



## THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN KAZAKHSTAN

It is widely believed that small and medium enterprises (SMEs) are very important for economic growth. According to the World Bank, such enterprises contribute up to 45% of total employment and up to 33% of GDP in developing countries. Since the SMEs account for more than 90% of total enterprises in the world, the intense competition among them leads to an increase in their Research and Development Expenditures (R&D), thus decreasing unemployment and promoting economic growth.

Since SMEs are very crucial in transition economics with a high level of state-owned enterprises, it is not surprising that Kazakhstan, as one of the emerging countries, is willing to boost the share of SMEs in its national economy. The government supports SMEs through various agencies and mechanisms including the Enterprise Development Department (EDD) of the Ministry of Industry and Trade, which develops state policy on entrepreneurship and regulates developments in the field of entrepreneurs' support. Other institutions, which aim to promote the development of SMEs, are quasi-governmental companies such as the Center for Engineering and Technology Transfer aimed to improve the competitiveness of entrepreneurship by organizing the transfer of new technologies and supporting innovation activity, the Corporation for Export Development and Promotion "Kaznex" created to provide analytical support for the development of entrepreneurship, and the Entrepreneurship Development Fund "DAMU" established as an operator of financial and consulting services. In fact, the fund acts as a guarantor in cases when a borrower does not have a collateral for a credit from a second-tier bank. In addition, the fund covers up to 50% of an entrepreneur's interest rate payments and provides relevant consulting services.

Moreover, in order to support SMEs activity Kazakhstan develops technological parks, business incubators, and special economic zones (SEZs). A distinctive feature of the technoparks in Kazakhstan is the sectoral focus of their activities. The technoparks are created mainly at the research universities or research institutes aimed to commercialize new technologies that are developed by

these universities and institutes. As for the business incubators, they provide necessary consulting services for new companies. In addition, the business incubators provide space and equipment for new companies for the first three years of their existence. After three years, a company leaves the incubator and another startup takes its place. As one of the main mechanisms of the SMEs development, SEZs in Kazakhstan enjoy a special legal regime, while its participants have certain economic preferences. There are ten SEZs: "Astana – new city", "Seaport Aktau", "Innovation Technologies Park", "Ontustik", "National Industrial Petrochemical Technology Park", "Burabay", "Saryarka", "Pavlodar", "Khorghos – Eastern Gate" and "Chemical Park Taraz". These SEZs provide their participants with tax benefits, for example, a tax exemption in specific taxes such as a corporate income tax, land tax, estate tax, value-added tax, social tax, for five years. In addition, the economic zones provide customs benefits, such as an exemption from customs duties while importing and exporting goods in the territory of the SEZs. The activities of all these institutions have positively affected the Kazakh SMEs. The share of SMEs in GDP increased from 10.5% in 2005 to 26.8% in 2016, which is the highest share of SMEs over the past 10 years. However, if we look at small and medium enterprises separately, it becomes obvious that small business has significantly increased its share since 2005, while the growth contributed by medium enterprises was modest. In fact, the share of small enterprises in GDP grew from 8.4% in 2005 to 22.1% in 2016, while the share of medium enterprises grew from 2.1% to 4.7% in the same period. Nevertheless, it is important to note that the share of medium enterprises in GDP was at its highest level in 2010 when it reached 13.6%. This figure indicates that recently Kazakhstan has become more interested in the development of small businesses rather than medium businesses. Indeed, at present the DAMU Fund and the existing business incubators mostly focus their attention on small enterprises rather than medium enterprises.

In fact, in 2016, 57.4% of GDP of Astana was produced by SMEs, which is the highest

rate in the country. Astana is followed by the West Kazakhstan region and the city of Almaty with the share of SMEs in their GDPs amounting to 41.9% and 33.7%, respectively. If we look at the share of small businesses only in GDP by regions, the same ranking could be observed, where Astana comes first (49.8%), while the West Kazakhstan region and Almaty take second (37.3%) and third (27.6%) places. Astana, again, gains the first position if we look at the share of medium enterprises in the regional GDPs (7.6%). The North Kazakhstan region comes second with the share of medium enterprises in GDP equaling 6.7%, and the third is the Almaty region with medium businesses accounting for 6.6% of GDP.

It is important to note that SMEs in Kazakhstan produced goods and services in the amount of 19.61 trillion tenge (\$57.31 billion) in 2016. In particular, small business entities produced goods and services in the amount of 13.57 trillion tenge (\$39.65 billion), while medium-sized business entities produced 3.48 trillion tenge (\$10.17 billion). Moreover, individual entrepreneurs and crop and livestock farmers produced goods and services in the amount of 1.51 trillion tenge (\$4.41 billion) and 1.04 trillion tenge (\$3.03 billion), respectively. The number of persons employed in small and medium-sized businesses and as individual entrepreneurs and farmers grew by 71.3% from 2005 to 2016 reaching 3.16 million people. Out of them, 1.29 million people were individual entrepreneurs (40.67%), and 1.25 million people (39.4%) were employed in small business entities, while the remaining 19.9% were employed in medium-sized business entities and as crop and livestock farmers.

The information provided above indicates that SMEs in Kazakhstan are in good shape and gradually growing. However, since the current share of SMEs in GDP is 25%, Kazakhstan still needs to boost the development of SMEs in order to reach the average share of SMEs in GDPs of emerging countries, which is over 33%. Thus, SMEs in Kazakhstan have not entirely exhausted their growth potential. Therefore, the government should continue its SME support related activities.

## Politics, Foreign Affairs, and Security

- During the three-day long tour to the South Caucasus, Chancellor of Germany Angela Merkel met with the heads of Georgia, Armenia, and Azerbaijan. During her visit to Tbilisi, the Chancellor of Germany and Prime Minister of Georgia Mamuka Bakhtadze discussed the issues of Georgia's Euro-Atlantic integration, as well as the issues of illegal migrants. During her visit to Yerevan, Merkel held a meeting with Prime Minister of Armenia Nikol Pashinyan. The parties discussed measures for a peaceful resolution of the conflict over Nagorno-Karabakh. During her stay in Baku, Merkel held talks with President of Azerbaijan Ilham Aliyev, which were focused on the role of the country in the further implementation of the EU's energy diversification strategy.
- During his official visit to Baku, Prime Minister of Georgia Mamuka Bakhtadze met with President of Azerbaijan Ilham Aliyev to discuss the further development of energy cooperation between the two countries paying special attention to the implementation of the South Gas Corridor and Trans-Caspian Pipeline projects, which are aimed at ensuring the energy security of Europe.
- During the two-day official visit to Bishkek, President of Turkey Recep Tayyip Erdogan met with President of Kyrgyzstan Sooronbai Jeenbekov to discuss further strengthening of bilateral ties and boosting mutually beneficial economic cooperation. The leaders attended the Kyrgyz-Turkish business forum and expressed their readiness to bring bilateral relations to a new, higher level.
- The Ministry of Defense of Kazakhstan announced that the National Military and Patriotic Center of the Armed Forces held the signing of a memorandum on a joint deployment of Kazakhstan's peacekeeping contingent as a part of the Indian battalion in the United Nations Interim Force in Lebanon (UNIFIL). The main aim of the memorandum is to create a legal base for a peacekeeping unit of the Armed Forces of Kazakhstan to participate in the UNIFIL mission.
- During the 5<sup>th</sup> Caspian Summit held in Aktau, the leaders of Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan signed the Convention on the Legal Status of the Caspian Sea. The parties also signed the agreements on trade and economic cooperation, cooperation in

transport, as well as on the prevention of incidents in the Caspian Sea. Moreover, the sides inked a number of intergovernmental protocols to the Agreement on Security Cooperation in the Caspian Sea, including the protocols on fighting terrorism, combating organized crime, and cooperation of the border services.

- During the political consultations between the Ministries of Foreign Affairs of Kazakhstan and Uzbekistan held in Tashkent, the parties exchanged views on current bilateral issues and discussed the ways of expanding economic cooperation in order to implement the task set by the presidents of the two countries to achieve the level of \$5 billion in mutual trade turnover by 2020.

## Economy, Finance, and Energy

- According to the National Statistics Office of Georgia, in January-July 2018 the country's economy grew by 4.6%. According to the forecasts of the World Bank, Georgia's economic growth is expected to reach 4.2% in 2018, while the European Bank for Reconstruction and Development and the Asian Development Bank forecast the Georgian economy will grow by 4.5% in 2018.
- Azerbaijan's state oil company SOCAR and Russia's Rosneft company signed a contract on the supply of the Russian oil to the STAR oil refinery in Turkey, owned by SOCAR. According to the contract, 1 million tons of oil will be supplied to the refinery within one year starting December 1, 2018. The refinery is planned to be commissioned in October 2018, and its refining capacity will be 10 million tons per year.
- President of Uzbekistan Shavkat Mirziyoyev signed a decree extending the license for gas production at the Shakhpakhty field together with Russia's state-owned Gazprom company for five more years. The production sharing agreement on the development of the Shakhpakhty field was signed between Gazprom and Uzbekneftegaz in 2004. Since 2004, more than 4 billion cubic meters of gas have been extracted at the field. Since early 2018, the volume of production has reached 176.4 million cubic meters of gas.
- According to the government of Turkmenistan, 38 cotton ginning enterprises, 156 harvesting points, 1,076 cotton harvesters, 2,261 vehicles, 2,162 tractors and 3,325 tractor trailers will take part in the 2018 cotton harvesting campaign in Turkmenistan. It is planned to harvest in total more than 1 million tons of cotton this year.

- According to the report of the National Fund (NF) of Kazakhstan, in 2013-2018, the financial resources of the fund doubled, increasing by 10.3 trillion tenge (\$28.7 billion). In January-July 2018, the income of the NF increased by 632.9 billion tenge (\$1.76 billion), which is a two-fold increase compared to the same period of 2017. By the end of July 2018, the fund generated 21.6 trillion tenge (\$61.7 billion), which is 3.2% increase year-on-year.

## Society and Culture

- During the 6<sup>th</sup> Summit of the Cooperation Council of Turkic Speaking States (CCTS) held in Cholpon-Ata, the heads of Azerbaijan, Kazakhstan, Kyrgyzstan and Turkey, with the President of Uzbekistan and the Prime Minister of Hungary attending as honorable guests, discussed the issues of cultural, humanitarian and economic cooperation among the Turkic-speaking countries. A number of documents were signed at the meeting, including the concept of integration of the Turkic-speaking states, a joint statement on the development of cooperation in the field of national sports and youth policy. As a result of the summit, the parties decided to grant Hungary an observer status in the CCTS.
- During the meeting of the CCTS tourism ministers in Astana, the parties announced their intention to introduce the Silk Road visa for tourists. It was noted that Kazakhstan and Uzbekistan had already come to such an agreement, which should help foreign tourists to easily cross the Kazakh-Uzbek border.
- The official opening ceremony of the Third World Nomad Games took place in Kyrgyzstan's Issyk-Kul region. Over 2,000 athletes from 80 countries and regions participate in the games that includes competitions in 37 individual sports. Kyrgyzstan proposed the idea of the Nomad Games in 2012. The first games were held in 2014, while the second games took place in 2016. It was announced that the fourth games will be held in Turkey in 2020.
- The Ministry of Agriculture, Irrigation and Livestock of Afghanistan and the United States Agency for International Development (USAID) signed an agreement, based on which USAID will invest \$110 million in the country's agriculture sector in the next five years. It is expected that the implementation of these projects will increase the agricultural production of the country by 30%.