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**"The problem of unemployment and solving it  
through small and medium scale businesses"**

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## **Abstract**

Today, Kazakhstan has many resources for effective socio-economic development. But, despite this, there are problems that limit the possible potential of the country. One of the main problems of the state, according to the expert of the Institute of IMEP Ayman Zhusupova, is unemployment, which directly affects economic growth, which leads to the following consequences, such as a decrease in GNP, as it is known under the Oaken Law, there is a direct link between GNP and unemployment, which ultimately leads to an economic downturn, a decrease in the country's income, higher taxes, and much more (Reisberg B. A., Lozovsky L. Sh., Starodubtseva E. B. "Modern economic Dictionary" fifth edition, 2006). However, many countries have experienced this problem, especially during the Covid-19 pandemic. According to the International Labor Organization, during the first wave of the pandemic alone, the number of jobs fell to 500 million, and working-class wages fell by 10 percent. Unprecedented losses occur all over the world, which leads to the collapse of the labor market, already more than a million entrepreneurs in various sectors of large, small and medium-sized businesses have suffered significant losses. We are currently experiencing a global crisis for which we were not prepared. One of the significant roles in improving the country's economy, of course, is played by the growth of demand in the labor market and the promotion of the growth of small and medium-sized businesses. (Shapovalova M. "International Journal of Experimental Education"; 2009). In this document, we will try to analyze the topic of unemployment and its negative impact on the country's economy, the causes of its occurrence, as well as the role of small and medium-sized businesses in the labor market as one of the methods of combating unemployment.

*Key words: Unemployment, GDP, Small and Medium enterprises, labor market, International Labor Organization, business, Damu, company, jobs.*

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## **Introduction**

Unemployment is one of the biggest obstacles to economic growth, when members of the labor force lose their jobs, the economy loses the potential real GDP output that each worker can produce. The economy should therefore pay considerable attention to preventing excessive unemployment. To calculate the unemployment rate, you need to use ready-made data – this is the percentage of employees who cannot find a job, divided by the total number of employees in the country. The unemployment rate illustrates the percentage of the labor force that is ready and able to work, but cannot find it for one reason or another in the labor market.

The ILO has identified people of the age of majority for employment as the unemployed class, these are people from 15 years and older, but, however, due to various circumstances, they are not able to find a job, it should also be noted that the self-employed also belong to the working class.

The International Labour Organization maintains a single record of the unemployed in different countries. The ILO has its own standard for accounting for the unemployed, according to their methodology, the unemployed include people who are actively looking for work, not self-employed, students who are receiving education, people who are not interested in finding work at the moment, but may be actively looking in the future.

There are three main types of unemployment: frictional, structural and cyclical unemployment, let's take a closer look at each:

### *Frictional unemployment*

The condition in which a person seeks to improve working conditions by changing one job to another is called frictional unemployment. At certain times of the year,

unemployment tends to rise and fall, as the nature of some jobs is directly related to seasonal changes.

Although this is a natural process, you can also try to reduce it by reducing certain benefits, such as unemployment benefits. This method will force people to look for work faster and stay longer, but it will not be completely effective, since this method forces people to get jobs in places that do not correspond to their skills.

### *Structural unemployment*

Structural unemployment is what we call when, at a certain point, certain qualifications may become obsolete because certain structural changes have taken place in the global workforce. Unfortunately, some job skills acquired in an outdated job cannot be retrained, meaning that they cannot be used in another field. Structural unemployment forces the labor force to adapt to the new structure of the economy, namely, it forces them to retrain and change their profession.

During the pandemic, many specializations have changed, such as salespeople, dishwashers, waiters, and conductors, and their jobs are slowly being replaced by automation. For example, to pay in a public place or in a clothing store, we only need to get a phone or card. Even last year, we paid for a ticket to the conductor, but now each bus has automatic machines for reading cards and QR codes. But despite the technological progress, new professions appear in parallel with it, requiring even more tasks, in order to prepare for such changes, it is necessary to notify and prepare people for such changes in advance, using various resources.

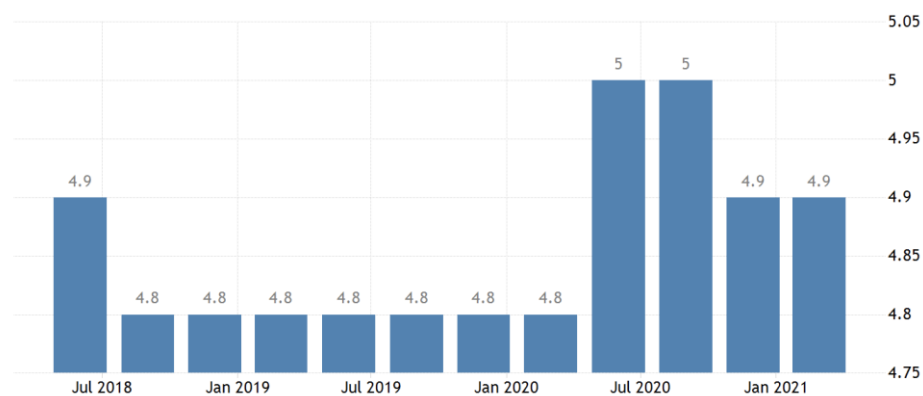
## *Cyclical unemployment*

Cyclical unemployment occurs when the business cycle recedes, as the economy contracts, real GDP output will also decline. Leading firms, in order to reduce production and maintain their business, reduce the demand for labor, which means a reduction and an increase in unemployment. This result is not the best, as it can lead to depression. But as the economy recovers and economic conditions improve, as well as consumer demand increases, firms will start raising production levels again, and they will need more labor.

Cyclical unemployment can be completely prevented if real GDP growth is stimulated or adjustments are made to the economic downturn, which minimizes the severity of cyclical unemployment and the economy. (T. A. Frolov's Economic Theory: a lecture, Taganrog: TTI SFU, 2009.)

## **Unemployment in Kazakhstan**

According to the International Labor Organization, the number of unemployed in Kazakhstan in 2020 was 454.8 thousand people, and the unemployment rate was 5%.

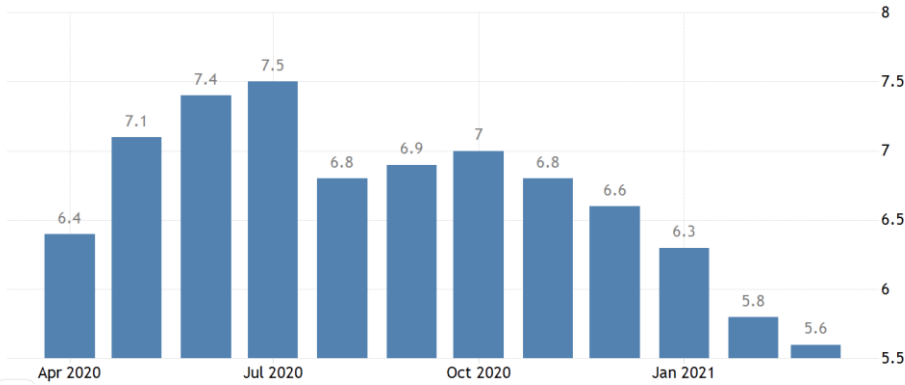


(Puc.1 Agency of statistics of the republic of the Kazakhstan; <https://tradingeconomics.com>)

In the above data, the unemployment rate in 2020 increased by 0.2 percent, which still remains stable and without sharp fluctuations. However, the problem of unemployment in the

country is much more serious, especially with the onset of the pandemic, so we tend to believe that the data obtained earlier may not be true.

Let's look at Australia, it is also like Kazakhstan is in the top 10 large countries, has a small population according to the Australian Bureau of Statistics, there are 25.36 million people in 2019, it also has similar resources and they do not have access to land routes. Australia is a developed country, with which we should take an example in economic growth, only the country's GDP for 2019, according to the World Bank, was 1.397 trillion dollars, which is several times more than the GDP of Kazakhstan, which is 181.7 billion dollars. One of Australia's lucrative resources is the mining sector, which is the only reason why the country has managed to raise GDP by 0.6 percent, according to David de Garis, a senior economist at the National Bank of Australia. I would like to note that our country is also a mining country, and if we can use our resources wisely and use our labor force effectively, we can achieve great success.



(Puc.1 Agency of statistics of the republic of the Australia; <https://tradingeconomics.com>)

According to statistics on unemployment in Australia, it can be observed that with the aggravation of the pandemic, the peak unemployment rate for 2020 increased to 7.5 percent, while in Kazakhstan the unemployment rate in 2020 rose to 5 percent, which is normal in developed countries.

In many countries, during the crisis, artificial suppression of the real level of unemployment is used, for example, in the late 1800s, labor statistics first appeared, created by Carol Wright, who defined unemployment as "industrial hypochondria". Carol Wright was the head of the Massachusetts Bureau of Labor Statistics, and in 1878 he conducted one of the first surveys of unemployment in the United States. This study was conducted during a period of financial panic, the country was in a significant decline. Carol Wright needed to come up with a way to quell potential political unrest, and he instructed city appraisers and local police to count the unemployed citizens, but not all to quell the anxious mood among the population ("Monthly Labor Review Vol. 78, No 1 (January 1955), pp. 3-10 (8 pages)). As a result, this gave the desired result, over the years, unemployment has significantly decreased, such actions are a common tactic for politicians used in some countries during the crisis. Kazakhstan is still recovering from the pandemic, and unemployment is expected to be one of the main problems in the country. In the current situation, unemployment is at an unprecedented level, but still does not want to admit the true extent of this problem.

The labor market in the country is one of the main indicators that helps to assess the stability of the situation, that is, the effectiveness of the transformation of any municipality. Demand and supply in the labor market are interrelated with many factors that need to be identified in time to eliminate their negative consequences or enhance their positive effect. Based on the experience of other countries, we can implement programs and reforms to stabilize the country's economy.

### **Factors affecting unemployment**

There are many factors that affect the labor market, for example, one of the factors that demonstrate the severity of this problem is the migration of the population, which



changes cities or even countries in search of better conditions. In some regions, the problem may be less obvious, while in others, on the contrary, it is more noticeable.

For example, in large developed regions, such as Almaty region, the number of unemployed is 49.4 thousand people, which is higher than in some regions, such as Zhambyl, where the number of unemployed is 26.1 thousand people, and in Kyzylorda-16.9 thousand people (according to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan; September 2019<sup>1</sup>)

Mostly young people rush to other, more developed cities, this is due to socio-psychological characteristics, it is important for the younger generation to succeed in the future, so career ambitions are pursued. As you understand, each region of Kazakhstan has its own labor market, caused by various factors, such as population density, psychological factors, demand for driving enterprises, and much more.

Today, the number of unemployed young people is growing, which indicates a low quality of education, as a result of which the demand in the labor market is falling. According to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, youth unemployment in the country is 82.4 thousand people. Due to the desire of the employer to find a more experienced employee with an experience of usually 3 to 5 years and the reluctance to spend resources on training new ones, it leads to numerous consequences, such as slowing down the growth of structural changes or large-scale modernization of the economy.

It is equally important to pay attention to the gender aspect, according to the Bureau of National Statistics of the Republic of Kazakhstan, in 2020, 8.7 million people, or 65.9% of the population aged 15 years and older, were employed in various sectors of the economy of

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<sup>1</sup> finprom.kz

Kazakhstan. The unemployment rate for men was 4.4%, and for women-5.4%, respectively. The State has allocated special categories for the female half of the population in the framework of employment programs, which indicates an existing problem that it openly recognizes. Often in Kazakhstan, the greatest demand is for technical professions, the owners of which are most often men. Data were also obtained on the state program for the development of employment in industry and mass entrepreneurship, where out of 1000 women who studied under this program, only 185 worked in their specialty. (Economist A. Zhushupova, expert of the Institute of IMEP; n. d)

According to the Almaty City Employment Center, only vacancies in technical specializations account for 40%. Many experts come to the conclusion that the Kazakhstan market is not stable in many areas, especially in the industry, and "women's" specializations in the modern world are less competitive and low-paid. It follows that many enterprises in the country are poorly developed in the specialty where it was possible to apply women's labor.

### **Attempts to reduce unemployment in other countries**

Today, according to the International Labor Organization (ILO), there are four main employment models aimed at preventing unemployment: Japanese, Scandinavian, European and American. The ILO plays a huge role in the fight against unemployment, where at congresses they discuss the current situation with unemployment in different countries, as well as look for new and successful methods of solving these problems. Let's take a look at each model in order.

#### *The Japanese model of overcoming unemployment.*

1. Lifetime employment. Such a system of application in large companies and state institutions is one of the forms of guaranteed employment. A person, after graduating from

university, gets a job in a company and works until retirement. The advantage is that the employee mentally associates himself with the company, building confidence in the future, thereby motivating him to move up the career ladder.

2. Stimulating labor efforts. One of the most effective economic incentives is wage increases, regular bonus payments, and lump-sum benefits. As you know, Japan has become the world leader in hourly wages in the manufacturing industry. Thanks to the successful development of the country's economy, there was a socio-economic recovery.

3. Remuneration for work. Japanese practice has developed its own principles of material incentives. In companies, there is practically no classification of positions and classic salary payments. The evaluation of the manager's work is of great importance. The wage system differs markedly from the Western one, where the percentage of wages for each type of work is formed under the influence of supply and demand in the labor market. The Japanese believe that wages should depend on the length of service, that is, the more a person works, the better he should be encouraged. There is a certain legal minimum. Since the salary here depends on the length of service, a young employee of the company at the initial stage of work will receive a minimum monthly salary of more than 180 thousand yen per month (more than 1,800 US dollars). The average monthly salary is \$ 3,100 (Radomskiy SI, Kirnos IA, "The Japanese model of wages", 2000, 247 p.

### *Scandinavian (Swedish) model*

Despite the fact that Sweden has recently experienced a sharp economic downturn and the unemployment rate has increased (currently 10%), it has long been a benchmark for the world community as a country with a low unemployment rate.

The Swedish model is also called socialist. Economists believe that the Nordic countries have the best governance system in the world, as they are well able to combine

economic efficiency and growth with a peaceful labor market. Let's look at the characteristics of a system that has maintained a stable economy for many years.

1. The most improved protection system. Large public and private costs of investing in human capital. Free education, child care.

2. Institute of the Labor Market. There are employers' associations and well-developed trade unions of employees, which gives employees of enterprises protection of their rights and interests.

3. Well-paid unemployment benefits to encourage people to find and stay in work, as well as to compensate for lost income for the temporarily unemployed

Many experts are puzzled by the good economic performance, given the high taxes, trade unions, employers' associations, since all this is funded by the state, and the effectiveness of this system is in question. But there are other factors that cover these shortcomings, such as: lack of corruption, political freedom, a well-built judicial system, as well as climate, geographical location, religion and natural resources. At the moment, countries with this system are facing the most difficult political test in history, but economists predict a positive outlook thanks to the reforms.

### *American model*

This model encourages high productivity and citizens' focus on achieving personal success.

The US economy is largely based on free market relations, in which various companies compete in the sales market. An acceptable standard of living is created for low-income groups due to partial allowances and allowances.

Key indicators of the American model:

- complete predominance of private property
- ensuring maximum freedom of market participants at the legislative level

- a small share of the state budget in GDP and the share of public investment and social security payments

Despite the advantages of the model, there are also disadvantages such as:

A significant income gap between rich and poor citizens. the rich in the United States have an average of 37 times more income than the poorest (in Japan-4 times, in Germany-6 times); higher school education; annual trade balance deficit (the country imports more than exports)

### *European model*

The model is very different from the American and Japanese ones in that it is more loyal to employees. The system is characterized by the desire to maintain a high level of employment, so the issues of unemployment are given more attention.

For example: in France, there is a program of employment of the population "New services - new jobs", it includes the point of reimbursement by the state of up to 80% of the costs to companies to offer and create new jobs for young people. In France, employment issues are developed not only at the regional level, but also at the sectoral level, which helps to study and solve the problems of unemployment in depth.

In Germany, general freedom of action and self-determination were included in the Constitution as an integral part of democratic human rights and freedoms. There is a law that is strictly enforced with regard to the human right to work or to sit idly by, but there are also developed systems of vocational training and retraining for unemployed and working citizens.

Here, the state pays benefits to enterprises that refuse to lay off employees. The main part of the subsidies goes to companies that have opened thanks to bankrupt companies from the unemployed, who have an education, but do not have experience or skills in business

organization. (*Bulletin of the South Ural State University. Ser.Economics and Management. 2016, vol.10, pp.109-115.*)

## **Linking SMEs to Unemployment**

The high level of unemployment directly depends on the demand in the labor market among entrepreneurs. Most of the entrepreneurship in Kazakhstan is occupied by small and medium-sized enterprises. According to the Statistics Bureau of the Republic of Kazakhstan, there are more than 1.3 million small and medium-sized enterprises in the country, so most of the working sector is employed. SME owners are the most important job creators in Kazakhstan. Small and medium-sized enterprises account for almost two-thirds of the new jobs in the country, and this provides new career opportunities for citizens. According to the Bureau of National Statistics, as of December 1, 2020, 77.9 thousand new jobs have already been created.

Entrepreneurs are often looking for new markets to expand, and they need additional employees to do this. However, according to Elmira Idrisova, a professor at KazEU University, high taxes and complex government programs cause significant damage to small and medium-sized businesses, which prevents them from growing and creating new jobs in the economy. We believe that a large business with a large profit can afford bureaucracy, as it cannot afford a novice entrepreneur, as a result, they cannot firmly establish themselves in the market.

## **Terminology of SMEs**

SMEs are a huge stratum of owners, which includes individual entrepreneurs, financial partners, consumer cooperatives and companies, which, due to their mass character, largely determine the socio-economic and partly political degree of formation of the state. In

terms of living standards and social status, they belong to the majority of the population, being, for example, both specific producers and buyers of a wide range of offers. The small and medium-sized business section is more extensive.

Small businesses include an average annual number of employees of no more than 100 people and an average annual income of no more than 300,000 times the monthly calculated index (*MCI*) (*Defacto.kz*, "*The conditions under which a business is small, medium-large*").

A network of firms that operate in major regional markets and are directly connected to mass-market products and customer services. In a community with the small size of small firms, and their technological, administrative, and production flexibility, this allows them to respond nimbly, literally quickly, and in a modern way to changing market conditions.

Consider one of the reasons for the successful formation of SMEs in advanced economies, where large-scale creation is not against small-scale production. The question arises, why? First, it guarantees the necessary mobility in assessing the market, makes careful specialization and cooperation, without which high efficiency does not matter; second, it is able to quickly fill the niches that have emerged in the consumer sector, but also pay off relatively quickly; third, create an atmosphere of competition; fourth, it makes trade that is directly related to the market economy.

## **Role and Impact of small and medium-sized businesses on unemployment**

Small and medium business plays a key role in the country's economy, because it is one of the main employers. In developed countries, about half of the employed work in small businesses, and it is small businesses that create jobs. Therefore, he needs to provide appropriate financial support.

*The main factors of development of the economy of Kazakhstan with SMEs.*

1. small-scale production responds more quickly to changes in market conditions, gives flexibility to the market economy.
2. significant unused funds mobilizes SMEs more efficiently
3. a significant contribution to the formation of competition in a monopolized economy.
4. the main role in solving the problem of employment of the population.
5. development of scientific and technological progress

According to Halyk Finance, the SME sector is ineffective and uncompetitive. Low labor productivity in SMEs is 30% per employee, given that currently the number of people employed in SMEs is about 37% of the total employed population of the country, this indicates a poor business development perspective. Despite the state's attention to SMEs, state support has a purely formal approach. In other words, it exists, but the benefits of it are ineffective.

For example, programs that are designed to provide subsidies for business development are not aimed at long-term development. They have many nuances, like credit funds without taking into account industry principles, hence the problem of developing SMEs at the regional level. There is an unsatisfactory business climate in the country.

Currently, 1,325,615 enterprises are registered as small and medium-sized enterprises. 191,000 enterprises are registered in Almaty and 134,000 in Nur-Sultan. (*Strategy.kz, "How small and medium-sized businesses affect competitiveness"*).

Government actions, subsidies, and support are not correlated with the government's plan. Recently, to support micro and small businesses out of the COVID-19 crisis, the government announced that their next three years will be taxed. In other words, the business receives money, but the entire complex of small and medium-sized businesses does not grow.



After that, with an unstable strategy on the part of the state, small and medium-sized enterprises will not grow steadily. Every year, their businesses stop operating due to the unstable economy, which directly affects the unemployment rate, about 3.4 million Kazakhstanis work in small and medium-sized businesses (Ministry of Economy, February 25, 2020). Hundreds of thousands of people lose their income and jobs as soon as the company they worked for closes.

Another significant reason for the increase in the unemployment rate is the quarantine, which was announced immediately after the registration of COVID-19 cases in Kazakhstan. For more than a year, some companies could not work and work. Most small and medium-sized enterprises are service providers (hairdressers, car repairs, restaurants, hotels, etc.). Although these companies were given tax freedom, this could not help them. The margins of these companies are very low, so this means that there is no money in the bank to pay salaries, rent and other expenses. Many people lost their jobs during the quarantine. Almost 4.4 million people who lost their jobs or did not receive a salary within a few months received financial support from the government – 42,500 KZT (Forbes.kz, "How many Kazakhstanis received 42,500 tenge for the second time").

### **Problems of SMEs in Kazakhstan**

At the moment, we observe an unstable situation in the small and medium-sized business sector in Kazakhstan. Many newly established enterprises have started to close, and those that have had sufficient stability in the market for many years have lost the dynamics of development. The current situation may have been partly caused by the onset of the pandemic, but no clear research has been conducted on this issue. In the following data, presented from Almaty banks, the provision of loans decreased by 4.1 percent over the year

Unfortunately, not many entrepreneurs in Kazakhstan are satisfied with the tools offered by the government or the National Chamber of Atameken to support small and medium-sized businesses. One of the tools to support small and medium-sized businesses is the "second-tier banks", which also did not find a happy response from entrepreneurs. This is justified by the fact that people do not consider this tool transparent, since it is impossible to track where the money invested in second-tier banks goes. Unfortunately, the second-tier banks set the same conditions for issuing state aid as for issuing ordinary loans, so this creates certain difficulties for entrepreneurs, since they will need to sell real estate in return to receive this assistance. However, most small and medium-sized business owners are not able to follow the proposed conditions, which means that most entrepreneurs also cannot participate in such programs, for example, through Damu, as the "Economy of simple things". We believe that a government program cannot be effective if the vast majority of the audience for which the program is intended does not participate in it.

Unfortunately, the unsecured loan program proposed by the state is designed for small businesses and cannot be included in the programs of small and medium-sized businesses. We tend to believe that the role of small and medium-sized businesses for the state should be a priority, as it makes a significant contribution to the development of GDP. Returning to the support tools, it is necessary to note the good experience of Kazakhstan, at the initiative of K.Tokayeva is interested in the abolition of taxes on social contributions for three months, thanks to this, many entrepreneurs were able to raise the wage fund, so we believe that tax incentives are an important tool for state support of SMEs. (Official information resource of the Prime Minister of the Republic of Kazakhstan)

For our country, it is necessary to study the experience of such European countries as Denmark, Finland and the Netherlands, as they directly helped enterprises in the conditions of the pandemic, subsidized the wage fund for those who found themselves in a difficult

situation of the crisis and directly contributed to the increase in working capital, namely, conducted a special tax calculation that paid for this business last year and part of these taxes was returned to the business. Of course, this approach is correct, since the entrepreneur understands that the more taxes he pays today, the more the state will support him in the future. (*European Commission <https://ec.europa.eu>*)

## **Support for SMEs in Kazakhstan**

In our opinion, in order to support small and medium-sized businesses, the state needs to promote efficiency growth. There are currently various programs, such as Damu, the Development Bank of Kazakhstan, there are regional programs designed to also help small and medium-sized businesses at the regional level. For many entrepreneurs, assistance programs that are simple, flexible, and easy to understand will be most useful. Programs that do not have restrictions, certain conditions, or support for certain sectors of the economy would be most effective for small and medium-sized businesses, especially during a pandemic. Some of these programs are the business roadmap, the Damu development program or the DBK development program, they have good conditions, have a cheap rate, through second-tier banks. Behind such programs, there really can be a good colossal incentive to improve our economy.

It is also necessary to consider the possibility of creating a briefing among the top circles to discuss the problems of small and medium-sized businesses. Such an opportunity would help the state to have real information about the situation related to SMEs. In our opinion, we assume that such an approach could have a noticeable impact on the business of entrepreneurs from a positive point of view.

As we stated earlier, it is necessary to introduce such a concept as the more taxes an entrepreneur pays now, the more he will receive support from the state in the future. For both sides, such tactics would be very useful.

### **Recommendations:**

In our opinion, to effectively reduce unemployment, the state needs to provide support to small and medium-sized businesses, increase demand in the market, and it will also contribute to economic growth. In our opinion, it is necessary that companies that hire people from the list of unemployed people receive preferences, such as low taxes, additional subsidies from the state. Since unemployment is one of the biggest problems of any government, it is better to reinvest the money that should have been paid as unemployment aid and cover the taxes of the companies that participated in the fight against the unemployment of the companies.

Currently, there are various programs, such as Damu, the Development Bank of Kazakhstan, there are regional programs that are also aimed at helping small and medium-sized businesses at the regional level. For many entrepreneurs, the most useful assistance programs will be those that do not have restrictions, certain conditions or support for certain sectors of the economy, which is especially effective during a pandemic. Some of these programs are business roadmap programs, Damu development programs or DBK development programs, they have good conditions, have a cheap rate, through second-tier banks. Behind such programs, there really can be a good colossal incentive to improve our economy and reduce unemployment.

It is well known that if the government helps small and medium-sized businesses to grow, there will be more business. In addition, more and more companies in the market are making a demand for labor. When producing goods, one company needs the help of others

(logistics, salesmen, packers, etc.), so these companies will also create new jobs. Moreover, if there are many companies in small and medium-sized businesses, the government could distribute the amount among them all. Companies can hire people on a part - time basis, that is, for 20 hours a week. In other words, the number of unemployed will decrease.

Last but not least, small and medium-sized businesses should participate in job fairs, just like large corporations. Companies do not need to spend more time and resources on recruitment. In addition, there are high chances to find the best candidate among the unemployed.

## **Conclusion**

In conclusion, the only way to start the process of reducing unemployment is through good communication between stakeholders. As mentioned above, the key stakeholders in this issue are government and business. So, it would be right if they made a decision and looked for a suitable option for everyone.

In addition, financial support from the government to small and medium-sized enterprises, aimed at employment of the unemployed or tax preferences, will certainly have a positive impact on the entire economy and increase the GDP of countries. Despite the fact that large corporations are the largest taxpayers and employers, in total, they cannot hire all the people. Therefore, it is important to support not only the largest taxpayers, but also small companies. Without any action or support from the government, the small and medium-sized enterprise sector will not be sustainable, so businesses may collapse, and the unemployment rate will remain at the same level, even the number of companies will increase.

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