SUMMARY

Assessing the Results of Industrial Innovation Development in Kazakhstan

The State Program for Industrial and Innovative Development (SPIID) 2015–2019 aimed to improve the competitiveness of the manufacturing sector in Kazakhstan through increased labor productivity, exports of value-added products, and development of knowledge-based technology industries. Photo credit: Asian Development Bank.

A state program promotes high-value manufacturing and innovation to boost competitiveness and spur economic growth.

Overview

Kazakhstan launched the 4-year State Program for Accelerated Industrial and Innovative Development (SPAIID) in 2010 to diversify the economy and enhance competitiveness.

The second phase, State Program for Industrial and Innovative Development (SPIID) 2015–2019, focused on development of the manufacturing sector, based on regional specialization, a cluster approach, and effective industry regulation.

On 6 September 2016, SPIID 2015–2019 was revised because of the global financial crisis in 2015, which was related to falling oil prices, external risk factors, and effects of the Russian ruble devaluation. The program sought to stimulate competitiveness in the manufacturing sector by increasing labor productivity, expanding exports of value-added products, and developing knowledge-based technology industries.

An Asian Development Bank-supported study examined the effectiveness of the SPIID 2015–2019 interventions. Its findings showed the importance of close coordination among government ministries

and the firms right from the conceptualization of the program and its interventions; public awareness of industrial development programs; and effective and efficient program monitoring and evaluation.

This article provides a summary of the study team's report.

Key Findings

The study of SPIID 2015–2019 was conducted over the period July 2019–February 2020. The following methods were used: (i) econometric analysis, (ii) percentage analysis of target versus actual achievement, and (iii) sample survey of randomly selected firms.

Planned targets versus achievement for key indicators

The program achieved 99% of the real gross value-added (GVA) target and increased exports by 13% over the target for the 14 priority sectors. However, the increase in employment was 20% less than the target and the value of investment in fixed asset was 2% short.

Allocation and utilization of funds

The actual amount provided under the government budget was 811.00 billion Kazakhstan tenge or KZT (about $2 billion) and the expenditure from 2015 to 2018 was KZT 613.5 billion or 76%. The remaining funds were expected to be used since the activities planned under SPIID 2015–2019 were completed.

Status of proposed sub-projects

The total outlay was KZT 5.376 trillion and the amount spent to date is KZT 5.014 trillion (93%). Out of the 610 proposed projects, 510 (84%) projects were completed and 100 (16%) are under implementation. Major sectors in terms of number of projects were food production (31.6%), production of building materials (27.9%), and non-ferrous metallurgy (4.9%). These projects created 56,600 jobs.

Analysis of business units (firms) registered in the 14 priority sectors in 2015–2019

The number of registered firms in the 14 priority sectors increased by 13.8% to 10,089 in 2018 from 8,867 in 2014 (baseline). Majority of the registered business units are small firms (96.9%). Medium-sized firms made up 2.2% and large firms, 0.86% of the total. The number of registered firms that are actually functioning (active firms) in the 14 priority sectors increased toby 32% to 6,366 in 2018 from 4,823 in 2014.

Monitoring and evaluation

Currently, the monitoring and evaluation (M&E) system uses a top-down approach to track the progress of industrial policy. The Ministry of National Economy (MNE) determines the indicators with some inputs from the Ministry of Industry and Innovation Development (MIID). No semi-annual reports indicating progress in goals, outcomes, and outputs are available. Hence, the periodic evaluations of project

milestones and in-depth assessment of potential factors affecting the policy implementation are lacking.

Effectiveness of industrial development legislation with reference to SPIID 2015–2019 interventions

While implementing the sample survey, the team had difficulties in obtaining answers to the questionnaire from most of the enterprises. Moreover, by law, the enterprises are not required to respond to requests from government agencies regarding the provision of data to assess the effectiveness of government support measures for industrial and innovative activities. In addition, Article 30 of the Tax Code that deals with "tax secret" issues is an impediment for MIID to freely and systematically receive data from the Ministry of Finance on tax and customs preferences received by enterprises, as part of the implementation of SPIID 2015–2019.

Recommendations

Enhance coordination

There should be close coordination among the ministries, the regional authorities, and the firms to align various industrial development programs implemented by the government.

Improve public awareness

Clearly explain to the firms the various interventions, such as exemption from customs duties, investment subsidy, exemption from value-added tax, concessional lending, project financing/co-financing/lease financing, loan guarantees, innovation grants, development and promotion of the export of domestically processed goods, and subsidizing interest rates on loans.

Improve the monitoring and evaluation system

M&E should be decentralized to sector-specific ministries, which should conduct baseline, mid-term, and end-line evaluations with more focus on program impact and outcomes, physical outputs, and risk management rather than just the financial inputs and disbursement.

The M&E system must be based on a results-based management strategy that encompasses the planning, monitoring, and evaluation of policies.

Given the availability of internet-based technologies and the need for timely coordination of investment projects under the MIID and MNE, the government should develop an automated controlling and monitoring system by the end of 2020.

Select indicators for M&E based on international best practices. The targets set should be realistic and not too ambitious.

Data on key indicators, such as GVA, exports, employment, and value of investment in fixed assets,

should be collected not only at the sectoral level for the priority sectors but also for all firms that benefited from SPIID measures (e.g., tax concessions, subsidy, customs duty exemption).

Funding should be provided to create and expand the small and medium-sized enterprise database development and digitalization for the entire country and include stakeholder consultation and report dissemination.

The M&E department should conduct detailed and periodic impact analysis studies on cluster development activities.

Industry information should be integrated with existing state information systems—i.e., registration, statistical data, tax, foreign trade, licensing, and other types of accounting business entities.

Resources

Asian Development Bank (ADB). Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 1.

ADB. Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 2.

ADB. Joint Government of Kazakhstan and the Asian Development Bank Knowledge and Experience Exchange Program, Phase 3.

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Yerlan Kylbayev is an industrial policy and economics expert. From 1997 to 2005, he served in management roles at Kazakh ministries and agencies, contributing to economic and industrial policy. In recent years, he worked for research organizations Samruk-Kazyna JSC, Kazcontract JSC, and Kazakhstan Institute of Industry Development JSC, and in the banking sector. He holds a PhD in Economics (Candidate of Economics Sciences) and teaches economics at the Academy of Public Administration under the President of the Republic of Kazakhstan.

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Bakhytzhan Kurmanov is an expert and consultant in economic and public policy with experience in Kazakh and international organizations. He has worked on policy issues in think tanks and promoted the improvement of public services at the UNDP. His research interests include optimization of public services, open government and e-government, industrial policy, and introduction of new public management reform in Kazakhstan. He is a PhD candidate at the Graduate School of Public Policy at the Nazarbayev University.

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