71. **ORBIPrime** raised \$300,000 through the crowdsourcing platform IndieGoGo in 2014. The startup received a \$500,000 investment from Kenes Rakishev, which was followed up by another investment of \$3.5 million by Mr. Rakishev's venture fund called Singularteam. ORBIPrime's product was recognized as one of the best wearable and AR/VR glasses at the 2018 Consumer Electronic Show. After its successful launch in Kazakhstan, ORBIPrime relocated to California, USA. Its products are sold all over the globe.

72. **Clockster** was established in 2017 by Yerzhan Ryskaliev and is one of the few startups that graduated from Astana Hub's Acceleration Program. Clockster's service offering is a time and attendance application that tracks employee's work hours through biometric data transmitted to the Cloud. The startup received its first investment of 50,000 USD. Thereafter it raised 350,000 USD for the later-stage development of its platform. Clockster received an additional 750,000 USD in 2020 from Quest Ventures Asia Fund II. The startup's platform is used in Kazakhstan, the Czech Republic, Azerbaijan, the Russian Federation, the United Kingdom, Armenia, Singapore, and the Philippines.

73. **Kid Security** is a startup established in 2017 in the FamilyTech sector that allows parents to track their children's location through their smartphones. The Kid Security application has an integrated special emergency call button. The app has game-design elements aimed at engaging children in certain tasks, sports, and academic puzzles for which they get rewards. Kid Security also graduated from the Astana Hub. It received a 20,000 USD investment from TGV in 2019 and a subsequent investment of 50,000 USD from Quest Ventures Asia Fund II in 2020. Kid Security's growth model is based on cooperation with cellular service providers in Kazakhstan through a Service-as-a-Service subscription model. In addition to providing its services in Kazakhstan, Kid Security has partnered with cellular service providers in Russia and Uzbekistan. Currently, the app has 250,000 users and has been downloaded by 1 million people.

30 https://kase.kz/files/emitters/KSPI/kspip_2020_rus.pdf

31 <https://www.londonstockexchange.com/stock/KSPI/joint-stock-company-kaspi-kz/analysis>

32 <https://chocofamily.kz/history>

33 <https://vc.ru/story/45157-opyt-osnovatelya- robo-wunderkind-protyi-put-ot-osnovatelya-startapa-do-partnera-v-ventchurnom-fonde>

34 <http://nommi.net/>

SECTION 2. ANALYSIS OF VENTURE CAPITAL LAWS

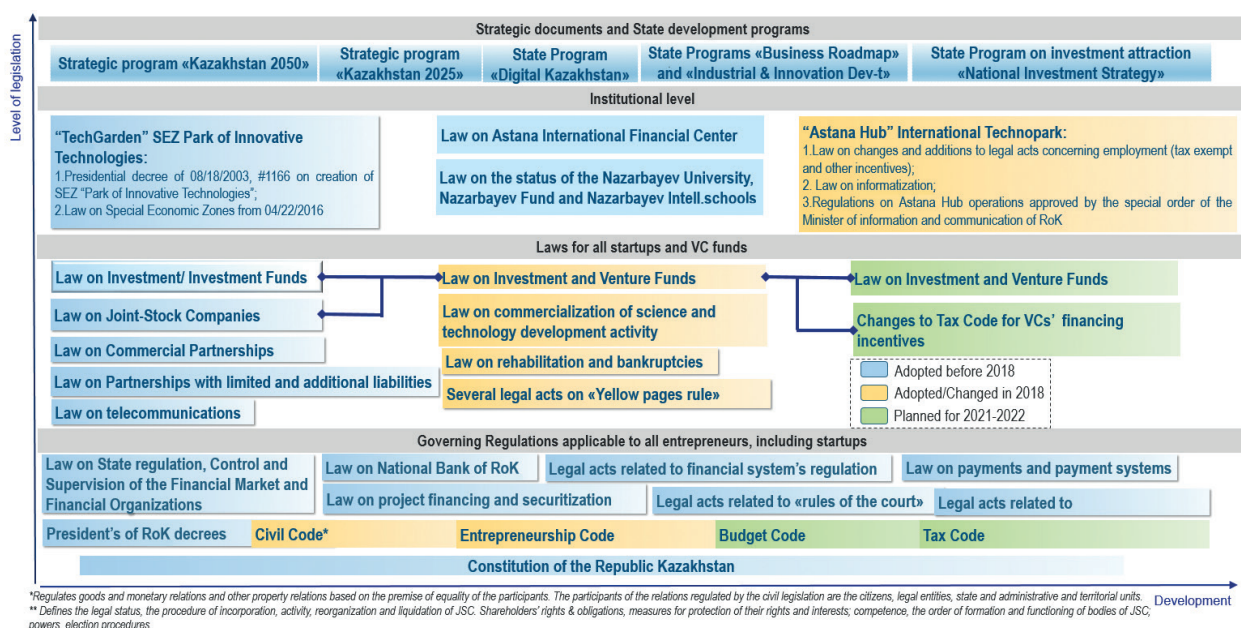
74. **Cerebra AI** was established in 2019 developed in AIFC's FinTech Hub. The startup operates in the HealthTech IT sector and has developed a platform capable of identifying a brain stroke in patients within 10 minutes hoping to prevent neurological damage and brain cell death. Cerebra AI's service was piloted in Nur- Sultan's Central Hospital and a few other clinics and hospitals in Almaty. The startup received its first round of finance of 50,000 USD in December 2020 from Quest Ventures Asia Fund II and secured an additional 1 million USD in investments from Timur Turlov in 2021

75. **Santufei.kz** is Kazakhstan's leading platform for booking and buying plane tickets online. The startup's platform provides access to the world's largest booking systems allowing users to find the best airfare deals from 700+ airlines. Santufei experienced exponential growth of its customer base, which led to its acquisition by Kaspikz. The terms of the deal concluded in 2020 have not been disclosed.

campaigns and reach more customers, CTOgramm bridges the gap between these two parties. The startup has grown rapidly and has established itself as the leading player in Kazakhstan's fragmented car services market. It received an investment of 100,000 USD from QazAngels club of investors. In the next round at the end of 2021, the startup received 700,000 USD from a group of investors led by Quest Ventures.

78. **HR Messenger** was established in 2018. Its platform aims to automate recruitment tasks, help new employees adapt to a new working environment, and conduct surveys for employees and candidates with no human interference or participation. HR Messenger has an extensive client base, including Coca-Cola, H&M, Kelly Services, Alfa Bank, Hoff, Sephora, IL DE BOTE, Papa John's, and KPMG. HR Messenger received pre-seed and seed round investments worth 550,000 USD from ABC-I2BF venture fund, Murat Abdrakhmanov, and Ramil Muhoriapov. It received additional investments from US-

Figure 11: Legal Framework of the Venture Capital Industry in Kazakhstan



Source: Asian Development Bank.

76. **iKapitalist** is Kazakhstan's first licensed investment and loan crowdfunding platform which allows investors to invest a small amount of money (starting at \$750) in promising startups. The platform established in 2019 allows investors to earn more through their investments and provide direct loans for businesses. iKapitalist is a resident of AIFC's FinTech Hub. The total volume of investments and loans provided through the iKapitalist platform reached 7 million USD in 2020 and 5 million USD in 2021. The total number of proposed investments grew from 2020–2021 but financial volume declined because the finalization of several deals was postponed to 2022 due to the pandemic.

77. **CTOgramm** is a platform geared toward car owners and owners of car spare part stores/vehicle maintenance services. To help these businesses save money on marketing

based Alchemist Accelerator, securing an additional investment of 60,000 USD for product enhancement.

79. Venture financing is closely tied to technology firms and the startup ecosystem. As a rule, venture funds have the same basic regulations as other forms of commercial entities. However, they are subject to similar regulations as those applied to private securities investments and compliance rules regarding foreign investments, anti-money laundering (AML), and Know Your Customer (KYC) regulations.³⁵ This results in a multilayered, complex regulatory framework that covers venture fund operations. In this section, we focus on regulations covering the activity of VCs.

35 Law on Counteracting the Legalization (Laundering) of Criminally Obtained incomes and Financing of Terrorism (August 28, 2009); Order No. 938 of the Minister of Finance of the ROK (Sept 30, 2020), On approval of the Rules for submitting data and information on transactions subject to financial monitoring by financial monitoring subjects and signs of identifying a suspicious transaction.

2.1. REGULATIONS OVER THE ENTRY OF VENTURE FUNDS AND GENERAL LEGAL FRAMEWORK

80. The government has developed a complex regulatory framework for venture financing regulating the activities of venture capital funds and institutional investors.³⁶ The Venture financing industry is closely linked with the development of technology businesses in the startup ecosystem. Therefore, the legal framework for the venture capital market is not confined to financial regulation and investment legal acts but encompasses a broader set of laws.

81. The legal framework of the venture capital market has several layers under the hierarchy of regulatory and statutory enactments in the Republic of Kazakhstan. The legal framework of the venture capital market is a complex matrix where policies, organizations, and laws intersect both in a vertical hierarchy and a horizontal interdependence (Figure 11). This system ensures comprehensive legal enforcement over specific relationships, terms, or cases.

accumulation of money and other property solely for the purpose of venture financing. An investment fund is defined as a joint stock or a mutual investment fund established in accordance with the law.³⁸ VCFs wishing to establish a venture fund may choose how their fund is registered. The only thing VCFs must be mindful of is adhering to requirements and conditions stipulated in legal provisions determined by the applicable regulatory act. For example, the number of participants in a venture fund may not be less than two.

85. VCFs may establish a venture fund as (i) an ordinary partnership; (ii) a joint stock company (JSC), or (iii) a business partnership.^{39, 40, 41} The charter of a venture fund should intend only to attract and accumulate money and other property for the purposes of venture financing.⁴² Venture fund contracts govern the admission of new participants in venture funds. An accession agreement containing and defining the partnership's conditions, procedures, and terms is drafted and signed between both parties, i.e., the venture fund's manager and the new venture

Table 6: Forms of Legal Entities with Minimum Requirements on Charter Capital

Legal entity	Minimum charter capital
Joint stock company	50,000 MCI ³⁷ (\$353,250)
Simple partnership	25 MCI (\$177)
Commandite partnership	50 MCI (\$353)
Limited liability company	100 MCI (\$707)

Source: Asian Development Bank.

2.1.1 APPLICABLE LAWS, REGULATORY AUTHORITY, SCOPE

82. The cornerstone of the venture capital regulation in Kazakhstan is the Law On Investment and Venture Funds (LIVF) dated 7 July 2004 No. 576-II with amendments on 9 July 2018. This law defines and gives legal status to venture financing activities, venture capital fund companies, and the role of venture managers. The goal is to help local investors structure their transactions in the country, thereby discouraging the outflow of investments and innovations abroad. This law introduced amendments to several legal acts regulating venture financing and investments.

83. In addition to the LIVF, other laws affect investments made in the country. For example, the Law On Rehabilitation and Bankruptcy dated 7 March 2014, No. 176-V; the Law on Currency Regulation and Currency Control dated 13 June 2005, as amended; the Labor Code Law No. 414-V 3PK dated 23 November 2016, as amended; and the Code on Taxes and Other Mandatory Payments to the Budget (Tax Code) dated 25 December 2017.

2.1.2 ESTABLISHMENT OF A VENTURE FUND

84. Under the LIVF, a venture fund is defined as a particular partnership or legal entity in the form of a joint stock company or economic partnership to carry out procurement and

fund participant. Incorporating new partners does not require amendments to the venture fund's contract. Furthermore, the acceptance of a new participant in a venture fund established in the form of a commercial partnership, or a joint stock company is regulated by corresponding laws. The form of the legal entity established governs the contractual relations between venture fund participants.⁴³

2.1.3 CAPITAL REQUIREMENTS

86. Depending on the legal form chosen, the law sets forth the minimum charter capital to operate as a Venture Fund (Table 6):

³⁸ Article 1, paragraphs 3 and 7.

³⁹ As defined in Article 228 of the Kazakh Civil Code, ordinary partnerships are formed based on joint activities, and do not enjoy the status of legal entities.

⁴⁰ As defined in Article 81 of the Kazakh Civil Code, a joint-stock company is a legal entity which issues shares for the purpose of raising funds for the performance of its activities. It stipulates that the shareholders of a joint-stock company will not be liable for its obligations, and they shall bear the risk of losses associated with the company's business, within the limits of value of the shares they hold, except for cases provided for by legislative acts.

⁴¹ Article 58 of the Civil Code stipulates that a business partnership shall be recognized as a commercial organization with its capital divided into shares (contributions) of the founders (participants); properties created at the expense of the investments of the founders (participants) and produced and acquired by the business partnership during its activities shall belong to it under the right of ownership.

⁴² Article 46-2 LIVF: "The charter of a venture fund... should contain a provision that its exclusive activities are the procurement and accumulation of money and other property for the purpose of venture financing in accordance with the requirements established by the Legislation of the Republic of Kazakhstan on investment and venture funds".

⁴³ According to Article 46-1, LIVF, a venture fund created in the form of a particular partnership begins its activity from the day its participants conclude an agreement on joint activities. Shareholders have the right to enter into a joint-stock agreement, which recognizes an agreement on the implementation of rights certified by shares and (or) special terms share rights. Members of a partnership are entitled to conclude a contract on the exercise of rights certified by shares and (or) the particulars of the exercise of rights to shares shall be recognized as a shareholders' agreement. Under a shareholders' agreement, its parties undertake to exercise in a certain way the rights certified by shares and (or) the right to shares and (or) to refrain (refuse) from exercising these rights (Article 46-6, LIVF).

³⁶ Venture capital is a subset of private equity and refers to institutional investments in early-stage, high-potential growth companies. Private equity refers to investing in shares in privately held companies rather than publicly traded stocks. 'Institutional' means that venture capitalists are not investing their own money as angel investors do. Instead, they are investing money on behalf of institutions such as pension funds and university endowments as well as the collective funds of some very wealthy individuals.

³⁷ For 2021 the Minimum Calculation Index was 2,917 tenge.

2.2 REGULATIONS FOR THE OPERATION OF VENTURE CAPITAL FUNDS

87. The Law on Joint Stock Companies imposes specific reporting and disclosure requirements on JSCs. Among other things, a JSC is required to publish its annual financial statements in the press and disclose information on major transactions signed by the JSC. JSCs are also required to disclose certain information to their shareholders, including information on share issues, entry into major and interested-party transactions, pledges of 5% or more of the assets of the JSC and participation by a JSC in other legal entities.

88. In addition, JSCs are required to report to the National Bank of Kazakhstan on the results of their share placements every six months. Anyone intending to acquire 30% or more of the shares in a JSC must notify the JSC. Such notification must contain information on the shares to be acquired, their price, and certain other information relevant to the proposed acquisition. Following the receipt of such a notice, the JSC has the right to outbid the proposed offer. If the JSC fails to exercise this right the purchaser may continue with the acquisition. In that case, the purchaser must, within 30 days from the date of acquisition, publish an offer to the remaining shareholders to purchase their shares at a price not lower than the average market price of the JSC's shares. If the remaining shareholders agree to sell their shares, the purchaser has 30 days to pay.

2.2.1 INVESTOR RIGHTS IN A VENTURE FUND

89. The participants of a venture fund, individuals intending to join a venture fund, a startup that receives financing, or participants (shareholders) of a fund have the right to conclude:

- i. *Option agreement* in relation to the assets of the venture fund or the startup or participation in them (a contract by which one party, on the terms provided for in such a contract, has the right to require, within the period established by the agreement, the other party(ies) to perform the actions provided for by the option contract, including payment of money, transferring, or accepting property);
- ii. *Option (right)* to conclude a contract in relation to the property of a venture fund or a startup, or participation in them, a contract by virtue of which one party through an irrevocable offer grants the other party the right to conclude one or more agreements on the terms provided by the option to conclude such a contract.

90. The regulations on venture capital fund establishment are more liberal than for other forms of business activities in Kazakhstan. For example, there are no provisions for other types of activities in implementing the format of signing the commercial partnership, the shareholders' agreement, the option agreement, or an option (right) to conclude a contract.

2.2.2 PROTECTION OF INVESTOR RIGHTS

The law protects investors in several ways:

91. Venture managers are prohibited from divesting their interests into several funds. The law prohibits venture capital managers from participating simultaneously in two or more

contracts of the venture fund if at least one of them contains a ban on such participation.⁴⁴ Otherwise, any other party to the contract may submit a petition to the court to invalidate the venture fund contract, thus making the venture manager liable for any damages incurred through their actions. In such cases, the venture manager must compensate all parties for the losses they may have incurred.

92. Investors have a right to full compensation for their loss in the venture capital fund if the venture capital manager provided false information upon which the venture financing contract rests.⁴⁵ In such a case, the investor has a right to compensation as established in the contract.⁴⁶ However, the court may adjust that amount if the investor contributed to the loss. If the loss occurred because of the unlawful actions of a third party, the creditor's claim for damages to the third party passes to the party that has compensated such losses, i.e., the party that has reimbursed the losses has the right to present its claims to a third party.

2.2.3 MARGIN FOR ERROR STATUS REGARDING VENTURE CAPITAL

Margin for Error of State Officials

93. Civil servants or a group of associates responsible for grants deal with numerous government agencies that execute inspections of budgetary expenditures. Two of the major government agencies tasked with performing these inspections are the Accounts Committee, which has regional representative offices, and the Committee on Internal State Audits. Both these agencies have a permanent right to conduct inspections at any time. Requests for auditing budgetary grant expenditures may also come from the Anticorruption Agency and the Economic Investigations Office. Additionally, audits can be performed by MDDIAI's Internal Audit Division and Zerde Holding JSC's Internal Audit Department.

94. One of the most pressing promulgations under margin of error for state officials is the regulation on the appropriation or embezzlement of property entrusted by other people. This stipulates that a civil servant may be held accountable for committing theft of another's property. The liable party is the person authorized to perform other state functions, a person equated to them, a civil servant, or a state official who holds a responsible public office using their official position. It stipulates that civil servants shall be punished with a fine of ten to twenty times the value of the stolen property or by imprisonment for a period between two to seven years with confiscation of property and a lifelong ban on holding certain positions or engaging in certain activities.

95. Hence, a civil servant may face various repercussions for improper spending of budgetary funds, regardless of the presence of intent. There are no exceptions, particularly for civil servants working in innovation development and implementation of state development programs.

⁴⁴ Article 46-3, Paragraph 5, LIVF.

⁴⁵ Article 46-10, Paragraph 1, LIVF. Article 403, paragraph 5 of the Civil Code, which stipulates that where a substantial violation of an agreement by one of the parties served as the reason for the dissolution or amendment of the agreement, the other party shall have the right to claim the restitution of losses caused by the dissolution or amendment of the agreement.

⁴⁶ Article 46-10, paragraphs 3, 4 and 6, LIVF. Also, Article 9, paragraph 4 of the Civil Code stipulates that the person whose right is violated may require the entire restitution of the damages inflicted on them, unless otherwise stipulated by legislative acts or the agreement

Margin for Error of Entrepreneurs

96. The counterpart of the margin of error for state officials is the margin of error for entrepreneurs. It refers to illegally obtaining and unauthorized use of credit although liability occurs only when an entrepreneur commits an illegal action with intent. An entrepreneur entering an obligation voluntarily assumes the risk of non-fulfillment (subjective risk of an entrepreneur) and is not allowed to transfer losses from that violation to his business partner or consumer, referring to his innocence.

97. However, there are cases where an entrepreneur can make a mistake and is not held responsible. For instance, the Kazakhstan Entrepreneurship Code assumes that even if the entrepreneur somehow violated the law or the legal interests of third parties but was guided by an official letter of an authorized state body, the entrepreneur is exempt from liability if the official explanation was not withdrawn by the state body later. In this case, the state body that provided such an official explanation will be held accountable. This rule extends to legal relations arising from innovative grants provision from a state body for the commercialization of technologies.

98. As per the Rules for the Provision of Innovative Grants for The Commercialization of Technologies, an agreement is concluded between the grantee and the authorized body on the provision of an innovative grant for the commercialization of technologies determining the purpose of the allocated funds. Under this agreement, the parties have rights and obligations regulated by the Civil Code which stipulates that if the project cannot be implemented, the contract with the grantee is terminated, but the allocated grant will be recognized as used for the intended purpose automatically. The Civil Code states that participants/shareholders of a legal entity may be exempt from liability for making a mistake intentionally or unintentionally. Hence, the legal entity is held accountable, not the individual.

99. A problem undermining venture capital funding growth is associated with the rigid investment discipline imposed on state owned investments. This is a serious problem in Kazakhstan due to the investor role of the government in the venture capital industry.⁴⁷ Under the Budget Code, state audit and financial control over the provision and implementation of state support measures for industrial and innovative activities to co-finance venture funds are carried out based on profitability (loss-making) of assets (the entire portfolio) of such venture funds in the long term, taking into account high entrepreneurial risks characterized by market uncertainty for innovation and losses of invested financial and other resources. Hence, the state's supervision system considers the nature of venture financing, which partly signifies that the term margin for error is present in Kazakhstan's legal system.

100. The Law on Governmental Audit and Financial Control stipulates that the authorized bodies for external governmental audit and financial control are the Accounts Committee and Audit Commissions. However, these rules do not indicate exactly how the mechanism of tolerance to risk (margin for error) for venture funds activities and private venture investors is implemented. There is also no judicial or court practices that apply to this concept. Therefore, while the term 'margin of error' is not explicitly mentioned in any of Kazakhstan's legislation, the existing legal provisions can be extended to all types of government body activities in relation to the control of budget spending and in other aspects of the government's relation to venture capital activities.

⁴⁷ See Section 1.5 above.

2.2.4 BANKRUPTCY PROCEDURES

101. Bankruptcy in Kazakhstan is conducted for legal entities universally. This means that regardless of the industry and economic activity, all legal entities should follow the same procedure for bankruptcy. The procedure differs only for the chosen modality that can be implemented, either voluntarily or compulsorily.

- i. Compulsory: is enforced on the basis of an application to the court from creditors or other authorized people;
- ii. Voluntary: is determined voluntarily on the basis of the application of a debtor to the court.

102. According to Article 84 of the Law on Rehabilitation and Bankruptcy, the total period of bankruptcy procedures is nine months. At the request of the bankruptcy manager, the period of bankruptcy proceedings may be extended on the grounds provided for in the Law on Rehabilitation and Bankruptcy.

103. The Basic Law does not provide any special procedure for the bankruptcy of some innovative businesses or a venture fund. Therefore, the bankruptcy of startups or venture funds falls under the regulation of the general bankruptcy rules. This undermines the effectiveness of the venture capital industry in Kazakhstan. Kazakhstan has a Resolving Insolvency score of 66.7/100, which indicates a weak legal framework applicable to judicial liquidation and reorganization proceedings.⁴⁸ In this regard, the government can decide to introduce special regulations for venture capital investments, considering the high risks of innovation projects and their greater likelihood of bankruptcy compared to traditional industries.

2.2.5 TAXATION OF VENTURE CAPITAL FIRMS

104. The Tax Code governs the tax administration of venture capital funds.⁴⁹ There are no specific provisions applicable to venture funds, instead, the Code applies to investment funds. Therefore, tax duties on venture funds are contingent on the chosen organizational and legal form. However, the trust management of a venture fund is exempt from tax obligations.⁵⁰ Accordingly, any income that a joint stock investment fund receives from its activities shall be excluded from the total annual income of a taxpayer. Thus, this type of income is exempt and is not included in the declaration when the corresponding tax obligation is fulfilled.⁵¹ The tax framework applicable to venture capital activities comprises the activities described in paragraphs 104 to 106.

105. The corporate income tax rate for tax residents is 20% of their worldwide income. A nonresident that has formed a Permanent Establishment (PE) in Kazakhstan is liable for 20% corporate income tax on income attributable to the PE. In addition, the taxpayer would need to pay the branch profit tax of 15% of the difference between the annual

⁴⁸ The data for the Resolving Insolvency indicators are derived from questionnaire responses by local insolvency practitioners and verified through a study of laws and regulations as well as public information on insolvency systems. The ranking of economies on the ease of resolving insolvency is determined by sorting their scores for resolving insolvency (i.e., what is the recovery rate of an asset claimed by a secured creditor with an unpaid claim, measured as a function of the time, and cost and outcome of insolvency proceedings against a local company). These scores are the simple average of the scores for the recovery rate and the strength of insolvency framework index. In the case of Kazakhstan, the average insolvency claim only recovers 39.8 cents on the dollar.

⁴⁹ Code on Taxes and Other Obligatory Payments to the Budget dated December 25, 2017, No. 120-VI

⁵⁰ The provision contained in Article 40 of the Tax Code stipulates that "Provisions of this Article and Articles 41-45 of this Code are not applied to the tax liabilities resulting from organization, implementation and (or) the termination by managing company of trust management of assets of investment fund according to the legislation of the Republic of Kazakhstan on investment and venture funds."

⁵¹ Tax Code, Article 241.

Table 7: Tax Benefits According to the Legal Status of the Foreign VC

Item	Foreign venture capital with a PE in ROK (resident)	Foreign venture capital with no PE (nonresident)	Foreign venture capital working as a resident of the AIFC	Foreign venture capital accepted at Special Economic Zones
Corporate income tax	15%	20%	0%	0%
VAT	12%	0%	0%	0%
Land and property taxes	0%	0%	0%	0%
Social tax	3%	0%	0%	0%
Personal income tax	10%	10%	0%	0%

PE: Permanent Establishment; ROK: Resident of Kazakhstan; AIFC: Astana International Finance Center
Source: Tax code of Kazakhstan

taxable income of the PE and the corporate income tax paid to the state budget. The profits tax of a branch may be reduced (usually to 5%) under double tax treaties signed by Kazakhstan. Exclusions apply in these cases: (i) dividends; (ii) investment income received by joint stock investment funds from investment activities and investment funds registered in accordance with the current law on Astana International Finance Center (AIFC); (iii) income of an autonomous cluster fund (e.g. TechGarden), determined by the applicable legislation on an innovation cluster; and (iv) the value of property received free of charge by a venture fund intended for free transfer to legal entities that are members of the Astana Hub. The list of incomes and expenses subject to deduction in accordance with the requirements of tax legislation does not include the costs of financing innovative projects in the process of venture activities. However, a deduction is provided for expenses for research, scientific and technical work, and the acquisition of exclusive rights to intellectual property.⁵² In addition, the costs of a subsoil user for financing research, scientific and technical work, experimental work, and for transferring money to an autonomous cluster fund (TechGarden) are subject to deduction.⁵³

106. With certain limited exceptions, personal income tax is a flat rate of 10%. Residents pay income tax on their worldwide income (residents are defined as individuals who spend not less than 183 days in Kazakhstan during any consecutive 12-month period). Nonresidents pay income tax on their income from Kazakhstani sources.

107. A nonresident with no PE in Kazakhstan is generally subject to 15% withholding tax on income received for capital gains, dividends, interest, and royalties. However, a nonresident without a PE in Kazakhstan will not be taxed on capital gains resulting from a sale of shares (an interest) in either local or offshore companies if, as of the date when the shares (interest) are sold (i) the shares (interest) have been owned for more than three years; (ii) the company whose shares are sold is not involved in oil and gas or mining operations and is not otherwise classed as a subsoil company under the applicable legislation; and (iii) not more than 50% of the value of such shares (interest) or share capital of the company whose shares are sold derives from the property of local mining or oil and gas companies or other companies classed as subsoil companies in accordance with the applicable legislation. These exemptions do not apply to foreign shareholders registered in countries with a preferential tax regime. If the exemptions do not apply, then 15% withholding tax generally will be imposed

on dividends or capital gains realized from the sale of shares. For shareholders registered in countries with a preferential tax regime, the applicable rate is 20%.

Taxation for representative offices, branches of foreign entities, and joint ventures

108. To see the impact of tax regulations on foreign venture funds who may choose to register a representative office or a branch in Kazakhstan (Permanent Establishment). Table 7 compares their tax treatment with a domestic company:

109. Specific differences to the general tax regime apply to foreign venture funds that wish to register a representative office or a branch in Kazakhstan.

110. If a nonresident carries out entrepreneurial activities domestically and abroad within the framework of one project or related projects carried out jointly with its Permanent Establishment in the country, the income of the Permanent Establishment will be considered as income it could receive if it were a separate legal entity engaged in the same or identical activities under the same or similar conditions and acted independently of the nonresident legal entity under whose Permanent Establishment it is. If goods are produced by a Permanent Establishment of a nonresident legal entity in the Republic of Kazakhstan and sold by another structural unit of a no-resident legal entity located outside the Republic of Kazakhstan, the income of such a Permanent Establishment of a nonresident legal entity is recognized as income that it could receive if it were a separate and separate legal entity engaged in the same or identical activities under the same or similar conditions and acting independently of the nonresident legal entity of which it is a Permanent Establishment.

111. Based on the above information, it can be concluded that the taxation of branches of nonresident legal entities does not differ significantly from the taxation of resident legal entities, except for the specifics in determining their taxable income.

112. In accordance with Article 660 of the Tax Code, the provisions of an international treaty regulating the avoidance of double taxation and prevention of tax evasion, to which the Republic of Kazakhstan is a party (hereinafter referred to as an international treaty), shall apply to persons who are residents of one of both states that have entered such a treaty.

113. A peculiarity of fulfilling tax obligations of joint ventures is the distribution of liabilities among participants according to the joint venture agreement. In accordance with Article

⁵² Tax Code, Article 254

⁵³ Tax Code, Article 255

80 of the Tax Code, if an agreement on the conduct of joint activities occurs or another agreement providing for two or more parties to an agreement on joint activities without forming a legal entity, the objects of taxation and objects related to taxation are accounted for and taxed accordingly by each party of the agreement on joint activities in the manner prescribed by the Tax Code.

2.3 ASSESSMENT BASED ON ANALYSIS OF RELEVANT LAWS

114. Kazakhstan's legislative landscape governing the establishment of a venture capital ecosystem was highly fragmented. In 2018, amendments were enacted to several laws regulating venture financing and investments to overcome the perceived flaws of the prevailing legal environment. The main amendments centered on the Law on Investment Funds, which was amended into the Law on Investments and Venture Funds (LIVF). The main changes included:

- i. Introduction of a new conceptual framework including such terms as venture financing, venture fund and venture manager, along with the definition of the organizational form of funds and requirements for their activities.
- ii. Provision of contractual instruments of corporate law (e.g., shareholders' agreement, partnership rights implementation agreement, option agreement). Overhaul of the audit process applied by the state to assess technology projects and startups in the portfolio of projects rather than considering each project separately. This is due to the specifics of venture financing with its high risks.
- iii. Introduction of new mechanisms for co-financing venture funds, which is carried out by entities of the industrial and innovation system involved in government support for industrial and innovative activities.

115. However, Kazakhstan's legislation still does not reflect the high risks involved in financing innovation and technology projects. Kazakhstan's low innovation activity is directly related to the absence of a mechanism to stimulate the venture capital market, without which an innovative startup has fewer chances to develop and succeed.

116. The proposed amendments were expected to stimulate the private venture capital market, develop its ecosystem of software developers and other innovative solutions, motivate entities operating in private and corporate sectors to increase innovation activities, finance research and development activities, attract foreign investment, intensify employment in the innovation activities, and attract the best talent.

117. Even though the main elements of the legal framework for venture capital entities are in place, there are still significant factors that need consideration for legal framework enhancement. Among others these include but are not limited to:

- i. Providing startups with a new legal entity = distinguishing it from all other types of available forms of legal entities (e.g., limited liability company, joint stock company, and individual entrepreneurship). This is needed to protect the interests of founders and investors given the risks associated with high technology activities.
- ii. Ensuring high acceptance of risks by the government, including regulation of margin for error of investors and startups while financing innovative projects. For example, extending the period of expected achievements from a project/startup to 7–10 years and evaluating a portfolio of technology projects financed by the government instead of assessing each project separately.
- iii. Simplifying bankruptcy procedures.
- iv. Provide preferential terms for venture capital and private investments into startups.
- v. Develop initiatives and mechanisms that would activate the private investment market.

SECTION 3. VENTURE CAPITAL AND HUMAN RESOURCES

118. Human capital may be one of the most valuable components of any traditional business model, but the VC business model is nothing short of unorthodox. Investments in human resources are a necessary step in ensuring a business prospers in a changing market environment. While there is an upward trend in human capital investment and development across small and medium-sized enterprises (SMEs) internationally, the same cannot be said for venture funds. This is mainly because the venture capital industry does not operate in a traditional model like those ascribed to SMEs.

119. A career in venture capital follows an apprenticeship route. Historically, the venture capital industry has employed a learning-by-doing approach through which associates learn their trade in the real world. The VCs' varied roles and competing demands require considerable experience in providing effective hands-on support to entrepreneurs through all the stages of their company's development. VCs must hone their decision-making and prioritization skills through real-life experiences which cannot be taught. Hence, the general disdain toward theoretical training is rooted in real world experience gained through relationship building, sourcing and qualifying deals, portfolio management, and management exits and cannot be learned in a classroom.⁵⁴

120. Recent initiatives have tried professionalizing the venture capital industry. These initiatives aim to provide a formal program that teaches the basic principles of asset management, the fundamentals of putting together a deal, what a term sheet looks like, and learning from past case studies.⁵⁵ One such program emerged from the Newton Venture Program, a joint venture between London Business School and LocalGlobe VC, Silicon Valley Bank.⁵⁶ The program aims to provide training to future technology investors capable of backing the companies of tomorrow. It does so by:

- i. Integrating an end-to-end venture ecosystem serving the innovation economy through bridging networks and knowledge gaps between research and investment institutions, thus amplifying the impact of R&D.
- ii. Integrating practitioners and academic experts by leveraging the deep expertise of experienced practitioners who have achieved top-draw global investment returns and distilling lessons across the macro-VC landscape.
- iii. Integrating underrepresented people into venture capital to increase the diversity of investors across the entire ecosystem.⁵⁷

121. Another example can be found in 500 Startups, a global venture capital firm aiming to help up-and-coming investors 'unlock the secrets' of Silicon Valley investing. The goal of this company is to train the next generation of angel investors and aspiring VCs. The company has teamed up with Stanford Center for Professional Development (SCPD) to provide its Unlocked program, which trains future venture capital investors on investment strategy, kick starting deal flows, due diligence, and helping them tap into a global community of fellow VCs and angel investors.⁵⁸

122. In a bid to mobilize financial resources and entrepreneurial expertise, policymakers have placed increasing attention on financial markets. Governments have begun to deploy a policy mix composed of supply-side measures to increase visibility and scale and favor matchmaking with entrepreneurs. Such measures would include tax incentives, direct investment and co-investment, support to industry networks and associations. Policies also target training, mentoring, and coaching for investors, although to a lesser degree.⁵⁹

123. The lack of entrepreneurial skills and capabilities, coupled with the low quality of investment projects, has become an increasing source of worry and a major impediment for governments worldwide aiming to develop a thriving venture capital ecosystem. In a bid to target the skills of existing or would-be entrepreneurs, Impact Invest Scandinavia has been providing support to ventures in the early commercial phase or that wish to seek capital to scale up through providing training and access to a global network of investors.⁶⁰

124. While venture capital training courses can play a valuable role in the sector, there is no substitute for real-life experience. Most of these venture capital training programs have been limited and accounted exclusively for formal features of institutional environments, leaving the informal dimensions unexplored. Considering that VCs do not follow the same path, treating these courses as accepted wisdom will not lead to real world success. Venture capital investors must commit to their practice as that is the only way they will find their unique way of applying their trade, measuring risks, and deploying capital. It is important to remember that venture capital is a long-term asset class with five to seven-year cycles. Hence, venture capital professionals need exposure to the full cycle, from sourcing businesses to exiting to fully understanding what venture capital involves.⁶¹ If Kazakhstan is to create a thriving venture capital ecosystem, it must not blindly replicate existing venture capital training modules.

⁵⁴ Rist, K. (2020) Can Venture Capital Be Taught? at <https://www.forbes.com/sites/kjartanrist/2020/11/03/can-venture-capital-be-taught/?sh=455d96af121c>

⁵⁵ Ibid

⁵⁶ <https://newtonprogram.vc/>

⁵⁷ Ibid

⁵⁸ <https://ecosystems.500.co/stanford>

⁵⁹ OECD. 2015. New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments. <https://www.oecd.org/cfe/smes/New-Approaches-SME-full-report.pdf>

⁶⁰ Ibid

⁶¹ Rist, K. 2020. Can Venture Capital Be Taught? <https://www.forbes.com/sites/kjartanrist/2020/11/03/can-venture-capital-be-taught/?sh=455d96af121c>

SECTION 4. CONCLUDING REMARKS AND POLICY IMPLICATIONS

125. All the elements of a venture capital ecosystem are present in Kazakhstan, although the number of players is still quite small. These are venture funds, business angel investors, state owned agencies supporting innovation, the private sector with their regional and international representatives, startups, and IT companies. At the same time, large industrial groups, accelerators, and incubators have = begun to populate the venture capital ecosystem by launching their own venture funds, either as sole investors or in a joint venture with financial organizations in the country. In 2021, the volume of total early-stage funding in Kazakhstan amounted to roughly \$50 million.

126. The venture capital ecosystem in Kazakhstan continues to evolve as the legal framework evolves. The ecosystem is covered by a multilayered regulatory framework that is complex to navigate. Venture funds are subject to the same regulations as other forms of commercial entities while also being subject to regulations applied to private securities investments and compliance rules regarding foreign investments, anti-money laundering, and Know Your Customer regulations. Most thriving venture capital ecosystems promote risk-taking, arbitrage, and speculative activities, which is the very essence of venture capital activity. The purpose regulation is to establish the limits within which this activity is conducted and protect the public from prudential risk. However, regulation needs to be flexible enough to avoid stifling venture capital activities. This balance is difficult to achieve in countries emerging from systems dominated by state control.

127. While Kazakhstan is making good progress in creating an enabling environment for innovative firms and venture capital investments, amendments to the legal framework are still necessary to fully enable private sector and venture capital activity. New laws and other initiatives are heading in the right direction but are no substitute for fundamental adjustments in existing regulations. The venture capital ecosystem in Kazakhstan does not need the implementation of a special law to flourish. On the contrary, what the country needs is a comprehensive set of interoperable laws, business practices, expertise, and a venture capital culture that can only arise in the course of time.

128. The main recommendation of this report is to **conduct a holistic review of the legal framework for venture capital**. A well-functioning ecosystem relies on numerous laws and policies that are inextricably intertwined, and many laws must work in unison to make the venture capital ecosystem work. Strengthening such an ecosystem should address both downstream and upstream issues. Downstream issues include topics such as university-industry collaboration and tech transfer that create a pipeline of inventions and firms for VC. On the upstream side, vibrant securities markets and other exit mechanisms for VCs are critical. These changes to the law should be seen as necessary but not sufficient. Changes in one law will create ripple effects which other laws need to address. For example, amending the margin of error law will lead to the creation of innovative firms. These new firms will then need private sector non-grant finance, and unless laws related to individual investing are amended, angel investing activity cannot happen, and therefore venture capital activity cannot happen. It would not be wise to try to replicate the laws of another country without considering the overall domestic legal ecosystem.

4.1 POLICIES RELATED TO FINANCIAL ASPECTS OF VENTURE CAPITAL FUNDING

129. To help create an enabling environment for innovative firms and venture capital activity in the country the following areas (among others) could be considered for improvement:

130. Provide policy space to allow market standards to develop, for example, allowing the use of pension funds for private equity. It is advisable to not tighten up centralized regulations and to let the market standards develop independently. For example, investments by institutional investors such as pension funds and insurance companies may come more to the fore when the venture capital market achieves a certain level of maturity. Implementing centralized regulations should accompany the authorization of such investments.

131. To increase the attractiveness of investing pension funds and insurance funds in venture capital platforms, an integrated program needs to (i) develop and popularize the instruments trading on them, (ii) promote successful cases, (iii) provide capacity building to authorized bodies, (iv) regularly publish financial statements, and (v) improve the quality of investment assets. In the USA, state pension funds have long been a source of private equity venture capital. For example, the North Carolina Innovation Fund was established in 2010 to partner with private equity firms for venture capital investment strategies of state pension funds. Since then, direct investment of pension funds in startups and removing the private equity firm middleman have gained popularity.⁶² The Brussels-based Invest Europe Pension Funds (a venture capital and private equity investment consolidator) reports that annually, an average of 30% of the capital raised by European private equity and venture capital funds are sourced from pension funds.⁶³ In the US, private equity firms must register with the Securities and Exchange Commission and must adhere to strict information reporting requirements. In view of the nascent stage of the Kazakh venture capital market, government state pension funds may want to review the situation before they adopt the early USA model for private equity.

132. **Explore crowdfunding.** Equity and debt crowdfunding have become popular tools to implement alternative forms of investment. The government can examine two types of crowdfunding for capital market development that may potentially impact venture capital funding: (i) lending-based crowdfunding, where money is lent to individuals or businesses with a view to a financial return in the form of interest payments and a repayment of capital over time; and (ii) investment-based crowdfunding, where money is invested in unlisted shares issued by businesses. Investment-based crowdfunding also includes platforms where money may be invested in debt securities issued by businesses.

133. **Improve the regulation to incorporate new financial instruments.** Currently, the laws of Kazakhstan do not adequately regulate derivative financial instruments or

62. Cometto, M.T. 2014. Letter from the US: Pensions and startups. In IPE Magazine. <https://www.ipe.com/letter-from-the-us-pensions-and-start-ups/10004114.article>. Note that private equity refers to investing in shares in privately-held companies rather than publicly-traded stocks.

63. Invest Europe is the world's largest association of private capital providers representing Europe's private equity and venture capital and infrastructure investment firms, including investors and some of Europe's largest pension funds and insurers. <https://www.investeurope.eu/media/1222/invest-europe-pension-fund-guide-to-private-equity-and-venture-capital.pdf>

hedge funds. The lack of specific regulation creates hurdles in structuring transactions. To improve the quality of the legislative control of the venture capital market, terminology specific to the market must be defined and adopted (i.e., introduce into legislation definitions for various derivative financial instruments, including options and swaps, which may be used when structuring private equity funds transactions) and occasionally updated and amended.

134. Companies that have received investments from funds whose owners are registered outside Kazakhstan face issues in obtaining loans from banks in Kazakhstan, as the banks will charge a 100% provision against such loans.⁶⁴ Thus, measures to protect minority shareholders' rights and interests should be enhanced at the legislative level.

4.2 POLICIES RELATED TO A REVIEW OF EXISTING LAWS

135. **Review the Bankruptcy Law.** Bankruptcy laws play a crucial role in unleashing the mobility of assets to their best use. In the absence of bankruptcy provisions, firms are forced to carry on their enterprise by creating firms that exist on paper but have no economic value. Allowing liquidation of the firm allows its assets to be used for more productive purpose. Specifically, in venture capital, it is imperative to have robust bankruptcy laws for startups so they can start afresh should they fail, which, statistically, is more often the case. Recognizing that failure is part of the tech startup dynamic, many countries have amended their bankruptcy laws to foster startups and encourage venture capital.

136. Developing the venture capital ecosystem is also discouraged by an underdeveloped stock market and low mergers and acquisitions (M&A) activity, which makes exit strategies hard to accomplish and capital recycling complicated. This is compounded with bankruptcy because of the significant hurdles found in the current legislation which allows owners to recoup only a fraction of their investment. To a certain degree, insufficient M&A is caused by uneven wealth distributions and a weak SME sector. The key players in the M&A market are international investors, whose market activity is decreasing. At the same time, internal resources are limited to family firms, many of which have been pursuing conservative investment strategies in recent years.

137. **Review the margin of error standard in the auditing of government investment.** It is accepted wisdom that over 90% of startups fail. The very few that do succeed more than make up for the failed ventures. Hence, a culture of acceptance of failure is helpful in developing a venture capital ecosystem. Under the present rules, government agencies need to yield to investment auditing rules, which impose the obligation of not entirely avoiding losses on the investments made.⁶⁵ This obligation places severe restrictions on government officials and makes their promoting role awkward in venture funding. In comparison, officials of the Small Business Innovation Research (SBIR) program of the USA that finance high-risk ventures through grants are not penalized for ventures that fail. Many countries aspiring to become innovation economies have deployed some form of SBIR grant mechanism akin to the USA model. For Kazakhstan, introducing the necessary amendments to legislation on margin of error may be necessary.

⁶⁴ National Bank of Kazakhstan. 2017. On the establishment of normative values and methods for calculating prudential standards and other mandatory norms and limits, the size of the bank's capital and the rules for calculating and limits on the open currency position. Order #170 on 13.09.2017. Nur-Sultan.

⁶⁵ See Section 2 for the discussion on margin of error.

138. **Review taxation of priority investment projects.** One promising way to increase investment activity of VCFs is to provide tax advantages for implementing priority investment projects (PIP). For example, in Kazakhstan, tax relief can be applied to PIPs. However, this mechanism is not sufficiently well adapted to the realities of the local market. Uniform capital requirements have been set for all business entities and industries, which set barriers for less capital-intensive industries and medium-sized businesses. In addition, the Tax Code stipulates that a range of raw materials and consumables are exempt from import VAT if they are used as part of an investment contract. However, this exemption does not apply to PIPs. Unequal terms for granting tax privileges regarding import VAT for entities engaged in implementing various types of investment projects may diminish the attractiveness of PIPs for investors.

139. **Review laws on collecting and processing digital data.** The Personal Data Law provides only general regulations on collecting and processing personal data and includes very broad requirements for data localization. The legislative text is also unclear as to whether the law applies to non-Kazakh entities (for example, venture capital investors) whose operations are related to Kazakhstan and whose websites can be accessed in Kazakhstan. The Law on Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on the Regulation of Digital Technologies, enacted in July 2020 was a positive step because it significantly extends data protection obligations for organizations. The law introduces additional requirements for data collection and processing and obligations for data operators like those of data processors.

140. Laws need to be more transparent to non-Kazakh entities such as corporations, venture capital funds, and private investors. They should include requirements for data processors and clear rules on what can or cannot be shared, whether these rules apply only for national digital projects, or international projects as well. Sophisticated laws on personal data protection send a signal to large investors that they can confidently invest in the digital space of a country.

141. **Qualify the role of risk hedging in the legislation.** Kazakhstan's legislation related to hedging covers only general provisions, which may be interpreted differently by entrepreneurs and government agencies, including the tax authorities. This creates potential tax risks for entrepreneurs and limits the number of companies willing to use this instrument in their activities. The Civil Code has general provisions for derivative financial instruments that tend to be used to reduce risks for hedging. The term 'hedging' per se does not exist in civil legislation. The Tax Code provides for the specifics of hedging tax accounting. However, an absence in legislative acts covering basic hedging concepts and mechanisms prevents entrepreneurs from managing risks related to external factors such as currency exchange rate fluctuations and seasonal price fluctuations.

4.3 POLICIES RELATED TO REFORMS RELATED TO NEW FUNCTIONS

142. **Establish a regional seed capital fund.** VCs can scale up firms that have the potential to grow very large and serve a large market. However, the market in Kazakhstan is relatively small. While this is not an issue for digital firms that can provide services to other markets and are typical targets of VCs, it is a significant issue for digital firms who cannot operate outside

Kazakhstan. While there is no shortage of financing, the culture of parting with equity is just beginning and angel investing has yet to take root in the country. A seed capital fund would help channel such financing, allowing capital to be productively deployed while inculcating a culture of professional investing. Such a fund could be established without creation of a new institution.

143. Explore the merits of establishing an SBIC-type mechanisms. Kazakhstan could emulate an American Small Business Investment Corporation (SBIC) program, which is a publicly financed but privately managed venture finance instrument. There is strong evidence that in the early stages of the venture capital industry, SBIC played a crucial role in its growth. Still, as the industry grew more sophisticated, SBIC could not keep up with the more sophisticated instruments. Considering that Kazakhstan is in the early stages of establishing its venture capital industry, the government could explore promoting its version of the SBIC Program as part of its role in developing, growing, and facilitating a venture capital ecosystem.

144. Introducing a tech startup and venture capital 'sandbox' might provide an experimental legal control mode of entrepreneurial activity with an open technical testing

environment. Not only could a sandbox be used to test innovative ideas from individuals and groups, it could be also used to pilot and test venture capital institutional regulations, budget planning, state support measures, and accompanying procedures in a controlled environment.

145. Invest in human capital. Venture capital courses can play a vital role in kick starting the venture capital sector in Kazakhstan. However, there is no substitute for real-life experience. The government can subsidize venture capital training programs abroad, but these training programs are usually based on principles and practices formed over a long period under unique circumstances. Therefore, the theoretical knowledge from these courses is unlikely to have a major impact unless these venture capital investors can translate that knowledge into practice in the Kazakh context.

146. Advancements in emerging technologies (blockchain, Artificial Intelligence or AI, etc.) that underpin the 4th Industrial Revolution (4IR) are occurring rapidly and Kazakhstan should immediately start developing an ecosystem for fostering such technologies and the ensuing venture capital activity in this space. Interventions including building human capital and a review of the digital laws pertaining to 4IR are necessary.

Creating an Enabling Environment for Venture Capital Financing in Kazakhstan

Successful venture capital ecosystems are characterized by a legal framework that encourages innovation, eases the process of setting up, operating, and closing a business, and accepts startup failures as part of the growth process.

This report analyses the legal framework supporting venture capital investments in Kazakhstan and discusses the importance of developing human capital that can effectively respond to constantly evolving venture capital markets. The report provides actionable recommendations for how the current ecosystem can be bolstered to enable venture capital to flow into Kazakhstan.

