

ENTREPRENEURSHIP AND INVESTMENT ENVIRONMENT IN THE CENTRAL ASIAN TRANSITION COUNTRIES: CASE KAZAKHSTAN

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ABSTRACT

Small and medium entrepreneurship contributes to the development of economies worldwide and its contribution include a lot of benefits and it also pose several impacts on processes of social and economic transformation. However, entrepreneurship system faces a lot of challenges in both developed and developing countries. A survey conducted by Kazakhstan Ministry of Economy, and National Economic Research Institute was evaluated by using SPSS software package (Statistical Package for the Social Sciences) to examine the relative importance of different barriers that affect the growth and operational effectiveness of SMEs in the developing countries with transition economies like Kazakhstan. The SPSS analysis indicated that a lack of awareness about laws and programmes, a lack of easy access to financial resources, level of corruption in public administration institutions, and poor access to and the quality of human resources are found to be the most important barriers, which have reduced the development of entrepreneurship in Kazakhstan. The findings of this study will assist the policy makers in the economy to create an environment conducive to the growth and consistent outstanding performance of SMEs in any economy.

Keywords: Entrepreneurship, Barriers, Kazakhstan, Performance of SMEs.

INTRODUCTION

Kazakhstan is geographically nine largest country in the world (the surface area is 2,724,900 km²). The country has a common border with Russia (north part of territory), China and Mongolia (east), Kyrgyzstan, Uzbekistan and Turkmenistan (south), and the Caspian Sea (west) (Koshim et al., 2018). In terms of administrative structure, Kazakhstan is divided into 14 provinces and three cities with special national status (Astana, Almaty and Chimkent) (Karatayev et al., 2017a). Kazakhstan is the fourth largest former Soviet republic in terms of population size; the population of Kazakhstan is 17.8 million people (ANS, 2017). Kazakhstan is an emerging economy and is considered as a newly industrialised country. The economy of Kazakhstan mainly depends on exports; where exports account for 75% of GDP (WB, 2015; Cotella et al., 2016). The economy of Kazakhstan grows dynamically during the period of

independence. Between 1990 and 2016, the GDP increased from 26.93 to 133.7 billion USD (WB, 2016). The oil and gas sectors are main resources for GDP structure and the significance of oil and gas sectors have increased by year (Karatayev & Clarke, 2016a; Karatayev et al., 2016b; Hall and Karatayev, 2017); the share of oil and gas in the GDP structure has increased from 10.9% in 2001 to 42.3% in 2014 (IEC, 2015). Basically, Kazakhstan suffers from the "*Dutch disease*" (Kutan and Wyzan, 2005; Karatayev et al, 2017b). It means due to the high reliance on income from oil exports, the Kazakhstani economy and its competitiveness are vulnerable to international commodity prices. The Kazakhstani economy was hit in 2015 when oil prices decreased from USD 147 to USD 36 per barrel (Bloomberg, 2016). The Kazakhstani government expects a low level of GDP growth. Under the low oil price scenario, the average annual GDP growth rate in 2017 to 2018 is expected between 1.5 to 2.5% (IEC, 2015). To reduce its dependence on revenues from natural resource extraction and ensure more sustainable and broad-based growth, the Government of Kazakhstan tries to modernise its economy through development of small and medium-sized businesses (SMEs). Currently, in Kazakhstan, there is a total of 87130 SMEs, representing 24-28% of total business establishments, 58.4% of the establishment was in the service sector, 13.1% in the manufacturing sector and 9.6% in the construction sector. The remaining was in the agriculture sector, 8.7% and mining & quarrying, 10.2%. The SMEs contribution to GDP has increased from 5.4% in 2000 to 10.3% in 2016 (ANS, 2017), however, SMEs in Kazakhstan are still constrained by many problems.

There are many published studies in peer-reviewed literature as well as business research reports from government and non-government organisations, which study barriers to SMEs in both developed and developing countries (e.g., Mathew, 2010; Ogbo and Agu, 2012; Karatayev et al., 2016). According to mentioned studies, these barriers include regulatory inefficiency, lack of professional workforce, difficulties in accessing to the financial resources. As well as factors like high taxes and general business environment were identified as one of the main barriers to SMEs. In addition, large number authorisation issues, certificates and licenses and constant inspections from governmental institutions have negative impact on the development and growth of SMEs. Moreover, it was identified factors like incompetency of government officials and lack of professionalism, which often causes unnecessary costs and leads to inefficiency in day-to-day activities. However, reviewed studies also show that factors influencing on entrepreneurship are shaped by the country context. These factors might be related to religion, gender, culture, historical paths, geopolitical, environmental and resource base characterises of country, existing economic and technological challenges and opportunities, and the country's financial, economic and political profile. As stated by Aytaç and Ilhan (2015) "*Entrepreneurship may exist in different forms at different cultures and it may have different features and barriers across countries and regions*". Following Aytaç and Ilhan (2015), we might make statement that due the fact that Kazakhstan is post-Soviet country with transition economy and oil and gas exporter, the factors influencing on SMEs growth as well as barriers to entrepreneurship in Kazakhstan might be different compare to other countries. It makes Kazakhstan entrepreneurial environment as an interesting case for study.

The purpose of this study is to examine the importance of major barriers that affect the growth and operational effectiveness of SMEs in the developing countries with transition economies like Kazakhstan. To accomplish this objective, the paper is divided into two main section. The first section of the paper shortly describes the methodology used in this study. The second section presents the results and the analysis. Finally, there is a conclusion section.

METHODS AND SOURCES

The methodology of this study is based on mix of qualitative and quantitative approaches including results of interviews and statistical analysis. The widely used method for collecting information on barriers to entrepreneurship are interviews with respondents, who know well the subject of research. This paper uses the Kazakhstan Entrepreneurship Survey, which were collected in 2016 by the Kazakhstani Ministry of Economy, and National Economic Research Institute, and conducted according to methodology provided by the World Bank.

The questionnaire covered two areas: i) personal characteristics of respondents; ii) barriers to encouraging SMEs in Kazakhstan which were measured using Likert-style rating scales with the rankings signifying the degree of agreement ranging from a scale of "1" referring to "Strongly Disagree" to a scale of "5" referring to "Strongly Agree" on a five-point rating scale of the structured questionnaire. Data collected from Kazakhstan Entrepreneurship Survey were analysed using the SPSS software package (Statistical Package for the Social Sciences). Appropriate statistical procedures for description (frequencies, percent, means, and standard deviations) were used.

ANALYSIS AND DISCUSSION OF RESULTS

Personal Characteristics of Respondents

In total, 1223 entrepreneurs in age between 18 and over 65 years were interviewed. Respondents were interviewed from different regions of Kazakhstan, including Almaty and Astana and different inhabited locations urban and rural areas. More than 22% of the respondents were between 26-35 years of age, 44.4% of the respondents were 36-50 years old, 19.8% of the respondents were between 51-60 years old, and the rest 6.3% (77) were over 61 years of age or older. The educational level of the respondents was measured at five levels: primary education, secondary-specialized (i.e., medical, technical, pedagogical college), vocational, higher, and postdoctoral. 67% of the interviewed is highly educated, 27% - has vocational education, 3.2% secondary, and 0.1% just primary education. The respondents were grouped according to the different professional sphere of activity. Almost 30% of all employed respondents are in wholesale and retail trade sphere, 14.6% are in agriculture sphere, and 10% each are in the manufacturing industry. Types of registered companies of the respondents were categorised into four groups: 26 (2.1%) - joint-stock company, 520 (42.5%) limited liability company, 597 (48.8%) individual entrepreneur, and 44 (3.6%) farming corporative.

Statistical Test

The analysis of the SPSS revealed eight important factors that have enormous impacts on the development of entrepreneurship in Kazakhstan. Table 1 lists the descriptive analyses results with a number of responses of 1223 along with the Mean and SD records. The barrier to SMEs "Awareness about laws and programmes" has the highest mean ($\mu=4.56$). Entrepreneurs in Kazakhstan have not sufficient information about laws and programs currently running by government as well as institutions involved in promotion governmental business programmes especially at provincial and rural levels. A total of 64.7% of respondents agree (22.1% "Agree" and 42.6% "Strongly agree") with the above statement, while only 17.5% "Disagree" and 17.8% "Somehow agree". Other barriers with the highest mean ($\mu=4.48$) are "Access to financial

resources". A total of 62.6% of the respondents agree that the financing the SMEs remains a topical issue in the country. More than 50% of the entrepreneurs choose banks as the mean of financial support, even though 45% believe that one of the main barriers in lending is high interest rates. In fact, only 8.2% of all sources of financing of the economy of Kazakhstan are allocated to the development of the SMEs (WB, 2016). "*Level of corruption*" and "*Access to and the quality of human resources*" has also highest means of 4.48 and 4.36 respectively. A total of 67.9% of the respondents agree with the above statement.

Barriers	Mean	SD.	C.V.
Awareness about laws and programmes	4.56	1.06	0.28
Access to financial resources	4.50	1.02	0.23
Level of corruption in public sector	4.48	0.93	0.20
Access to and the quality of human resources	4.36	0.88	0.17
Access to physical economic resources	4.12	1.11	0.25
Competency, management and performance of SMEs	4.02	0.80	0.16
Quality of transport infrastructure	3.80	0.82	0.14
Quality of utilities and communication services	3.62	1.03	0.25

POLICY AND BARRIERS TO ENTREPRENEURSHIP

Awareness about Laws and Programmes

Since independence, Kazakhstan has been applying a lot of policy measures to support the growth of SMEs. In 1992, the country adopted the first Law "*On protection and support of private enterprises*". Then, Kazakhstan adopted two additional laws, "*On state support for small entrepreneurship*" and "*On individual entrepreneurship*", which paid great attention to the state policy on special measures to develop and support small business, as a means of increasing employment and work, and also increase the competition in the consumer market due to its saturation with goods and services. The last law adopted by Kazakhstan is the Law "*On private entrepreneurship*" approved in 2006, which covers the issues of the private sector, entrepreneurship and small business development. This law regulates the concepts of small, medium and large business (as well as the definition of an individual enterprise and individual entrepreneur), as well as: the main tasks and principles of state regulation of private enterprises, which includes requirements and procedure for registration as well as other state regulations affecting private enterprises. More recently, in 2015, Kazakhstan approved special Entrepreneurship Code of the Republic of Kazakhstan, that combined all previous adopted laws and determined the role of government in regulations of SMEs. Apart of legislative base, strategic plans are prepared for each decade, which in turn are disclosed in the form of five-year plans, such as the State Programme for the Forced Industrial and Innovative Development of Kazakhstan for 2015-2019, and in the form of five-year programs, such as "*Business Road Map 2020*", "*Agribusiness 2020*", "*Productivity 2020*", "*Export 2020*" and "*Employment Road Map 2020*". The main goal of state programmes is to double the share of SMEs in the country's GDP by 2030 (up to 36% of the initial 17.5% of GDP at the end of 2011) and up to 50% of GDP by 2050. The key target indicators set in Industrial and Innovative Development Programme for 2015-2019 are the growth of number of innovation-active enterprises from 8.1% (2014) to 20%

(2020), the growth of contribution of innovative products in total country's GDP from 0.2 (2014) to 3.5% (2020). Long-term development concepts such as Kazakhstan-2030 and 2050 also have serious ambitions of the country's economy, which are expressed, for example, in the task of transforming the country into one of the top 30 most developed countries of the world by 2050. Despite a big number of institutional laws and programs, according to Kazakhstan Entrepreneurship Survey, a lack of awareness among Kazakhstani entrepreneurs is the main problematic issues in implementation of these initiatives. The "*Agribusiness 2020*" and "*Productivity 2020*" is specifically designed to improve the entrepreneurial activity at rural level, however, only 3% of respondents have taken part in these programs. Hence, 49% of the respondents are not aware of the program and 47% of respondents did not participate due to the lack of information regarding the program.

Access to Financial Resources

A lack of access to finance or credit is universally recognised problem facing SMEs (Ogbo & Agu, 2012). According to the survey, Kazakhstani entrepreneurs face obstacles in obtaining financial resources and this is one of the main problems in the country, which, has negative impact on the development of entrepreneurship. At the same time, the SME sector is more financed from its own savings of entrepreneurs and only by a quarter due to bank loans. With that knowledge in mind, one of the main barriers is the imperfection of the financial system, in other words, considerable number of entrepreneurs experience significant difficulties in obtaining financial resources, particularly, high collateral requirements, complex application procedures and the main problem is unfavourable interest rates. Furthermore, despite the fact that there is no gender discrimination in accessing to crediting and financing, according to structured questionnaire survey, most of female respondents (57.3%) indicated that there continue to exist gender stereotypes. According to survey, female entrepreneurs face barriers in obtaining the bank loans as the loan officers are more sceptical in the ability of business-women to repay the loan and manage the funds effectively. Moreover, problematic environment in financial system regarding high collateral requirements and unfavourable interest rates, this expressed with the assessing the creditworthiness of the entrepreneurs and mainly it is difficult to assess those entrepreneurs located in the remote areas. Particularly, majority of the banks require more collateral and set higher interest rates due to the fact of mainly entrepreneurs lack credit history and accounting survey. All these facts testify insufficient and inefficient access to financial resources of entrepreneurs.

Level of Corruption in Public Sector

Another major challenge facing SMEs in Kazakhstan is corruption. The corruption practice has become a norm in Kazakhstan and before service is rendered, it is especially expected by public administration institutions (fire emergency services, sanitary and epidemiological service, tax service, customs service, local municipal bodies, architecture and urban planning service). To SMEs owners, this means spending extra-money outside their budget or cut their budget to pay for unwarranted activities which also reduce their revenue and affect business performance. It is not uncommon to see constant harassment and intimidation of business person by legal authorities who often confiscate business merchandise in name of unpaid licences and other penalties. This ill-called practice continues to work negatively against country's governments efforts to promote SMEs in Kazakhstan. According to Kazakhstan

Entrepreneurship Survey, more than 50% of the respondents in Kazakhstan agreed that they have to make some irregular payments or gifts for activities related to customs, taxes, licenses, regulations and services frequently.

Access to and the Quality of Human Resources

Success and failure of SMEs is not only related to only the financial aspect. It also depends on characteristics of the entrepreneur and many more key strategic factors (Menefee et al., 2006). One of the key factors for fully developed new firm is the full-time commitment of one or more individuals. Human resource factors form one of the most significant areas for success of SMEs. However, one of the biggest problems for SMEs is recruiting, motivating, and retaining employees. In case of Kazakhstan, according to the survey, hiring all designated categories of employees causes certain difficulties for entrepreneurs, except unqualified workforce. The hiring of qualified workforce is particularly difficult (37.9% of respondents noted the impossibility and presence of significant difficulties in hiring). It is worth noting that nearly 30.4% of respondents find difficulties in hiring economists, lawyers, accountants and managers. This problem is especially acute for medium-sized enterprises, and is less noticeable for small enterprises, which are more often employed in sectors with lower added value, in which the qualifications of workers does not represent competitive value. In addition, the review of the opinions of managers conducted by the World Economic Forum also showed that poor training is a very pressing problem for Kazakhstani enterprises: 35.7% of respondents identified "*Inadequately educated workforce*" as one of the main problems (WEF, 2016). Unsatisfactory indicators regarding the human resources are partly due to government expenditure on education, which, in relation to the country's GDP (1.4%) in Kazakhstan less than average of the OECD countries (5.2%) (WB, 2017). Limited allocation of expenditure on education characterized mainly by insufficient budgetary. Nevertheless, government expenditure on the education in 2016 increased by 22% compared to 2015, which confirms the intention of the Kazakhstani government to develop the country's human capital (GoK, 2016). This intention needs to be voiced again, and reinforced in the future, so that the level of spending on education in Kazakhstan approaches the level of the OECD countries.

CONCLUSION

In recent years the importance of the entrepreneurship is gaining more significance in the Kazakhstan. Being said that, it is important to explore and eliminate the barriers, which, entrepreneurs face. By considering the problematic areas of entrepreneurship, it becomes easier to overcome the obstacles and create favourable environment for the SMEs to improve and expand the business activity and thus contributing to the overall growth of the economy and socio-economic environment in the country. The methodology part of this paper is based on Kazakhstan Entrepreneurship Survey, which were collected in 2016 by the Kazakhstani Ministry of Economy, and National Economic Research Institute, and conducted according to methodology provided by the World Bank. In the analysis of the survey to show what barriers are most important on influence on development SMEs, the SPSS software package analysis was used. There were identified number of barriers, which, have significant negative influence of the development of the SMEs in the Kazakhstan, and these barriers mainly related to the imperfect business environment in the country. Particularly, lack of human resources and difficulty accessing to finance are found to be the main barriers, which, have left back the development of

SMEs in the Kazakhstan. In this regards, government of Kazakhstan have implemented number of national programmes to improve and support the SMEs activities. However, these supportive programmes do not have widespread positive effect on the entrepreneurship due to the lack of awareness among entrepreneurs. Thus, it is important to concentrate on increasing the awareness and promote these programmes to enhance and improve the SMEs.

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