

Attractiveness and Difficulties of SMEs in Kazakhstan Economy

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Abstract:

Small and Medium Enterprises (SMEs) are the most important element of the market economy, which is vital for the development of countries. Today, SMEs largely determine the pace of economic growth, the structure, and the quality of the gross national product. These enterprises are most sensitive to changing economic conditions and affect the stability and dynamism of the development of the state economy in the market environment. Despite such efforts, there are a number of reasons preventing the development of SMEs operating in the country. The research methodology is based on a secondary analysis of the data collected within SMEs in Kazakhstan. Therefore, the main purpose of this study is to identify the current situation of SMEs and their problems for the economic development of Kazakhstan and to propose new solutions for attractiveness and finally, outcomes show that the Kazakhstan economy has not yet been able to prevent its dependence on energy resources exports. In addition to energy resources, institutions that promote the development of the private sector continue their activities within the framework of efforts to diversify the economy in Kazakhstan. When we analyze the reasons that prevent the development of small and medium-sized enterprises operating in Kazakhstan, we see that these reasons are the same in all sectors: incompatibility of tax laws, insufficient credit resources, formalities of tenders, and excessive pressures of audit authorities.

Keywords: SME, Economy Attractiveness and Kazakhstan,

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1. Introduction

Small and medium-sized enterprises are able to provide a more efficient and effective restructuring of the economy, as they do not need large investments and provide profit conversion quickly. The

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necessity of solving economic and social problems provides importance to small and medium enterprises in Kazakhstan (Syed et.al., 2012). According to official records, the share of all Kazakhstan enterprises today is 4/5, but the operating portion of them is 40%. In the Gross Domestic Product, the share of small and medium-sized enterprises is 25%, in developed countries this rate is above 50%, while the country's population is 60% employed in the private sector of the economy. The development of small and medium-sized enterprises and entrepreneurship are among the priority state policies of the Republic of Kazakhstan. The constant change in the market conjuncture causes these enterprises to not operate for a long time. In other words, these undertakings cannot respond to the growing needs of the market or the change of conjunctures in separate sectors. The purpose of this study is to identify the status and problems of existing SMEs for Kazakhstan's economic development and to bring new solutions.

The role of SMEs in the global economy continues to increase dramatically. According to the United Nations, in general, small and medium-sized enterprises in the world employ almost 50% of the working population and produce 33-60% of national products and services. In the developing country of Kazakhstan, starting from the development plans, the importance of SMEs in terms of the Kazakh economy in economic policies was underlined and some legal and institutional arrangements were made on this issue. The attractiveness and importance of SMEs in the whole world is increasing every day due to the employment and other social benefits it provides to the society (Chege and Wang, 2020; Roopchund, 2020; Al-Haddad et.al., 2019; Rotar et.al., 2019; Robu, 2013; Ramsden, 2010; Hu, 2010; Clay and Creigh-Tyte, 1994), as well as the dynamics it brings to the economy (Gherghina et.al., 2020; Tripathi, 2019; Mujahid and Begam, 2019; Iqbal and Rahman, 2015; Cravo et.al., 2012; Taiwo et.al., 2012; Dixit and Kumar Pandey, 2011; Cravo, 2010). Many countries see the strengthening and support of SMEs as a definitive solution to maintain the economy's existence in a healthy way and to achieve the targets stipulated in development. Small business plays an important role in the development of the economy of many countries. In the countries of the European Society (EU), the USA, and Japan, small and medium enterprises account for about 50% of the total number of employees. Their share in GDP exceeds 50%. In the economies of developed countries, large, medium and small enterprises operate simultaneously, and activities based on personal and family work are also carried out. The size of enterprises depends on the specifics of industries, their technological features, and economies of scale (Chege and Wang, 2020).

2. Overview of SMEs in Kazakhstan

Business development in Kazakhstan is a sector of the economy that is literally generated by reforms. The period of the birth of civilized business in the country can be called 1997, when the Decree of the President of the country dated July 7, 1997 No. 3589 "on priority and regional programs for supporting and developing small business in the Republic of Kazakhstan" was adopted. Today, in Kazakhstan, the development of entrepreneurship is also one of the priorities of the state economic policy, and the Government is striving to form a middle class and competitive dynamic business community focused on the creation of new high-tech industries with the highest added value. And although the indicators of entrepreneurship development in Kazakhstan differ significantly from those of developed countries to date, SMEs in the republic has managed to occupy a corresponding niche in the state economy(Chege and Wang, 2020).

The Government of Kazakhstan has defined an SME as any enterprise with fewer than 250 employees. The differentiation between small and medium-sized businesses is based on annual asset values and the number of employees. Small businesses are those enterprises with annual assets lower than 1 million tenge and fewer than 50 employees. Medium-sized businesses have an asset value greater than 1 million tenge with fewer than 250 employees (Dosmagambet, et.al., 2019).

In 2020, the number of operating SMEs in Kazakhstan amounted to 1,327 thousand units by the end of the year. Estimations indicate that the share of registered and operating SMEs is 82.9%, which employ about 3.6 million people as of 1 January 2020, and the share of gross value added of SMEs in the GDP of the country was 28.2% in 2019. As of 1 January 2020, the number of operating SMEs increased by 10.4% compared to the corresponding date of the previous year. In the total number of SMEs, the share of individual entrepreneurs amounted to 65.5%, legal entities of small business - 18.6%, peasant or farm enterprises - 15.7%, legal entities of medium-sized enterprises - 0.2% (www.stat.gov.kz). The main indicators of the activities of SMEs are presented in Table 1. According to this, the number of operating SMEs increased by 9% compared to the corresponding date of the previous year and reached the figure of 1.320.605. The leader is traditionally Almaty, where over 185 thousand SMEs are registered. In second place is the Turkestan region - 119 thousand. Among them, the share of individual entrepreneurs amounted to 65.3%, legal entities of small business - 18.6%, peasant or farm enterprises - 15.9%, legal entities of medium-sized enterprises - 0.2%.

Table 1: Performance indicators of SMEs (January, 2020)

	Number of registered SMEs	Number of operating SMEs, units	Number of employed, people	Output of products (goods and services), mln. Tenge
Republic of Kazakhstan	1 601 081	1 327 742	3 312 457	26 473 049
Akmola	54 301	45 339	133 231	785 649
Aktobe	68 536	59 026	141 358	894 930
Almaty	143 379	122 205	252 095	1 367 731
Atyrau	57 502	49 796	136 144	2 385 604
Western Kazakhstan	50 553	42 714	114 990	1 510 142
Zhambyl	84 699	69 914	119 540	479 542
Karaganda	102 877	88 139	237 446	1 333 266
Kostanay	61 243	52 372	159 827	908 634
Kyzylorda	52 364	46 234	92 758	380 617
Mangystau	61 018	52 865	122 810	943 258
Pavlodar	52 924	45 373	133 615	745 716
North Kazakhstan	35 136	29 947	105 062	570 829
Turkestan	148 456	141 936	203 761	532 055
East Kazakhstan	104 660	88 784	231 733	1 037 218
Nur-Sultan city	166 945	134 248	374 559	4 886 210
Almaty city	276 599	189 540	609 168	6 870 957
Shymkent city	79 889	69 310	144 360	840 691

(Source: Kazakhstan National statistics)

As of January 1, 2020, while the number of SMEs registered in Kazakhstan is 1.6 million, there are also registered but inactive companies. The number of inactive SMEs constitutes 273 thousand. In other words, this means that 18% of SMEs registered in Kazakhstan are not active. This is due to the extreme complexity of formal closure procedures for businesses, according to survey results with entrepreneurs (Atameken, 2016: 22).

In Table 2, differentiation is shown according to the sectors in which SMEs operate. It is seen that the highest number of SMEs in Kazakhstan is in the field of "Trade, automobile repair". However, it is stated that the highest number of employees is in the same area. The industrial sector contributes greatly to the production of goods and services. In other words, 21.9% of the total production of goods and services falls to the share of the industry sector.

Table2: Performance indicators of SMEs by type of economic activity

	Total	including			Number of employed, people	Output of products (goods and services), mln. Tenge
		legal entities in small business	individual entrepreneurs	peasants and farmers		
Republic of Kazakhstan	1 327 742	258 365	855 920	213 457	3 312 457	26 473 049
Agriculture	251 992	12 551	25 984	213 457	417 243	2 057 209
Industry	50 978	20 348	30 630		340 650	5 687 301
Mining and quarrying	3 022	2 837	185		33 891	1 996 328
Manufacturing industry	44 022	15 024	28 998		268 323	3 122 411
Power supply, gas, steam and air conditioning	1 306	969	337		18 327	435 909
Water supply; sewerage system	2 628	1 518	1 110		20 109	132 653
Construction	64 492	37 865	26 627		292 570	3 979 704
Wholesale and retail trade	441 993	82 502	359 491		974 283	6 597 328
Transport and warehousing	79 868	11 133	68 735		196 998	1 889 272
Accommodation and meals	34 193	5 349	28 844		125 396	378 519
Information and communication	18 197	7 789	10 408		60 021	859 837
Financial and insurance services	6 578	6 065	513		24 165	274 764
Real estate transactions	80 968	9 658	71 310		164 978	863 098

Professional, scientific and technical activities	39 115	19 418	19 697	131 416	1 819 601
Activities in the field of administrative and ancillary services	36 879	13 451	23 428	156 529	755 149
Education	19 717	8 705	11 012	84 902	188 216
Health and social services	9 734	4 346	5 388	60 520	213 157
Art, entertainment and recreation	11 458	2 574	8 884	30 675	150 693
Provision of other services	181 580	16 611	164 969	252 111	759 201

Source: www.stat.gov.kz

3. Institutions Supporting SMEs in Kazakhstan

Due to its characteristic feature, the SME sector is sensitive to changes in the economic situation in the country. Therefore, to reduce the negative impact of the economic crisis on the development of Kazakhstan's entrepreneurship, the state took appropriate measures to support it. The regulatory framework for the development of entrepreneurship is being improved, moratoriums on business inspections have been introduced repeatedly, the activities of the Damu Fund are concentrated on the formation of an infrastructure structure for service support for entrepreneurship, including training. The main event of this year for small businesses was a tax amnesty, which entered into force on July 16, 2019. The essence of the changes is that penalties and fines will be written off for all debts. Amnesty covers debts formed before October 1, 2018.

So, small and medium-sized businesses will be able to pay taxes, and this is an important point in the matter of how to secure your business. The incentive to pay will be the cancellation of all debts. This will help to re-start legally doing business. Thus, the state allows small and medium-sized enterprises to start developing their business from scratch. This will inevitably lead to an increase in production volumes and an increase in the number of jobs, which will increase the level of welfare of the population.

The main condition of the 2019 tax amnesty in Kazakhstan is the repayment of the amount of the principal debt until December 31, 2019. The amount of "forgiven" fines is the same as on October 1, 2018. Penalties are deducted in the amount that is accrued up to the date when the principal debt was paid. Do not fall under the tax amnesty with oil companies and manufacturers of excisable goods, the price of which includes excise tax - indirect tax.

To support SMEs, various activities are carried out in Kazakhstan as well as all over the world, and they provide support by various state institutions and non-state institutions. Currently, 131 different organizations make up the support infrastructure for SMEs in Kazakhstan.

The types of institutions that support Entrepreneurship via State institutions and organizations, Non-state, non-governmental organizations, commercial institutions, and International institutions

Depending on their functions, institutions support as follows State support in the establishment, operation, and development stages of the business should think about financial support, information and analytical support, support in education and skill development, and material and technical support which also need to follow and get support from "Damu" Business Development Fund Inc., Kazakhstan Development Bank Inc., "Kaznex" Development and Export Development Company Inc., National Innovation Fund Inc., Kazakhstan Investment Fund Inc., Engineering and Technology Transfer Center Inc. and other technoparks.

All organizations that assist in the development of entrepreneurship have advantages and disadvantages that arise with the influence of various factors. Unfortunately, some people want to maximize their interests when making decisions to support entrepreneurs.

4. Problems of SMEs and solution proposals

SMEs are the basis of the country's economies. SMEs, which have such an important task, still have some problems they face. Although the government and various institutions have supported it, these problems have not yet been resolved. These problems are more severe for our SMEs as globalization increases. The biggest factor in keeping the problems unsolved is that the needs, expectations, and problems of SMEs are not fully known. However, the Ineffectiveness of the rules accepted by the state in the fields of small and medium enterprises. The budget money allocated for the support of small and medium-sized enterprises is not fully utilized. The difficulty of opening their businesses to international markets continues. No clear system has been established in Kazakhstan that can achieve this. Due to the lack of specialists and financing, small and medium-sized enterprises cannot conduct marketing research in international markets. Growing of the shortage of trained staff. As a result of insufficient funding of science, the scientific potential power of small and medium-sized enterprises is decreasing. Production forms that show the technological sophistication of enterprises and require high science remain at very low levels. This negative process not only affects the science used in production directly but also prevents the introduction of new and high technologies to enterprises. The concentration of small and medium-sized enterprises in the informal (shadow) area. In Kazakhstan, the informal economy reached 21.3% of gross domestic product. On the other hand, small and medium-sized operators invest in real estate, especially land purchases, instead of expanding production and creating new employment places. In this way, operators avoid transparency and full taxation can not be realized. Investments in real estate and land, especially in urban areas, curb the investment process and freeze the capital required for production. This emerging trend also hinders the creation of the securities market. Low competitiveness of national entrepreneurship. The main reason for the low competitiveness is the excessive aging of the production vehicle-equipment-machine funds of the enterprises. Undoubtedly, the old production tools reduce the competitiveness of the manufactured goods, as well as the production efficiency of the workers. In recent years, this problem is taking a more prominent form. Because the number of low-quality goods produced by domestic enterprises is increasing in domestic markets. It is observed that domestic goods are of low quality and foreign goods fill our local market. Financial problems are among the most important problems experienced by SMEs. This is because "financing" is one of the most important factors for a business to operate. SMEs face many serious difficulties in ensuring this factor. This situation reflects negatively on their raw material supply, production, marketing, and training issues.

Especially in periods of cyclical fluctuations, the resources of SMEs are extremely low. As a result of difficulties in collecting, cash shortage is experienced, equity is melted and expensive bank loans are used. As a result, SMEs, which have to use high-cost bank funds, are bankrupt because they cannot adjust the return rate on their current investments. In this case, the fact that SMEs have very limited capital brings with them many problems. Along with the capital problems, the financial information of the managers of SMEs is not sufficient and they do not employ trained personnel in this regard, which deepens the problem. SMEs do not have advanced technologies due to insufficient financing and have to spend intense labor with old technology. This situation reflects negatively on the quality of the goods they produce. Poor quality production hinders the sales power of SMEs and thus the competitiveness of large enterprises. It is not possible to export with the products made with old technologies and to compete in international markets.

Undoubtedly, digitalization should play an important role in stimulating the development of SMEs in Kazakhstan, the role of which is already noticeable, but it will grow immeasurably in the coming years with universal access to high-speed Internet (broadband access) and the development of information and communication technologies (ICT). This applies both to specific areas (say, “precision farming”, “smart cities”), and generally too small businesses. Availability of broadband Internet for the population of all Kazakhstan through fiber-optic links or mobile communications is one of the main conditions for the country's digitalization. Including the successful development of SMEs, because about 40% of the population of Kazakhstan lives in villages where so far most of the population does not have broadband access to the Internet.

4.2.Recommendations

Recommendations to the state:

1. There is a need to develop a comprehensive education system for entrepreneurship in Kazakhstan. This will both increase the number of new entrepreneurs and increase the chances of these entrepreneurs succeeding.
2. It is necessary to take steps to reduce monopolies that are held by large state companies. In this way, a healthy competition environment will be created between SMEs and SEEs.
3. Fighting corruption should continue to ensure equal conditions for market participants.
4. With the widespread use of various tools used in developed countries, financing opportunities and risks should be expanded for small and medium-sized enterprises.
5. Tax rates need to be reduced gradually. As a result, the registration of SMEs that are off the record will increase and a contribution will be made to the economy.
6. It is necessary to ensure effective coordination between institutions and organizations that support SMEs.
7. Communication between the state and the entrepreneur should be provided more effectively.

It is an inevitable necessity to establish long-term, rational, and efficiency-oriented policies for SMEs' current problems, especially their financial problems. These enterprises should be supported, supervised, and encouraged by making necessary legal arrangements by the State. It is beneficial for both state and private institutions to work in cooperation to overcome the problems in obtaining loans, establish credit reporting standards, ensure transparency, improve their technological infrastructure, and reduce tax and bureaucracy burdens.

Recommendations to SME Managers as:

- 1) In order to run the business more effectively, the government should have information about the current support programs for SMEs. However, they should also benefit from free training programs for SMEs offered by the government.
- 2) In order to reduce the risks such as being unprofitable and bankrupt, the reopened businesses need to research the market to enter.
- 3) In order to run the business healthily and more effectively, it must have basic knowledge of legal, marketing, and accounting.
- 4) In order to compete against imported products in the domestic market, the need to improve the quality of domestic products is emphasized.
- 5) SMEs can compete with large enterprises by focusing their activities on developing new products and services and marketing. SMEs have the opportunity to follow strategies such as entering the market areas where large enterprises cannot enter and changing production areas by using their flexibility advantages, not the same product produced by large enterprises. Thus, SMEs will have found a wider range of action for themselves.

As the experience of the USA, Singapore and China have shown, the creation of open digital platforms (ODP) is a very effective tool for the development of SMEs, especially in the services and trade sectors. Three main types of ODP can be distinguished: E-gov or “electronic state” for all, the other two types are specialized - “State for business” and “Business for business” (B2B). The latter, as a rule, enable entrepreneurs to sell and buy goods and services and enter new markets. For example, these are the global giants Alibaba (China) and Amazon (USA), which are fighting for first place in the world in capitalization with Apple itself. And its absolute value - about 1 trillion US dollars, is only 20% less than Russia's GDP.

5. Conclusion

Kazakhstan has a land area equal to that of Western Europe but one of the lowest population densities globally and fast-growing markets of China and South Asia with those of Russia and Western Europe by road, rail, and a port on the Caspian Sea. The Kazakhstan economy has not yet been able to prevent its dependence on energy resources exports. In addition to energy resources, institutions that promote the development of the private sector continue their activities within the framework of efforts to diversify the economy in Kazakhstan. When we analyze the reasons that prevent the development of small and medium-sized enterprises operating in Kazakhstan, we see that these reasons are the same in all sectors: incompatibility of tax laws, insufficient credit resources, formalities of tenders, and excessive pressures of audit authorities. These reasons cause the formation of informal firms and an increase in the number of active firms in the registration of firms.

A large part of SMEs struggle with many problems and stay away from stable development and healthy functioning. Financing problems are the leading problems. The fact that they cannot follow the developments in the financial world closely, their auto financing opportunities are limited, their

collateral problems in credit purchases, low credit volumes and high credit costs, their inability to enter the capital market, and other similar problems prevent SMEs from having strong financial structures and reduce their competitive power.

According to the experiences of developed countries, it is not possible to develop small and medium-sized enterprises to create new employment places, to fill the market with domestic goods and services, and to keep up with the developing technology, without the incentives and special measures of the state. These measures primarily include the purification of the economy from bureaucratic functioning; removing administrative barriers to entrepreneurship; reduction of informal capital; cascading out of profile activities of institutions and joint-stock companies, including the state capital, to small and medium-sized operators in the market; is to establish the necessary infrastructure to ensure the contribution of these enterprises to the innovation of the economy. Additionally, based on this research's results and further improvements based on new developments, a competitive business value in SME`s has been created, and several educational organizations topics will be developed to generate a qualitative paradigm shift and technological revolution by reaching the attention of key decision-makers and stakeholders in the Kazakishtan environment.

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