



Raw-material-intensive Economy and Development of Small and Medium-sized Enterprises in Kazakhstan

Nurlan Kurmanov^{1*}, Berik Beisengaliyev², Amangeldy Dogalov³, Dametken Turekulova⁴, Nurzhamal Kurmankulova⁵

¹Kazakh University of Economics, Finance and International Trade, Astana, Kazakhstan, ²Kazakh University of Economics, Finance and International Trade, Astana, Kazakhstan, ³L.N.Gumilyov Eurasian National University, Astana, Kazakhstan, ⁴Kazakh University of Economics, Finance and International Trade, Astana, Kazakhstan, ⁵Kazakh University of Technology and Business, Astana, Kazakhstan. *Email: n.a.kurman@mail.ru

ABSTRACT

Kazakhstan's economy is growing in unstable dynamics and is still oriented on the mining industry. The purpose of the study is to determine the structure of the economy and to present an overview of the development and current status of small and medium-sized enterprises in Kazakhstan. Research was composed to measure variation in the economic development in Kazakhstan required in times of increasing global competition.

Keywords: Raw-material-intensive Economy, Small and Medium-sized Enterprises, Kazakhstan

JEL Classifications: H89, M13

1. INTRODUCTION

Based on the World Bank classification, Kazakhstan is the country with an above average household income, with gross domestic product (GDP) per capita around 13,000 USD in 2014 (24,205 USD based on the purchasing power parity in 2014) (World Bank, 2015). Kazakhstan is a big country with a small population, resource rich country with huge reserves of oil, gas, minerals and nonferrous metals. The state had showed such a sustainable growth in mining oil and gas condensate in the last decade that by 2020 Kazakhstan can become one of the leading suppliers of hydrocarbon. The increase of export of raw materials and import of equipment, due to major direct foreign investments into mining the sector, have led to an improvement of economic transparency. In 2013, the ratio of export of goods (% of GDP) has reached 38.25% (World Bank, 2015). Export of oil and gas comprise 60-70% of Kazakhstan national export (Alpysbaeva, 2013).

Dissolution of the Soviet Union was later followed by a sharp decline in production volumes that led to the economic instability. Nevertheless, for the last decade Kazakhstan had demonstrated very good economic indices - the annual growth rate of GDP

averaged 10% in the period of 2000-2007. The growth had stopped emerging in 2008 due to negative influence of the World economic crisis on external financing and decreasing prices of the raw materials. After a sharp decline in 2008, economy had only recovered by 2014 when GDP has expanded by 4.3%.

Low oil prices and hard terms of accessing finance lead to a fall in the GDP again in 2015 to 1.1% creating geopolitical tension (World Bank, 2015).

Mining raw materials had given an impulse to growth of Kazakhstan's economy. As a result, the Government has set a necessity to develop other dimensions of growth and gain economic competitive advantage. As a solution of enlarging the dimensions of economic activities, recourses are given to modernize the economy and reconstruct the infrastructure (Kurmanov et al., 2015).

Currently, the economy of the Republic of Kazakhstan is growing in unstable dynamics and is still oriented on the mining industry. This restricts transformation to a new quality level of economic development and implementation of innovative reforms in the

economy for gaining a competitive advantage; positive structural changes. In times of stagnation of economic growth, caused by fluctuations on raw materials markets, further integration of economic reforms makes it possible to transform the economy to a competitive and innovative one (Yeleussov et al., 2015). In order to realize these opportunities it is important to development of small and medium enterprises (SMEs), to set goals, formulate institutional terms, and mobilize potential for a successful transformation.

2. METHODS

Research was composed to measure variation in the economic development and innovation in Kazakhstan required in times of increasing global competition. The research methodology is based on the processing of secondary data that makes it possible to conduct a preliminary analysis of the problems.

3. RESULTS AND DISCUSSION

3.1. Structure of Economics

Kazakhstan's economy has sectors that dominate and therefore have a major affect of GDP. The index of manufacturing sector has been very stable for the past decade. The importance of the agricultural sector has significantly decreased and in 2014 compiled to 4.2% of the GDP compared to 8.7% in 2001 (Table 1). This structural process is typical to the developing type of economy.

World financial crisis that has started in 2008 had sharply restricted access to financing in the form of investment. It has caused by decline of growth in the construction industry. As a result its share in GDP had decreased up to 6.1% in 2014 compared to its peak of 2006 - 9.8%.

On the other hand, mining companies were growing rapidly for the past 10 years. Its percentage to GDP amounted to 15.7% in 2014 compared to 11.4% in 2001. The main reason was growth in mining and development of the crude oil and natural gas. Due to this reason, growth of mining industry has increased from 26.1% to 51.9% in that period. Growth in prices to crude oil and natural gas had contributed to the increase of the importance of the mining industry to economy.

Importance of crude oil to the current World economy cannot be overestimated. For some countries crude oil is one of the most important importing goods and a main production area, for others it is the source of major export revenues. Kazakhstan belongs to

the second group, being one of the biggest producers of crude oil in the World.

From the beginning of independence, accompanied by the transition to the market economy, up until these days, revenues from crude oil sales make up the biggest share of the budget of the Republic of Kazakhstan. Annually, national budget receives guaranteed and targeted transfers from the national fund, which is created and filled up on revenues from the oil export (Figure 1).

As it is shown on the Figure 1, currently, almost one-fourth of the National budget is formed from the revenues of the sales of crude oil. Considering all government simulation to the economic growth of Kazakhstan by realizing short-term programs, which are supported from the national budget, we can suggest, that one-fourth of simulation initiatives to the internal economic activities are made from revenues of crude oil sales. For the past two decades Kazakhstan's economy has grown to depended on external demand and fluctuations of the world crude oil prices, which became the main export good (it makes up 60-70% of exports). This dependency is a symptom of the "Dutch disease" (Alpysbaeva, 2013) (Figure 2).

Due to the plummeting prices and little demand of crude oil in 2014 the GDP growth is Kazakhstan had slowed down. Fiscal policy of the State is focusing on diminishing consequences of low prices to the economic development. Meanwhile, hardening the Fiscal policy (which is supporting stability of the exchange rate) has led to increase in financing costs, decrease of the crediting activities and drop of internal demand.

Concluding, the current period of Kazakhstan's economic growth is in strong dependence on the crude oil prices. As a result, the socioeconomic status in the Republic of Kazakhstan strongly depends on the crude oil prices. However, the quantification of this dependence is unsolved. In other words, it is still unclear to what extend does the increase of crude oil prices affects socioeconomic status in the Republic of Kazakhstan.

3.2. Dynamics of SME Growth

In 2014 the number of registered SME enterprises increased to 2.2%, as a result the total number of SME had reached 1,656 thousand enterprises. Their shares to active enterprises are estimated to be 96%. The biggest growth among all sectors was registered in service, education, real estate and trade.

Dynamic of registered and active SMEs in 2014 had saved a positive growth tendency. As of 2010 SME sector continue to

Table 1: Structure of GDP 2006-2014, %

Industry name (%)	2006	2007	2008	2009	2010	2011	2012	2013	2014
Agriculture	5.5	5.7	5.3	6.2	4.5	5.0	4.1	4.5	4.2
Mining	16.1	15.1	18.7	17.9	19.5	18.2	17.2	16.5	15.7
Manufacture	11.7	11.5	11.8	10.9	11.3	11.4	11.3	10.8	10.3
Electricity supply	1.8	1.7	1.7	1.8	1.8	2.0	2.0	2.0	1.6
Construction	9.8	9.4	8.1	7.9	7.7	6.3	6.3	5.9	6.1
Trade	11.4	12.4	12.3	12.1	13.0	13.8	14.8	15.6	16.2
Transport and communication	11.5	11.5	11.0	11.0	11.1	9.6	9.7	9.9	10.4
Other services	32.2	32.7	31.1	32.2	30.8	33.7	34.6	34.8	35.5

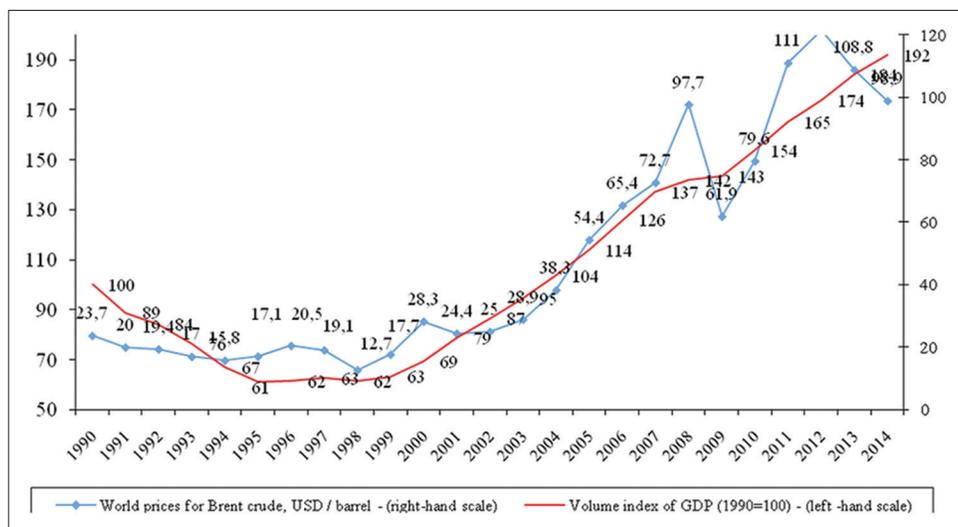
Source: Kazakhstan bank of development, <http://www.kdb.kz>. GDP: Gross domestic product

Figure 1: Share of transfers received from the national fund to national budget of the Republic of Kazakhstan



Source: Kazakhstan development bank, <http://www.kdb.kz>

Figure 2: Dependence of Kazakhstan's economy on crude oil prices



Source: Committee of statistics of the MNE RK, US Energy Information Administration

expand as the economy develops. For the last 10 years the number of registered SME enterprises have grown to 123%, among these registered SMEs 77% are active (Figure 3).

In absolute numbers, in 2014 number of registered SMEs has increased to 913 thousand units compared to 2005, while the number of active SMEs has increased to 392 thousand units. If by the end of 2009, there was a positive dynamic of growth of active SMEs to the total amount of registered SME (growth from 68% to 71%), then in beginning of 2010, this index has dropped. According to the data from the Fund of entrepreneurial development DAMU in 2014 amount of actively working SME to the amount of registered have shown 54% (Figure 4). (Report on current status of small and medium-sized enterprises in Kazakhstan, 2015).

Among active SME enterprises based on their legal forms, individual entrepreneurs prevail. Those are enterprises which didn't form legal entity but working as individual entrepreneurs instead: Per 1st of January 2015 total amount of individual entrepreneurs was 662.8 thousand entities, agricultural farms around 157.8 thousand units, and legal enterprises - SME 79.4 thousand units. (Committee on Statistics of Ministry of National Economics of the RK, 2015).

In dynamics, active SMEs have shown common tendencies in the period of 2005 to 2014:

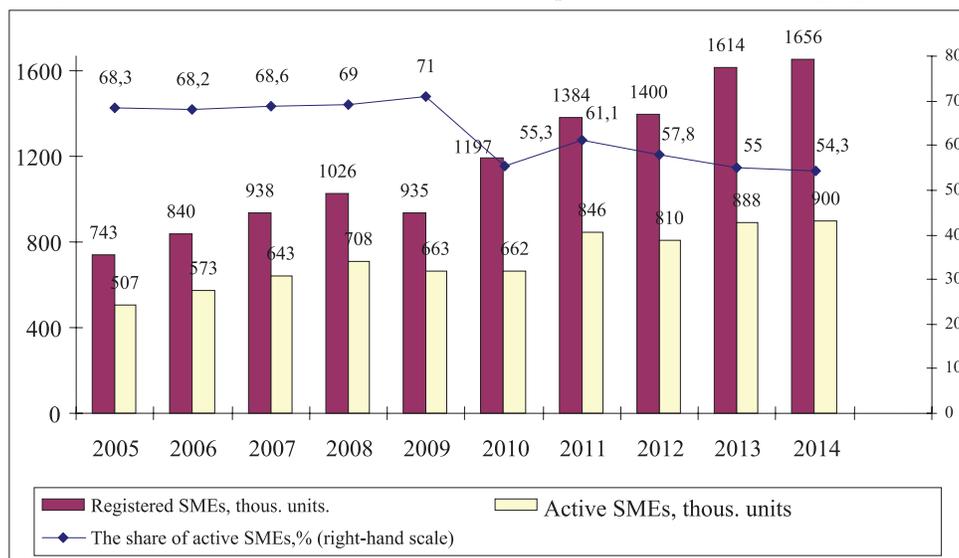
- Number of individual entrepreneurs for the past 10 years have increased up until 123%, which lead to a significant change in structure of active SME: Growth of individual entrepreneurs have risen from 58.6% in 2005 to 73.6% in 2014.

Figure 3: Dynamic of the growth of active and registered small and medium enterprises



Sources: Fund of entrepreneurial development «Damu», www.damu.kz

Figure 4: Dynamic of amount of active small and medium enterprises and their share among registered enterprises



Source: Fund of entrepreneurial development “Damu,” www.damu.kz

- Number of agricultural farms remains on the same level. However, due to the increase in the amount of individual entrepreneurs, share of the agricultural farms among active SMEs has dropped, as in 2005 it was 30.9%, in 2014 it had plummeted down to 17.5%.
- Total number of SME has risen up until 49%. Share of SMEs in respect to active SME as of 2005 have dropped on 1.7% and in 2014 on 8.8%.

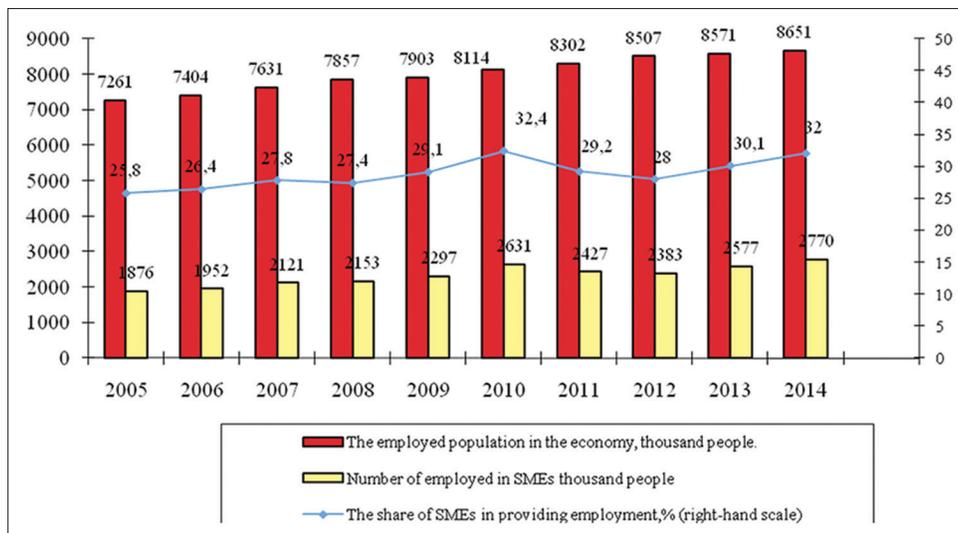
Analysis of population involved in SME is characterizing importance of the entrepreneurship in solving problems with unemployment. The amount of population working at SMEs as per 1 January 2015 had reached 32% of total employed population. Dynamics of this index in the period of 2005 to 2014 shows growth. The amount of people working at SMEs had increased by 6.2% compared to 2005 (Figure 5). (Report on current status of small and medium-sized enterprises in Kazakhstan, 2015).

In absolute terms, the number of workplaces in SME sector had risen to 894 thousand. In 2014, occupancy rate in SME sector had increased to 134 thousand people. As a result, as of the 1st of January 2015, the number of workplaces in SME had reached 2.7,70,000 people.

Product output by active SMEs increases annually in absolute terms. Sharp growth, almost twice, can be seen in 2008 compared to the last year. It was caused by the amendments to private entrepreneurship legislation: New defining SME criteria were introduced. Therefore all classified before the amendments were large enterprises, were classified as SME.

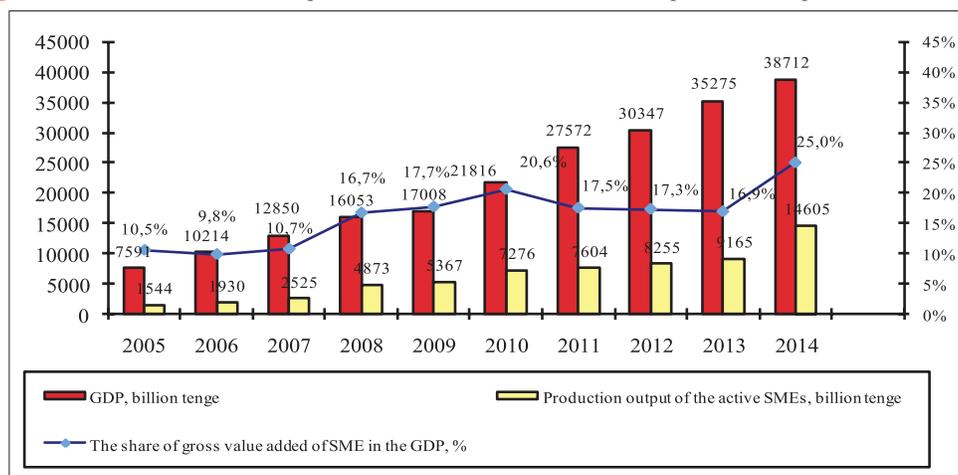
During last few years Kazakhstan’s GDP in real terms demonstrates constant growth. For instance, in the end of 2011, GDP increased for 7.5% (in absolute terms 188 billion USD). In 2012, GDP increased for 5% (203.5 billion USD). In 2013, increased for 6%

Figure 5: Percentage of engaged in small and medium enterprises from overall population of the country



Source: “Damu” fund of entrepreneurial development JSC, www.damu.kz

Figure 6: Small and medium enterprises contribution in Gross domestic product of Republic of Kazakhstan



Source: “Damu” Fund of entrepreneurial development JSC, www.damu.kz

(231.9 billion USD), in 2014 increase in GDP reached 4.3% - 216 billion USD (Figure 6).

4. CONCLUSION

Kazakhstan’s economy is growing in unstable dynamics and is still oriented on the mining industry. In times of stagnation of economic growth, caused by fluctuations on raw materials markets, further integration of economic reforms makes it possible to transform the economy to a competitive and innovative one. In order to realize these opportunities it is important to development of SMEs, to set innovation goals, formulate institutional terms, and mobilize innovative potential for a successful transformation.

Summarizing the analysis of SME conditions in Kazakhstan, it can be concluded that:

In recent years, growth of absolute indicators of SME sector has been observed (nominal quantity of registered active SME, SME employed, and production volume).

Disproportion in SME structure (on sectors and legal forms) remains the same: Increase in number of enterprises providing trading-negotiation services, rapid growth in the number of individual entrepreneurs compared to enterprises and agricultural farms.

Due to the slump in population investments, which is one of the main sources of financing in tenge for second tier banks, there is a requirement of further national regulation of SME to keep reached level of development with help of financial and non-financial instruments.

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