

Regulation of Small and Medium-sized Businesses: Problems and Development Prospects

Mukhtarima ZHETPISBAYEVA

Karaganda Economic University, Faculty of Economic

Karaganda, Kazakhstan

ainuraphd@mail.ru

Nurzhamal KURMANKULOVA

Kazakh University of Technology and Business, Faculty of Economic

Astana, Kazakhstan

Assemgul MUSSATAYEVA

Karaganda Economic University, Faculty of Economic

Karaganda, Kazakhstan

m_assem1984kz@mail.ru

Mariyam BAIGURENOVA

Karaganda Economic University, Faculty of Economic

Karaganda, Kazakhstan

Zamzegul ZHANBEKOVA

Karaganda Economic University, Faculty of Economic

Karaganda, Kazakhstan

Zhadyra ARKENOVA

Karaganda Economic University, Faculty of Economic

Karaganda, Kazakhstan

Suggested Citation:

Mukhtarima Zhetpisbayeva et al. (2018). Regulation of small and medium – sized businesses: problems and development prospects. *Journal of Advanced Research in Law and Economics*, Volume IX, Spring, 2(32): 753 – 760. DOI: 10.14505/jarle.v9.2(32).37. Available from:<http://journals.aserspublishing.eu/jarle/index>

Article's History:

Received February, 2018; Revised March, 2018; Published March, 2018.

Copyright © 2018, by ASERS® Publishing. All rights reserved.

Abstract:

The article considers the current state, problems and prospects for the development of small and medium business in Kazakhstan. In the economy of any country with a market system of management, small and medium-sized businesses play an essential role. In transformational, transitional economies, which is essentially the Kazakh economy, often the role of small and medium-sized businesses is indispensable in dealing with the most acute economic and social problems. Without requiring significant expenditures from the state, small and medium-sized businesses, as a phenomenon, stabilize the social situation in the country, solving problems associated with social tension and employment of the population.

JEL Classification: M20; G20; G30.

Introduction

The successful experience of developed countries in building a competitive and diversified economy serves as a clear confirmation of the fact that small business is one of the key elements in this process. Therefore, practically from the first days of the existence of independent Kazakhstan, small business has one of the leading roles in shaping the country's market economy. Since small innovation business is an important (valuable) part of small business, the development processes of small innovative business occupy the most important position in solving a number of problems, such as unemployment, poverty, undeveloped competition, inefficient use of tangible and intangible resources, etc. However, despite the foregoing, the theoretical and practical aspects of the system of state support for the development of small innovative business, the specifics of its formation, functioning and model of interaction in the conditions of modern Kazakhstan have not been sufficiently studied. For today, the mechanism of state support for the development of small innovative business needs to be improved, by applying the experience of developed countries; in addition, it is necessary to adjust the organizational and economic levers of state support for the development of small innovative business.

The authors examines the questions of state regulation of small and medium sized business in terms of existing problems at the modern stage of development in the Republic of Kazakhstan and its prospects of further development.

1. Research Background In the conditions of transformation of the economy and its transition to market relations with the simultaneous establishment of an innovation-type economy, small innovative entrepreneurship is gaining importance. The problems of theoretical substantiation, the methodology of formation and effective management of the development of small innovative business require a deep understanding and more accurate justification of the original concepts of 'small innovative entrepreneurship' and 'socio-economic nature of small innovative entrepreneurship'. Since there is no single definition of these concepts in modern economic theory, and moreover, it is hardly possible to unambiguously interpret, taking into account the universal nature of their use, as well as the

difference in traditions, culture, politics and practice of developing small innovative entrepreneurship in individual countries and regions. In the system of economic doctrines, there are concepts that arise, are transformed in the process of development of economic relations. Among these notions is a small innovative enterprise, the emergence of which, in general, is associated with the transition to an innovative economy. Small innovation business, as an economic category, is a complex concept that must be viewed from different angles, applying the full range of methods and techniques of scientific research in order to provide IIB as a complex characteristic (Khakimov 2014).

There is an opinion that innovative entrepreneurship and the market is mainly available to enterprises with large turnover and is impossible for small businesses. The main argument is the inability of small businesses to compete with powerfully equipped large companies, which are able to maintain innovative activity, which is associated with additional costs. In fact, a small innovative business can successfully compete with large enterprises for several reasons. So, for example, to change its strategy of activity, large enterprises need 6 years, and more than 10 years to implement a new strategy. For small enterprises, this period is from 0.5 to 1 year.

Traditionally, it was considered that technological innovation is a sphere of big business, but statistics show that 95% of radical technological innovations after the Second World War came from the sphere of small business (Gorbunov 2011).

J. Schumpeter, constructing his theories 'transformation of capitalism' and 'self-destruction of capitalism', also spoke of the destruction of capitalist forms of production. One of the areas of 'self-destruction of capitalism' according to J. Schumpeter, is the complete destruction not only of small-scale production, but also of the class of the bourgeoisie. J. Schumpeter in 1939 directly linked the cyclical fluctuations of the economy with technological progress, the emergence of innovations, innovative transformations. He argued that radical innovations can appear only as a result of a violation of economic equilibrium. Appreciating the initiative and innovation of the capitalist entrepreneur, J. Schumpeter believed that the successes of capitalism would lead to complete automation, which would make the capitalist entrepreneur superfluous, replacing his individual activity with the work of trained specialists (Schumpeter 1982).

State regulation in the sphere of development of small innovative entrepreneurship is a necessary type of activity, the tasks of which are to develop the support infrastructure, ensure equal access of the subjects of small innovative enterprises to the infrastructure they need, competition protection and consumer protection (Samarin 2015).

The pace of development and the scale of growth of small innovative business are inextricably linked with the regulation of its activities by the state. Attempts to abandon management of this process, as evidenced by the experience of Western countries, have no economic and historical perspective. In all developed and developing countries, the state actively intervenes in the activities and support of small innovative business. Therefore, the question is not whether to support or not support IIP, regulate or not regulate their activities. The question of how to support, regulate and manage the development of small innovative business. The government of each country unconditionally has its own goals at each particular stage and strives

to resolve them with available methods and means in relation to the emerging economic situation in their country and in the world economy. Therefore, the goals and objectives of state regulation are subject to change, whereas the regulatory mechanism is well developed, although it has peculiarities in each individual country (Rube 2016).

2. Methodology

The experience of the leading developed countries shows the need for an efficient, developed small innovative business sector in any national economy. Therefore, the economic breakthrough of our state and entry into 30 competitive countries of the world is not possible without proper attention to the formation, development and strengthening of this particular sector of the economy. The strategic tasks of the economy of Kazakhstan are the development of domestic science-intensive production, development and development of new information technologies aimed at obtaining competitive products and ensuring the interests of national economic security by preserving and developing the industrial and scientific and technical potential of the republic. Formation and development of small innovative entrepreneurship in Kazakhstan began during the policy of restructuring in the USSR with the adoption of the law 'On Individual Work Activity' on November 19, Then this process continued in the years of independence, at first in the period of severe commodity shortage, hyperinflation, rapid decline and deterioration in the living standards of citizens of the newly independent state.

That historical moment was the stage of heavy administrative decisions. In the state, state ownership was predominant in the dominant position and the existed and then tattered close economic ties between countries, when they were formerly one state, and then turned into separate independent economic entities, also burdened the difficult economic situation. At that time, there was absolutely no legislative base for the formation and development of market relations. Basically, the existing laws were repressive in relation to private entrepreneurship, private property, to enterprising entrepreneurial activity in general (Nazarova 2012). The management of the formation and formation of small innovative business by the state in Kazakhstan can be divided into several stages.

- (1) Small innovative entrepreneurship shortly before independence (1986-1990);
- (2) Small innovative entrepreneurship at the stage of transition from the command-administrative system to the market under tight monetary policy (1991-1996);
- (3) Small innovative entrepreneurship in the period of establishment of market relations in Kazakhstan (1997-2006);
- (4) Small innovative business in Kazakhstan under the influence of the mortgage financial crisis (2007-2009);
- (5) Small innovative business during the adoption of GPFIR (2010-2014);
- (6) The current stage of the development of small innovative entrepreneurship in the context of a downward trend in world oil prices, the main source of Kazakhstan's exports (2014-present time).

The formation of small innovative entrepreneurship in Kazakhstan, despite a relatively short period of existence of the market system of our state, took place during a period of rapid changes in the state and political system, as well as changes in the economic system. In 1986 in the USSR statesmen began to see the need to change the economic system and the transition from a strict doctrine of command and administration. In those years the following laws were adopted: November 19, 1986, the Law of the USSR 'On individual labor activity.'; June 30, 1987, the USSR Law 'On State Enterprise (Association).'; May 26, 1988, the USSR Law 'On Cooperation in the USSR.'

These laws were adopted during the economic, social and political crisis in the USSR and were aimed at increasing the independence of state enterprises and expanding the scope of the private sector of the economy.

The adopted laws were designed to put under the control of state bodies 'underground' private enterprise, which is developing at that time in the country. The development of economic reforms was determined by two trends: the expansion of the independence of state enterprises and the expansion of the scope of the private sector of the economy (Volkov 2015).

The law 'On individual labor activity' laid the foundation for the formation and development of small and medium-sized business in the USSR. And innovative entrepreneurship was encouraged by the state, which was reflected in clause 2 of article 26 of the USSR Law 'On state enterprise (association)': 'The state in every way supports the widespread use of the latest achievements in science and technology in the system of cooperation, resolutely suppresses any actions of government bodies and officials, obstacles to this process; and in article 40, paragraph 3: 'In order to accelerate scientific and technological progress, reduce the cycle of science-production, the state in every way encourages the creation and promotion of cooperatives in the field of scientific and scientific and technical services, design, engineering, design, implementation and other services , cooperatives for the production of goods, products and services, based on scientific discoveries and inventions, as well as on personal participation in the work of these cooperatives themselves authors of discoveries and inventions ' (Blinov and Butenko 2016).

The results of the adopted laws were both positive and negative. The positive result was the recognition of entrepreneurship as one of the main factors of the social and economic well-being of the country. In addition, at that time, foreign investment was growing and enterprises with foreign participation began to be created, which is important for the push to innovative development. But also the adopted laws led to negative consequences, such as a shortage of goods, due to the growth of the money supply circulating in the economy. Since before that there were mainly state-owned enterprises, many settlements between them were made by bank transfer, at that time there was basically a non-cash turnover of money in the country, so the USSR was not ready to change the existing economic mechanism and did not provide equal economic and legal prerequisites for the development of all forms of activity. In addition, for the factor hindering small innovative entrepreneurship were high taxes, the lack of coherence of laws in a single system, the superstructure in the form of cooperatives, i.e. the subject of market relations was put on the foundation of a planned economy; In addition, ill-conceived management of this process has led to excessive liberalism in setting prices. In addition, for all forms of entrepreneurship, barriers existed

such as access to raw materials and production areas, as well as bureaucratic obstacles to the registration of cooperatives. This was the first stage in the formation and development of small innovative entrepreneurship. In fact, at that stage, the main step was the recognition of small innovative entrepreneurship.

The goal of state regulation of innovative activity of small business is the creation of certain conditions that would ensure a clear functioning of the national economy as a whole and the stable participation of the country's entrepreneurs in the international market and the best benefits from this. The state bodies of each country have their own specific goals and objectives at each specific stage and solve these problems by available methods and means in relation to the emerging economic situation at the national and world levels. So it is necessary to consider the goals of different types of state strategies, in order to understand what is used by Kazakhstan. Most countries with a developed market system carry out an active state policy of supporting the business sector within the framework of a regulated strategy, using, if necessary, methods of direct (administrative) regulation.

The new economic paradigm is as follows: the production of information and the use of high technologies is of key importance for increasing the competitiveness of the state. This demonstrates the need for fundamental changes in state policy to support the business sector. The modern innovation process determines the expansion of such technologies that can be spread and used throughout the economy, and consideration of the state strategy will allow us to better understand in which direction it is necessary to move and what needs to be modernized. In addition, this will allow applying the necessary government tools for effective support of the business sector.

Table 1. Comparison of goals and instruments of the mobilization, liberal and regulated strategies of the state

№	The purpose and tools for the formation and implementation of industrial policy	Types of strategies		
		Mobilization strategy	Liberal strategy	Adjustable strategy
1.	Aim	survival of the state	functioning of the economy with minimal state interference	functioning of the economy with moderate state intervention production is carried out by individuals and firms,
2.	Institutional Policy	centralization of economic management by the state	production is carried out by individuals and firms, the state provides 'rules of the game'	the state provides 'rules of the game', controls the production of public goods, eliminates 'external' effects, redistributes income tax investment
3.	Structural and Investment Policy	development and implementation of long-term, medium-term and short-term plans for investment development in the framework	planning investments in infrastructure related to defense and security	incentives, concessional lending, partial participation in financing R & D and education

№	The purpose and tools for the formation and implementation of industrial policy	Types of strategies		
		Mobilization strategy	Liberal strategy	Adjustable strategy
of strategic planning				
4.	Foreign economic policy	foreign trade and currency monopoly	absence of foreign trade and currency regulation	protectionist foreign trade and foreign exchange policies aimed at protecting domestic producers in a number of industries
5.	Revenue policy	card systems, differentiated depending on the social status (ITR, worker, dependent)	remuneration system for civil servants	regulation of wages and prices for essentials
6.	Financial Policy	the subordination of the financial system (budget system, taxation, etc.) to the objectives of strategic planning	minimum tax burden, financing of the state apparatus	the consolidated budget redistributes up to 40% of GNP, the active use of tax mechanisms to help individual sectors and regions
7.	Money-credit policy	free investment financing	maintaining the stability of the national currency (using the 'gold' standard)	regulation of the national currency and interest rates for the 'revival' of the economy during the recession and 'containment' during the recovery

Source: Compiled by the authors on the basis of materials Mamyrov 2016 (Mamyrov 2016).

So, at the moment Kazakhstan uses a regulated strategy:

§ First, it is recognized necessary to implement a transition from centralized state management to national policy, in which the state, the business sector, scientific and public organizations and institutions act as equal participants in its development and implementation;

§ Secondly, the transition from branch politics to the policy of competitive industries is considered to be the main one;

§ Thirdly, a new policy is determined by the transition to an innovative economy in which the production, distribution and use of knowledge and information are recognized as the main conditions for sustainable economic growth;

§ Fourth, in the economic growth of traditional resource-intensive industries have a diminishing value, the role of knowledge-intensive, high-tech industries with high added value is growing;

§ Fifthly, the main attention of the state authorities is focused on the formation of such an entrepreneurial environment that enhances the ability of firms to be innovative, flexible and competitive. Reform of the institutional environment of the business, which increases the activity of competition and encourages firms that are introduced in new markets or created on them again - one of the main priorities of the new policy;

§ Sixthly, in the context of globalization, macroeconomic policy has an increasing impact on the effectiveness of the policy of development of the business sector (Bekoyeva 2014).

§ The legislation of the Republic of Kazakhstan on private entrepreneurship is based on the Constitution of the Republic of Kazakhstan and consists of the Civil Code and other regulatory legal acts of the Republic of Kazakhstan. In a generalized form, the tasks of state regulation include:

§ development, adoption of regulatory and legal acts, as well as control over legislation that provides the legal basis and protection of the interests of entrepreneurs;

§ improving the efficiency of public administration and reducing management costs;

§ weakening of direct methods of intervention and bureaucratic control over the activities of the private sector;

§ creating the necessary conditions for free and fair competition in the national market, free movement of goods and services in the domestic and foreign markets,

§ maintenance of commodity-monetary and budgetary balance by means of financial, fiscal, monetary-credit policy and management of monetary emission;

§ combination of current and future directions of small business development: investment policy, innovation and industrial policy;

§ facilitating the long-term growth of capital accumulation and stable development, curbing inflation by economic methods, removing restrictions on administrative management in the business sector;

§ maintenance of social balance and level of differentiation and distribution of incomes acceptable for the majority of the population (Veblen 2014). Characterizing the state regulation of the economy in modern conditions, it should first of all be noted that the center of gravity in this regulation shifted to the active participation of the state in the organizational and economic regulation of production. Its main tasks are:

§ the implementation of the restructuring of production, which involves the creation of new industries focused on exports, the modernization of traditional industries and adaptation of their products to the requirements of the world market, the reorientation of certain types of production to world markets in the international specialization;

§ increase of competitiveness of production of export branches and separate kinds of manufactures;

§ search and use of the opportunities for long-term provision of production with guaranteed sources of raw materials, fuel, semi-finished products;

§ strengthening the situation in priority and most progressive sectors of the economy, targeting them for servicing export production;

§ revision of the forms of links between short-term and long-term measures of government policy, the traditional impact on the market, based on the regulation of demand, which is increasingly intertwined with measures of state regulation of foreign economic relations;

§ the use of measures to influence the concentration process in the leading sectors of the economy, including those specialized for export, the implementation of activities aimed at strengthening the organizational structure of large firms, the development of new forms of communication between them (Busygin 2012).

Regulation is increasingly aimed at improving production efficiency. The emphasis in it is transferred from the regulation of demand for supply regulation. Significant changes have occurred in the regulatory mechanism.

The most important form of state regulation of entrepreneurial activity was the inclusion in the programs of long-term development of the economy of the main directions of industrial restructuring with an orientation toward export specialization (Polyakov 2016).

Currently, the legislative and regulatory framework governing the development of small business in Kazakhstan is composed of a large number of documents that, according to their content and orientation, can be divided into the following five groups:

§ declarative documents (laws, decrees, resolutions, concepts, programs, agreements, etc.);

§ documents on institutional support for the development of small business - the defining functions of public administration in the regulation of this area, as well as on the development of infrastructure;

§ tax law;

§ documents on the development of small business in regions, spheres of activity and sectors of the economy;

§ international treaties and agreements.

The main and binding state regulatory legal act is the Law of the Republic of Kazakhstan 'On State Support of Small Business'. The development of small innovative entrepreneurship is currently one of the main priorities of state policy, which is aimed at creating economic and social conditions for the production of high-tech, science-intensive, competitive products. State support of small innovative entrepreneurship is carried out in such directions as: (1) Improvement of the regulatory legal framework; (2) Development of a system of financial and credit support for small and medium-sized businesses; (3) Measures for the development of the infrastructure for supporting small and medium-sized businesses, which may include information support for small and medium-sized businesses, using the opportunities and coordination of the activities of all information networks specializing in the collection, accumulation and processing of relevant information, etc .; (4) Development of a system of training personnel for small and medium-sized businesses. (5) Measures for the development of infrastructure (roads, water and electricity, etc.).

At the present stage in industrialized countries, most politicians, economists, entrepreneurs and academics tend to conclude that neither the market, nor the state, nor other institutional structures can be idealized, each of which has its advantages and its inherent disadvantages. In these conditions, the task of public administration and economic science is the development of an optimal national policy of a competitive sector of small innovative

entrepreneurship by maximizing the strengths and minimizing the weaknesses of the above-mentioned institutional structures (Osipova 2012).

So, in the main direction, the state constantly improves the legislative base, introducing amendments, changes and additions to the already adopted regulatory legal acts. Also, work is actively carried out to develop a complex of financial and credit support for small innovative entrepreneurship. In addition, there are programs of state support for entrepreneurship conducted by other government agencies.

The highest state body implementing the policy and responsible for the development of private entrepreneurship is the Ministry of Investment and Development (MIR). The Ministry belongs to the central executive bodies and is accountable to the Government and the President of the country.

The first direction is providing financial support for small and medium-sized businesses, including IIB; The second direction of the fund's work is the development of the competencies of SMEs. It should be noted that earlier the fund financed projects of the business sector independently, directly, subsequently, to minimize non-performing loans, improve the efficiency of financing and develop the banking sector, moved to lending through a system of second-tier banks. The main activity of the fund is directed not only to the distribution of public funds allocated to support the development of the business sector, but also to attract private capital for the implementation of private projects. The program 'Financing program for regional priority projects of small and medium-sized enterprises' Damu Regions III, which promotes the development of small and medium-sized enterprises in the priority sectors of the Republic of Kazakhstan for the economy of the Republic of Kazakhstan, is of interest. The program 'Business Advisor' contains training courses on creating your own business and various ways and opportunities for its development. Within the framework of this program, it is possible to pass the 'Express business course' for free-of-charge creation and running of own business, as well as to receive expert advice, study guides on entrepreneurship, information and analytical materials and a list of ready business plans for creating a small enterprise in various sectors of the economy. It should also be noted that the fund has a National Franchise Development Center aimed at increasing the level and number of franchising relationships in Kazakhstan.

One of the factors of the growth in the number of IIB enterprises in Kazakhstan was the expansion of aggregate demand in the economy, related to the growth of credit activity of the banking sector and microcredit organizations. Comparatively low inflation rates allowed to gradually reduce the interest rates of IIB loans. The financing programs for second-tier banks for subsequent SME lending have become one of the decisive factors in this situation. Thus, according to the Program of Support for Small and Medium-Sized Enterprises, engaged in manufacturing (III tranche of the National Fund), the nominal interest rate on the loan is 6%. Under the program of support of private entrepreneurs engaged in the manufacturing industry 'Damu-Ondiris', the final annual interest rate is no more than 8.0% per annum.

At the moment, real steps have been taken to promote entrepreneurship, create favorable conditions for its development, and protect against bureaucratic arbitrariness of controlling

bodies. Since the development, formation and formation of small innovative entrepreneurship, as well as the effectiveness of the activity largely depends on state support.

There is a process of creating public expert councils under regional state bodies that exercise control and supervisory functions in relation to business entities with mandatory participation of representatives of public associations of entrepreneurs. At the meetings of the expert councils, the emerging problems, conflict situations between entrepreneurs and government officials are considered; public examination of normative legal acts adopted by this state structure is carried out. And although the decisions of the expert council are recommendatory in nature, the creation and operation of such expert councils on a regular basis will help in many ways make the activities of state bodies open to the entrepreneur, and will serve to establish feedback.

Kazakhstan adopts the successful experience of developed countries, because the improvement of mechanisms of state support for small and medium-sized businesses is in the constant focus of attention of the Head of State and the Government of the country.

The development, support and protection of small and medium-sized businesses, as well as their innovative development, are very well reflected in the annual messages of the Head of the State of Kazakhstan to the people of Kazakhstan, the State Program for Forced Industrial and Innovative Development 2015-2019, the Business Road Map 2020, activity up to 2020 ‘.

Conclusion

Thus, small and medium-sized businesses are the basis for the stability of modern civil society, and the welfare of all citizens of Kazakhstan will depend on its development. Small and medium-sized businesses not only fulfill a huge social role, supporting the economic activity of most of the population, but also provide significant tax revenues to the budget. In the current difficult situation, it is the Small and Medium Business that can act as a stabilizer, and therefore have the right to rely on the appropriate attention of society and the state. It should be noted that the country creates a favorable climate for the development of small innovative entrepreneurship, which contributes to the development of the national economy as a whole and, as a result, to the welfare of the population.

References

[1] Khakimov A. 2014. Institutional factors of development of entrepreneurial activity in the conditions of market transformation. Moscow. 109.

[2] Gorbunov E. 2011. Small economy as a factor in the formation of the market. Moscow. 112.

[3] Schumpeter I. 1982. The theory of economic development. Moscow. 864.

[4] Samarin A. 2015. English conservatives: The theory and practice of the free market. Orenburg. 210.

[5] Rube V. 2016. Small business: history, theory, practice. Moscow. 231.

- [6] Nazarova E. 2012. Concepts of innovation development and technological evolution. Moscow. 161.
- [7] Volkov N. 2015. Small businesses. Moscow. 175.
- [8] Blinov A., Butenko O. 2016. Economics and organization of small business. Moscow. 336.
- [9] Bekoyeva A. 2014. State support of small business in the transition period. Moscow. 162.
- [10] Veblen T. 2014. Theory of an idle class. Moscow. 202.
- [11] Busygin A. 2012. Entrepreneurship. Moscow. 203.
- [12] Polyakov I. 2016. The rate for the middle class. Moscow. 310.
- [13] Osipova Yu. 2012. Fundamentals of business. Moscow. 496.
- [14] Mamyrov N. 2016. The economy of Kazakhstan on the threshold of the XXI century. Almaty. 342.
- [15] Gruzinov V., Gribov V. 2015. Entrepreneurship forms and methods of organization of entrepreneurial activity. Moscow. 128.
- [16] State Program for Forced Industrial and Innovative Development 2015-2019