

# Strategy of Industrial and Innovation Development

## Strategy

### of Innovative Industrial Development of Kazakhstan

#### for 2003-2015

To ensure stable development of the country on the basis of diversification and modernization of the economy through creation of conditions for production of competitive products and export growth, Decree of the President of the Republic of Kazakhstan, dated to May 17, 2003, approved Strategy of Industrial-Innovational development of the Republic of Kazakhstan for 2003-2015.

The authors of this strategy is the Ministry of Economy and Budget Planning of the Republic of Kazakhstan in partnership with the Ministries of Industry and Trade, Education and Science, Transportation and Communications, Labor and Social Protection of the Population, Energy and Mineral Resources, Finances of the Republic of Kazakhstan, Agency for Regulation of Natural Monopolies and Protection of Competition, and the National Bank.

Strategy of industrial-innovational development of the Republic of Kazakhstan aims at forming of the state's economic policy of the Republic of Kazakhstan in the period before 2015 and is focused on achievement of stable development of the country by means of economic diversification and shifting from extraction to processing.

Major objectives of the Strategy of Industrial-innovational development of the Republic of Kazakhstan are as follows:

- maintenance of average annual growth rate of processing industries within the range of 8-8.4%; at least 3 times gains in labor productivity by 2015 against 2000; and 2-fold reduction of power-intensity of GDP;
- increased productivity of fixed assets of processing enterprises;
- cultivation of business-friendly environment; establishment of institutional settings to stimulate private sector, encourage competitive edge and strive for greater value added;
- introduction of incentives to establish science-intensive high-tech export-oriented enterprises;
- diversification of export potential of the country in favor of products and services with high value added; transition to world standards of quality;
- enhancement of integration into the regional and global economy, with participation in global innovation processes.

Production of competitive and export-oriented products, works and services in processing industries and in the sphere of services is the major issue of the state's industrial-innovational policy.

Against the background of globalization, economy of Kazakhstan has encountered a series of objective problems, among which there is extraction industries predominance, insignificant integration into the world economy, weak inter-branch and inter-regional economic integration within the country, low consumer demand for products and services at the domestic market (small economy), underdeveloped production and social infrastructure, general technical and technological backwardness of enterprises, absence of effective relations between science and production, low spending on R&D, incompatibility of management with objectives of economic adaptation to globalization and transition to the economy of service and technology.

To resolve the issues and to achieve set-forth objectives and goals within the framework of the Strategy, it is proposed that besides intensification of operations of the Bank for Development, ad-hoc institutes of development, such as Kazakhstan Investment Fund, Corporation of Export Insurance, and Innovational Fund will be created. They are supposed to be the major tools of the Strategy implementation. The said institutes will be pursuing the policy of

investment into establishment of new and development of already operating enterprises with high value added and will be rendering support to R&D relying upon comprehensive analysis of promising sectors and enterprises.

### **National Fund of the Republic of Kazakhstan**

National Fund of the Republic of Kazakhstan was established by respective Presidential Decree as of August 23, 2000 with a view of ensuring stable socio-economic development of the nation, accumulation of funds for generations to come (saving function), reduction of the economy's dependence on negative external factors (stabilizing function).

The Fund is the totality of financial assets accumulated on the Government's account in the National Bank of Kazakhstan.

The Fund's stabilizing function is realized in the form of transfers to the central and local budgets. This compensates for losses defined as difference between the approved and actual tax revenues of the budgets from extraction sector enterprises. According to the National Bank, the Fund's assets as of May 2006 make up USD 8. 631 billion.

### **Bank for Kazakhstan Development**

Bank for Kazakhstan Development was established April 25, 2001 in pursuance of the Presidential Decree as of December 28, 2000 titled "On the Bank of Development of Kazakhstan".

The main goal of the Bank is enhancement of the state investment-related activities efficiency, development of production infrastructure and processing industries, encouragement of internal and foreign investments into the national economy.

The need for establishment of the Bank for Kazakhstan Development was called forth by the necessity to ensure sustainable development of the national economy, especially its real sector.

As of April 1, 2005, the Bank for Kazakhstan Development has approved for financing 27 investment projects totaling USD 780.3 million, the share of the Bank reached USD 349 million, among the projects approved in 2005 there's a project worth USD 4 million, with the Bank being the only investor.

### **Investment Fund of Kazakhstan JSC**

Investment Fund of Kazakhstan JSC (IFK) was established pursuant to respective government regulation as of May 30, 2003.

The main goal of the IFK is to contribute to implementation of the Strategy of Industrial – Innovational Development of the Republic of Kazakhstan for 2003-2015 through attracting investments into promising enterprises.

The need for establishment of the IFK was called forth by underdeveloped equity market, rather low capitalization of domestic companies, and lack of adequate mechanisms to ensure inflow of investments into processing industries.

The IFK participates in financing of investment projects targeted at extension, reconstruction, and technical upgrade of already operating and establishment of new enterprises to manufacture goods and render services. As of April 1, 2005, the Investment Fund approved for 18 projects totaling USD 935,4 million, with the share of the Bank making up USD 80,3 million.

### **National Innovation Fund JSC**

National Innovation Fund JSC (NIF) was established pursuant to respective governmental regulation as of May 30, 2003.

The core of the NIF's operations is promotion of innovation-related activities in the country, including offering support to development of technology-intensive enterprises.

On the whole, NIF stimulates venture function of the market economy. This particular function is of great importance to creation and development of high-tech sectors – IT, electronics, biotechnology, etc.

NIF is intended to provide solutions to the package problem of absence of efficient market mechanisms to adopt innovations, the problem being inherent to all post-Soviet countries.

Given the inadequate development of venture institutions within the country, there's a legal framework being worked out to stimulate and regulate venture activities. As of April 1, 2005, the Innovation Fund approved 51 projects totaling USD 130,4 million, with the Fund's share being USD 100,9 million. Among the projects there were 30 projects approved for financing in 2005, totaling USD 11,9 million, the Fund's share being USD 8,1 million.

As of April 1, 2005, the aggregate chartered capital of the institutes of development made up over KZT 111 billion (USD 847 million). On the whole, in 2005 there were 29 projects approved, totaling USD 525,2 million, with the share of local institutes of development standing at USD 21,5 million.

There have been three stages defined in the implementation of the Strategy of Industrial-Innovational development of the Republic of Kazakhstan:

First stage 2003-2005, will make changes in the legislation and in sectoral programs of development, will define volumes of financing allocated to science, education, and training of specialists. Also, this is the period in which institutes of development - through which the state will ensure its participation in realization of the program - will be created.

Second stage 2006-2010, provides for examination of private sector initiatives, search of investors – participants of realization of select projects, manpower training, construction and reconstruction of major and subsidiary facilities.

Third stage 2011-2015, will complete the whole complex of organizational measures and accelerate works to enhance competitive edge of products manufactured by processing enterprises. Result of the Program implementation will be change of the economic structure and export diversification.

The total cost of the Program for 2005 - 2015 will make up KZT 139795.13 million, KZT 77272.3 million of them being allocated out of the central budget, another KZT 2112 million – out of local budgets, and private local and foreign investments are expected to make up no less than KZT 60410.83 million.

Active pursuance of the industrial-innovational policy will ensure rate of economic growth not less than 8.8-9.2% a year. This will allow increasing the national GDP 3.5-3.8 times by 2015 compared to 2000, driving growth of labor productivity at least 3 times by 2015 compared to 2000 and reducing GDP energy-intensity twice.

Results of the Strategy implementation amidst intensive development of oil and gas are not going to entail drastic changes in the structure of the economy or that of production.

The Strategy implementation will allow to:

- increase by 2015 the share of finished goods production in the GDP from 46,5% to 50-52%;
- increase the share of R&D-related activities in the GDP from 0,9% in 2000 to 1,5-1,7% in 2015;
- slow reduction of the share of processing industries in the GDP from 13,3% in 2000 to 12-12,6% in 2015 (compare: but for the industrial policy, this indicator would make up 10,9% in 2015).

At the same time, without the Strategy being implemented, the share of value added of mining industries in the industrial production sector can reach 55-56% in 2015, including 50-51% in oil sector against 25,6% in 2000. With due consideration of the Strategy implementation, mining industries will only make up 46-47%. At the same time, the share of high-tech industries will grow from 0,1% of the GDP in 2000 to 1-1,4% in 2015. Quality changes are to take place in the structure of value added in processing industries. The share of metallurgy and metal working will fall down from 40,1% of the total value added in processing industries to 27-28%, and the share of agroproducts

processing will grow from 38,1% to 45-46%. The share of science-intensive and high-tech products will make up 9-11% against 0,6% in 2000.

Thus, successful realization of the Strategy is to facilitate Kazakhstan in turning to a higher level of social development and to induce quality changes in the economic structure, which will lead to sustainable growth based on efficient use of human, production and natural capital.