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KEY FACTORS INFLUENCING THE GROWTH OF SMALL AND MEDIUM-SIZED BUSINESS IN EMERGING ECONOMIES: THE CASE OF KAZAKHSTAN

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Abstract. This paper explores the key factors affecting the development of small and medium enterprises (SMEs) in emerging economies, specifically focusing on Kazakhstan. The primary goal is to identify key facets of the institutional environment that positively affect the development of SMEs and to assess the challenges and opportunities faced by these businesses in the Kazakhstani context. The study uses a mixed-methods approach that combines quantitative data analysis from national economic reports with qualitative insights gathered through interviews with SME owners and stakeholders. The results indicate that while SMEs in Kazakhstan contribute significantly to economic development, they encounter barriers such as limited access to finance, regulatory hurdles, and market competition. However, the findings also highlight emerging opportunities in digital transformation and government support initiatives to foster entrepreneurship. This research contributes to the understanding of SME growth in emerging markets and offers policy recommendations to enhance the sustainability and competitiveness of SMEs in Kazakhstan.

Keywords: SMEs; economic development; governmental support; institutions; entrepreneurship

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JEL Classifications: L26, K20

1. Introduction

Entrepreneurship is an initiative economic activity of business entities associated with the implementation of a certain strategy for the sake of obtaining profit by providing goods and services that satisfy market needs, with personal risk, innovative in nature, aimed at achieving a planned economic and social effect, carried out through the use of entrepreneurial talent and using resources available to the business entity.

Creating favourable conditions for the development of entrepreneurial activity is one of the factors in the successful development of the national economy, increasing its competitiveness. Therefore, the essential function of the state is the creation and improvement of an appropriate environment that stimulates the growth of entrepreneurial activity (Marquez et al., 2023; Choong et al., 2023; Standaert, Collewaert & Vanacker, 2024; Mohamed et al., 2024).

Regulation of entrepreneurial activity involves considering the internal socio-economic nature of any enterprise or entrepreneurial structure. Still, issues of formation and improvement of the institutional environment of entrepreneurship occupy the most crucial place in the regulatory activity of the state.

The institutional environment of entrepreneurship is determined by the legal and administrative infrastructure within which entrepreneurs and business structures, companies, and the government interact to create the nation's welfare. In a broad sense, the institutional environment is a set of institutions. Institutions are understood as historically established norms and rules of social behaviour, which are expressed through a set of laws, regulations, and restrictions that are mandatory for execution (formal level) or through a set of moral attitudes, principles of social behaviour, traditions, etc. (informal level) (Quillas et al., 2024; Bendig et al., 2024).

At the same time, institutions are both formal and informal organizations that determine the relevant laws, rules and regulations of social behaviour and ensure the order of activities of specific population groups. The institutional structure is one of the most critical components of the economic infrastructure. A special role in it belongs to state institutions as instruments of support for the global competitiveness of the state economy (Independent Association of Entrepreneurs of Kazakhstan, n.d.; Medase, Ahali, & Belitski, 2023; Mollick, & Sui, 2023; García, 2023; Demirdag & Eraydin, 2024).

The importance of state institutions is not limited to the creation of a legislative framework and control functions. The optimal organization of the activities of state institutions plays a significant role in ensuring the effective functioning of the market and in observing the rights of economic entities: too large an apparatus and bureaucratic obstacles, excessive state regulation, corruption, dishonesty in the preparation and execution of state orders, lack of transparency and reliability, inability to provide businesses with the necessary services, political dependence of the judicial system lead to high economic costs and slow down the development process.

By interacting with each other, institutions ensure the formation of an institutional mechanism, which is a system of relationships between formal and informal institutions, as well as institutions that facilitate the harmonization and adjustment of interests of various social groups and coordinate joint activities towards achieving the declared development goals in the field of entrepreneurship.

Thus, for Kazakhstan, as for any other country, the development of entrepreneurship cannot occur without going through the institutional environment, which is the basis for supporting and coordinating such development, ensuring and regulating both the country's economy as an environment for entrepreneurship and the actions of business entities in this economic environment.

The mechanisms of state regulation of entrepreneurship development can be generally presented as follows (see Figure 1 below):

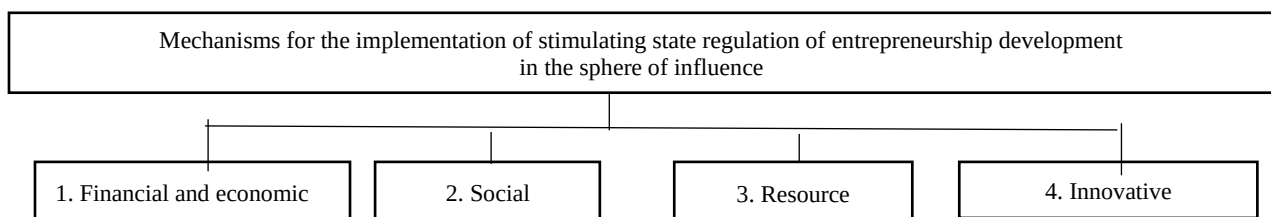


Figure 1. Mechanisms for implementing stimulating state regulation of entrepreneurship development by sphere of influence

Source: developed by the authors (based on the dissertation of Candidate of Economic Sciences Baitursunov A.A. "Improving the system of state incentives for priority areas of small and medium-sized businesses (on the example of the Republic of Kazakhstan)": dissertation of the Candidate of Economic Sciences.... Candidate of Economic Sciences: 08.00.05. M., 2019. 181 p.)

1. Financial and economic mechanisms:

1.1. Financial policy:

- establishment of a system of financial benefits, saturation of the market with necessary goods and services, mobilization of financial and material resources;

- budget subsidies, attracting entrepreneurs to innovative projects and programs.

1.2. Financial lending:

- creation of equal access for enterprises to financial resources, creating a competitive environment;
- mortgage lending, risk insurance, alternative lending.

1.3. Tax policy:

- provision of tax benefits in the form of full or partial exemption from taxes, application of tax credits;
- adaptability, flexibility, the ability to quickly respond to the dynamics of market conditions;
- accelerated depreciation.

2. Social mechanisms:

2.1. Social policy:

- social protection of the population, job provision, creating jobs for socially vulnerable segments of the population, freedom of entrepreneurial activity;
- ensuring civil liberties, performing social functions, freedom of investment and full protection of investors.

3. Resource mechanisms:

3.1. Formation of financial, human, and material resources for business development;

- redistribution of resources between economic entities;
- creating new channels for the movement of resources.

4. Innovative mechanisms:

4.1. Innovation policy:

- stimulating the development of knowledge-intensive industries;
- the introduction of new technologies, the development of new types of products, the formation of demand for innovation, transfer to practice and consolidation of new high-tech solutions in it;
- openness, receptivity, ease of entering the market with innovative solutions;
- mobilization of scientific and technical resources.

It should be noted that in terms of the financial component, in terms of tax policy, given that the state has now taken significant steps towards liberalizing taxation for SMEs, incentive methods should be combined with controlling ones since in a situation where considerable benefits are available, attempts will be made to take advantage of preferential taxation by understating profits or using unofficial (shadow) employment, etc. Specific standards should be developed so that the profit rate can be determined in accordance with income (expenses) and the employment rate in accordance with industry characteristics and business turnover for the reporting period. This will allow benefits to be addressed in accordance with planned indicators, which will make it possible to take them into account when forecasting tax revenues to the budget. In the event of a discrepancy between the indicators of an SME entity and the limits of permissible standards, tax benefits can be provided partially.

This article examines the impact of key economic growth factors on the development mechanism of small and medium-sized businesses in an emerging economy. This article aims to find optimal solutions to ensure the financial sustainability of small and medium-sized enterprises in Kazakhstan.

2. Literature Review

Support for small and medium-sized enterprises (SMEs) is an essential element of economic policy, where various forms of assistance, such as financial assistance, grants, tax incentives and other measures, are used to stimulate the growth of these enterprises. (Onyekwel et al., 2023; USA Funding Applications, n.d).

In recent decades, European policy has targeted specific measures towards SMEs. The recently concluded Horizon 2020 Programme, under the Europe 2020 Strategy, has provided economic support to stimulate competitiveness and boost the economy of member states by focusing on innovation. Zarbà et al. (2022) discussed the effects of support on agri-food SMEs in Italy post-COVID-19.

Abu, da Silva, and Vieira (2024) analyze government support for SMEs in the Fintech Era. The article highlights the role of politicians in creating favourable conditions for the growth of small and medium-sized businesses

using fintech technologies. Mogensen (2024) claims that states have to act as innovation business partners to stimulate SMEs' innovative activities.

Stimulating economic growth is one of the most important tasks of economic policy since economic growth contributes to improving the population's well-being. Small and medium-sized enterprises (SMEs) are among the factors that contribute to economic growth. The role of SMEs is indispensable in addressing the most pressing economic, social and environmental issues (Kozubikova et al., 2023). Without requiring significant expenditures from the government, SMEs help create a "healthy" competitive environment, establish market equilibrium, create new jobs, form a middle class, and meet various needs of the population, ultimately leading to sustainable economic growth. Gallotta, Baranova and Paterson (2023) and Lutfi et al. (2023) point to the need for governmental programs offering pro-environmental support to SMEs. Aassouli and Ahmed (2023) emphasize the importance of programs supporting the financial literacy of SMEs. Montero and Parga (2023) suggest constructing a special tax regime to foster innovation. Hosono et al. (2023) found that tax incentives alleviate capital constraints and initiate investments in SMEs. Coricelli et al. (2025) highlight the importance of financing aims for SME development.

The experience of leading countries in the modern world demonstrates the necessity of having a highly developed and efficient small business sector in any national economy. Therefore, Kazakhstan's economic breakthrough cannot be achieved without the corresponding development of this sector, as it is the element that drives economic and social development (OECD, 2023; Nurumov et al., 2023; Bekzhanova et al., 2023; Zarubina et al., 2024; Syzdykova & Azretbergenova, 2025).

Today, a situation has arisen where small entrepreneurship must leverage its flexibility, mobility, and market objectivity to find its place in the innovative economy rapidly. The government, in turn, must create favourable conditions for the implementation of entrepreneurial initiatives and focus its support on those small enterprises with the most significant potential in terms of competitiveness and enhancing the scientific and technological capacity of the country. Therefore, it is natural that the governments of these countries pay primary attention to supporting this sector. In principle, Kazakhstan's SMEs are moving in line with global trends; however, their share in the economy still significantly differs from international standards.

Despite numerous types of research on types of support, there is still a gap related to better tuning support to the needs and capabilities of SMEs. This research aims to fill this gap by identifying current research problems of Kazakh enterprises and juxtaposing them with a system of provision of governmental functions. The ultimate aim is to offer directions of support accomplishment to tackle the needs of enterprises better.

3. Research Methodology

The Institutional Index of Effective Business Development (IEBD) assessment will encompass all negative trends in international rankings and the current state of the socio-economic environment. The system for forming the Index of Effective Business Development includes the following stages:

- Collection of statistical information about the enterprise, analysis of current business challenges, and evaluation of government functions in supporting business development based on a developed expert questionnaire for SMEs;
- Processing of the obtained results (identifying the most significant business problems and assessing the effectiveness of government support functions for business development);
- Determining areas for qualitative business development (formulating solutions to problems and evaluating expected outcomes).

To identify the needs of Kazakhstani businesses and to construct the Index of Effective Business Development, a questionnaire for SME representatives has been created, which is proposed for completion by owners and participants of SMEs. Enterprises can gain potential benefits from the results of the IEBD processing, as the Index of Effective Business Development takes into account practical significance for developing mechanisms for state regulation of SME development and is directly formed based on the expert questionnaire, including the following sections:

- General information about the enterprise (current state of the enterprise, its resource potential, and development goals);
- Current business problems (studying relevant practical business issues);
- Government functions in supporting business development.

The section "General Information about the Enterprise" includes the following questions:

- Year of establishment of the enterprise;
 - Form of ownership;
 - Main types of economic activities;
 - Source of fixed assets at the time of establishment;
 - Main sources of financing for the enterprise;
 - Financial and economic situation (decline, stability, growth);
 - Priority use of the enterprise's profits;
 - Level of expenditure on innovative projects (% of total);
 - Main goals of the enterprise for the near future;
 - Number of employees;
 - Employee motivation system (absent/present - describe the elements of the system);
- Percentage of employees with higher education (% of total number).

The section "Current Business Problems" includes:

- Problems in the political sphere;
- Problems in the economic sphere;
- Problems in the social sphere;
- Problems faced by the enterprise during its establishment;

Current problems of the enterprise under study.

The section "Ensuring Government Functions to Support Business Development" (rated from 1 to 100, where 100 is the highest score) includes: In the political sphere:

- Protection of property rights;
- Anti-corruption activities;
- Provision of quality conditions for the establishment, operation, and liquidation of businesses;
- Tax policy;
- Transparency of government institutions' activities;

In the economic sphere:

- Government support for SMEs;
- Involvement of enterprises in innovative projects and programs;
- Support for foreign economic activities;
- Dissemination of new technologies;
- Development of the financial market;
- Support for competition.

In the social sphere:

- Ensuring civil liberties;
- Freedom of entrepreneurial activity;
- Fulfillment of the state's social functions;
- Freedom of investment and protection of investors.

Thus, the SME representative survey includes 32 questions divided into 3 blocks: input information (general information about the enterprise), information for processing (current business problems), and output information (provision of government functions to support business development).

The data collected from the survey will reflect the subjective assessment of the most critical parameters affecting the effectiveness of government incentives, as perceived by business representatives, depending on their industry affiliation and the effectiveness of management within the enterprise itself. Therefore, a sufficiently broad survey will allow for grouping issues specific to certain industries, regions (clusters), and so on. Consequently, conducting research provides an opportunity to formulate priorities for further business stimulation by identifying necessary directions.

4. Results and Discussion

The authors surveyed small business representatives in Astana during different periods (the sample size was 150 respondents) in the outsourcing accounting services industry. The survey results were summarized in an average score.

As can be seen, in March 2017, the highest ratings were given to such aspects of state support as ensuring property rights (average score – 84), the performance of social functions of the state (average score 89), freedom of investment and investor protection (average score 87). In essence, the parameters of the social block are highly rated, which reflects the state strategy focused on high social priorities. At the same time, such indicators as anti-corruption activities (average score 46), ensuring optimal conditions for creating, running and liquidating a business (average score 37), are associated with a low level of stimulation of competition due to hidden industry cartelization), attracting small businesses to innovative projects and programs (average score 43), are rated relatively low.

In March 2023, the assessment of the SME support system in the Republic of Kazakhstan practically coincides with the 2017 profile. Some improvement occurred in the indicators of legal protection of business entities and support for foreign economic activity, as well as in targeted state support for SMEs (most of all in state support for SMEs: +10 points and in support for foreign economic activity: +14%). The respondents noted a deterioration in such indicators as the state's anti-corruption activities, transparency of state institutions' activities, support for civil rights and freedoms, support for competition, and market development (-10 points, -9 points, -8 and -17 points, respectively). See Figure 2 below.

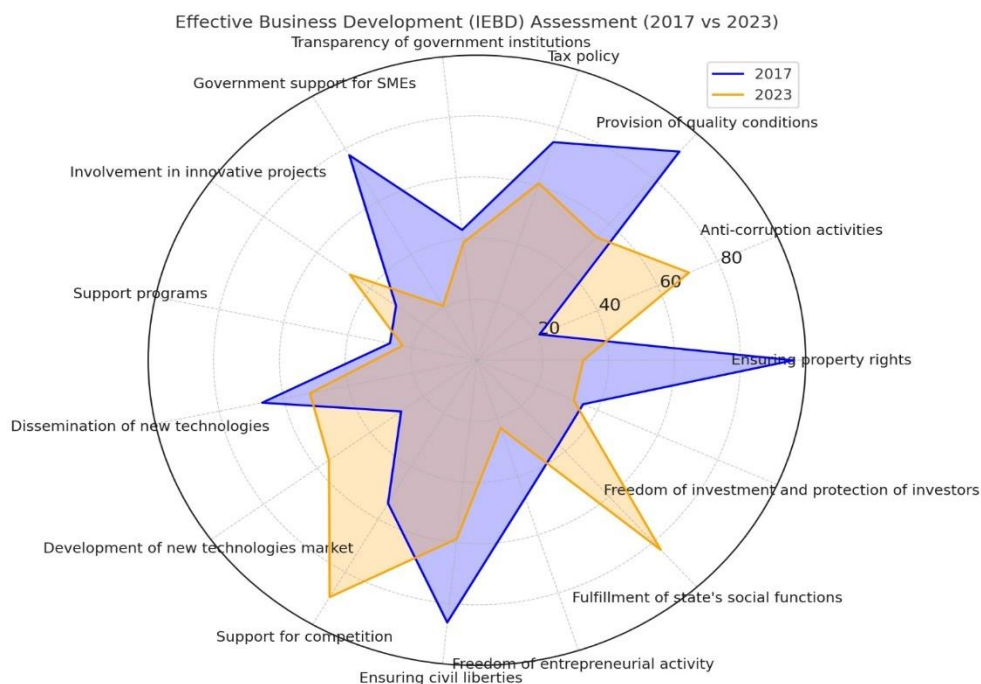


Figure 2. Effective Business Development (IEBD) Assessment Map in 2017 and 2023

Source: the authors

The assessment of business representatives' direct state regulation functions is the most important. This speaks of the absolute necessity and importance of state regulation of practically all aspects of entrepreneurship development, and it can be assumed that this necessity is characteristic not only of Kazakhstan but also practically, taking into account the specifics of the socio-economic situation of any country. The state's participation is seen as especially important in connection with the need to adapt the economy to new conditions of the global market situation.

As mentioned above, there is a fairly extensive structure of support for entrepreneurship in the Republic of Kazakhstan, which includes state and state-initiated organizations, non-governmental organizations, and commercial organizations. They provide regulatory, financial, informational, analytical and consulting support, although they are not fully coordinated (see Figure 3).

The central bodies implementing the state policy of supporting entrepreneurship today are the Ministry of National Economy of the Republic of Kazakhstan and the Ministry of Investment and Development of the Republic of Kazakhstan. The second level of the state institutional structure supporting entrepreneurship is local executive bodies represented by the Offices of Akims of the regions and the cities of Almaty and Astana. The departments (Administrations) of Entrepreneurship and Industry have been created under the Akimats, including the Entrepreneurship Departments, to implement the state policy in the development and support of entrepreneurship at the level of central executive bodies, the Council of Entrepreneurs under the President of the Republic of Kazakhstan has been created to organize such "feedback" of entrepreneurs.

The organizations that perform these functions include government technology and financial companies. Non-governmental organizations act as intermediaries between the state and citizens in solving social problems and forming a civil society, which is one of the mechanisms for regulating public relations. Such organizations include the National Chamber of Entrepreneurs of Kazakhstan "Atameken" (National Chamber of Entrepreneurs of Kazakhstan "Atameken", n.d.) and the "Forum of Entrepreneurs of Kazakhstan".

Separately, it is necessary to mention microcredit organizations (MCOs), which provide microloans to business structures to replenish working capital and leasing companies, with the help of which business structures replenish and update their fixed production assets. In general, the institutional structure of entrepreneurship development in the Republic of Kazakhstan is traditional for a market economy, except for the significant share of state participation in entrepreneurial activity and the management and regulation of entrepreneurship.

The power in the Republic of Kazakhstan is highly centralized. Therefore, the specificity of the interaction between the government and business in Kazakhstan is that the dominant role in the relations belongs to state institutions and not to structures that are public or private organizations and represent the interests of business. At the same time, the institutional system of state regulation and stimulation of entrepreneurship looks balanced; it includes both structures that control business activities, bodies responsible for developing entrepreneurship, and institutions representing business interests in the government. The institutions implementing the state policy on entrepreneurship development are, if not directly, under indirect subordination to the presidential power. These include the Customs and Financial Control Committees of the Ministry of Finance; Tax Committee of the Ministry of Finance; the Agency for Regulation and Supervision of the Financial Market; Agency for the Regulation of Natural Monopolies, Protection of Competition and Consumer Rights; Agency for Combating Economic Crime and Corruption.

There are also bodies responsible for developing private businesses in state power. The central executive body of power in this activity segment is the Ministry of National Economy of the Republic of Kazakhstan, whose structure includes the Department of Entrepreneurship Development, which implements functions on the formation of state policy and legal regulation in the development and support of entrepreneurship. The Department's main tasks are creating conditions for the development of entrepreneurship, developing measures to attract investment, and taking measures on appeals and complaints from entrepreneurs about illegal actions of officials. At the regional level in the republic, departments of entrepreneurship and industry have been created under the akimats.

The National Chamber of Entrepreneurs of the Republic of Kazakhstan was created "Atameken" to organize "feedback" at the level of central executive bodies. The main tasks of the chamber are the protection of the rights and interests of entrepreneurs, ensuring broad coverage and involvement of all entrepreneurs in forming legislative and other regulatory rules for business operations. The National Chamber's activities aim to improve the business and investment climate, stability and development of business conditions in the country for both national and foreign investors.

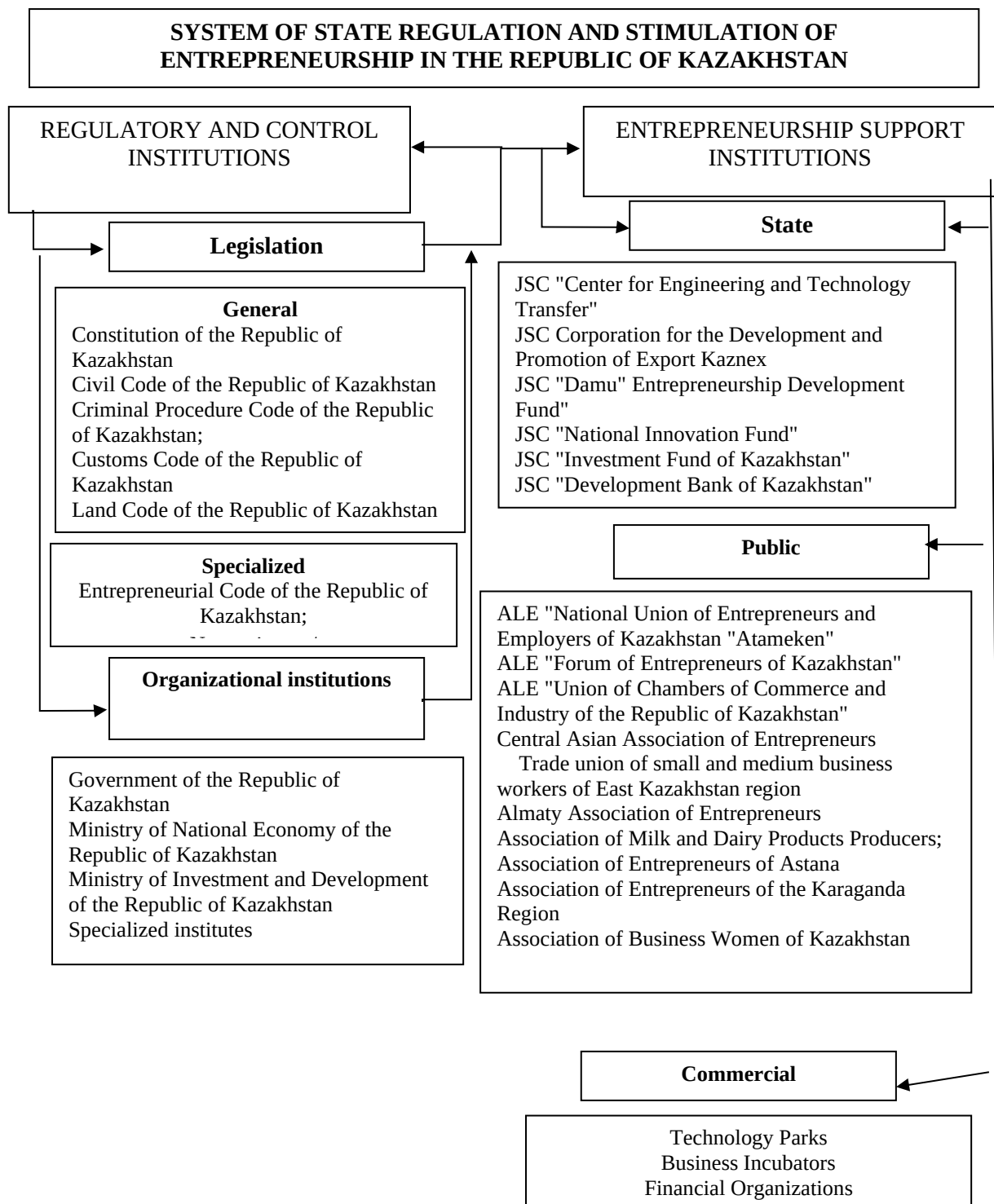


Figure 3. Institutional system of state regulation and support of entrepreneurship in the Republic of Kazakhstan

Source: the authors

In addition, the executive branch often initiates the creation (as well as controls the formation) of institutions designed to represent the interests of business (business associations, of which there are more than 30). Such structures include the Council of Foreign Investors, a consultative and advisory body headed by the President of the Republic of Kazakhstan, created on his initiative.

This Council aims to ensure direct dialogue between the authorities and foreign investors operating in Kazakhstan.

The permanent members of the Council from the Kazakh side are the Prime Minister of the Republic of Kazakhstan; the Chairman of the National Bank of the Republic of Kazakhstan; the Deputy Head of the Administration of the President of the Republic of Kazakhstan; the Deputy Prime Minister of the Republic of Kazakhstan; the Ministers of Foreign Affairs, Industry and Trade, Economy and Budget Planning, Finance of the Republic of Kazakhstan; the Chairman of the Investment Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan. The Council's foreign members are formed from among the top managers of international financial organizations and foreign companies.

In addition, a network of expert councils on entrepreneurship issues has been created in the Republic of Kazakhstan under central state and local executive authorities (ministries, akimats). The councils include both representatives of executive officers and members of industry entrepreneurial structures.

These consultative and advisory structures aim to obtain expert opinions and develop recommendations on draft regulatory legal acts affecting the interests of the business. Only accredited private entrepreneurship entities may be members of the Council, and their number is limited, in accordance with paragraphs 3-4 of Article 25 of the Law "On Private Entrepreneurship in the Republic of Kazakhstan", only one association of private entrepreneurship entities may be accredited from each region or area. A structure with a larger number of employees in an organization receives priority in accreditation. Such restrictions on accreditation reduce the importance of expert councils to the role of formal channels for representing business interests.

In addition to the above-mentioned bodies and departments, the Kazakhstan Center for Public-Private Partnership "KazCenter PPP" (colloquial) has also been created (Kazakhstan Center for Public-Private Partnership, n.d.). Its activities aim to conduct research and assess and examine the implementation of investment projects in the field of PPP. "KazCenter PPP" provides consulting support to projects, facilitating their implementation. This Center interacts with legislative and executive bodies, national companies and international public organizations at all levels. The Center acts as an initiator and organizer of popular discussion platforms, which, in addition to current issues of PPP development, make expert recommendations for solving the main socio-economic problems. PPP sees its mission as "creating conditions for partnership between the state and business, developing and combining their potential for the implementation of PPP projects and increasing investment in the country's economy."

In the Republic of Kazakhstan, several organizations have industry significance and are largely independent within a clearly defined range of their functions. The following should be considered independent entrepreneurship organizations in Kazakhstan: the Independent Association of Entrepreneurs of the Republic of Kazakhstan (Independent Association of Entrepreneurs of Kazakhstan, n.d.), the European Business Association of Kazakhstan (Eurobuck) (European Business Association in Kazakhstan Eurobak, n.d.). and several other industry business organizations. Meanwhile, non-governmental organizations called upon to act as intermediaries between the state and business are often created on the President's or executive authorities' initiative (e.g., the National Chamber of Entrepreneurs of Kazakhstan "Atameken").

In 1997, the Entrepreneurship Development Fund "Damu" was established in the Republic of Kazakhstan on the state's initiative. At present, this structure has the status of a national development institute and a state fund, the goals of which are stimulating the formation and economic growth of small business entities and increasing the efficiency of using state financial resources aimed at supporting small businesses. Of course, this structure is entirely subordinate to the state: 100% of the Fund's shares are owned by "National Management Holding "Baiterek", a holding that manages national development institutions and companies. It was created to optimize the management system of development institutions, financial organizations and the development of the national economy by the Decree of the President of the Republic of Kazakhstan dated May 22, 2013 No. 571. This Fund provides information on the implementation of a number of educational projects and the provision of consulting services to SMEs.

Target parameters for the development of small and medium-sized businesses are presented below in Figure 4.

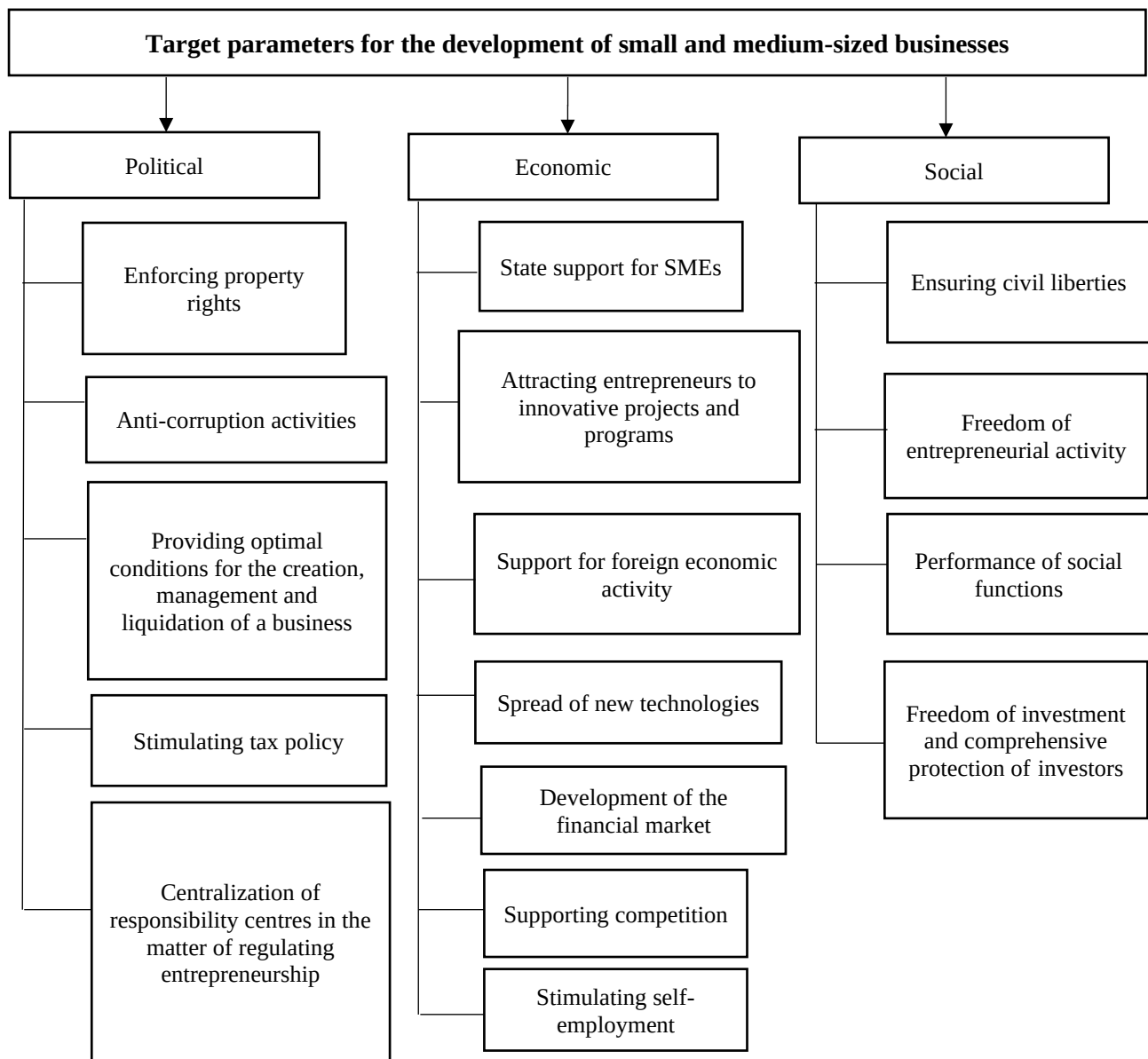


Figure 4. Target parameters for the development of small and medium businesses for the Republic of Kazakhstan

Source: the authors

A summary of the results of modern research in the field of entrepreneurship shows that the quality of the institutional environment significantly influences the competitiveness of business entities, affects investment decisions and the organization of production, and affects economic growth.

The institutional environment for entrepreneurship is determined by the legal and administrative infrastructure within which entrepreneurs and business structures, companies, and the government interact to create the nation's welfare.

The formation of a unified state regulatory policy in the sphere of entrepreneurial activity should be based on the presence of a single responsibility centre that would coordinate and direct the entire process by the planned performance parameters. At the same time, it is necessary to determine the parameters for the effective development of small and medium-sized businesses in the Republic of Kazakhstan. When creating development programs and projects, in our opinion, it is necessary to focus on the specified parameters, as well as the achievements and lags of our state, since it is they, focusing on international development indices, that influence the modern economy and business to a greater extent. These parameters look generalized, but their observance

ensures the effective development of entrepreneurship. Some of them are fully ensured in the Republic of Kazakhstan (for example, the protection of investor rights and property rights, support for foreign economic activity, stimulation of self-employment and the performance of social functions by the state are the strengths of the state in the direction of developing entrepreneurial initiative in the country), but many are not sufficiently ensured.

Conclusions

The main obstacles that may hinder the effective development of small and medium-sized enterprises (SMEs) and, consequently, the economy of Kazakhstan are:

- Insufficient financial support;
- Lack of a developed innovative business sector;
- Dispersed centres of responsibility regarding the regulation of entrepreneurship development;
- Insufficient transparency of government institutions and ineffective anti-corruption policies.

Although the analysis above addressed the overall state of the institutional system for stimulating and supporting SMEs in Kazakhstan, it is essential to prioritize stimulating innovative activity among SMEs. Improving the system as a whole will also ensure the stimulation of SMEs operating in the innovation sector. Given the rapid global scientific and technological development trends, government regulation should be directed towards innovation. However, there is currently a problem with the development of innovative enterprises that needs to be addressed through active infrastructure development; market resource flows are being directed into creative projects, and innovative products are being implemented.

Furthermore, it is advisable to focus not only on the quantitative increase of infrastructure supporting business innovation but also on their qualitative improvement, which can lead to achieving leading positions for small and medium enterprises in the global arena. In this context, enhancing entrepreneurship's innovation level should be activated alongside the development of intellectual potential. The modern intellectual potential serves as the foundation for an information economy based on information technology and becomes the basis for qualitative development. Thus, the development of intellectual potential is a crucial direction for the strategic development of the state.

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