

Chapter 28

KAZAKHSTAN

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I INTRODUCTION

The history of franchising in Kazakhstan began with two projects. First, under a sub-licence of a Turkish franchisor a plant to produce Coca-Cola was built in 1994. Secondly, Kazakhstan Hotel Rahat Palace began operating under the brand of Hyatt international hotel chain.²

A mass market of foreign franchise projects in Kazakhstan began with clothing shops, food courts (cafes, restaurants, coffee houses) and supermarket chains. Examples of such projects are Adidas, Baskin Robbins and Ramstore supermarkets. Additionally, fast food restaurants such as Hardee's, KFC and Burger King, as well as internationally renowned coffee houses such as Gloria Jean's Coffees and Starbucks, are now actively operating in Kazakhstan. International hotel chains, such as InterContinental, have opened in Kazakhstan under the franchise scheme. Some more well-known hotel chains are currently in the early stages of negotiations.

Recently a large number of Russian companies have built their businesses in Kazakhstan as franchisors. These include the coffee shops 'Shokoladnitsa',³ the ice-cream shops '33 Pingvina',⁴ the children's shops 'Oranzhevy Slon',⁵ the leather shops 'Econika',⁶ and the gift shop 'Krasny Cube', to mention but a few.

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2 B Kisikov, *Franchising in Kazakhstan*, Almaty: Publishing House BookinEast, 2007, pp. 70, 71.

3 www.shoko.ru.

4 <http://33pingvina.ru>.

5 www.orange-elephant.ru.

6 www.econika-style.ru.

The first Kazakhstan company to utilise the franchise system was Seimar. Seimar started working in the market of agricultural products, including poultry products.⁷ Many other Kazakhstan companies have followed suit by executing franchising agreements. The largest of them are Kuralai fashion house and the cable casting company Alma-TV,⁸ as well as a number of companies in the food service sector.

Franchising in Kazakhstan is supported in a number of ways. First, the Eurasian Franchise Association (the Franchise Association)⁹ provides consulting and information services for companies looking to develop their business via franchising. Secondly, the state supports franchising through the Small Entrepreneurship Development Fund JSC (the Fund). The main objective of the Fund is to promote establishment and economic growth of small business entities in Kazakhstan and to enhance the efficiency of funds allocated by the state to support small businesses. Additionally, the following organisations also promote the development of franchises:

- a* the National Intellectual Property Institute (the Intellectual Property Institute), which is an expert organisation of the authorised body in the area of intellectual property in Kazakhstan – the IP Committee for Intellectual Property Rights of the Ministry of Justice of the Republic of Kazakhstan (the IP Committee); and
- b* the Independent Association of Entrepreneurs of the Republic of Kazakhstan;

The Intellectual Property Institute has a learning centre which holds various seminars, roundtable discussions and conferences on security and protection of intellectual property.

The Independent Association of Entrepreneurs is engaged in the promotion of franchising in Kazakhstan and acts as an organiser of exhibitions related to franchising.

II MARKET ENTRY

Kazakhstan has specific legislation regulating the franchise market. In addition, the relationship between the parties to the franchise agreement is governed by the law applicable to each particular sector of the economy. The extent of regulation applicable to a franchisee is much greater than that applicable to a franchisor as the franchisee is the party operating the business locally.

If a franchisor is considering entering the Kazakhstan market, it should make sure that its intellectual property that will be the subject of a franchise agreement is protected in Kazakhstan. It is worth noting that Kazakhstan is a member of the main international conventions on protection of intellectual property, and it therefore acknowledges and respects the generally accepted principle that exclusive rights exist in intellectual property. Trademarks, utility models and industrial designs are all capable of registration in Kazakhstan.

7 B Kisikov, *Franchising in Kazakhstan*, p. 71.

8 www.almatv.kz/ru.

9 www.eafran.com.

In addition to the protection of its intellectual property, the franchisor, as a person generating income in Kazakhstan, should take into consideration the tax legislation of Kazakhstan, particularly as regards withholding tax.

III INTELLECTUAL PROPERTY

i Brand search

Preliminary searches can be made to establish whether there are any similar or identical marks already on the register.

ii Brand protection

Most intellectual property rights must be registered in order to be protected in the territory of Kazakhstan. This includes trademarks and industrial property (inventions, utility models and industrial designs).

Copyright items are protected from the moment of their expression in physical form.

Confidential know-how (and trade secrets) are protected subject to the following conditions: (1) the information that constitutes a trade secret has actual or potential commercial value by virtue of it being unknown to third parties; (2) there is no free access to it on legal grounds; and (3) the holder of the information takes measures to secure its confidentiality.

Trademarks and industrial property are subject to registration with the IP Committee. The IP Committee takes a decision on the basis of the opinion of the Intellectual Property Institute as to whether the relevant intellectual property items meet the relevant criteria of protectability.

With regard to trademarks, the IP Committee will deny registration of a trademark if it appears to be identical or confusingly similar to a trademark registered or filed earlier (relative grounds for denial). Registration will also be denied if a trademark is a descriptive (absolute grounds for denial).

Applications for registration of intellectual property rights must be filed with the Intellectual Property Institute. Based on the results of its expert review, the Intellectual Property Institute prepares an expert opinion for consideration by the IP Committee. On the basis of such expert opinion, the IP Committee issues a decision on registration or denial of registration.

The IP Committee also deals with registration of licensing agreements and assignments. Registration of a trademark licence or other IP licence (such as a franchise agreement) is mandatory and is a determining factor for the valid creation of rights and obligations of the parties to the licensing agreement. The Intellectual Property Institute reviews the licensing agreement for its compliance with the laws of Kazakhstan.

The laws of Kazakhstan do not regulate which party is responsible for the registration of the licensing agreement. In practice, this duty is most often assumed by the licensor (franchisor).

It should be noted that within the structure of the IP Committee, there is a quasi-judicial body – a Board of Appeal – which considers challenges to the decisions of the Intellectual Property Institute adopted by the IP Committee. When an applicant is

not satisfied with the decision of the Board of Appeal, its decision may be appealed in court. When decisions on denial of registration of intellectual property items or licensing agreements are challenged, the objections must first be filed with the Board of Appeal.

iii Enforcement

The legislation of Kazakhstan provides for civil, administrative and criminal forms of protection of intellectual property rights.

Civil protection

Civil protection may be sought through court proceedings claiming damages. Both direct losses and loss of profits can be claimed, but liability can be contractually limited to direct loss. The process of proving loss of profits in court is fairly complicated. The courts of Kazakhstan often deny recovery of lost profits or significantly reduce the amount of the lost profits sought.

Administrative protection

As an alternative, a right holder may seek protection of its rights from governmental bodies where the actions of an infringer are qualified as an administrative offence.

Upon receipt of an application from a right holder, the government body will consider it, and if it finds elements of offence, it will draw up an administrative protocol and submit it to the administrative court for disposition of the case on its merits and imposition of an administrative sanction (with respect to offences related to violation of rights to IP rights).

Government bodies responsible for the protection of competition will consider a case independently and are authorised to impose administrative sanctions and issue binding administrative ordinances to stop the offence.

Criminal protection

Acts of infringement of intellectual property rights can qualify as crimes, in which case they will be considered by the financial police. Upon discovery of elements of crime, the financial police will initiate a criminal case.

The component elements of crimes and administrative offences are for the most part identical. Qualification of an act as an offence or a crime depends on whether an administrative sanction was imposed during the preceding year and on the scale of the damage.

IV FRANCHISE LAW

i Legislation

The Civil Code of the Republic of Kazakhstan (Special Part) No. 409-I dated 1 July 1999 (the Civil Code) contains provisions about business licences. In 2002, a special law regulating the franchise relationship was passed in Kazakhstan – the Law of the Republic of Kazakhstan on Business Licence Packages (Franchise) (the Franchise Law). The Franchise Law is fairly general. It gives definitions of the main concepts used in a franchise relationship, establishes principles and measures of governmental support. It

also establishes the rights and obligations of a franchisor and provides for some measures for protection of confidential information transferred under a franchise agreement.

ii Disclosure

We note that neither the Civil Code nor the Franchise Law contain any specific disclosure requirement. However, the Civil Code contains a general obligation that a franchisor shall disclose to a franchisee information on the set of exclusive rights to be transferred upon execution of an agreement. The obligation of a franchisor with respect to disclosure business information depends on the facts of each case. The corresponding obligation of a franchisee is to not disclose the information received.

Kazakhstan legislation does not contain the concept of pre-contractual liability (*culpa in contrahendo*), i.e., civil liability for losses caused by failure to fulfil pre-contractual obligations. However, this does not mean that it is impossible to make a counterparty liable as remedies for fraud or wilful misrepresentation do exist.

Further, it is possible to invalidate a transaction if such transaction was made as a result of an error that was material for the transaction or as a result of fraud. According to the Civil Code, the error is material if it relates to the nature of the transaction or qualities of the subject of the transaction. The court must also determine whether such error resulted from gross negligence of a party or whether the error is one that is covered by general business risk.

As a general rule, if a transaction is invalidated, each of the parties must return to the other party all benefits received by it and, if the return in kind is not possible, pay the value of the property to be returned or the cost of use of property. In addition, the court may order damages to be paid by the party whose actions invalidated the transaction.

iii Registration

Franchise agreements are subject to state registration with the IP Committee due to the trademark licence that usually forms an integral part of the franchise agreement. As only the trademark licence requires registration, it is acceptable to register a short form trademark licence and submit this for registration. Based on the principle of territorial protection of trademarks, the franchise agreement or trademark licence can only be registered if the relevant mark has been registered with the IP Committee in the name of the franchisor. The registration process in practice takes two to three months. Without registration the franchisee may have difficulty making royalty payments abroad and tax relief under any applicable double tax treaty may be difficult to obtain due to the fact that without registration of the licence agreement with the IP Committee it is considered invalid.

iv Mandatory clauses

The legislation of the Republic of Kazakhstan recognises the principle of freedom of contract. This principle means that individuals and legal entities are free to enter into an agreement and the terms of an agreement are determined at the parties' discretion, except where the law prescribes otherwise.

If one of the parties to a franchise agreement is a foreign national, the parties may elect a foreign law as the law applicable to the agreement. However, the imperative rules of the Kazakhstan law will continue to apply.

The mandatory rules applicable to franchise agreements are described below.

The franchise agreement may include only trademarks that are registered in Kazakhstan. A trade secret may be the subject of a franchise agreement, provided that a number of conditions set forth by the Kazakhstan legislation are met. The term of a franchise agreement depends on the period of protection of the licensed property rights. A sub-licence depends on the validity of the head licence.

A franchise agreement should, regardless of its applicable law, contain a number of mandatory terms. The mandatory terms of a franchise agreement relate to the licensed intellectual property rights. A franchise agreement should clearly identify the licensed IPR (e.g., trademarks by application or registration). A franchise agreement must specify how the industrial property may be used by a franchisee, the period for which the right of use is granted, and the territory covered by the franchise agreement. A franchise agreement should contain conditions on the quality of goods, services and the ability of the franchisor to inspect the quality of goods produced or services rendered by the franchisee.

Very often, agreements governed by a foreign law include representations and warranties of the parties to an agreement and an indemnity requires the franchisee to hold the franchisor harmless against liability to third parties. Kazakhstan legislation requires that non-contractual liability to third parties is to be borne by the person that committed the offence or breach. If the liability results from the fault of a counterparty of an agreement, the losses can be recovered from such party by way of recourse. For instance, if the right to use an item of intellectual property is transferred to a franchisee under a franchise agreement in breach of third-party rights, the franchisee will be liable to such third party, but may recover losses from the franchisor under the franchise agreement.

V TAX

Transactions concluded by residents and non-residents of Kazakhstan involving foreign currency are subject to the Law on Currency Regulation and Control No. 57-III dated 13 June 2005. As a general principle, the law provides that payments and transfers between residents and non-residents for performance of currency operations should be conducted by authorised banks as established by the National Bank of the Republic of Kazakhstan (NBK).

Certain currency operations may require registration with or submission of notification to the NBK. Payments to non-residents for the right to use intellectual property rights require registration with the NBK, if the amount of the transaction exceeds certain limits defined by the NBK.

The fees payable under the franchise agreement often include several payments such as royalties, fees for services performed inside or outside of Kazakhstan, cost of imported goods, and other payments. For tax purposes it is important that the franchise contract makes a clear distinction between those different types of fees. In general non-

resident's business income (e.g., service fee) is subject to 20 per cent withholding tax, whereas passive incomes (capital gains, dividends, interest, royalties, etc.) are subject to 15 per cent withholding tax.

In general services performed by a foreign entity outside of Kazakhstan are not subject to taxation in Kazakhstan, except for several kinds of so-called 'tinted services' that include managerial, financial, consulting, auditing and legal services. Proceeds from services performed in Kazakhstan are subject to income tax, however active business income might be exempt from taxation in Kazakhstan under the provisions of a relevant double taxation treaty. Goods imported to Kazakhstan are subject to import customs duties and value added tax.

For the purposes of this chapter we particularly focus on taxation of royalties as a major source of income for franchisors.

Under Kazakhstan tax legislation royalty payments received from a franchisee registered in Kazakhstan are recognised as a Kazakh source income. The Tax Code of the Republic of Kazakhstan No. 99-IV dated 10 December 2008 (the Tax Code) defines royalties as a payment for the use of copyright, software, patents, designs or models, trademarks or other similar types of rights, the use of 'know-how', etc.

According to the provisions of the Tax Code, royalties are subject to 15 per cent income withholding tax (WHT) from non-resident's income at the source of payment. Any kind of income paid to a resident of a tax haven jurisdiction (the List of Tax Haven Jurisdictions approved by the Decree of the Government the Republic of Kazakhstan No. 1318 dated 31 December 2008 (the List of Tax Haven Jurisdictions)) is subject to 20 per cent WHT. Therefore, the applicable tax rate depends on whether the country of the franchisor's registration is included in the List of Tax Haven Jurisdictions.

Kazakhstan maintains and expands a network of double taxation treaties (DTTs) with various countries. Currently there are 46 DTTs ratified by Kazakhstan that provide for reduced WHT rates on royalties. Under the most effective DTTs the applicable tax rate on royalties can be reduced from 15 to 10 per cent.

To apply for a reduced tax rate under provisions of the relevant DTT a franchisor should provide the franchisee with a document confirming its tax residence (tax residence certificate) in the country that concluded the DTT with Kazakhstan.

The Tax Code requires that a tax residence certificate should be provided before 31 December of the year in which the corresponding income was paid. Moreover, there are a number of requirements in respect of content and formalisation of the tax residence certificate: (1) it should be signed by an authorised employee of the competent body; (2) it should fully and precisely state the franchisor's name and registered address; (3) it should indicate the period in which the franchisor was a tax resident; and (4) the signature and the seal should be notarised and apostilled.

The franchisor does not bear responsibility for remittance of Kazakhstan tax. Such liability is assigned to the franchisee, acting as a tax agent in respect of royalties payable to a non-resident. In order to apply for a reduced tax rate under a DTT, the franchisor will need to confirm its tax residence status. However the parties can agree who actually bears the tax cost by inclusion (or non-inclusion) of a gross-up clause into the contract.

The development of a tax-efficient structure under the franchise agreement depends on analysis of the following criteria.

Availability of an effective DTT between Kazakhstan and the country of residence of the Franchisor. It is recommended to ensure that the country of a franchisor's residence is not included in the List of Tax Haven Jurisdictions maintained by Kazakhstan.

Popular jurisdiction for holding companies doing business with Kazakhstan includes Austria, Netherlands, Switzerland, Sweden and Singapore. The provisions of the DTTs concluded by Kazakhstan with these states are quite similar to one another and provide for the same levels of reduced tax rates.

A franchise agreement should provide a clear distinction between the different kinds of payments that may have different tax treatments. From a practical point of view it may be more tax-efficient to conclude a separate contract for the provision of services or supply of goods.

VI IMPACT OF GENERAL LAW

i General

The franchisee may need a government licence to be able to import goods into Kazakhstan and the imported or produced goods may have to be certificated. Apart from licences, some activities may require additional permissions from governmental bodies.

In general, the legislation of Kazakhstan is fairly favourable for the development of franchising, as it does not impose any restrictions on franchisors, for example, with respect to their place of registration. Accordingly a foreign franchisor can license its system directly to a local franchisee.

A franchisor that wishes to set up locally will need a business licence. There are a number of different business licence packages that can be used to carry out business in Kazakhstan. The most popular business licence package is the licence enabling a franchisor to grant to a franchisee the right to produce and sell goods (or to provide services) using the intellectual property of the franchisor (IP licence package). There are also other popular structures, such as the creation of a joint venture with a Kazakhstan partner. Apart from a few exceptions, there is no general restriction for acquisition or lease of real estate by foreign companies in Kazakhstan.

ii Agency distributor model

Classification of franchise agreements under the laws of Kazakhstan is not a straightforward matter. In Kazakhstan agency law cannot be applied to the relations between franchisor and franchisee because the parties to a franchise agreement act at their own cost, on their own behalf, and acquire rights and obligations for themselves. This is in stark contrast to an agency agreement, where the rights and obligations are acquired by an agent for the principal, on behalf of and at the expense of the principal.

A franchise agreement is viewed as being closer to a sale and purchase agreement (or distribution agreement), particularly where the relationship between a franchisor and a franchisee is based on supply of specific goods. However, the franchise relationship is complicated by the obligations of the buyer (franchisee) to maintain a certain sales levels and quality standards. Franchising is often used for the import and sale of luxury goods (watches, exclusive mobile phones, leather goods, etc.) in cases when the importer has to follow the standards of the sale of goods that are adhered to worldwide.

iii Employment

Typically, franchisees would not be classed as employees.

iv Consumer protection

Consumer legislation does not apply to the relationship between a franchisor and a franchisee, as according to the legislation of Kazakhstan, consumers may only be individuals who buy goods or services for their own needs, and not for the purposes of a business.

v Competition law

Very often, franchise agreements are executed on an exclusive basis. Under the competition law of Kazakhstan such agreements are seen as anti-competitive and are prohibited. However, Kazakhstan competition law expressly excludes franchise agreements from the operation of the provision of the competition law prohibiting restriction of access to a particular market of entrepreneurs as suppliers of goods (services).

The legislators' decision to exclude franchising from the operation of the said provision of competition law is based on the fact that franchising is essentially pro-competitive. Further, we believe, the state wishes to access the intellectual property developed in foreign countries, access to which can be very valuable for the country's economy.

The Civil Code lists so-called restrictive conditions that might be considered as anti-competitive, but nevertheless may be included into a franchise agreements. A franchise agreement may contain an obligation of a franchisor (licensor) not to issue similar package business licences to third parties, and/or to refrain from similar activities in the territory covered by the franchise agreement. A franchise agreement may provide for a non compete obligation of the franchisee (licensee) (an obligation not to purchase a competing franchise and a general obligation not to compete with the franchisor in the use of the package business licence.

However, hard-core restrictions such as the right of the franchisor to determine the franchisee's selling price or to determine the upper and/or the lower limit of prices are not permitted in franchising agreements. Equally, a commitment by the franchisee to sell products or to provide services exclusively to a specific category of buyers or only to buyers having their registered office or place of residence in the territory defined in the contract are not permitted.

vi Termination

If a franchise agreement is governed by Kazakhstan law, it is necessary to take into account the rules for termination of an agreement contemplated by Kazakhstan law. It is possible to unilaterally terminate an agreement only if the agreement provides for such termination and specifies the cases in which a termination is possible. Most franchise agreements will comply with this rule by listing termination grounds. In such cases, one month's notice must be given.

If a franchise agreement is executed for an indefinite period, either party may terminate the agreement on six months' notice.

vii Anti-corruption

Kazakhstan's anti-corruption legislative framework is relatively strong. Kazakhstan has adopted several laws aimed at reducing corruption through better coordination between government bodies and civil society: the Law on Fighting Corruption No. 267-I dated 2 July 1998 (the Law on Fighting Corruption), the Law on Preventing Legalisation (Laundering) of Illegal Proceeds No. 191-IV dated 28 August 2009, and the Law on Law Enforcement Bodies of Kazakhstan No. 380-IV dated 6 January 2011. In addition the government has created programmes to combat corruption and special government agencies targeting corruption.

The Law on the Fighting Corruption defines what actions are corrupt and the conditions under which persons are responsible and punishable for corruption. The definition of corruption includes acceptance personally and through third parties of material benefits by state officials with the use of official powers and resulting from such opportunities of power or other use of official powers for receipt of material benefits and equally bribes of state officials by illegal provision of material benefits by natural and legal entities to state officials.

In 2008 Kazakhstan took steps to bring its national regulations into conformity with international standards by ratifying two major anti-corruption documents: the UN Convention against Corruption and the UN Convention against Transnational Organized Crime and all of its protocols. Ratification of these conventions was a major step towards more effective prevention of corruption.

The US Foreign Corrupt Practices Act (1977) and the UK Bribery Act (2011) compel not only US and UK companies, but also Kazakhstan entities, namely their joint venture partners, suppliers, agents and service providers to comply with their strict prohibitions against bribery. The UK and US companies require that their future partners or contractors themselves have anti-bribery compliance policies and programmes in place. Thorough examination of past and current practices in this area will be conducted prior to conclusion of the contracts with supplier of goods and services, advisers and business partners. Such examination is already an integral part of the complex due diligence required to screen themselves from blame for assisting in corruption. The consequences of these two laws will support and reinforce in a major way the efforts to confront corruption by the Kazakh government, regulators and legislators.

ix Dispute resolution

Parties to a franchise agreement may freely choose the method of resolution of any disputes arising from the franchise agreement. There is no established practice of using a particular dispute resolution institute. In Kazakhstan, disputes arising from entrepreneurial activity are considered by specialised commercial courts.

Alternative means of dispute resolution are arbitration and mediation courts. In Kazakhstan, there exists an Institute for International Commercial Arbitration (ICA).¹⁰ The International Commercial Arbitration will consider a dispute when at least one

¹⁰ The activity of the ICA is regulated by the Law of the Republic of Kazakhstan on International Arbitration No. 23-III dated 28 December 2004 (the ICA Law).

party to the dispute is a foreign national and the elected place of arbitration proceedings is Kazakhstan.

Quite recently the legislators of Kazakhstan made it their policy to develop extrajudicial procedures of dispute resolution. As a result, in 2011, conciliation procedures were promulgated as part of the mediation institution.¹¹ The objective of the mediation institution in Kazakhstan is to help all parties involved in the conflict to find a mutually beneficial solution. Participation in a mediation procedure is based on the free will of the parties as expressed in a mediation agreement. The mediation procedure is not obligatory before going to court.

Mediation services are rendered by mediation organisations that are established in the form of non-profit organisations. Each mediation organisation maintains its own list of professional mediators. The Franchise Association does not provide mediation services.

Currently mediation is not in demand for several reasons: lack of public awareness, mistrust by the parties to a dispute, lack of professional competence of mediators themselves and insufficient quality of their work. In due course, we believe, the above shortcomings of the mediation system will be overcome.

Now, let us briefly discuss the issue of enforceability of foreign court judgments and awards of various arbitral institutions. Kazakhstan enforces foreign court judgments as well as arbitral awards on the basis of the following international treaties:

- a* the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 1958 (the New York Convention);
- b* the European Convention on International Commercial Arbitration, 1961;
- c* the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, 1965;
- d* the Agreement on the Business-Related Dispute Resolution Procedure, 1992 (Kiev); and
- e* the Convention on Legal Assistance and Legal Relations in Civil, Family and Criminal Matters, 2002 (Kishinev).

The courts of the Republic of Kazakhstan issue writs of execution according to submitted applications for enforcement of foreign court judgments and arbitral awards. A decision of a foreign court or arbitration body may be made enforceable within a period of three years from the effective date of the decision. A deadline missed due to a reasonable excuse may be extended by a court of the Republic of Kazakhstan.

As to arbitral awards, a court may refuse to issue a writ of execution to enforce an arbitral award. The grounds for such refusal set forth in the Civil Procedure Code No. 411-I dated 13 July 1999 and the ICA Law duplicate the grounds for refusal in enforcement of arbitral awards provided for in the New York Convention.

In addition to issuing writs of execution for the enforcement of foreign court judgments and arbitral awards, the parties to arbitral or intermediate court proceedings

11 This institution is regulated by the Law of the Republic of Kazakhstan on Mediation No. 401-IV dated 28 January 2011.

may apply to courts of the Republic of Kazakhstan seeking security. The main security measures include attachment, prohibition of certain actions by respondents, prohibition to transfer property, etc.

VII CURRENT DEVELOPMENTS

According to a rough figures there are about 120 franchise systems and 1,000 franchisees in the country. The country is now seen as a leader in Central Asia in the area of franchising. Although franchising is still a fairly new business concept in Kazakhstan, it is drawing increased interest from entrepreneurs. Some value the annual turnover in the sector in the region of \$500 million. The franchising statistics for Kazakhstan are very dynamic. The rapid growth of the economy with a per capita GDP of \$12,500 and 5 per cent year-on-year growth, increasing the share of SMEs in the country's GDP suggest that this will be a growth area going forward. Sadly a number of negative factors continue to hinder the growth of franchising in the country, including weak intellectual property protection and limited access to funding as well as a lack of understanding of franchising as a business model and massive real estate price inflation.¹²

12 <http://export.gov/kazakhstan/doingbusinessinkazakhstan/leadingsectorsinkazakhstan/franchising/index.asp>.

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