



# NATIONAL REPORT

Global Entrepreneurship Monitor:  
Kazakhstan 2016/2017

Global Entrepreneurship Monitor: Kazakhstan 2016/2017 report is based on data collected in the Republic of Kazakhstan under the direction of the Graduate School of Business (GSB) of Nazarbayev University in collaboration with the JSC “Economic Research Institute”. The goal of this report is to track the state of entrepreneurship in Kazakhstan against the background of relevant comparison groups. We expect the report will help policy makers to further improve the entrepreneurship framework in Kazakhstan, and in so doing, to contribute to the economic wellbeing of the Kazakhstan people.

#### **ACKNOWLEDGEMENTS**

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The GEM research team would like to express our appreciation to the Administration of Nazarbayev University, Ministry of National Economy of the Republic of Kazakhstan, Economic Research Institute, Center for Trade Policy Development, National Entrepreneurship Chamber “Atameken” and “Damu” Entrepreneurship Development Fund for their support and advice in undertaking this project. In addition, we also would extend our thanks to the Global Entrepreneurship Monitor’s global coordination team for their continuing support and advice.

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## PREFACE

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Every year, the Global Entrepreneurship Monitor (GEM) project maps out the global state of entrepreneurship in over 100 countries in the world and interviews more than 200,000 experts and entrepreneurs. The Graduate School of Business at Nazarbayev University is proud to contribute to this global effort .

Through more than 2000 interviews, the Kazakhstan National Team collected data on entrepreneurship in the leading economy of Central Asia, and benchmarked the country's results with the neighboring countries, the region, and the rest of the world.

This is the third annual report published by the Kazakhstan team at Nazarbayev University and covers data for the period 2014-2016. Our research outlines strengths and weaknesses of entrepreneurship conditions in Kazakhstan. The country has made significant progress in a number of areas but some structural weaknesses still exist and will require improvements. This year's major findings are: (a) access to finance for entrepreneurs improved since 2014; (b) government policies are generally assessed positively, though bureaucracy and corruption remain major constraints on entrepreneurship; (c) R&D transfer to SME is still insufficient; (d) many people in Kazakhstan have entrepreneurial intentions and plan to increase number of employees in the next 5 years; (e) assessment of entrepreneurship opportunities and motivation for starting a business varies significantly across Kazakhstan.

We hope that decision makers from government, industry associations and corporate leaders with the ability to improve the business environment will study the results of this yearly survey and take action to improve the entrepreneurial climate in Kazakhstan.

Prof. Dr. Patrick Duparcq, Dean  
Graduate School of Business  
Nazarbayev University



Dear readers!

In September 2016, President of Kazakhstan Nursultan Nazarbayev defined stimulation of mass entrepreneurship as one of the main priorities of the Government policy. Obviously, creation of favorable conditions for doing business is the key to successful business development in the country.

The National Report of the Global Entrepreneurship Monitor project is an important tool for assessing the level and scale of entrepreneurial activity in the country. The National Report outlines the strengths and weaknesses of entrepreneurship development and analyzes conditions for the start of entrepreneurial activity as well as the attitudes of potential entrepreneurs in Kazakhstan in comparison with other countries.

I hope that the National Report will become a reference point for those who carry out research on the development of entrepreneurship and who makes decision in this area.

I express my gratitude to the national GEM team for preparing this National Report.

Aizhan Tulepbekova

Director of the Entrepreneurship Development Center

“Institute of Economic Research” JSC



"Global Entrepreneurship Monitor" (GEM), exploring the state of entrepreneurship in the country, helps to define a strategy that can enhance entrepreneurial activity in the Republic of Kazakhstan. In this National Report, the national team of Kazakhstan presents the results of the analysis of a significant data allowing us to identify the existing challenges in the development of entrepreneurship in our country.

The National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken", representing the interests of the business community, considers GEM project as a tool to recognize existing issues and mechanisms for improving business environment in the country.

We hope that the National Report will reveal the real state of the entrepreneurship development in our country and explore the existing problems, which need to be addressed.

We are glad that we were able to support the national team of Kazakhstan in the implementation of the GEM project and this report outlines its results.

We are interested in active participation in and providing assistance to the GEM project in the future, to apply its results and recommendations in order to develop and support business community of Kazakhstan!

Rustam Zhursunov  
Deputy Chairman of the Board  
National Chamber of Entrepreneurs  
of the Republic of Kazakhstan "Atameken"

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## EXECUTIVE SUMMARY

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Kazakhstan participates in the global entrepreneurship monitor (GEM) since 2014. In this report, we were able to compare GEM's data for Kazakhstan encompassing the three-year period (from 2014 to 2016). In addition, we compared Kazakhstan's data to the BRICS (Brazil, Russia, India, China and South Africa) group of countries, GEM averages, and the averages for the Asia & Oceania region. Like rapidly industrializing BRICS economies, Kazakhstan is actively working toward making its economy competitive globally. Furthermore, Kazakhstan is also making a major emphasis on the development of entrepreneurship. GEM allows establishing in what areas of the entrepreneurial ecosystem Kazakhstan is doing well compared to other economies and in what areas Kazakhstan needs to do better to stimulate new venture creation and growth.

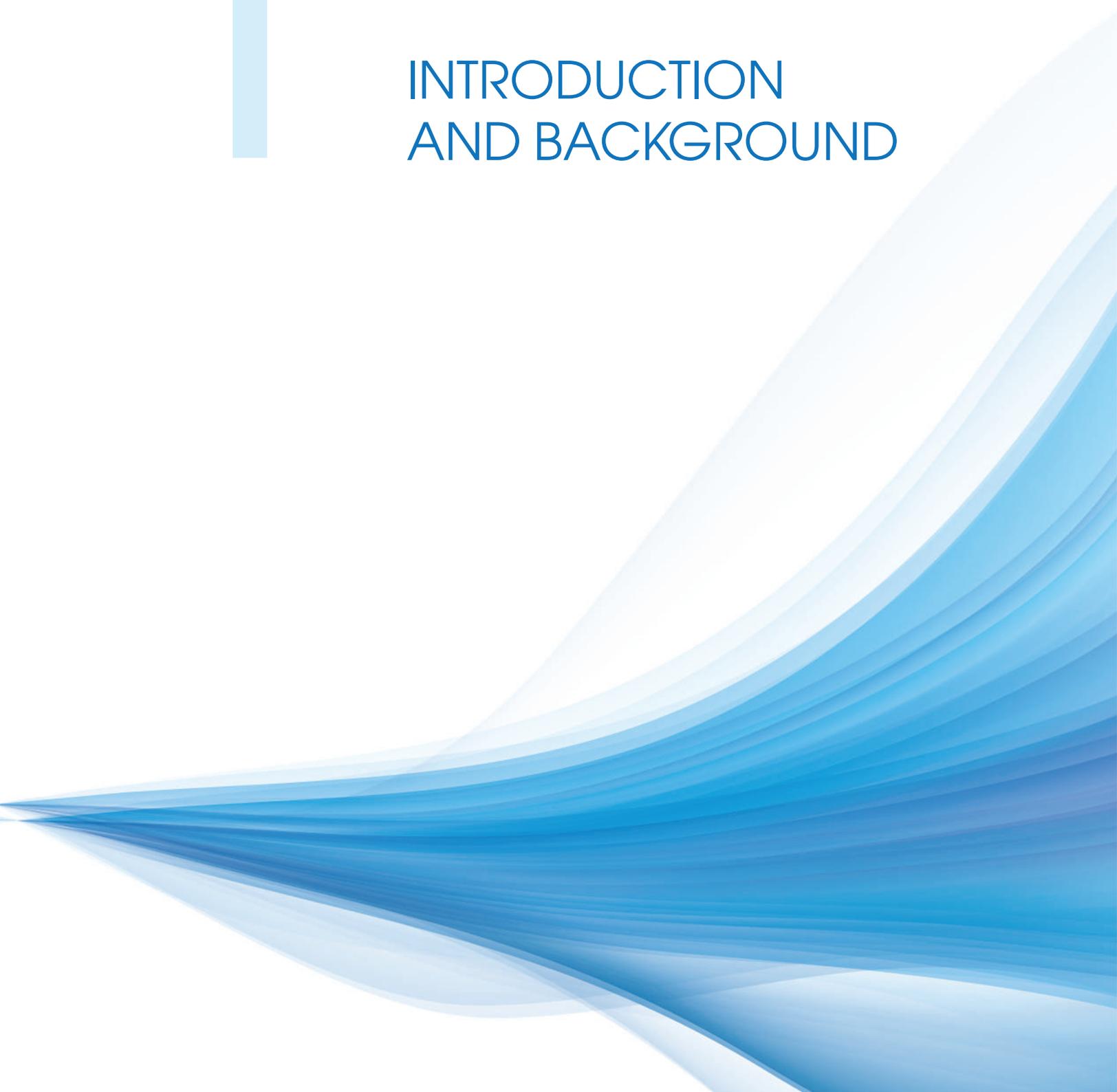
Based on our analysis, entrepreneurship is regarded in Kazakhstan with respect and many individuals in Kazakhstan form entrepreneurial intentions. However, potential entrepreneurs also experience high fear of failure (these numbers differ significantly across Kazakhstan). Most of the new ventures, however, are necessity based and the numbers of new ventures going out of business for various reasons are rather high. On the positive side, Kazakhstan entrepreneurs, who plan to start businesses that will create many jobs that could have a positive effect on the employment opportunities in the country and its economy. However, R&D transfer to SMEs in Kazakhstan is still insufficient. While government support systems work well they are not always staffed with competent personnel. The numbers of science parks and incubators are increasing but they also need to work more effectively. National experts point out that corruption and bureaucracy are major constraints on entrepreneurship in Kazakhstan (although Kazakhstan now represents, according to the World Bank's data, one of the most favorable places for doing business in the worlds). Small businesses also need more protection from big businesses and quasi-state organizations. In addition, entrepreneurial education from school and through the higher education system should become a priority.

The content of this report, which is based on the GEM data and incorporates our findings on Kazakhstan's entrepreneurship and its issues from a comparative perspective, makes it useful and important for researchers and policy makers, including government agencies. We hope that our findings will facilitate improvement of the business climate and development of small and medium enterprises in the Republic of Kazakhstan. We also hope that this report will contribute to further economic liberalization of the Kazakhstan economy and the growing well-being of its citizens.

Nazarbayev University Graduate School of Business with assistance of "Economic Research Institute" prepared this report in consultation with GEM coordinators in London and Madrid.

# 1

## INTRODUCTION AND BACKGROUND



# 1 INTRODUCTION AND BACKGROUND

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## 1.1 GLOBAL ENTREPRENEURSHIP MONITOR



The Global Entrepreneurship Monitor (GEM) research program was initiated in 1997 as a joint venture spearheaded by London Business School in the United Kingdom and Babson College in the United States. Its purpose was to explore and assess the role of entrepreneurship across the globe, through the creation of cross-national harmonized data sets on an annual basis. Traditional analyses of economic development and growth tend to focus primarily on the contribution of large corporations. In contrast, GEM recognizes and takes into account the roles played by new and small businesses in the economy.

The first GEM study was conducted in 1999, with ten participating countries. In the ensuing decade GEM has grown to a consortium of over 100 national teams, and is now widely regarded as one of the most important longitudinal studies of entrepreneurship in the world.

In 2016, 66 economies participated in the GEM study, comprising approximately 70%

of the world's population and 85% of the world's GDP. The economies that participated in the 2016 GEM cycle are shown in **Table 1.1**. They are grouped by geographic region and economic development level. Since 2008<sup>1</sup> GEM has followed the World Economic Forum's typology of countries based on Porter's<sup>2</sup> juxtaposition of the three levels of economic development: factor-driven, efficiency-driven and innovation-driven. According to the WEF's classification, the factor-driven phase is dominated by subsistence agriculture and extraction businesses, with a heavy reliance on (unskilled) labor and natural resources. In the efficiency-driven phase, an economy becomes more competition-driven, it goes through an industrialization and is characterized by increased reliance on economies of scale, with capital-intensive large organizations being dominant. At the innovation-driven phase, businesses are knowledge-intensive, and the service sector expands.

**Table 1.1: GEM economies by geographic region and economic development category, 2016**

	<b>Factor- Driven Economies</b>	<b>Efficiency-Driven Economies</b>	<b>Innovation-driven Economies</b>
<b>Africa</b>	Burkina Faso, Cameroon, Senegal	Egypt, Morocco, South Africa	
<b>Asia and Oceania</b>	India, Iran, Kazakhstan	China, Georgia, Indonesia, Jordan, Lebanon, Malaysia, Saudi Arabia, Thailand, Turkey	Australia, Hong Kong, Israel, Qatar, Republic of South Korea, Taiwan, United Arab Emirates
<b>Latin America &amp; Caribbean</b>		Argentina, Belize, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Jamaica, Mexico, Panama, Peru, Uruguay	Puerto Rico
<b>Europe</b>	Russian Federation	Bulgaria, Croatia, Hungary, Latvia, Macedonia, Poland, Slovakia	Austria, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom
<b>North America</b>			Canada, United States

*Source: GEM Global Report 2016/2017*

## 1.2 GEM CONCEPTUAL FRAMEWORK

GEM's conceptual framework depicts the multifaceted features of entrepreneurship, recognizing the proactive, innovative and risk responsive behavior of individuals, always in interaction with the environment. The GEM survey was conceptualized with regard for the interdependency between entrepreneurship and economic development, in order to:

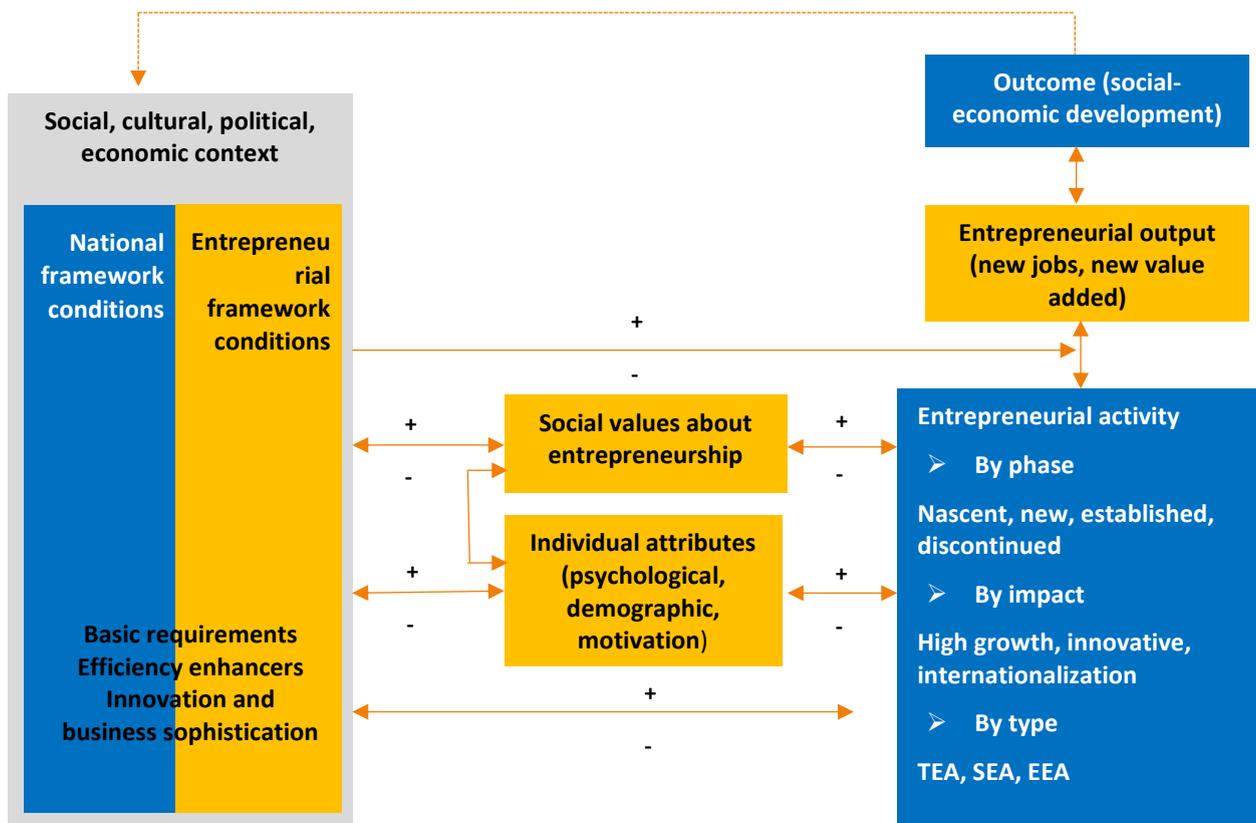
- Uncover factors that encourage or hinder entrepreneurial activity, especially related to societal values, personal attributes and the entrepreneurship ecosystem.
- Provide a platform for assessing the extent to which entrepreneurial activity influences economic growth within individual economies.

- Uncover policy implications for the purpose of enhancing entrepreneurial capacity in an economy.

The GEM conceptual framework derives from the basic assumption that national economic growth is the result of the personal capabilities of individuals to identify and seize opportunities, and that

this process is affected by environmental factors, which influence individuals' decisions to pursue entrepreneurial initiatives. **Figure 1.1** shows the main components and relationships into which GEM divides the entrepreneurial process and how it classifies entrepreneurs according to the level of their organizational development.

**Figure 1.1 The GEM Conceptual Framework**



Source: GEM Global Report 2016/2017

The social, cultural, political and economic context is represented through National Framework Conditions (NFCs), which take into account the advancement of each society through the three phases of economic development (factor-driven, efficiency-driven and innovation-driven), and Entrepreneurial Framework Conditions (EFCs) which relate more specifically to the quality of the entrepreneurial ecosystem and include: entrepreneurial finance, government

policy, government entrepreneurship programs, entrepreneurship education, research and development (R&D) transfer, commercial and legal infrastructure, internal market dynamics and entry regulation, physical infrastructure, and cultural and social norms.

As indicated in **Figure 1.1**, the GEM conceptual framework recognizes that entrepreneurship is part of a complex feedback system, and makes explicit the

relationships between social values, personal attributes and various forms of entrepreneurial activity. It also recognizes that entrepreneurship can mediate the effect of the NFCs on new job creation and new economic or social value creation. Entrepreneurial activity is thus an output of the interaction of an individual's perception of an opportunity and capacity (motivation and skills) to act upon this AND the distinct conditions of the respective environment in which the individual is located. In addition, while entrepreneurial activity is influenced by the framework conditions in the particular environment in which it takes place, this activity ultimately benefits this environment as well, through social value and economic development.

**Social values toward entrepreneurship:** This includes aspects such as the extent to which society values entrepreneurship as a good career choice; whether entrepreneurs have high societal status; and the extent to which media attention to entrepreneurship is contributing to the

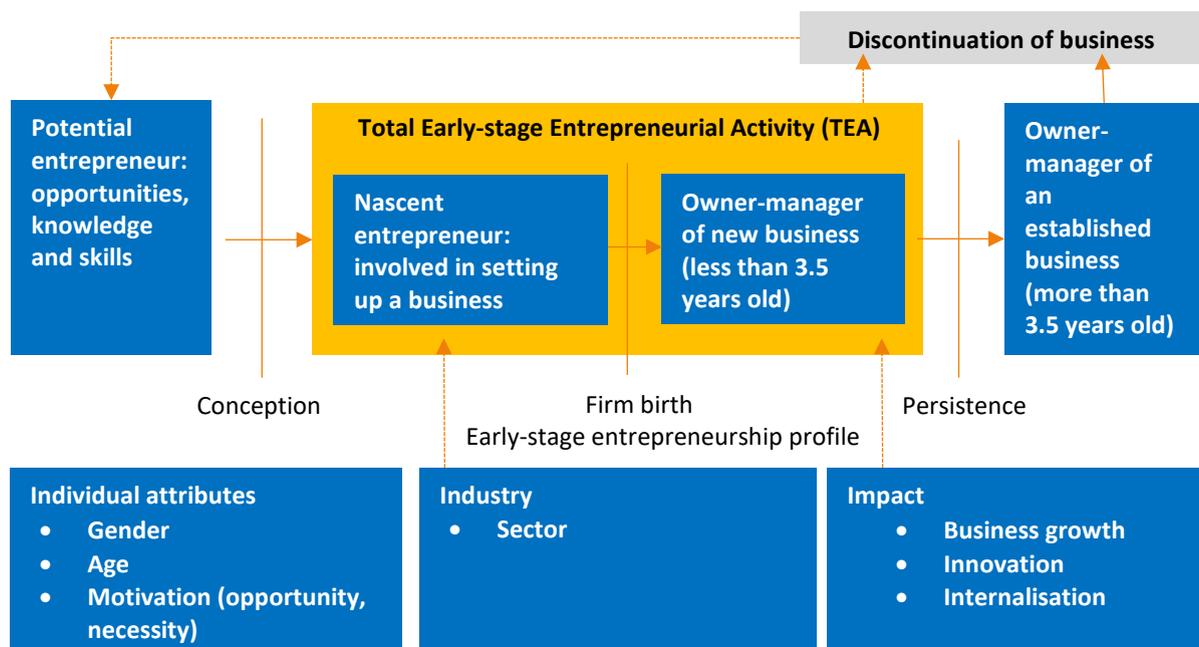
development of a positive entrepreneurial culture.

**Individual attributes:** This includes different demographic factors (such as gender, age, geographic location); psychological factors (including perceived capabilities, perceived opportunities, fear of failure); and motivational aspects (necessity versus opportunity based ventures, improvement-driven ventures).

**Entrepreneurship activity:** This is defined according to the phases of the life cycle of entrepreneurial ventures (nascent, new business, established business, discontinuation); according to impact (high growth, innovation, internationalization); and by type (Total Early-stage Entrepreneurship Activity – TEA, Social Entrepreneurship Activity - SEA, Employee Entrepreneurship Activity – EEA).

Operational definitions of the business phases and entrepreneurship characteristics are represented in **Figure 1.2**.

**Figure 1.2 GEM Model of Business Phases and Entrepreneurship Characteristics**



Source: GEM Global Report 2016/2017

Given that GEM’s goal is to provide a comprehensive view of entrepreneurship across the globe, it aims to measure the attitudes of the population, and the activities and characteristics of individuals involved in various phases and types of entrepreneurial activity. Research teams in each participating economy collect primary data through an Adult Population Survey (APS) of at least 2 000 randomly selected adults (18 – 64 years of age) annually.

Complementing the APS is a National Expert Survey (NES), which gathers in-depth opinions from selected national experts about the factors that have an impact on the entrepreneurship ecosystem in each economy. At least four experts from each of the entrepreneurial framework condition categories must be interviewed, making a minimum total of 36 experts per country. In order to construct a balanced and representative sample, the experts are drawn from entrepreneurs, government, academics, and practitioners in each economy.

### 1.3 GEM METHODOLOGY

GEM measures **individual** participation across multiple phases of the entrepreneurial process, providing insights into the level of engagement at each stage. This is important because societies may have varying levels of participation at different points in this process; however, a healthy entrepreneurial society needs to be active in all phases. For example, to

produce start-ups in a society, there must be potential entrepreneurs. Later in the process, people that have started businesses must have the ability and support to enable them to sustain their businesses into maturity.

GEM’s multi-phase measures of entrepreneurship are given below:

**Table 1.2 GEM Entrepreneurship phases**

<b><i>Potential entrepreneurs</i></b>	those individuals that see opportunities in their environments, have the capabilities to start businesses and are undeterred by fear of failure.
<b><i>Intentional entrepreneurs</i></b>	those individuals who intend to start a business in the future (in the next three years).
<b><i>Nascent entrepreneurs</i></b>	those individuals who have taken steps to start a new business, but have not yet paid salaries or wages for more than three months.
<b><i>New entrepreneurs</i></b>	those who are running new businesses that have been in operation between 3 months and 42 months.
<b><i>Established business owners</i></b>	those who are running a mature business, in operation for more than 42 months.
<b><i>Discontinued entrepreneurs</i></b>	those who, for whatever reason, have exited from running a business in the past year.

GEM's individual-level focus enables a more comprehensive account of business activity than firm-level measures of formally registered businesses. In other words, GEM captures both informal and formal activity. This is important because in many societies, the majority of entrepreneurs operate in the informal sphere. In addition, GEM's emphasis on individuals provides an insight into who these entrepreneurs are: for example, their demographic profiles, their motivations for starting ventures, and the goals they set for their businesses. GEM also assesses broader societal attitudes about entrepreneurship, which can indicate the extent to which people are engaged in or willing to participate in entrepreneurial activity, and the level of societal support for their efforts. The GEM database allows for the exploration of individual or business characteristics, as well as the causes and consequences of new business creation.

A primary measure of entrepreneurship used by GEM is the Total Early-Stage Entrepreneurial Activity (TEA) rate. TEA indicates the prevalence of individuals engaged in nascent entrepreneurship and new firm ownership in the adult (18 - 64 years of age) population. As such, it captures the level of early-stage entrepreneurial activity in a country.

Every person engaged in any behavior related to new business creation, no matter how modest, contributes to the national level of entrepreneurship. However, it is important to recognize that entrepreneurs can differ in their profiles and impact. For this reason, GEM provides a range of indicators that describe the unique, multifaceted entrepreneurial activity exhibited in each society. It is therefore important to consider not just the number of entrepreneurs in an economy, but also the level of

employment they create, their growth objectives, and the extent to which groups such as youth and women are participating in entrepreneurial activity.

To ensure reliable comparisons across countries, GEM data is obtained using a research design that is harmonized over all the participating countries. The data is gathered on an annual basis from the two main sources:

### **Adult population survey (APS)**

This dataset is a survey of the adult population, namely people between the ages of 18 and 64 years. Each of the participating countries conducts the survey among a random representative sample of at least 2 000 adults. The surveys are conducted at the same time (generally, between April and June) using a standardized questionnaire developed by the GEM consortium. In the interests of maximum uniformity and control, the international GEM project team contracts directly with each country's APS vendor. The raw data is sent to analysts at London Business School for checking and uniform statistical calculations before being made available to the participating countries.

2016 Adult Population Survey (APS) in Kazakhstan was conducted by the ERI. 2100 respondents were interviewed during July-September of 2016. The questionnaire was translated into Kazakh and Russian – and face-to-face interviews were conducted in the respondent's language of choice. To ensure that the sample was representative, area stratified probability sampling was used. The sample was stratified by gender and population group, then by region and community size. All 14 regions of Kazakhstan as well as the two biggest cities - Astana and Almaty - were included. Three different community size designations – namely, cities and large towns, small towns and villages, and rural – were used.

### **National experts survey (NES)**

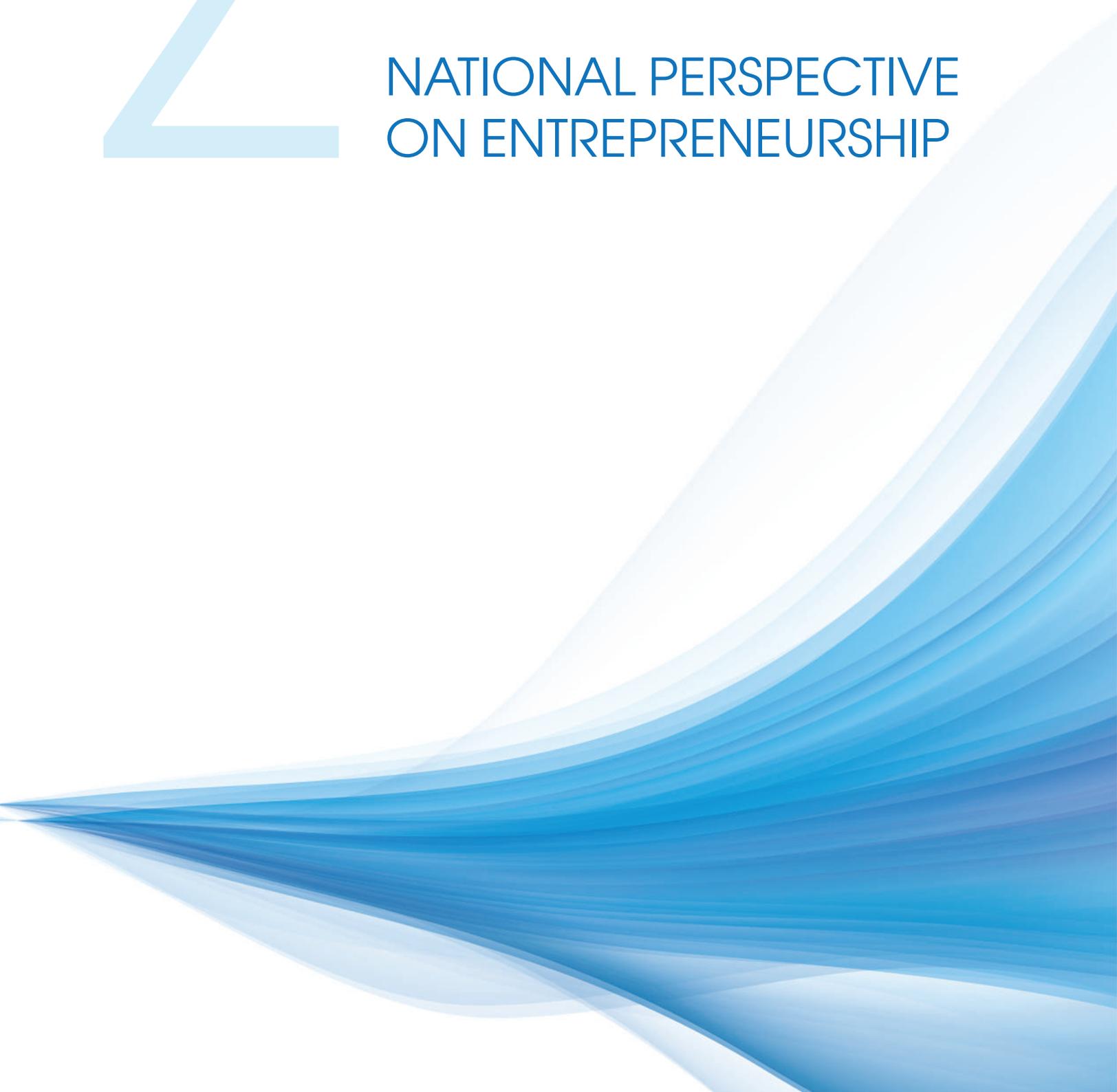
The national experts' survey is an important component of GEM as it provides insights into the entrepreneurial start-up environment in each country. A number of criteria must be met when selecting experts, in order to construct a balanced and representative sample. Four experts from each of the entrepreneurial framework condition categories must be interviewed, making a total of 36 experts per country. A minimum of 25% must be entrepreneurs or business people, and 50% must be professionals. Additional aspects such as geographical distribution, gender, the public versus private sector,

and level of experience should also be taken into account when balancing the sample.

Researchers of Nazarbayev University were responsible for national experts survey in 2016. National experts were selected among professionals who directly or indirectly impact business climate development in Some graduates of business skills training program for top management of SME organized in the framework of state program "Business Roadmap 2020" participated in survey. This program is run by Graduate School of Business of Nazarbayev University.

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NATIONAL PERSPECTIVE  
ON ENTREPRENEURSHIP



## 2 NATIONAL PERSPECTIVE ON ENTREPRENEURSHIP

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### 2.1 KAZAKHSTAN'S ECONOMIC PERFORMANCE IN 2016

Kazakhstan economy in 2016 was affected by the trends that began in 2015 as the Global economic contraction continues to impact negatively any countries economic performance. However, Government measures aimed at supporting economy in a period of high volatility of global oil prices and shrinking consumption provided GDP growth at 1.1% level.

In 2016 construction, agriculture and transport sectors were growing, contributing to GDP growth. Moreover, the volume of investments in fixed assets increased by 5.1%, reaching 7.7 trillion tenge (approximately 22,9 billion US dollars) in 2016. The FDI income had increased 4.2 times compared to 2015 and reached 14.3 billion US dollars.

The international trading in 2016 experienced further contraction and total trade turnover was 61.9 billion US dollars, though the trade surplus remained at the level of 11.6 billion US dollars.

Another important factor influencing the Kazakhstan economy is the rate of inflation. In 2015, the Kazakhstan national currency, tenge, experienced loss in its value of 45% due to introduction of a floating exchange rate. However, in 2016 the inflation rate averaged around 8.5%, which was target set by the National bank in its monetary policy. One of the major economic consequences of the introduction of floating tenge exchange rate was the decrease in consumption of the population due to negative consumer confidence. Nielsen Consumer Confidence index was 78 for Kazakhstan in 2016, which categorized Kazakhstan as one of the economies where consumers have a pessimistic outlook on the employment

opportunities, have a low opinion of their wealth and reluctant to spend money. This is further illustrated by the decline in retail sales in 2016 by 2.5% year-to-date compared to 2015. However, this trend is expected to change in 2017-2019 (in fact, the latest reports already support these forecasts) as the economic growth is expected to reach 3-4%, according to the World Bank.

Kazakhstan government is continuing to introduce initiatives for the purposes of diversifying its economic profile. The Governmental policy is focused on stimulation of domestic demand and industries unrelated to oil extraction and exporting. For example, according to World Bank, in 2016 fiscal consolidation was postponed, banking sector received additional investments, and the economic support was expanded. In fact, the National bank of Kazakhstan focused on resolving the issue of decreasing liquidity of the national currency and unstable financial markets by lowering the minimum reserves requirements and increasing the recommended interest rate for deposits in tenge. Additionally, the governmental spending was boosted to intensify the demand side of the economy. It was expanded towards the investment into innovation and infrastructure, which grew by 7.11%.

The governmental policy further concentrated upon the support of SMEs, as this sector employs 37% of the employed population in Kazakhstan. Even though the economic growth in Kazakhstan has slowed down, the small business sector showed a stable expansion of 6.9% in 2016. The small business sector

is the focal point of Kazakhstan's economic policy, where the regulations were changed to assist the private sector.

## 2.2 ENTREPRENEURSHIP IN KAZAKHSTAN

Kazakhstan as many other countries in the world is facing new global challenges and needs to adapt its policies in order to stay competitive.

This requires development of the new economic model with average annual growth rate of the economy at the level of 5-6%.

In order to ensure intensive economic growth President of Kazakhstan unveiled the Initiative entitled the Third Modernization of the Economy, which envisages the formation of a new model of economic growth, technological modernization of the economy with the prevailing role of the private sector, diversification of production, promotion of non-primary exports, and the continuous improvement of the quality of human capital in 2017.

Improvement and expansion of the business environment is one of the priorities of economic modernization. Currently SMEs in Kazakhstan account for only 25% of value-added and 37% of employment, compared to figures of 57% and 60-70%, respectively, in most OECD economies, and most (60%) of them operate in low value-added sectors.

Kazakhstan's government aims to double the share of SMEs in GDP by 2030 (to 36% from the baseline of 17.5% of GDP at the end of 2011) and to 50% of GDP by 2050. In 2017 government initiated several important reforms aimed at enhancing business environment in the country.

First, Entrepreneurship Code of the Republic of Kazakhstan systematized legal, economic and social conditions and guarantees that provide freedom of entrepreneurship in the country. The Code establishes the principles of stimulating the social responsibility of entrepreneurship, limited state participation in entrepreneurial activities, the development of self-regulation in the field of entrepreneurship as well as mutual responsibility of business and the state.

Second, The National Chamber of Entrepreneurs "Atameken" increased its role in policy development - participation of business representatives in the examination of regulatory acts is mandatory and half of the participants of the policy advisory bodies should represent business community.

Third, the Government's "Business Roadmap 2020" program provides comprehensive business support in four dimensions: subsidizing the interest rate of loans, guaranteeing loans, granting grants, as well as service measures to train and improve the competencies of entrepreneurs.

Fourth, the Government keeps decreasing administrative barriers and excessive regulatory burden on business in order to create a favorable business climate in Kazakhstan. For instance, the Government develops a new Tax Code, which provides for standards aimed at reducing the number of inspections and simplifying the administration of SMEs.

Moreover, the Government actively pursues the implementation of the policy of denationalization and privatization of state assets. In order to achieve the set goal of reducing state's participation in the economy to 15% in GDP equal to the level of the OECD countries, a Comprehensive Privatization Plan is implemented, which is planned to be completed by the end of 2018.

In order to decrease state's involvement in regulation of entrepreneurship, the Law on Self-Regulation Kazakhstan adopted last year, which enabled business entities to independently determine market rules by directly participating in the regulation of certain types of industries.

In the World Bank's Doing Business 2018 rankings, published on October 31, 2017, Kazakhstan took the 36th position, decreasing its ranking by 1 point compared to last year<sup>3</sup>.

Kazakhstan ranks close to Japan (34), Russia (35), Slovenia (37) and Belarus (38) in 2018. Kazakhstan outperforms economies of Hungary (48), Belgium (52) and Italy (46). Kazakhstan made cadastral plans available to the general public through the government website, introduced the legislation that facilitated transparency requirements, clarified corporate governance laws, decreased the customs costs and eased the clearance at the borders.

**Table 2.1 Kazakhstan in World Bank's "Doing Business" ranking**

Indicators	2017 ranking	2018 ranking	Deterioration/ improvement
Starting a Business	45	36	+9
Dealing with Construction Permits	22	41	-19
Getting Electricity	75	70	+5
Registering Property	18	17	+1
Getting Credit	75	77	-2
Protecting Minority Investors	3	1	+2
Paying Taxes	60	50	+10
Trading across Borders	119	123	-4
Enforcing Contracts	9	9	
Resolving Insolvency	37	39	-2

*Source: World bank's "Doing Business 2018" Report*

Experts of the World Bank notes Kazakhstan the reforms in the following areas:

**Registration of property.** Kazakhstan facilitated the transfer of property through improved transparency and dispute resolution mechanisms in the land administration system.

**Protection of minority investors.** Kazakhstan has strengthened the protection of minority investors by increasing shareholder rights and role in making major corporate decisions, specifying ownership and control structure, requiring greater corporate

transparency and expanding access to corporate information during the trial.

**Enforcement of contracts.** Kazakhstan simplified the execution of contracts by

introducing additional temporary standards for key litigation that are observed in most cases.

## 2.3 SOCIETAL VALUES ABOUT ENTREPRENEURSHIP

Societal values about entrepreneurship measure how denizens of a certain culture regard the status or prestige associated with being an entrepreneur, assess the attractiveness of a career as a small business/new venture owner, and measure the level of media attention to entrepreneurship. Obviously, in cultures where entrepreneurship is held in high esteem, entrepreneurial intentions are likely to be higher. Global Report suggests<sup>4</sup> that efficiency-driven economies, certain

geographic regions (e.g., Africa) and countries (e.g., Burkina Faso and Egypt) value entrepreneurship especially highly. In Kazakhstan, entrepreneurship is considered as a good career choice by about 75% of the respondents although the numbers were lower in 2016 (74.3) than in 2014 (78.6), possibly because of the deteriorating economic situation in the wake of falling oil prices and currency fluctuations that made running a small business less predictable.

**Table 2.2 Entrepreneurship intentions in Kazakhstan**

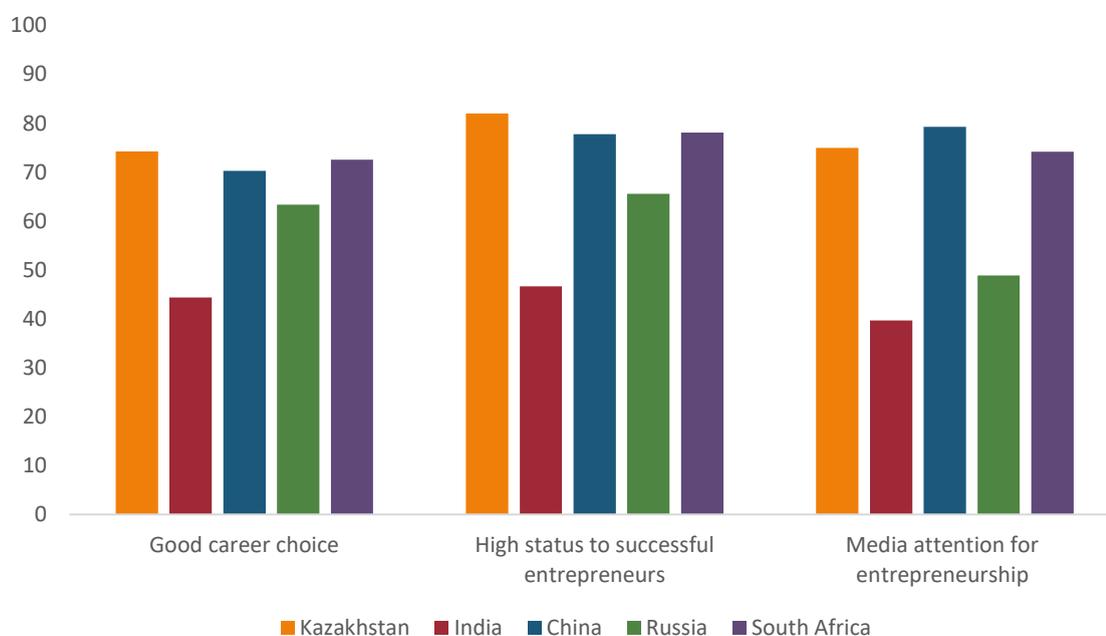
	2014	2015	2016
<b>Good career choice</b>	78.6*	76.9	74.3
<b>High status to successful entrepreneurs</b>	74.4	83.9	82
<b>Media attention for entrepreneurship</b>	83	80	75

*\*Read as 78,6% of respondents think that entrepreneurship is a good career choice*

These numbers are higher than in all the relevant averages across the three economy types and the Asia & Oceania average. The second indicator of high status to successful entrepreneurs is also higher in Kazakhstan than in all the four averages. Unlike the previous indicator, it grew rather than fell from 2014 to 2016. Curiously, in 2014 more people in Kazakhstan believed that entrepreneurship is a good career choice than that successful entrepreneurs have a high status in society. This is a bit of an anomaly since in most countries the second indicator is higher and sometimes much higher than the first one. Thus, in Israel 64% of people regard

entrepreneurship as a good career choice but many more (85%) view successful entrepreneurs as an object of admiration in society<sup>5</sup>. In contrast, in Croatia 62% of people regard entrepreneurship as a good career choice and even fewer (46%) view successful entrepreneurs as an object of admiration in society<sup>6</sup>. Unlike these huge discrepancies between the two indicators in some countries, Kazakhstan's two indicators are similarly high, and the second indicator is higher than the first one (in 2015 and 2016). This makes sense because being a small business owner is, of course, less desirable than being a successful entrepreneur.

**Figure 2.1 Comparative position of Kazakhstan: societal values, 2016**



Media attention to entrepreneurship in Kazakhstan was assessed higher than the other two indicators in 2014. In contrast, in both 2015 and 2016 it was societal admiration for entrepreneurship that got the highest scores. Moreover, in 2015 fewer people thought that the media pay enough attention to entrepreneurship. Kazakhstan's numbers are much higher than all the averages by a large margin. Moreover, Kazakhstan's numbers for all the three indicators are higher than in the neighboring Russia but come close to China and South Africa.

In general, GEM shows that attitudes toward entrepreneurship as a career

choice in Kazakhstan remain very positive despite the challenging economic climate. Although the numbers are slightly lower in 2016 compared to 2015, these are not big changes. Given the prevailing positive attitude of the population towards entrepreneurship, we can expect further growth of public interest in self-employment. For this, however, as follows from the national experts survey (NES), it is necessary to ensure that business startups have sufficient access to financing, and to stimulate innovative activities among small and medium-sized businesses.

## 2.4 SELF-PERCEPTIONS ABOUT ENTREPRENEURSHIP

Perceptions of entrepreneurship are important as they demonstrate the extent to which potential entrepreneurs identify opportunities, believe in themselves and/or are fearful of failure. The ability to identify opportunities and their perceived

abundance, self-confidence and low fear of failure are all preconditions for starting a venture. However, it is important to realize that potential entrepreneurs always consider the opportunity costs of starting a new business. People living in

developed economies where there are plenty of high-paying jobs, have more to lose by starting a new venture as they give up such opportunities for self-employment. No wonder that in innovation-driven economies potential entrepreneurs perceive fewer opportunities and have lower opinion of their own entrepreneurial capabilities but also are less fearful of failure compared to entrepreneurs in both factor-driven and efficiency-driven economies.

In Kazakhstan, perceptions of good opportunities are on par with the GEM average in factor-driven economies. They are much higher, though, than, for instance, in Russia, that is in the 63rd place (among the GEM nations) in terms of recognizing good entrepreneurial opportunities whereas Kazakhstan is in the 29th place. Compared to BRICS countries, Kazakhstan falls right in the middle, between India (27th place) and Brazil (35th place).

**Table 2.3 Self-perceptions about entrepreneurship in Kazakhstan**

Potential Entrepreneurs	2014	2015	2016
Perceived good opportunities	26.5*	48.7	44.2
Perceived capabilities	52.5	52.1	50
Fear of failure	23.8	75.4	30.5
Entrepreneurial intentions	15.4	17.5	16.8

*\*Read as 26.5% of adult population perceived there were good opportunities to start business*

In Kazakhstan, potential entrepreneurs also assess their own capabilities quite highly. In this sense, Kazakhstan is closer to efficiency-driven countries than to factor-driven countries. In the BRICS group, Kazakhstan (30th place) is closest to Brazil (24th place), and is very far from China (61st place) and other Asian countries that assess their capabilities very low as well as from Russia (62nd place). It is hard to say whether it is good or bad but probably this is a sign of self-confidence and self-efficacy on the part of the Kazakhstan people. Oddly enough, considering this rather high assessment of entrepreneurial capabilities, fear of failure in Kazakhstan is quite high. Kazakhstan (48th place) stands closer to South Africa (44th place) in this respect and is very far from Russia (10th place) and China (6th place). To summarize, Kazakhstan people see lots of entrepreneurial opportunities, think that

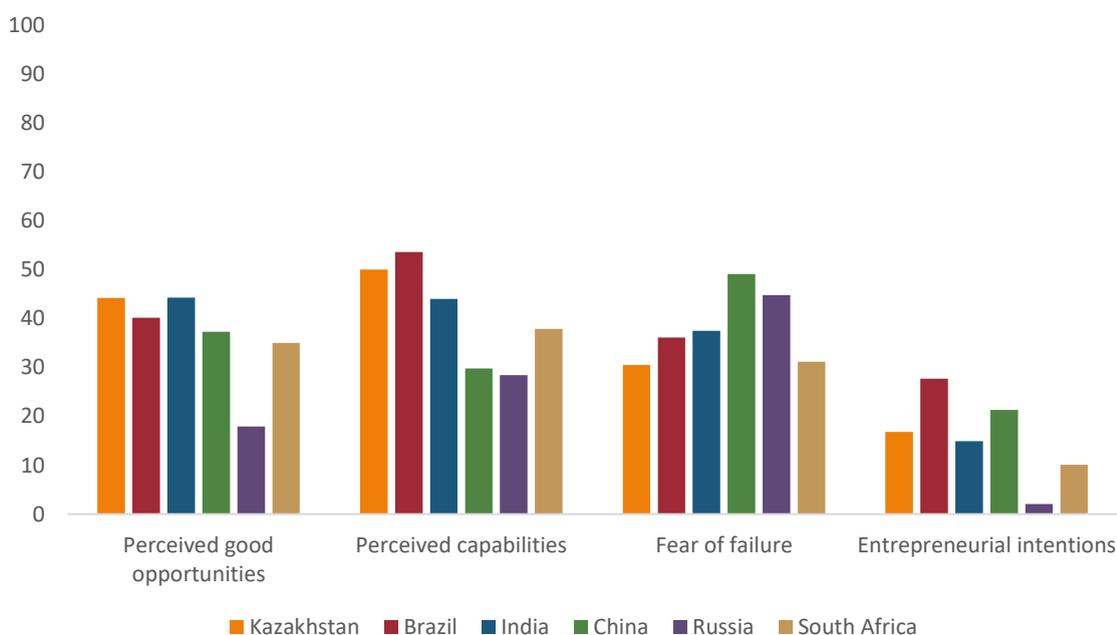
they have what it takes to realize such opportunities, yet extreme fear of failure could well stop many potential entrepreneurs from starting a business.

Entrepreneurial intentions vary quite a bit across the globe. Overall, factor-driven economies exhibit the highest entrepreneurial intentions (30%) whereas innovation-driven economies exhibit the lowest entrepreneurial intentions (15%). In Kazakhstan, entrepreneurial intentions (ranging from 15.4% in 2014 to 16.8% in 2016) are very close to the innovation-driven economies' average (15%). In contrast, in Russia entrepreneurial intentions are very low (2%). Kazakhstan's numbers are closer to India but are less than in China (21.3) or Brazil (27.7). One could probably speculate that entrepreneurial intentions in Kazakhstan would be even higher, given that people in Kazakhstan see good opportunities and

believe in themselves, but fear of failure may impede the realization of entrepreneurial intentions. Lowering fear of failure could probably increase

entrepreneurial intentions in the country leading to higher rates of new business founding.

**Figure 2.2 Comparative position of Kazakhstan: entrepreneurship perceptions, 2016**



### 2.4.1 Early-stage entrepreneurial activity in Kazakhstan

TEA, EEA and Established Business Ownership measure different aspects of entrepreneurship – nascent entrepreneurship (TEA), existing entrepreneurship (established business ownership) and entrepreneurship at work.

Early-stage entrepreneurial activity is a key indicator that measures the percentage of the adult population (18–64 years) that are in the process of starting a new business or who have just started a new business. This indicator covers two types of entrepreneurs: **nascent entrepreneurs** and **new business owners**.

In Kazakhstan, TEA rates have somewhat decreased from 2014 to 2016, possibly as a result of an economic shock following the government’s decision to let the tenge float. Kazakhstan’s TEA in 2016 (11.3) is smaller than both in factor-driven economies (16.8) and in efficiency-driven economies (14.2) and is just slightly higher than in innovation-driven economies (9.1). It is also lower than Asia & Oceania’s averages (11.3) but very close to both India (10.6) and China (10.3). It is important to note that Kazakhstan’s TEA is still much higher than in Russia (6.3 and 55th place).

We believe that there are two main factors explaining these dynamics. First, Kazakhstan is an industrial nation. Hence, it is natural for Kazakhstan's TEA to be closer to innovation-driven economies. Second, the fall of the tenge has put a

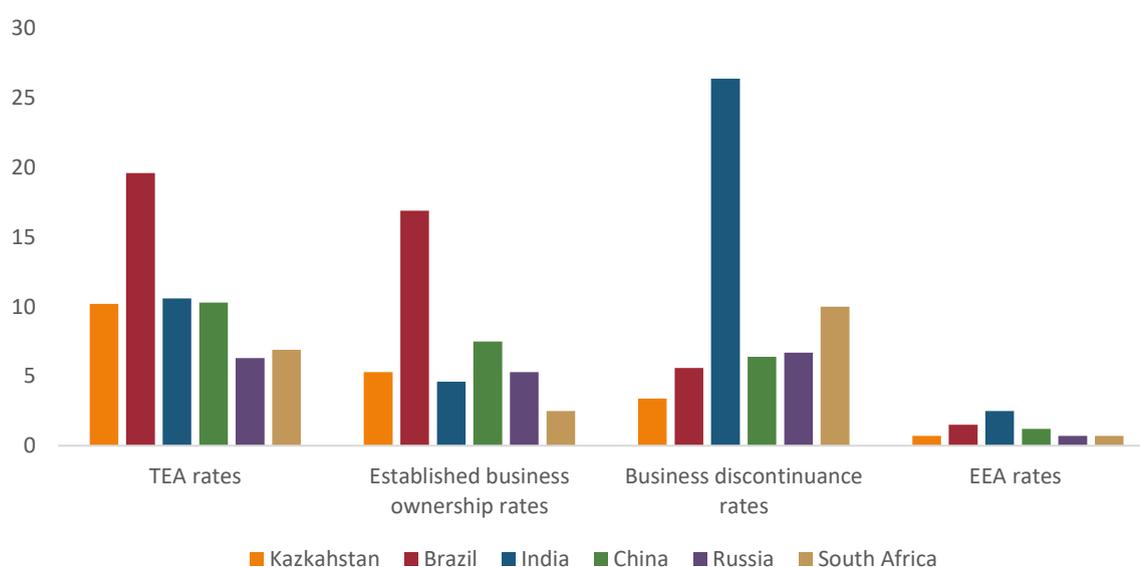
stop on a variety of small business types and starting of similar businesses. Quite simply, the merchandise bought overseas has become prohibitively expensive for Kazakhstan buyers. This makes entrepreneurs unwilling to take the leap.

**Table 2.4 Structure of entrepreneurial activities in Kazakhstan**

	2014	2015	2016
Nascent entrepreneurial rate	8.1*	8	6.9
New business ownership rate	6.1	3.2	3.4
TEA	13.7	11	10.2
Established business ownership rate	7.4	2.4	2.4
Discontinuance of business	2.9	3.1	3.4
EEA rates			0.7

*\*Read as 8.1% of adult population were engaged in nascent entrepreneurship*

**Figure 2.3 Comparative position of Kazakhstan: structure of entrepreneurial activities, 2016**



Different dynamics characterize established business ratings in Kazakhstan. In 2016, Kazakhstan's established business ratings (2.4) was much lower than in factor-driven economies (11.2) and in efficiency-driven economies (8.6) and was

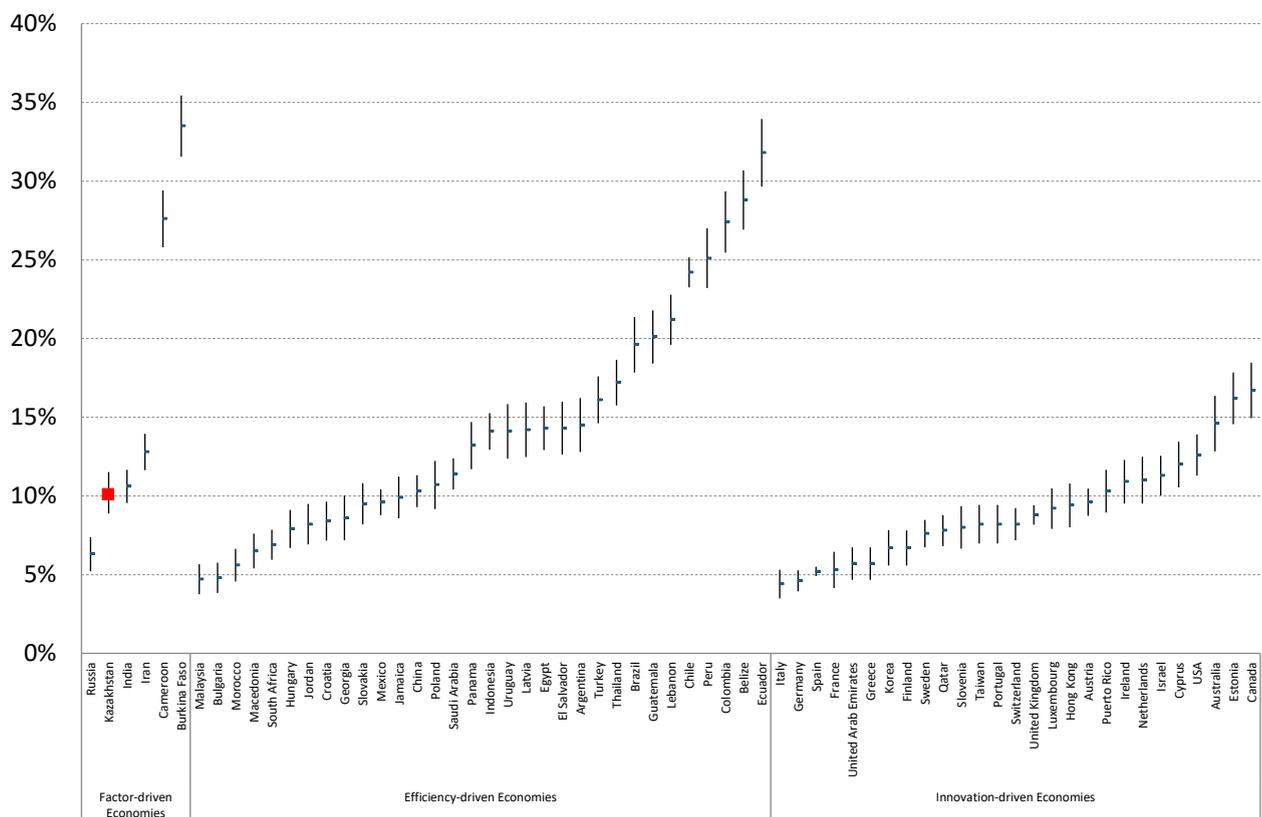
even lower than in innovation-driven economies (6.7). It was also lower compared to Asia & Oceania's averages (8.3) and Russia (5.3). This suggests that Kazakhstan's new businesses may not be very stable and quickly disappear. Even

though South's Africa's (2.5) established business ratings is similar, these are very low by almost any standard or benchmark. Curiously, business discontinuance rates tell a different story. According to this indicator, Kazakhstan businesses do not go out of business that often.

The Global Report<sup>7</sup> points out that TEA and EEA work in opposite directions as far as different phases of national economies are concerned. "The average TEA rate for the factor-driven economies in 2016 was almost double that of the innovation-driven economies (17% compared to 9%), as well as the rate of established businesses (11% compared to 6.7%), but entrepreneurial employee activity was significantly more intense in innovation-driven economies in comparison with

factor-driven and efficiency-driven economies." Indeed, in factor-driven economies EEA in 2016 was the lowest (1.2) and in innovation-driven economies it was the highest (5.1) with EEA in efficiency-driven economies right in the middle (2.3). In Asia & Oceania (3.0), it was higher than in efficiency-driven economies. Curiously, in Russia, Kazakhstan and South Africa, it was the same (0.7), which is clearly an extremely low indicator. Obviously, Kazakhstan businesses need to foster entrepreneurial attitudes among their employees to increase their productivity. This task is no less important than the task of increasing the rate of founding of innovation-oriented new businesses in Kazakhstan.

**Figure 2.4 : Total early-stage entrepreneurial activity (TEA) in the GEM economies by phase of economic development, 2016.**



Source: GEM Global Report 2016/2017

## 2.4.2 Motivation of entrepreneurial activity

According to the Motivational Index published in the Global Report for 2016, there were 1.2 times as many improvement-opportunity driven (IDO) entrepreneurs than necessity driven entrepreneurs in factor-driven economies.

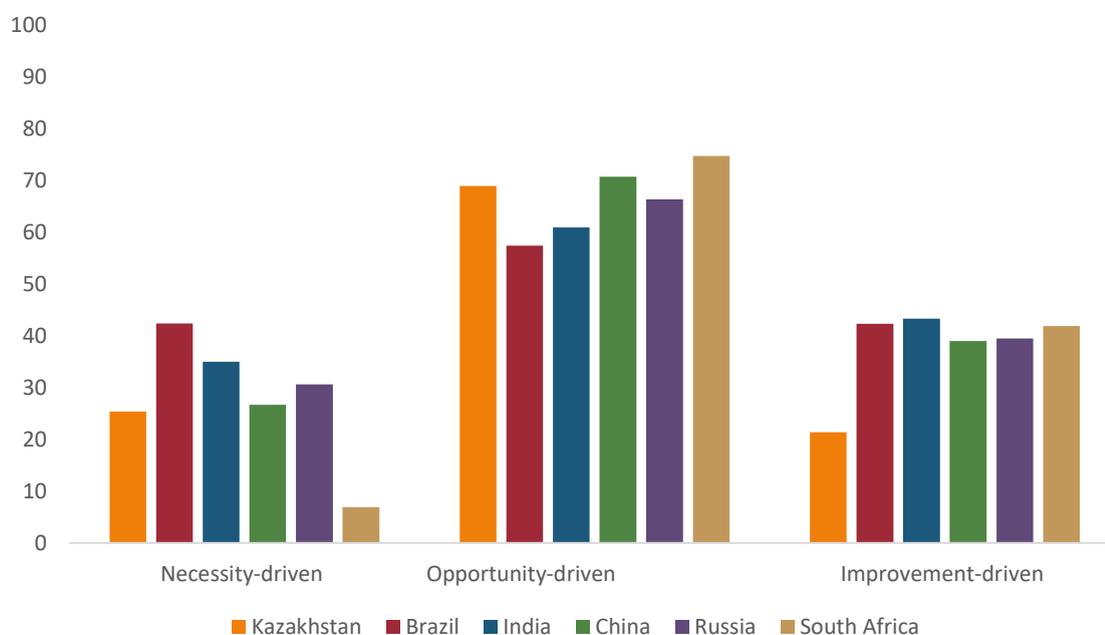
In efficiency-driven economies, the numbers were higher (2.3 times as many IDOs than necessity driven entrepreneurs) and in innovation-driven economies they were even higher (3.9).

**Table 2.6 Motivation of TEA in Kazakhstan**

	2014	2015	2016	Asia & Oceania, 2016
<b>Necessity-driven (% of TEA)</b>	26.3*	27.5	25.4	23.6
<b>Opportunity-driven (% of TEA)</b>	69.1	68.9	68.9	73
<b>Improvement-driven (% of TEA)</b>	33.6	24	21.4	48.6
<b>Ratio of necessity vs. opportunity driven</b>	1.2	0.9	0.8	2.6

*\*Read as 26.3% of adult population were motivated by necessity*

**Figure 2.4 Comparative position of Kazakhstan: motivation of TEA, 2016**



In Kazakhstan, the motivational index is rather low and it has fallen over the last three years from 2014 (1.2) to 2016 (0.8). This means that there are more necessity-driven entrepreneurs than IDO

entrepreneurs in Kazakhstan. In fact, Kazakhstan's motivational index is lower than in Russia (1.3), Brazil (1.0), India (1.2) and China (1.5). It is obvious that Kazakhstan needs to increase its numbers

of IDO entrepreneurs by improving its venture eco-system that is currently underdeveloped, which explains, perhaps, Kazakhstan entrepreneurs' greater proclivity for creation of necessity-driven businesses. Currently, the number of

science parks and incubators in Kazakhstan is on the rise, and there is a concerted effort to create a venture ecosystem in the country. Hopefully, this lead to a dramatic increase in the numbers of IDO entrepreneurs.

### 2.4.3 Business discontinuance

Another important characteristic of entrepreneurial activity in any country is its business discontinuance rate, that is, the percentage of respondents who have closed their enterprises or in any other way ceased to be entrepreneurs.

The reasons for business discontinuance may have to do with entrepreneur's choice (sale, retirement, preplanned exit or pursuit of another opportunity). Alternatively, such reasons may be due to some business problems (lacking or falling profitability, problems with loan repayment, government bureaucracy) so that the entrepreneur is pushed out of business<sup>8</sup>. In Kazakhstan, choice-related reasons have fallen from 26.6 (2014) to 14.5 (2015) and have risen again to 16.7 in 2016. These numbers are generally in line with other factor-driven economies (17.2) as well as efficiency-driven economies

The business discontinuance rate can be considered as a component of the entrepreneurial dynamics in society, along with the indicators of early-stage and established entrepreneurial activity.

(18.0) and innovation-driven economies (18.1). However, lacking profitability in Kazakhstan (46.8) appears to be greater than elsewhere, compared to factor-driven economies (34.2), efficiency-driven economies (38.2) and innovation-driven economies (33.1) as well as in other Asian economies (35.6). Moreover, the numbers have risen from 33.9 (2014) to 46.8 (2016). This clearly has to do with the floating of the tenge that made some arbitrage-based businesses (e.g., buying merchandise in China and selling it locally less viable than they used to be).

**Table 2.7 Reasons for business exit in Kazakhstan**

	2014	2015	2016
<b>Sell, retire, exit, another opportunity</b>	26.6	14.5	16.7
<b>Unprofitable</b>	33.9*	36.5	46.8
<b>Problems with finance</b>	14.2	12.5	5.6
<b>Bureaucracy</b>	-	3.7	5.4
<b>Personal Reasons</b>	16	24.2	18

*\*Read as 33.9% of respondents exit business because it is unprofitable*

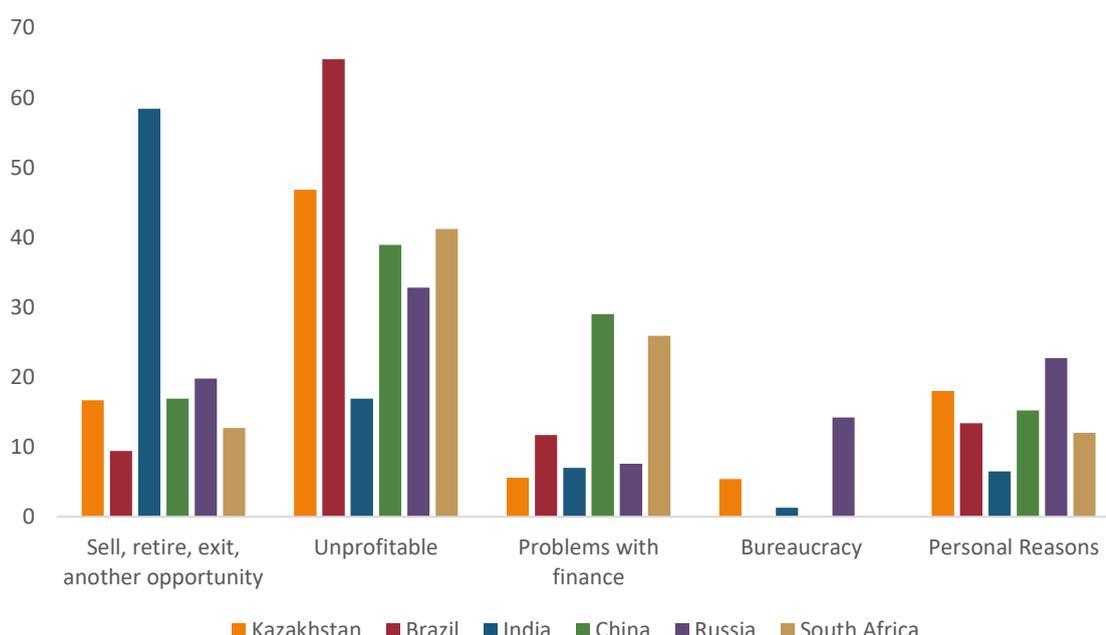
In contrast, problems with finance in Kazakhstan are relatively minor and have fallen over the years from 14.2 (2014) to 12.5 (2015) to 5.6 (2016). This is less than

in factor-driven economies (10.3), efficiency-driven economies (8.8) and innovation-driven economies (9.3) as well as in other Asian economies (12.2).

Problems with bureaucracy in Kazakhstan seem to be relatively mild although the numbers in 2016 (5.4) were higher than in the previous year (3.7). This is practically identical with the average in factor-driven economies (5.5) and lower than the averages in efficiency-driven economies (6.2) and innovation-driven economies (6.1) but higher than in other Asian economies (2.9). Finally, the rate of exits for personal reasons (18) is less than in

factor-driven economies (26.6), efficiency-driven economies (19.7) and innovation-driven economies (30.2) as well as other Asian economies (26.6). This rate was higher in 2015 (24.2) but lower in 2014 (16). These numbers are mostly in line with the rest of the comparison group although closing down the business because it was unprofitable was more frequent in Kazakhstan than in other countries of the comparison group.

**Figure 2.5 Comparative position of Kazakhstan: business discontinuance reasons, 2016**



Among the choice-related reasons for business discontinuance, another job or business opportunity represents the most frequently cited one. It was really large in 2014 (19.6) but it has fallen to 7.4 in 2015 and stayed at the same level in 2016 (7.5). These numbers are slightly lower than the average for Asia and Oceania (10.7) and Russia (10.4) and similar to the rate of business exit because of another opportunity in China (7.9) while higher

than in Brazil (4.2). Curiously, exiting to retire was not the reason for business exit either in Russia or Brazil. In Kazakhstan, this cause of business exit was rated similarly in 2014 (3.5), 2015 (3.6) and 2016 (3.9). That was almost the same as the average for Asia and Oceania in 2016 (3.5). To conclude, lacking profitability appears to be the most important reason why Kazakhstan businesses fail and exit.

## 2.5 PROFILE OF ENTREPRENEURS

In order to determine the profile of the Kazakhstan entrepreneur, an analysis was performed using the demographic and other characteristics of businessmen. This analysis made it possible to evaluate entrepreneurs' composition (in terms of

age, gender, ethnicity, and education), and their motivation.

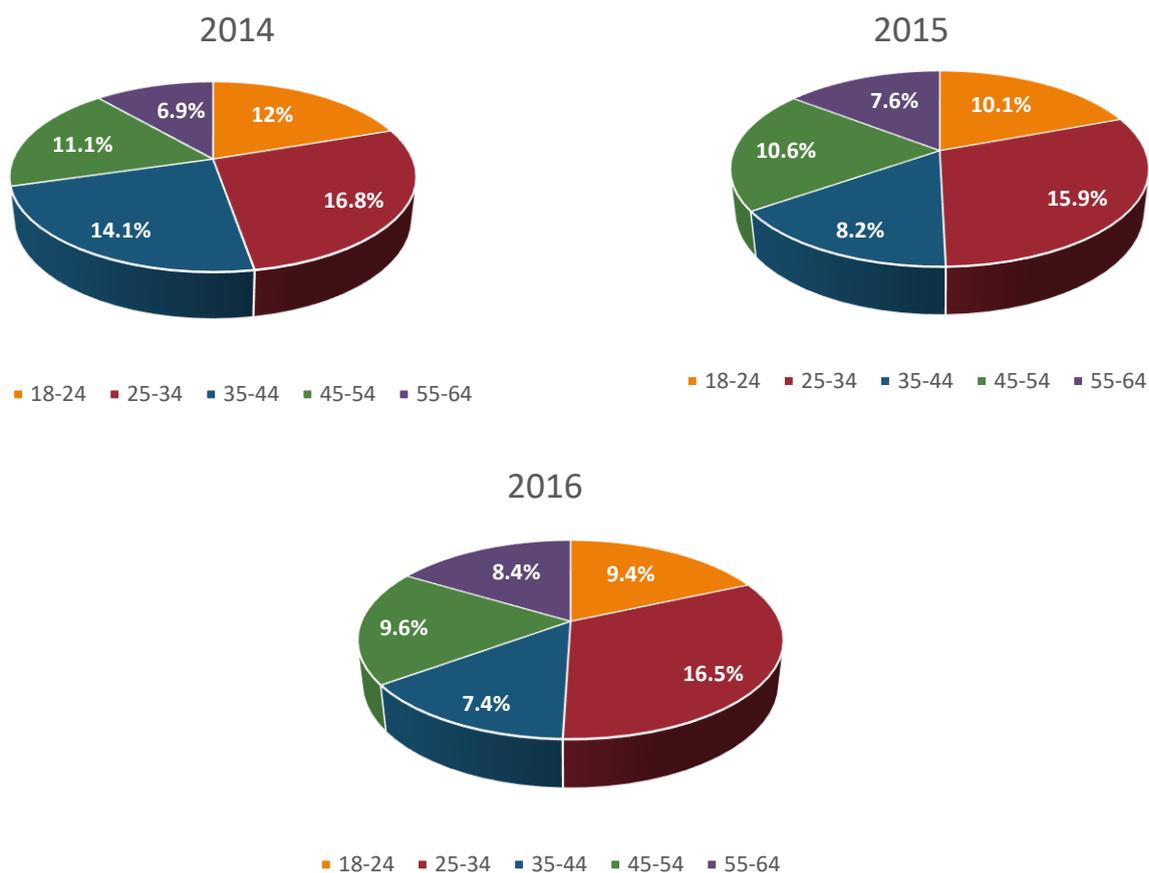
The study identified some problematic issues and opportunities for promoting greater participation of various social groups in the economy.

### 2.5.1 Age distribution

In Kazakhstan, people in the age group from 25 to 34 are more active as entrepreneurs (16.5%). Interestingly, there are more people in Kazakhstan

willing to start a new business in the 45 – 54 age group (9.6%) than in 35-44 age group (7.4%) and even in 18-24 age group (9.4%).

Figure 2.6 TEA by age in Kazakhstan



**Table 2.8 TEA by age group in Kazakhstan**

Age	2014	2015	2016
18-24	12*%	10.1 %	9.4%
25-34	16.8%	15.9 %	16.5%
35-44	14.1%	8.2 %	7.4%
45-54	11.1%	10.6 %	9.6%
55-64	6.9%	7.6 %	8.4%

*\*Read as 12% of 18-24 olds were engaged in early-stage entrepreneurship*

## 2.5.2 Gender differences

Generally, the difference in numbers of male and female entrepreneurs in Kazakhstan is not significant, which is the result of the high proportion of women in the labor force. Overall, the situation in Kazakhstan in terms of female entrepreneurship is no different from

other countries in the comparison group taking into account that the TEA rates and the portion of opportunity-driven vs. necessity-driven entrepreneurship in Kazakhstan is different from the rest of the group.

**Table 2.9 TEA rates by gender (as % of adult population for each gender involved in TEA)**

	2015	2016
Male TEA (% of Adult Male Population)	12 %*	11.1%
Female TEA (% of Adult Female Population)	10,1 %	10.2%
Male TEA Opportunity (% of Adult Male Population)	70 %	71%
Female TEA Opportunity (% of Adult Female Population)	67,7 %	64%
Male TEA Necessity (% of Adult Male Population)	26,3 %	25%
Female TEA Necessity (% of Adult Female Population)	28,9 %	32%

*\*Read as 12% of adult male population is engaged in early-stage entrepreneurship*

## 2.6 ENTREPRENEURIAL IMPACT

Job expectations and level of innovation are the principal indicators used by GEM to assess the predictors of economic growth in a certain country.

APS inquires how many employees (except the owners themselves) the business currently has and how many more it is planning to hire in the next five years. The difference between the current and expected number of staff characterizes the expectation of growth. Table 2.10 demonstrates the intention of Kazakhstan's entrepreneurs to create new jobs (from 0 to over 6) in the next five years, compared with the other countries in the comparison group. Kazakhstan businessmen are quite optimistic regarding new job creations.

In Kazakhstan, only 41% of early-stage business owners do not expect to create any jobs, while 24.7% expect to create from one to five jobs in the next five years, and 34.4% expect to create more than 6 new jobs in the next five years.

In Kazakhstan, the numbers of entrepreneurs creating one-man or one-woman businesses have grown from 27.4 (2014) to 47.9 (2016). This number is slightly higher than the averages in factor-

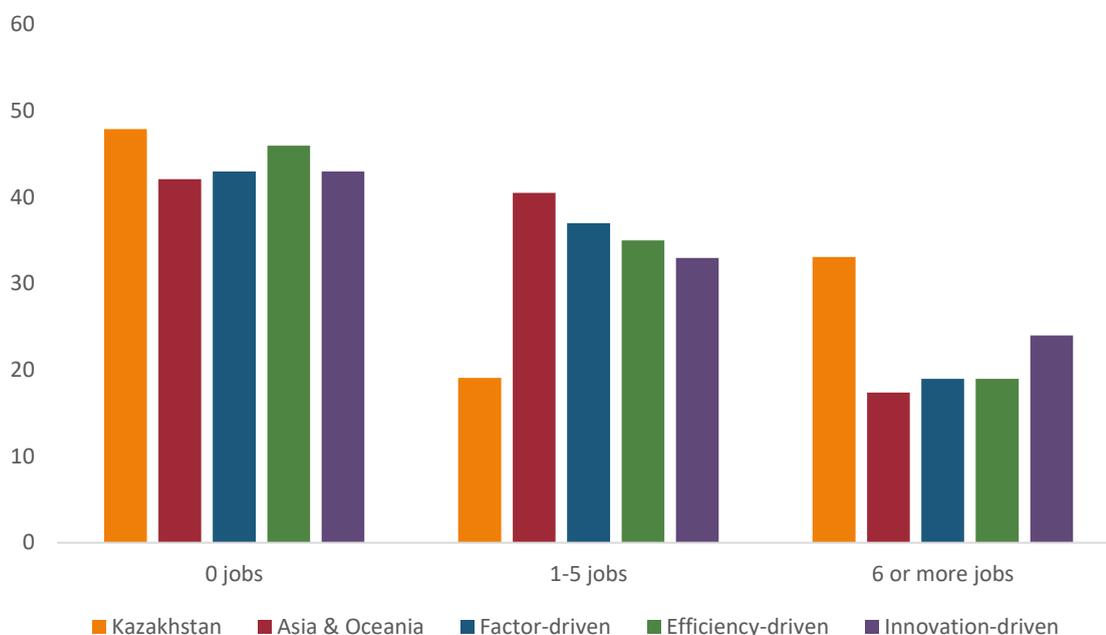
driven economies (43), efficiency-driven economies (46), and innovation-driven economies (43) as well as in Asia & Oceania (42.1). At the same time, the numbers of businesses expecting to create from 1 to 5 jobs in Kazakhstan have first risen from 16.3 (2014) to 24.7 (2015), and then fallen to 19.1 in 2016. This indicator is lower than the one in factor-driven economies (37), efficiency-driven economies (35), and innovation-driven economies (33) as well as in Asia & Oceania (40.5). However, Kazakhstan fared well with regard to its entrepreneurs' expectations to create 6 and more jobs. First, its numbers have grown from 14.9 in 2014 to 34.4 in 2015 and slightly fell to 33.1 in 2016. This is higher than the average in factor-driven economies (19), efficiency-driven economies (19), and innovation-driven economies (24) as well as in Asia & Oceania (40.5). Furthermore, Kazakhstan is more optimistic in this regard than any of the BRICS' countries: Brazil (4.4), India (5.2), Russia (18.7), China (26.7), and South Africa (27.6). Entrepreneurs from only 9 countries in the world had more optimistic forecasts about expected job creation than Kazakhstan entrepreneurs.

**Table 2.10 Job growth expectations as % of early-stage entrepreneurs**

	2014	2015	2016
<b>0 jobs</b>	27.4	41	47.9
<b>1-5 jobs</b>	16.3*	24.7	19.1
<b>6 or more jobs</b>	14.9	34.4	33.1

*\*Read as 16.3% of early-stage entrepreneurs plan to create 1-5 jobs in 5 years*

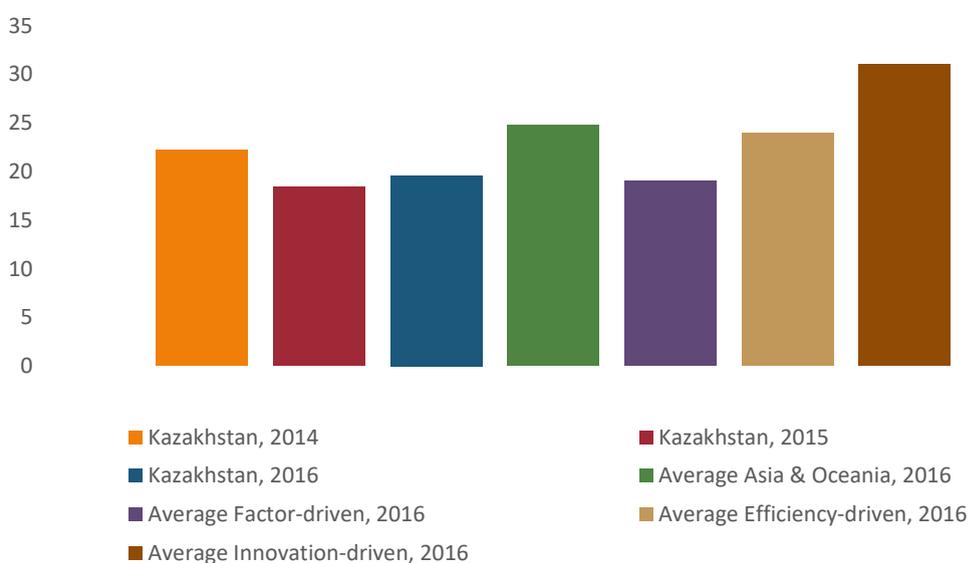
**Figure 2.7 Comparative position of Kazakhstan: job creation, 2016**



Innovation is another important outcome of entrepreneurship that could spearhead growth of the national economy. In Kazakhstan, Innovation rates have first fallen from 22.2 in 2014 to 18.4 in 2015 but have risen to 19.6 in 2016. This is on par with the average of factor-driven

economies (19) but lower than the averages of efficiency-driven economies (24) and innovation-driven economies (31). Kazakhstan’s innovation rate is much higher than Russian (5.4) and Brazil (12.4) and slightly less than in South Africa (22).

**Figure 2.8 Innovation levels among early-stage entrepreneurs**



**Table 2.11 Distribution of TEA by Sector**

	Kazakhstan, 2015	Kazakhstan, 2016	Average Asia & Oceania, 2016	Average Factor- driven, 2016	Average Efficiency- driven, 2016	Average Innovation- driven, 2016
<b>Agriculture</b>	11.4	7.5	5.8	11	7	4
<b>Mining</b>	3.8	2.8	4.5	5	5	6
<b>Manufacturing and transportation</b>	8.9	10.6	9.8	14	12	10
<b>Wholesale/ Retail</b>	46.6	51.5	53.8	47	52	33
<b>ICT/Finance/Services</b>	24.2	27.5	26.2	22	24	46

In Kazakhstan, most new businesses were created in the wholesale/retail sector. In fact, their share has increased from 46.6 in 2015 to 51.5 in 2016. According to the Global Report, around half of the entrepreneurs in the factor-driven and efficiency driven economies operate in the wholesale/retail sector compared to a third of entrepreneurs in innovation driven economies<sup>9</sup>. Kazakhstan's numbers are very close to the averages of efficiency-driven economies (52) and in Asia & Oceania (53.8). In innovation-driven economies, the average is significantly lower (33). Curiously,

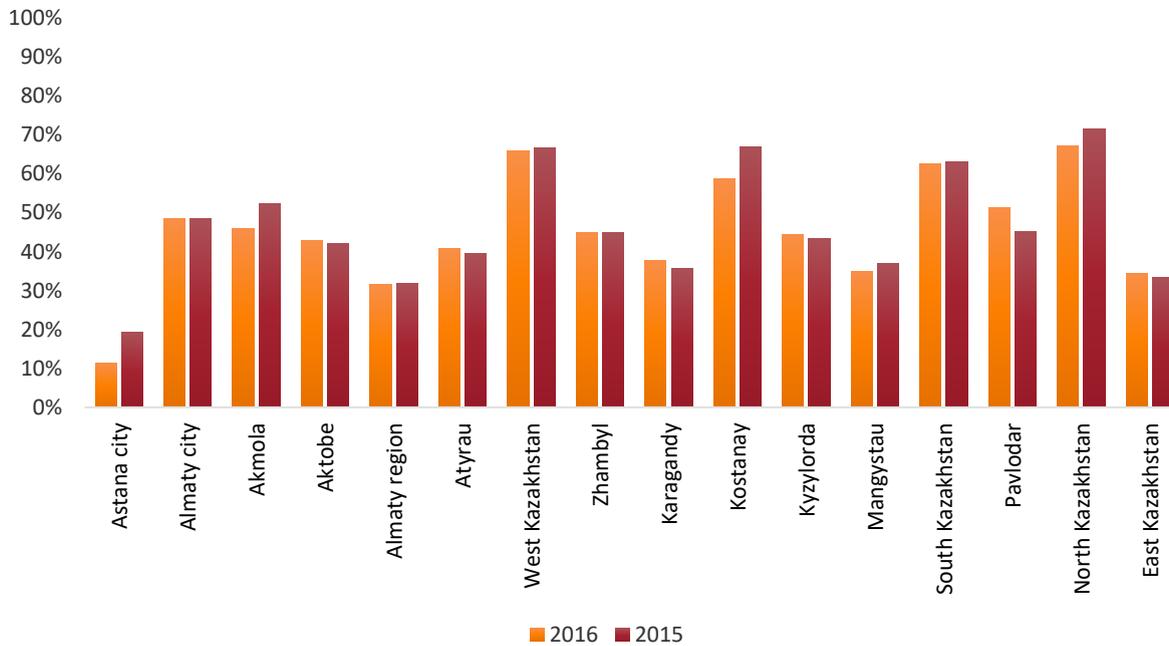
Kazakhstan's numbers in mining are lower than the averages. Thus, in 2015 it was 3.8, and in 2016, it was 2.8. This can be explained by the market power of large companies in this industry sector. All the averages are higher: in factor-driven economies the average in 2016 was 5, in efficiency-driven economies it was also 5 and in innovation-driven economies it was 6. Similar to other factor-driven and efficiency-driven economies, Kazakhstan had far fewer new ventures in the ICT/Finance/Services compared to innovation-driven economies.

## 2.7 REGIONAL DIFFERENCES

Starting a new business requires the same number of procedures and costs across Kazakhstan. However, the perceptions regarding the ease of starting a business in

different parts of the country differ substantially (**Figure 2.9**).

**Figure 2.9 Starting business in Kazakhstan's regions**



**Figure 2.10** examines the motivation structure of Kazakhstan's entrepreneurs across the country.

Most entrepreneurs of Aktobe and Pavlodar regions as well as businessmen in Astana city are opportunity-driven.

In contrast, in the North Kazakhstan region, all of the surveyed entrepreneurs are necessity-driven.

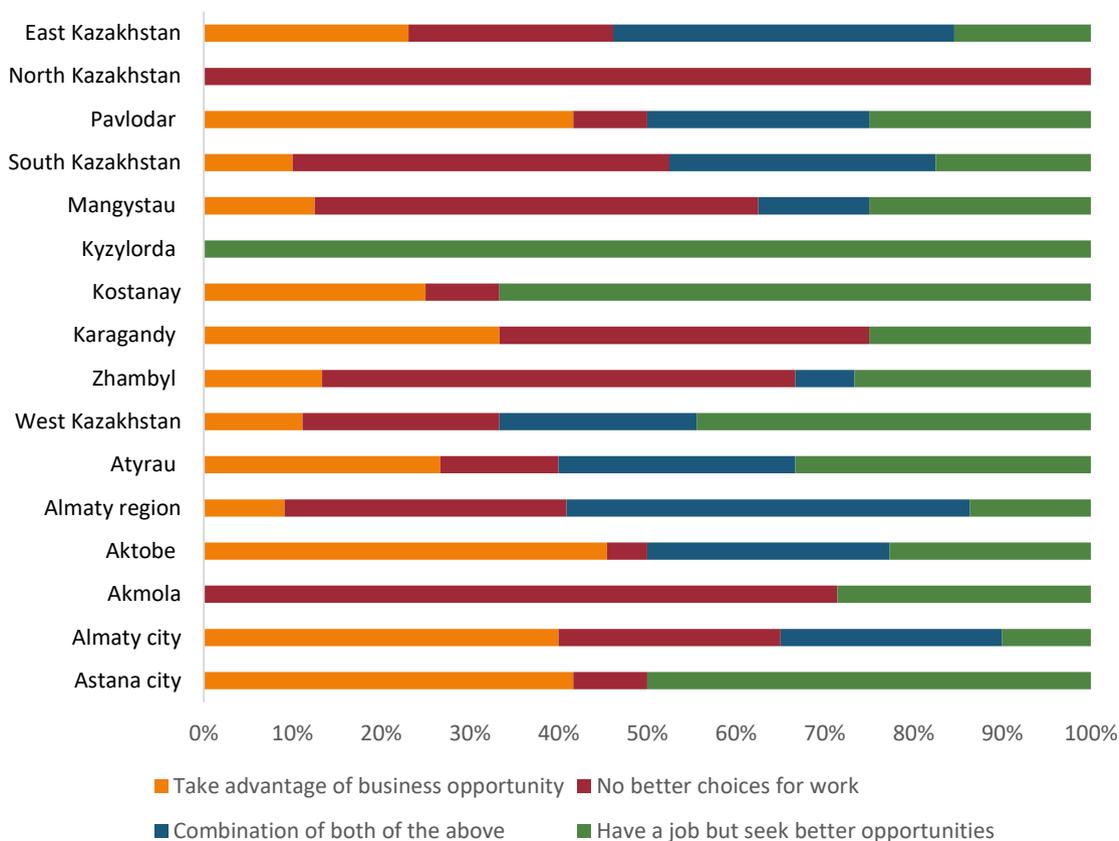
Almost half of the entrepreneurs of Almaty region chose a combination of the two above reasons, so equal number of entrepreneurs in the region is engaged in entrepreneurial activities out of necessity and to pursue opportunities.

It is interesting to note that in Kyzylorda region, 100% of the surveyed people have permanent jobs, and at the same time are

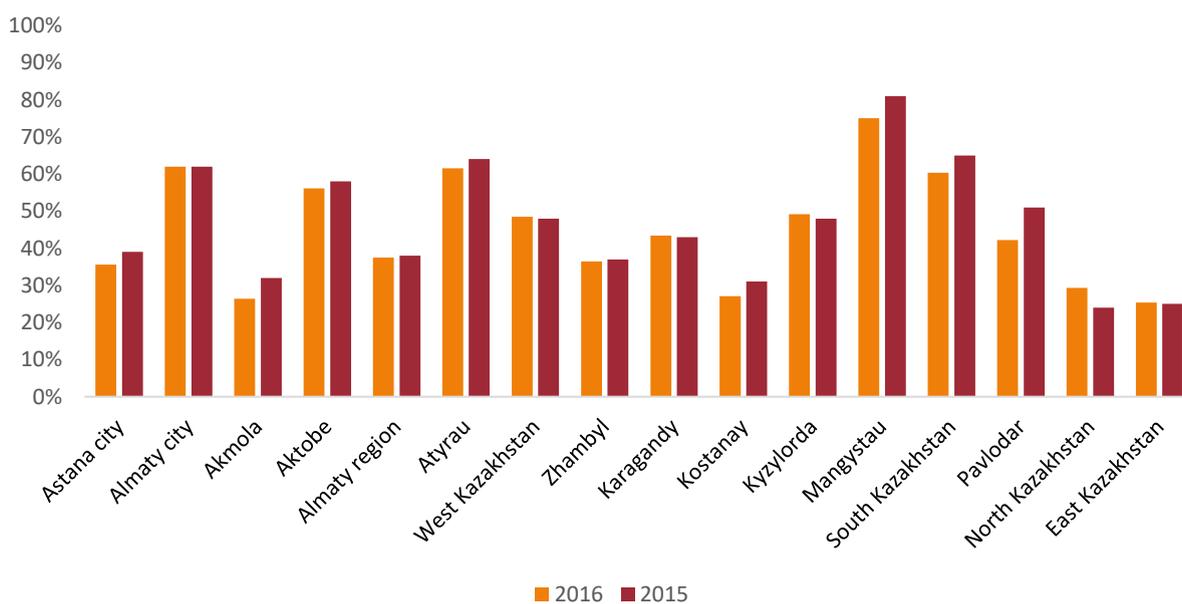
looking for more opportunities. The value of this indicator can be interpreted in two different ways: the level of employment in the region is quite high; however, employed population is probably not satisfied with their earnings.

The highest level of entrepreneurial activity is observed in Mangystau region, where the population income level is the highest. There are a lot of opportunities for entrepreneurship in large metropolitan areas and oil-rich regions. The regions with lower per capita income have lower opportunities for entrepreneurship (Akmola region, Kostanay region and North Kazakhstan region). **Figure 2.11** illustrates the possibilities of business opportunity realization in different regions.

**Figure 2.10 Entrepreneurship motivation in Kazakhstan's regions, 2016**



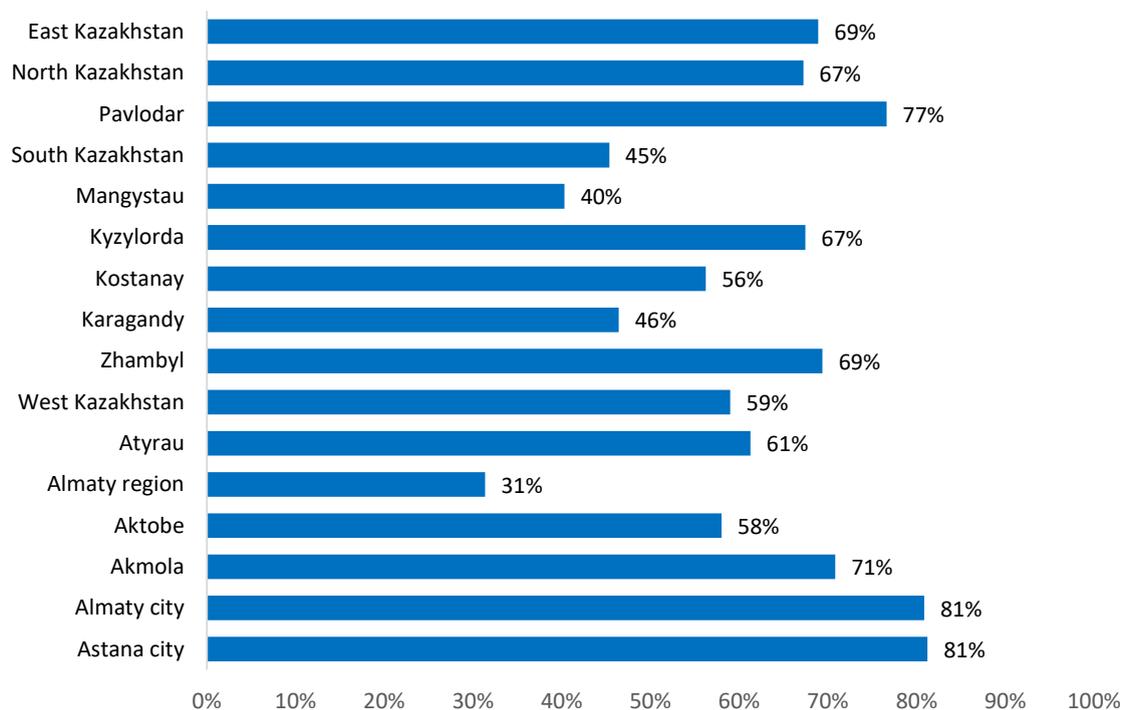
**Figure 2.11 Evaluation of entrepreneurship opportunities in Kazakhstan's regions**



**Figure 2.12** demonstrates assessment of individual capabilities to overcome fear, broken down by region. Potential entrepreneurs from Astana city, Almaty city and Pavlodar region are the most confident that they are able to overcome their fear of failure. In Almaty region, only 31% of the respondents are not afraid of

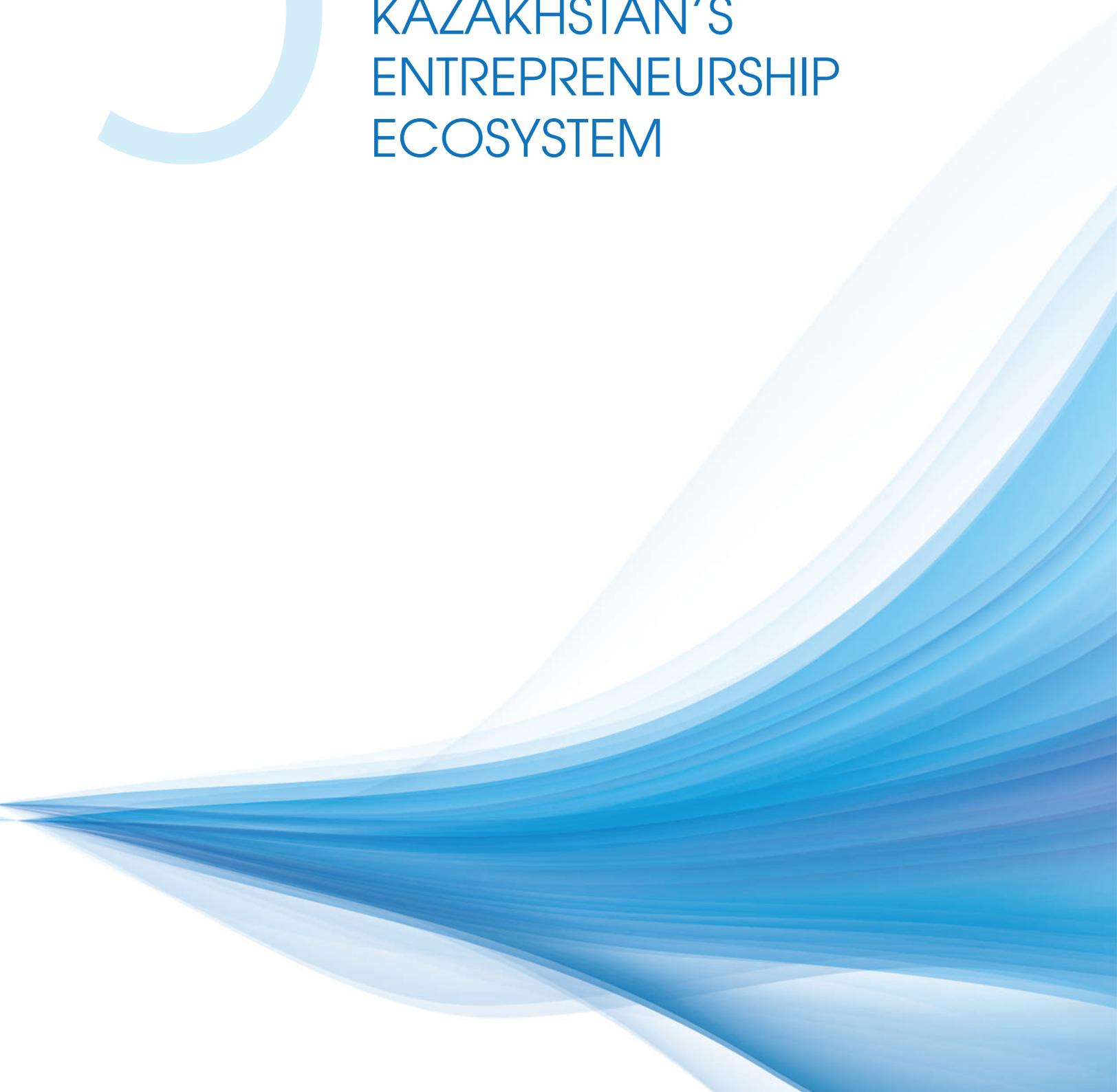
failure. It should also be noted that pessimism prevails among the respondents of the Mangystau, South Kazakhstan and Karagandy regions, where the proportion of those who do not fear being unsuccessful ranges between 40-46% of all respondents.

**Figure 2.12 Evaluation of fear overcome in Kazakhstan’s regions, 2016**



# 3

## KAZAKHSTAN'S ENTREPRENEURSHIP ECOSYSTEM



## 3 KAZAKHSTAN'S ENTREPRENEURSHIP ECOSYSTEM

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### 3.1 NATIONAL EXPERT SURVEY (NES)

The National Experts Survey (NES) assesses various elements of the local economic, and social infrastructure that facilitate the development and nurturing of entrepreneurial activity. The NES was initiated due to a lack of nationally harmonized measures that could be used as indices of specific Entrepreneurial Framework Conditions (EFCs). The NES remains the sole source of harmonized, internationally comparable data that specifically addresses the environmental factors that enhance (or hinder) new and growing firms' performance. Each year at least 36 experts in each GEM-examined economy are personally

interviewed or complete the NES questionnaire. The NES questionnaire is used to collect the views of experts on a wide range of items, each of which was designed to capture a different dimension of a specific EFC.

The NES was carefully designed and refined to capture informed judgments of national, and in some cases regional, key informants regarding the status of EFCs in their own country/region's economies. National and regional experts are selected based on their reputation and experience (through a convenience sample approach).

### 3.2 GENERAL VIEW OF ENTREPRENEURIAL FRAMEWORK CONDITIONS

An entrepreneurship ecosystem represents the combination of conditions that shape the context in which entrepreneurial activities take place. GEM assesses the following entrepreneurship conditions: financing, government policies, taxes and bureaucracy, government programs, school-level entrepreneurship education and training, post-school entrepreneurship education and training, R&D transfer, access to commercial and professional infrastructure, internal market dynamics, internal market burdens, access to physical and services infrastructure, and social and cultural norms.

A representative sample of experts from Kazakhstan assessed a wide set of blocks of items for each entrepreneurship condition using Likert scales from 1 (completely false) to 9 (completely true) to rate each proposed statement. The average scores 1-4 mean different degree of disagreement of experts with the statement, 5 means neutral position and 6-9 indicate different degree of agreement with the statement. Average scores of these evaluations are presented in Tables 3.1-3.11.

### 3.2.1 Access to finance

Entrepreneurial finance represents a very important EFC since many entrepreneurs need additional infusions of money to start a new venture.

Kazakhstan experts assessed the opportunities for equity funding in Kazakhstan much higher in 2015 (3.38) than in 2014 (2.0) and even higher in 2016 (3.57). Similarly, the average scores for debt funding have grown significantly from 2.51 in 2014 to 3.64 in 2015 and to 4.78 in 2016. Obviously, the assessments of debt funding are higher than the assessments of equity funding. This reflects the fact that debt funding is much more available in Kazakhstan than equity funding. Kazakhstan experts also gave quite high assessments to the availability of government subsidies for new and growing firms in 2016 (6.51) compared to

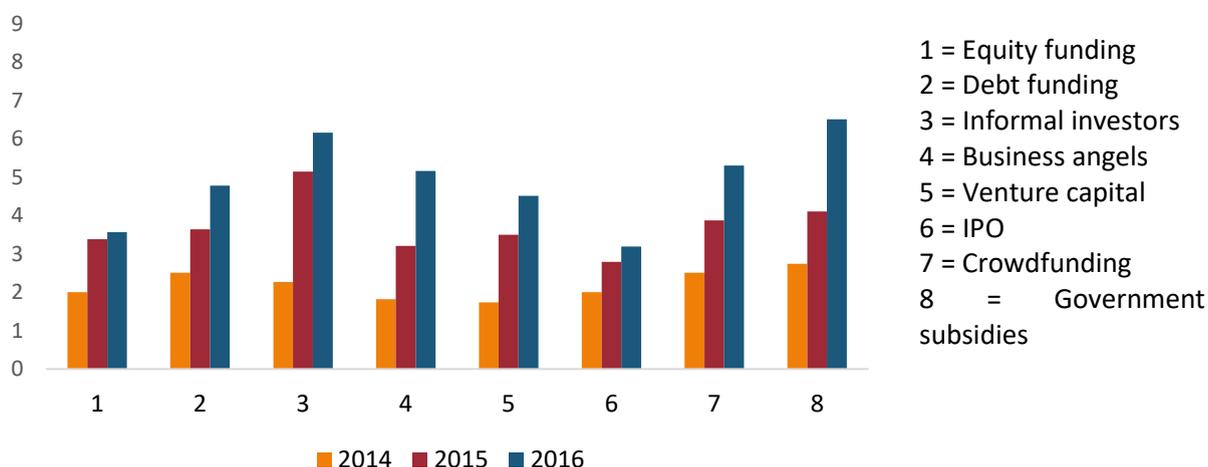
2015 (4.11), and especially, compared to 2014 (2.74). The availability of informal funding also has been assessed quite highly in 2016 (6.16) relative to 2015 (5.15) and 2014 (2.27). Following the same trend, assessments of business angel (BA) funding were rather high in 2016 (5.16) compared to 2015 (3.21) and 2014 (1.82). Although not as high as BA assessments, assessments of venture capitalist (VC) funding were much higher in 2016 (4.51) than in 2015 (3.50) and 2014 (1.74). Similar dynamics characterise experts' assessments of the possibility of financing via IPOs: in 2014 - 2.00, in 2015 - 2.79 and in 2016 - 3.19. Finally, the availability of crowdfunding was assessed quite favourably in 2016 (5.3) compared to 2015 (3.87) and 2014 (2.51).

**Table 3.1 Kazakhstan experts' assessment of financing for entrepreneurs**

	2016	2015	2014
there is sufficient equity funding available for new and growing firms	3.57*	3.38	2.0
there is sufficient debt funding available for new and growing firms	4.78	3.64	2.51
there are sufficient government subsidies available for new and growing firms	6.51	4.11	2.74
there is sufficient funding available from informal investors (family, friends and colleagues) who are private individuals (other than founders) for new and growing firms	6.16	5.15	2.27
there is sufficient funding available from professional Business Angels for new and growing firms	5.16	3.21	1.82
there is sufficient funding available from venture capitalists for new and growing firms	4.51	3.50	1.74
there is sufficient funding available through initial public offerings (IPOs) for new and growing firms	3.19	2.79	2.0
there is sufficient funding available through private lenders' funding (crowdfunding) available for new and growing firms	5.3	3.87	2.51

\* Read as: experts think that equity funding is not available for new and growing firms

**Figure 3.1 Evaluation of access to finance**



Assessments of the state of entrepreneurial finance have become much more positive in 2016 compared to 2015 and 2014. Still, some areas, such as equity funding and IPO funding, clearly cause expert concern. High assessments of entrepreneurial finance in 2016 putting Kazakhstan very close to China and India that have a much stronger entrepreneurial ecosystem appear to be overoptimistic and should be taken with a grain of salt. For example, VC funding and BA funding

are just gaining momentum in the country. Nevertheless, these sky-high assessments reflect the fast pace of entrepreneurial advancement in Kazakhstan.

Equity funding and IPO funding should be improved, moreover, debt funding should be made more available to new and growing firms. Improving debt funding as well as equity funding and IPO funding is a difficult and gradual process that involves building national stock exchanges facilitating exit for equity holders.

### 3.2.2 Government policies

Our table below combines the two categories from the Global GEM Report: (1) government policy: support and relevance; and (2) government policy: taxes and bureaucracy. Kazakhstan experts' assessments of the first category that could be described as government policies and the relative ease of starting a venture have become more positive from 2014 to 2015 and to 2016. Thus, the average score of experts' assessments of the favourability of government policies toward entrepreneurship has increased

from 2.97 in 2014 to 4.20 in 2015, and just slightly decreased to 4.05 in 2016. Similarly, experts gave higher scores to the statement that support for new ventures is a priority in Kazakhstan at the national level. The averages in 2015 (6.06) and 2016 (6.05) were higher than in 2014 (4.06). Curiously, experts were less positive in assessing to the statement that support for new ventures is a priority in Kazakhstan at the local level. Thus, the respective average in 2015 was 5.26, in 2016 it was 5.51 and in 2014 it was 3.39.

**Table 3.2 Kazakhstan experts' assessment of the impact of government policies, taxation and red tape on the creation and scaling up of entrepreneurial ventures**

	2016	2015	2014
Government policies (e.g., public procurement) consistently favour new firms	4.05*	4.20	2.97
the support for new and growing firms is a high priority for policy at the national government level	6.05	6.06	4.06
the support for new and growing firms is a high priority for policy at the local government level	5.51	5.26	3.39
new firms can get most of the required permits and licenses in about a week	3.3	4.05	2.27
the amount of taxes is NOT a burden for new and growing firms	5.16	4.38	3.09
taxes and other government regulations are applied to new and growing firms in a predictable and consistent way	5.38	5.51	3.14
coping with government bureaucracy, regulations, and licensing requirements it is not unduly difficult for new and growing firms	3.57	3.70	2.26

\* Read as: experts think that government policies do not favor new firms

Turning to the second category in the Global Report (government policies: taxes and bureaucracy), experts were clearly concerned regarding the time needed to acquire all the permits and licenses required for starting a new venture. Experts gave a very low score to this item in 2014 (2.27). A much better score was given in 2015 (4.05) but lower score was given in 2016 (3.3). In contrast, the scores for the favourability of tax policy for entrepreneurship have steadily increased from 3.09 in 2014, 4.38 in 2015 and to 5.16 in 2016. Similarly, experts have become more positive in their assessments of the predictability and consistency of tax policy, with scores increasing from 3.14 in 2014 to 5.51 in 2015 and slightly falling to 5.38 in 2016. Finally, experts clearly believe that coping with government bureaucracy remains a significant problem for Kazakhstan

entrepreneurs as average scores have somewhat increased from 2.26 in 2014 to 3.70 in 2015 and then decreased to 3.57 in 2016.

Comparing Kazakhstan experts' assessments to GEM's averages, one can see that Kazakhstan's assessments of government policies geared toward providing support for new and growing ventures are rather high. In 2016, Kazakhstan with the score of 5.27 was in the 9th place among the GEM countries in this category (government policy: support and relevance). Its scores were similar to India's (5.6), and higher than those in China (5.2), South Africa (5.8), Brazil (3.5) and Russia (3.2). Kazakhstan experts' assessments were also higher than GEM's averages for factor-driven economies (4.7), efficiency-driven economies (3.9) and innovation-driven economies (4.3).

**Figure 3.2 Evaluation of government policies**



As noted, Kazakhstan experts were most negative in their assessments of the government bureaucracy. Kazakhstan with the score of 4.3 was in the 24th place in that category (government policy: taxes and bureaucracy) among the GEM countries. That score was similar, though, to the GEM average for factor-driven economies (4.4), higher than the GEM average for efficiency-driven economies (3.6) and the same as the GEM average for innovation-driven economies. Among the BRICS countries, Kazakhstan average was the same as India's (4.3), lower than China's (4.7) and much higher than Russia's (3.0), South Africa's (2.7) and Brazil's (2.2).

Kazakhstan experts' ratings of government support have increased significantly from 2014 to 2015 but were often lower in 2016 compared to 2015. Thus, assessments of the tax policy were

favourable. Kazakhstan experts were most negative in their assessments of government's bureaucracy and the ability of entrepreneurs to cope with it. Importantly, Kazakhstan experts appear to view prioritization of entrepreneurship at the local level as insufficient. Nevertheless, Kazakhstan scored very high in both categories (1) government policies: support and relevance and (2) government policies: taxes and bureaucracy) compared to other GEM countries, and especially, compared to BRICS countries we have selected as an appropriate comparison group for Kazakhstan.

It is very important to continue reducing the impact of government bureaucracy on entrepreneurial ventures so that nascent entrepreneurs could readily realize their entrepreneurial intentions.

### 3.2.3 Government programs

Kazakhstan experts thought rather highly in 2015 (4.41) and even more highly in 2016 (5.57) about the ability of entrepreneurs to obtain a wide range of assistance via a single agency. That represented a huge leap compared to 2014 (3.00). In contrast, experts' assessments of science parks' and business incubators' ability to provide support for entrepreneurs were much lower in 2014 (2.47), in 2015 (4.00) and 2016 (4.03). Especially in 2016, a very high assessment of the ability of entrepreneurs to obtain all services through one agency (5.57) contrasts with much sourer outlook on science parks' and business incubators' effectiveness (4.03). Experts thought that the number of government programs supporting entrepreneurship was sufficient, with extremely high scores in 2015 (6.09) and 2016 (6.05) contrasting with much lower score in 2014 (3.76). However, experts' evaluation of the

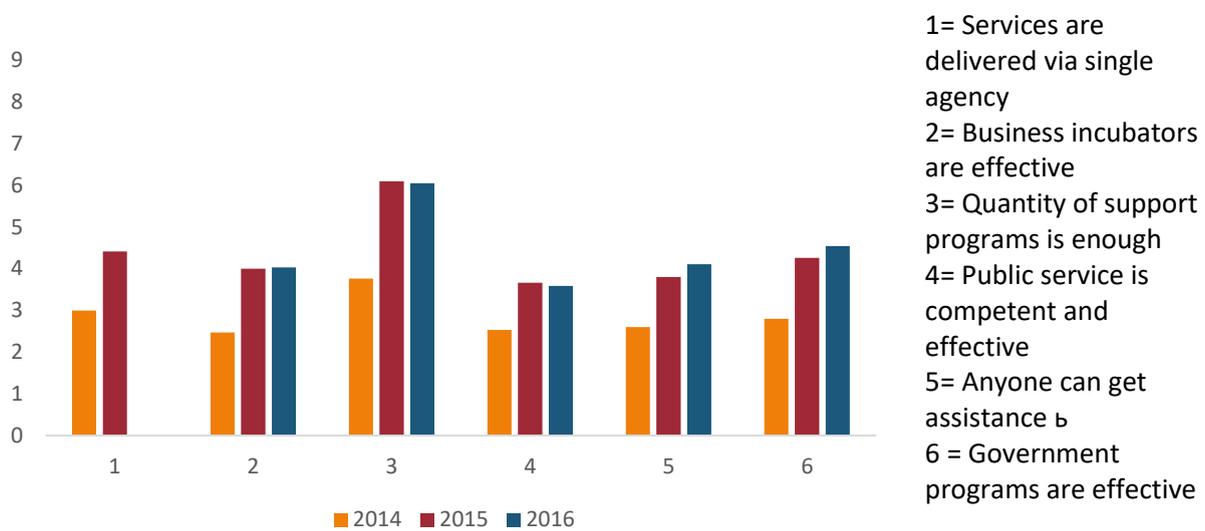
competence and effectiveness of government support agencies' employees were much lower in 2014 (2.53), 2015 (3.66) and 2016 (3.59). Similarly, the scores regarding any individual's ability to find support for a new venture were rather low: 2014 (2.6), 2015 (3.8) and 2016 (4.11). Finally, the overall assessment of the effectiveness of government programs was higher: 2014 (2.88), 2015 (4.26) and 2016 (4.54). Kazakhstan's average in this category (4.6) was higher than the GEM average for factor-driven economies (4.4), higher than GEM average for efficiency-driven economies (3.9) and slightly lower than GEM's average for innovation-driven economies (4.8). Compared to the BRICS countries, Kazakhstan scored similar to India (4.7) and China (4.4) and much higher than Brazil (3.4), South Africa (3.0) and Russia (2.9)

**Table 3.3 Kazakhstan experts' assessment of governmental programs for entrepreneurs**

	2016	2015	2014
a wide range of government assistance for new and growing firms can be obtained through contact with a single agency	5.57*	4.41	3.0
science parks and business incubators provide effective support for new and growing firms	4.03	4.0	2.47
there are an adequate number of government programs for new and growing businesses	6.05	6.09	3.76
the people working for government agencies are competent and effective in supporting new and growing firms	3.59	3.66	2.53
almost anyone who needs help from a government program for a new or growing business can find what they need	4.11	3.80	2.6
Government programs aimed at supporting new and growing firms are effective	4.54	4.26	2.8

\* Read as: experts think that getting assistance with a single agency is possible for new firms

**Figure 3.3 Evaluation of government support programs**



Experts apparently believed that the number of government programs is sufficient and entrepreneurs can get many types of assistance through one agency. However, experts were more concerned about employees' competency and effectiveness of government support programs and the quality of support provided in science parks and business incubators.

There should be some ways to assess employees' competence and effectiveness in state agencies providing support for entrepreneurs so that more competent and effective employees could be hired. Additionally, more work should be done to increase the number and effectiveness of science parks and business incubators in Kazakhstan.

### 3.2.4 Education and training

Kazakhstan experts' assessments of the state of entrepreneurial education and training in Kazakhstan have increased from 2014 to 2015 and 2016, but not as significantly as experts' assessments of entrepreneurial finance or government support. Thus, the average of responses to the statement that teaching in primary and secondary institutions encourages creativity, self-sufficiency and personal initiative, was rather low in 2014 (2.67) and did not raise that much in 2015 (3.81) and 2016 (3.38). Similarly, many experts disagreed with the statement that teaching in primary and secondary

institutions provides adequate instruction in market economic principles with the scores ranging from the lowest in 2014 (2.55) to the highest in 2015 (3.64) and medium in 2016 (3.22). Experts had the least positive opinion of teaching entrepreneurship and new venture creation in primary and secondary institutions. The lowest score in 2014 (2.03) was followed by a higher score in 2015 (3.09) and lower score in 2016 (2.54). Experts had a more positive opinion about the ability of universities to teach entrepreneurship and new venture creation, the lowest average score in 2014

(2.39) was followed by the highest score in 2015 (3.56) and medium score in 2016 (3.32). Experts gave even higher marks, though, to management and business education, and its ability to teach entrepreneurship and new venture creation. The lowest average score in 2014 (2.94) was followed by the highest score in 2015 (4.49) and medium score in

2016 (4.3). Finally, experts thought most highly about the ability of vocational, professional and continuing education to prepare for an entrepreneurial career. In 2014, the average score was 2.87, followed by much higher score in 2015 (4.88), and even higher score in 2016 (4.97).

**Table 3.4 Kazakhstan experts' assessment on entrepreneurial education and training**

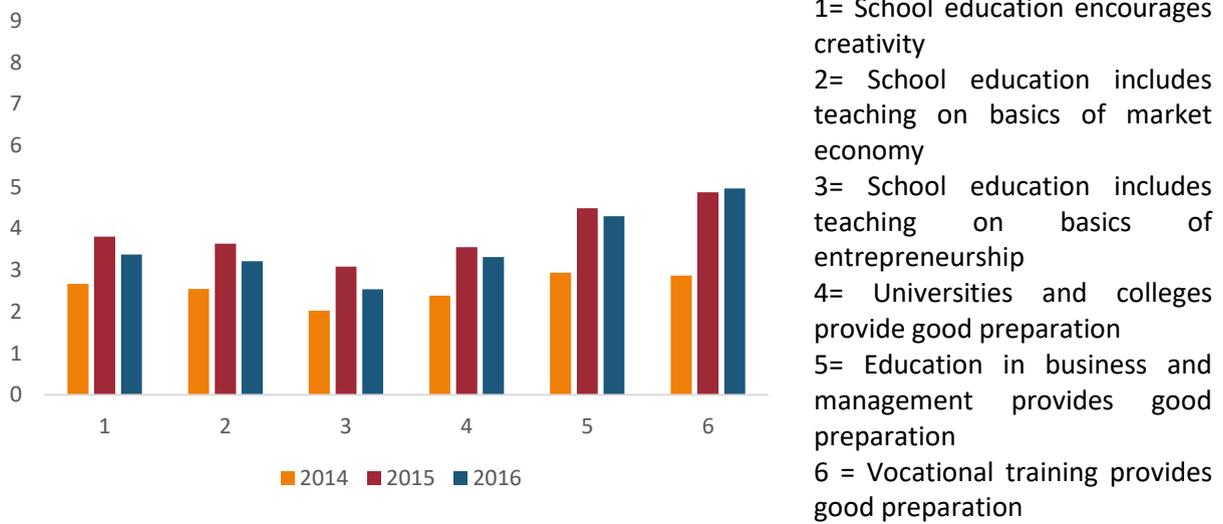
	2016	2015	2014
teaching in primary and secondary education encourages creativity, self-sufficiency, and personal initiative	3.38*	3.81	2.67
teaching in primary and secondary education provides adequate instruction in market economic principles	3.22	3.64	2.55
teaching in primary and secondary education provides adequate attention to entrepreneurship and new firm creation	2.54	3.09	2.03
Colleges and universities provide good and adequate preparation for starting up and growing new firms	3.32	3.56	2.39
the level of business and management education provide good and adequate preparation for starting up and growing new firms	4.3	4.49	2.94
the vocational, professional, and continuing education systems provide good and adequate preparation for starting up and growing new firms	4.97	4.88	2.87

*\*Read as: experts think that primary and secondary education does not sufficiently encourage personal initiative*

Kazakhstan experts' low assessments of entrepreneurial education at school stage are in line with the GEM averages. Thus, GEM average in this category for factor-driven economies was 2.8, GEM average for efficiency-driven economies was 2.9, and GEM average for innovation-driven economies was 3.4. Overall, Kazakhstan (3.00) was in the 34th place among the GEM countries in this category. Compared to the BRICS countries, Kazakhstan (3.00) had a lower score than India (4.00), China

(3.4), and Russia (3.1). In the category of post-school entrepreneurial education, the average of factor-driven economies was 4.6, the average of efficiency-driven economies was 4.5, and the average of innovation-driven economies was 4.7. Kazakhstan's score (4.2) was lower than the GEM averages. Compared to the BRICS countries, it was lower than China's (5.3), India's (5.1) and Russia's (4.7) scores but higher than Brazil's (4.1) and South Africa's (3.8) scores.

**Figure 3.4 Evaluation of education**



### 3.2.5 R&D transfer

Kazakhstan experts clearly raised an alarm with regard to knowledge transfer from universities and public research institutions to new and growing firms. In 2014, the average score for this item given by Kazakhstan experts was merely 1.85. Although the scores were higher in 2015 (2.89) and 2016 (2.86), these were still low. Similarly, the experts disagreed with the statement that new and growing firms in Kazakhstan have as much access to knowledge and R&D as large established firms. Low score in 2014 (1.97) was followed by a rather low score in 2015 (2.89) and 2016 (2.92). In 2014 (1.76) and 2016 (2.76) there was even less agreement with the statement that new and growing firms can afford the latest technology although the scores were higher than for the previous items used to measure R & D and technology transfer to

new and growing firms. Scores were a bit higher in response to the statement that the government provides adequate subsidies allowing new and growing firms to acquire new technology. The lowest score in 2014 (2.64) was followed by a higher score in 2015 (3.32) and even higher score in 2016 (3.65). Experts expressed more scepticism, however, about the statement in the survey that science and technology base in Kazakhstan facilitates creation of world-class ventures. Scores ranged from 2.64 in 2014 to 3.32 in 2015 and 3.65 in 2016. Finally, there was even greater scepticism among the experts regarding support available for scientists and engineers in Kazakhstan that may wish to commercialize their ideas. The scores were respectively: 2014 (2.12), 2015 (2.83) and 2016 (2.97).

**Table 3.5 Kazakhstan experts' assessment of R & D- transfer to entrepreneurs**

	2016	2015	2014
new technology, science, and other knowledge are efficiently transferred from universities and public research centres to new and growing firms	2.86*	2.89	1.85
new and growing firms have just as much access to new research and technology as large, established firms	2.92	2.89	1.97
new and growing firms can afford the latest technology	2.76	3.09	1.76
there are adequate government subsidies for new and growing firms to acquire new technology	3.65	3.32	2.64
the science and technology base efficiently supports the creation of world-class new technology-based ventures in at least one area	3.49	3.43	2.15
there is good support available for engineers and scientists to have their ideas commercialized through new and growing firms	2.97	2.83	2.12

\* Read as: experts think R&D transfer to new firms is not effective

GEM average in the category of R&D transfer in factor-driven economies was 3.2; in efficiency-driven economies - 3.5; in innovation-driven economies - 4.4. With the score of 3.1, Kazakhstan was in the 55th place among the 62 GEM countries. Compared to the BRICS countries, Kazakhstan was surpassed by India (4.8), China (4.1) and South Africa (3.8) whereas Brazil (3.2) and Russia (2.7) had lower scores.

Overall, R & D, technology and knowledge transfer to new and growing firms in Kazakhstan remains insufficient. Even though the government subsidies have increased, this has not translated as of yet into new technology and advanced R & D adoption by new and growing firms. This

puts new and growing firms at a disadvantage compared to large and established firms. Nevertheless, the situation in this area is improving albeit very slowly. Technology commercialization opportunities remain insufficient whereas science parks and business incubators do not have much of an impact on new and growing firms.

R & D transfer to new and growing firms should be prioritized, science and technology institutions should actively forge relationships with new and growing firms as well as found such firms and create conditions making it easier for scholars and engineers to commercialize their ideas.

**Figure 3.5 Evaluation of R&D transfer**



### 3.2.6 Commercial infrastructure

Kazakhstan’s experts’ assessments of the statement that the numbers of subcontractors available to support new and growing ventures in Kazakhstan were sufficient have become more positive from 2014 to 2016, with the averages scores growing from 2014 (3.00) to 2015 (4.83) but falling a little bit in 2016 (4.7).

Assessments of affordability of subcontractors were somewhat less positive. Averages were lower in 2014 (2.4) and grew less in 2015 (3.48) although there was a rise in 2016 (4.24). Experts thought that it was not very easy for new and growing firms to get subcontractors: 2014 (3.55), 2015 (3.95), and 2016 (4.32).

**Table 3.6 Kazakhstan experts’ assessment of commercial and professional infrastructure for entrepreneurs**

	2016	2015	2014
there are enough subcontractors, suppliers, and consultants to support new and growing firms	4.7*	4.83	3.0
new and growing firms can afford the cost of using subcontractors, suppliers, and consultants	4.24	3.48	2.4
it is easy for new and growing firms to get good subcontractors, suppliers, and consultants	4.32	3.95	2.55
it is easy for new and growing firms to get good, professional legal and accounting services	6.14	6.22	3.46
it is easy for new and growing firms to get good banking services (checking accounts, foreign exchange transactions, letters of credit, and the like)	6.78	6.13	3.83

\* Read as: experts think that subcontractors, suppliers, and consultants to support new and growing firms are not enough

In contrast, experts thought that getting high-quality legal and accounting services was rather easy in Kazakhstan: 2014 (3.46), 2015 (6.22), 2016 (6.14). The difference between 2014 and 2015 in this area is striking. Finally, the experts were most positive about the availability of high-quality banking services: 2014 (3.46), 2015 (6.13), and 2016 (6.78)

Kazakhstan's average for commercial and legal infrastructure was 5.2 putting it in the 19th place among the GEM countries

(next to Israel). Kazakhstan's score was on par with the GEM averages for factor-driven economies (5.1) and innovation-driven economies (5.2) and higher than the GEM average for efficiency-driven economies (4.6). Compared to the BRICS countries, Kazakhstan shared the first place with India (5.2), closely followed by South Africa (5.1) and Russia (4.9) whereas Brazil (4.5) and China (4.2) got lower scores.

**Figure 3.6 Evaluation of commercial infrastructure**



Kazakhstan is doing particularly well in terms of making banking and accounting services available for new and growing firms. Kazakhstan has also grown the numbers and affordability of subcontractors for new and growing firms

although to a lesser degree compared to accounting and banking services.

It is very critical to make subcontractors not only more available but also more affordable for new and growing firms.

### 3.2.7 Internal market

Kazakhstan experts have changed their assessments of consumer good market dynamics quite a bit during the observed period. In 2014 (3.03), the experts thought of consumer goods market as rather stable. In 2015, the experts thought of consumer goods market as quite unstable

(6.13). Finally, in 2016 (4.78), the experts thought of consumer goods market as more stable compared to the previous year's assessments. Similarly, the experts thought of the markets for business-to-business goods and services as quite stable in 2014 (3.06), quite unstable in

2015 (5.72), and more stable again in 2016 (4.68). Regarding the possibility of new and growing firms to enter new markets, the experts were quite sceptical in 2014 (2.5), much more positive in 2015 (4.3) and even more positive in 2016 (4.62). Similarly, the experts assessed the affordability of new market entry by new and growing firms as low in 2014 (2.29), but changed their opinion in 2015 (4.38) apparently viewing new markets as more affordable for new and growing firms. In 2016 (4.43), experts gave even more positive assessments to new markets affordability for new and growing firms.

However, experts were less optimistic in their assessments of the fairness of business competition in Kazakhstan. In 2014 (2.27), many experts thought that new and growing firms can be blocked from market entry by established firms. In 2015 (3.93), experts were more positive on this issue but a bit less positive in 2016 (3.84). Finally, experts expressed a lot of scepticism regarding the effectiveness of anti-trust legislation in Kazakhstan but viewed the situation more positively in 2015 (4.28) and somewhat less positively in 2016 (3.38).

**Table 3.7 Kazakhstan experts' assessment of internal market status**

	2016	2015	2014
the markets for consumer goods and services change dramatically from year to year	4.78*	6.13	3.03
the markets for business-to-business goods and services change dramatically from year to year	4.68	5.72	3.06
new and growing firms can easily enter new markets	4.62	4.30	2.5
the new and growing firms can afford the cost of market entry	4.43	4.38	2.29
new and growing firms can enter markets without being unfairly blocked by established firms	3.84	3.93	2.27
the anti-trust legislation is effective and well enforced	3.38	4.28	2.42

\* Read as: experts think that consumer goods and services market changes annually

**Figure 3.7 Internal market dynamics**



GEM averages for internal market dynamics (the first two items in the table) were similar in factor-driven economies (4.8), efficiency-driven economies (5.0), and innovation-driven economies (4.9). Kazakhstan's score (4.7) was a little lower putting it in the 36th place among the GEM countries. It is important to realize that high market volatility is not necessarily a good thing. Thus, among the BRICS countries, China (7.00), India (6.3), Russia (5.8), Brazil (5.7) and South Africa (5.2) all scored higher than Kazakhstan in this category. For comparison sake, Finland, Jamaica, France and Colombia all got the same score as Kazakhstan.

GEM average scores for internal market burdens or entry regulation were 4.0 for factor-driven economies, 4.0 for efficiency-driven economies and 4.6 for innovation-driven economies.

### 3.2.8 Physical infrastructure

Kazakhstan's experts assessed the state of the physical infrastructure in 2014 (2.89) quite negatively. However, experts gave much more positive evaluations in 2015 (4.24) and 2016 (3.97). Experts' assessments of the cost of new and growing firms' access to communications were more positive. The average score was 3.83 in 2014, 6.02 in 2015 and 6.68 in 2016. The statement regarding the ability of a new or growing firm to get access to communications in a week got even higher scores: 2014 (4.11), 2015 (6.93), and 2016 (7.22). Similarly, experts' assessments of the affordability of basic utilities were rather high: 3.91 in 2014, 6.36 in 2015 and

Kazakhstan's (4.1) score is in line with these averages. Compared to the BRICS countries, Kazakhstan is right in the middle with India (5.0) and China (4.2) being above it in the table and Brazil (3.7), South Africa (3.3) and Russia (3.3) being below it in the table.

Perceptions of market volatility or environmental turbulence have increased considerably in Kazakhstan in 2015 but eased in 2016. New and growing firms continue to face significant obstacles due to cost disadvantages, and established companies' unfair competitive behaviour as anti-trust legislation is not sufficiently enforced.

Established companies should not be allowed to block new and growing firms' market entry. Anti-trust legislation should be strengthened.

6.68 in 2016. Finally, experts were somewhat more sceptical regarding the ability of new and growing firms to get access to basic utilities in a month: in 2014 - 3.03, in 2015 - 5.75, and in 2016 - 5.16. GEM average in this category for factor-driven economies was 6.0, for efficiency-driven economies - 6.4 and for innovation-driven economies - 6.8. Compared to the BRICS countries, China (7.3) and India (6.5) were ahead of Kazakhstan (6.0) in the table whereas South Africa (5.8), Russia (5.6) and Brazil (4.7) were below Kazakhstan.

**Table 3.8 Kazakhstan experts' assessment on physical infrastructure and services status**

	2016	2015	2014
the physical infrastructure (roads, utilities, communications, waste disposal) provides good support for new and growing firms	3.97*	4.24	2.89
it is not too expensive for a new or growing firm to get good access to communications (phone, Internet, etc.	6.68	6.02	3.83
a new or growing firm can get good access to communications (telephone, internet, etc ) in about a week	7.22	6.93	4.11
new and growing firms can afford the cost of basic utilities (gas, water, electricity, sewer)	6.68	6.36	3.91
new or growing firms can get good access to utilities (gas, water, electricity, sewer) in about a month	5.16	5.75	3.03

\* Read as: experts think that physical infrastructure does not provide sufficient support for new companies

**Figure 3.8 Evaluation of physical infrastructure**



Kazakhstan has improved the state of its physical infrastructure and the ability of its new and growing ventures to gain access to communications and basic utilities. However, its 48th place in this category

suggests that further improvements are needed. Kazakhstan should continue to improve its physical infrastructure and make basic utilities more accessible within a shorter period of time.

### 3.2.9 Cultural and social norms

In 2014, Kazakhstan experts gave a relatively low assessment to the national culture of the country's support of individual success achieved through personal effort (3.62). However, in 2015 (5.09) and 2016 (5.57), these assessments were much higher. Similarly, experts' assessments of the emphasis on self-sufficiency, autonomy and personal initiative were higher in 2016 (5.16) and 2015 (5.02) than in 2014 (3.43) if slightly lower compared to assessments of support for individual success through personal effort. Similar dynamics were

characteristic of experts' assessments of the encouragement of entrepreneurial risk-taking in Kazakhstan: in 2014 - 3.09, in 2015 - 4.65 and in 2016 - 5.05. Assessment of the national culture's encouragement of creativity and innovativeness in 2014 (3.47) has risen in 2015 (5.02) and 2016 (5.16). Finally, experts gave somewhat lower marks to emphasis on the responsibility of the individual for managing his or her life in Kazakhstan: 2014 - 3.43, 2015 - 4.76, 2016 - 4.54.

**Table 3.9 Kazakhstan experts' assessment of the impact of social and cultural norms on entrepreneurship**

	2016	2015	2014
the national culture is highly supportive of individual success achieved through own personal efforts	5.57*	5.09	3.62
the national culture emphasizes self-sufficiency, autonomy, and personal initiative	5.16	5.02	3.43
the national culture encourages entrepreneurial risk-taking	5.05	4.65	3.09
the national culture encourages creativity and innovativeness	5.16	5.02	3.47
the national culture emphasizes the responsibility that the individual (rather than the collective) has in managing his or her own life	4.54	4.76	3.43

\* Read as experts think that national cultural is neutral in encouraging individual success

**Figure 3.9 Evaluation of cultural and social norms**



GEM averages in this category were respectively: 4.5 for factor-driven economies, 4.7 for efficiency-driven economies and 4.9 for innovation-driven economies. Kazakhstan's score (5.1) was higher than all the three averages. It was surpassed only by China (5.8) and India (5.2) among the BRICS countries. South Africa (4.0), Brazil (3.9) and Russia (3.4) all got lower scores in this category.

Kazakhstan holds the 21st place in this category. This is quite high putting Kazakhstan above all the GEM averages. It is important to put even more emphasis on the responsibility of the individual for managing his or her life as this item received lower scores compared to other items measuring the favorability of cultural and social norms for advancement of entrepreneurship in the country. Entrepreneurial risk-taking should also be encouraged.

### 3.2.10 Senior entrepreneurship

Kazakhstan experts agreed almost unanimously in 2016 (8.00) with the statement that it is more difficult for people aged 50 and over to get a job in Kazakhstan. This shows that age discrimination is widespread in the country, which represents an apparent injustice that needs to be corrected expediently through state legislation and changes in public opinion. Experts were

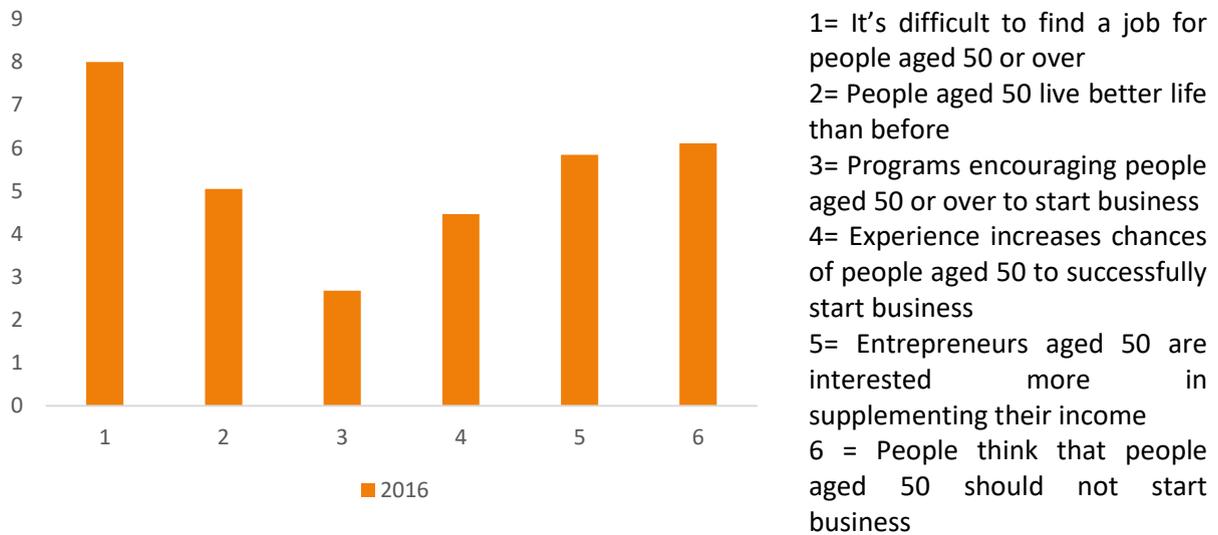
also rather sceptical regarding the truthfulness of the statement that people aged 50 years and over are living longer, healthier and more active lives than before: in 2016 - 5.05. Moreover, experts disagreed with the statement that there are programs and tax benefits to encourage people aged 50 and older to start their own business: in 2016 - 2.68.

**Table 3.10 Kazakhstan experts' assessment of senior entrepreneurship**

	<b>2016</b>
It is more difficult for people aged 50 or over to find a job than for people aged less than 50	8.0*
People aged 50 years and over are living longer, healthier and more active lives than before	5.05
There are programs and tax benefits to encourage people aged 50 and older to start their own business	2.68
The experience and accumulated knowledge of people aged 50 or over increases, in general, their chances of successfully starting a business	4.46
Entrepreneurs aged 50 or over are more interested in supplementing their income than growing their business	5.84
Most people think that people aged 50 or over should be planning for retirement rather than starting businesses	6.11

\* Read as: experts think that it is difficult to find a job for people aged 50 or over

**Figure 3.10 Evaluation of senior entrepreneurship**



The experts were also rather sceptical in their assessments of the statement that the experience and accumulated knowledge of people aged 50 or over increases, in general, their chances of successfully starting a business: in 2016 - 4.46. Finally, experts were divided in their responses to the statement that entrepreneurs aged 50 or over are more interested in supplementing their income than growing their business but tended to agree with it. Overall, experts' assessments in this category demonstrate that ageism is rampant in Kazakhstan so that serious efforts on the part of the

state are needed to facilitate employment for older people and encourage older people to start and grow their ventures.

Age discrimination is rampant in Kazakhstan and older people are not encouraged to start new ventures. Legislation should protect older population from age discrimination and both the executive and legislative branches of the government should combat ageism or age discrimination. Moreover, there should be special incentives for older people seeking to start a new venture.

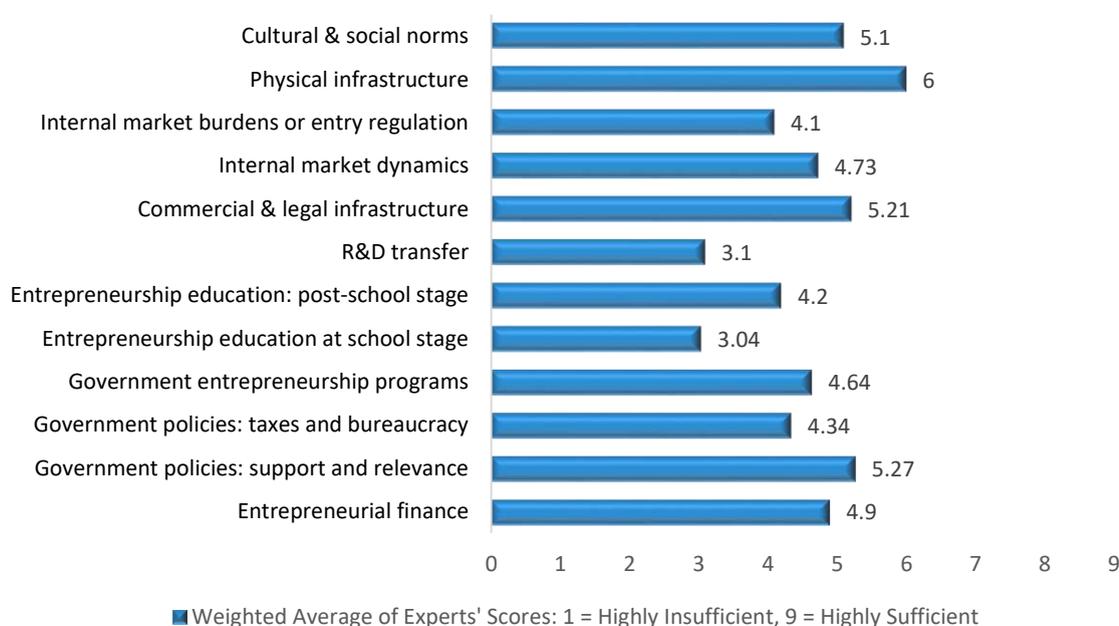
### 3.3 SYNTHETIC VIEW OF THE ENTREPRENEURIAL ECOSYSTEM

The principal components factor analysis was used to summarize the data by calculating the synthetic indicators that describe the average status of the entrepreneurial framework conditions. These indicators ordered by average score - from highest to lowest - are reported in **Figure 3.11**. We evaluated entrepreneurship framework conditions on a 9-point scale, where 1 = highly insufficient and 9 = highly sufficient.

Summarizing our analysis of the entrepreneurial ecosystem in Kazakhstan, one can state that Kazakhstan's entrepreneurial ecosystem has a number of strengths. Specifically, government support for entrepreneurship in Kazakhstan is strong, entrepreneurship programs are working and both physical infrastructure and commercial and legal infrastructure provide support for new ventures. At the same time, entrepreneurial education, both at the school stage and post-school stage need

improvement. Moreover, R & D transfer also requires more work. Research institutions should share knowledge with new and growing firms, while measures to prevent anti-competitive behaviour of the established firms should be better enforced. Furthermore, science parks business incubators should work more effectively, and their number should be increased. Within each category, there may be some weaknesses in the entrepreneurial ecosystem that require more work. For example, equity financing in Kazakhstan is insufficient which makes it difficult for high-tech ventures to get started and scale up. Our analysis of the BRICS countries' averages and their comparison with Kazakhstan's averages suggests that Kazakhstan should learn from countries leading in each category. For example, Kazakhstan could learn from India and China in the area of entrepreneurial finance and R & D transfer.

**Figure 3.11 Averages for entrepreneurship ecosystem in Kazakhstan, 2016**



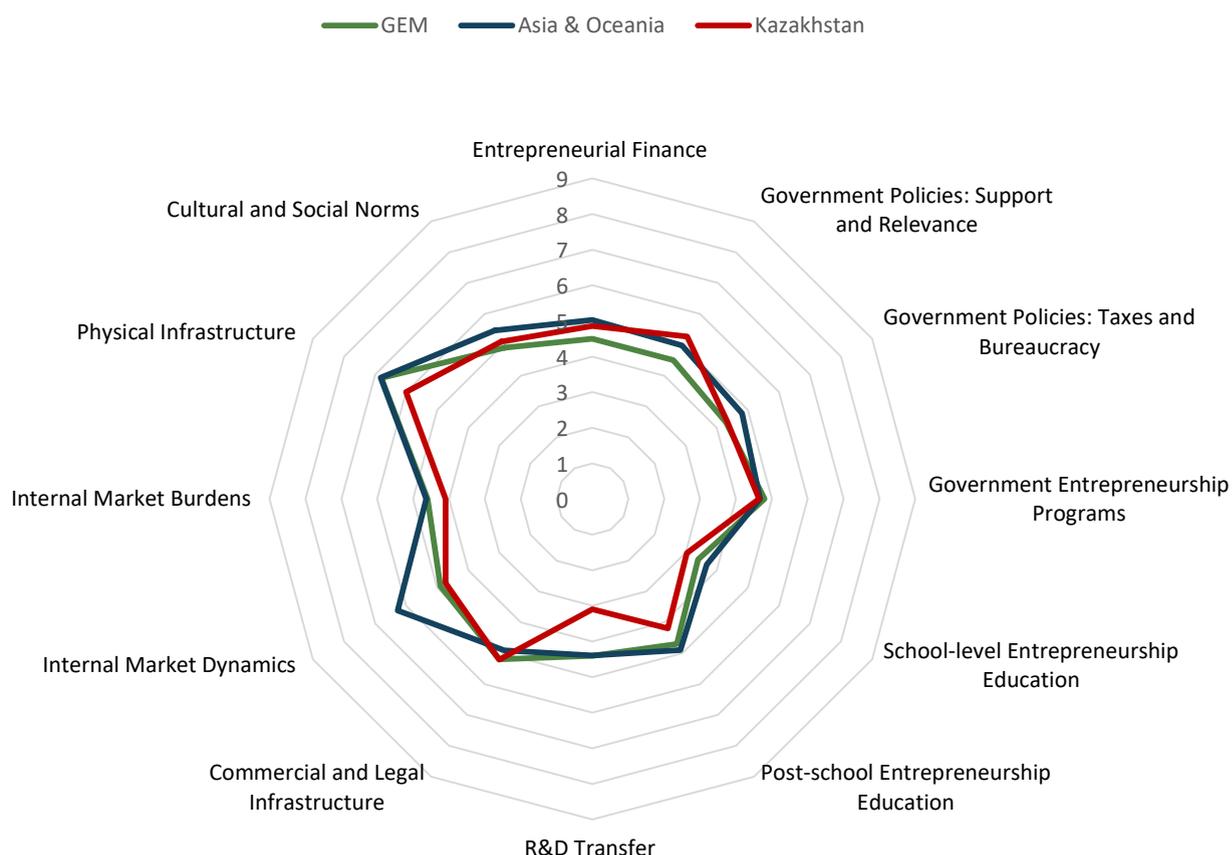
### 3.4 INTERNATIONAL POSITION OF KAZAKHSTAN'S ENTREPRENEURIAL ECOSYSTEM

We compare Kazakhstan to BRICS countries, GEM, Asia & Oceania average synthetic indicators describing the basic conditions of the entrepreneurship ecosystem.

Following the Global Competitiveness Report (GCR) rankings, GEM also compares countries based on their level of competitiveness. Kazakhstan was included into factor-driven GCR group in 2016.

Figures 3.12 to 3.14 compare Kazakhstan's entrepreneurship ecosystem with the entrepreneurship ecosystems of GEM, Asia & Oceania, factor-driven group and BRICS countries. As one can see, Kazakhstan measures up very well against all the four groups. However, main areas of weakness are education at school and post-school level and R&D transfer that needs improvement in Kazakhstan.

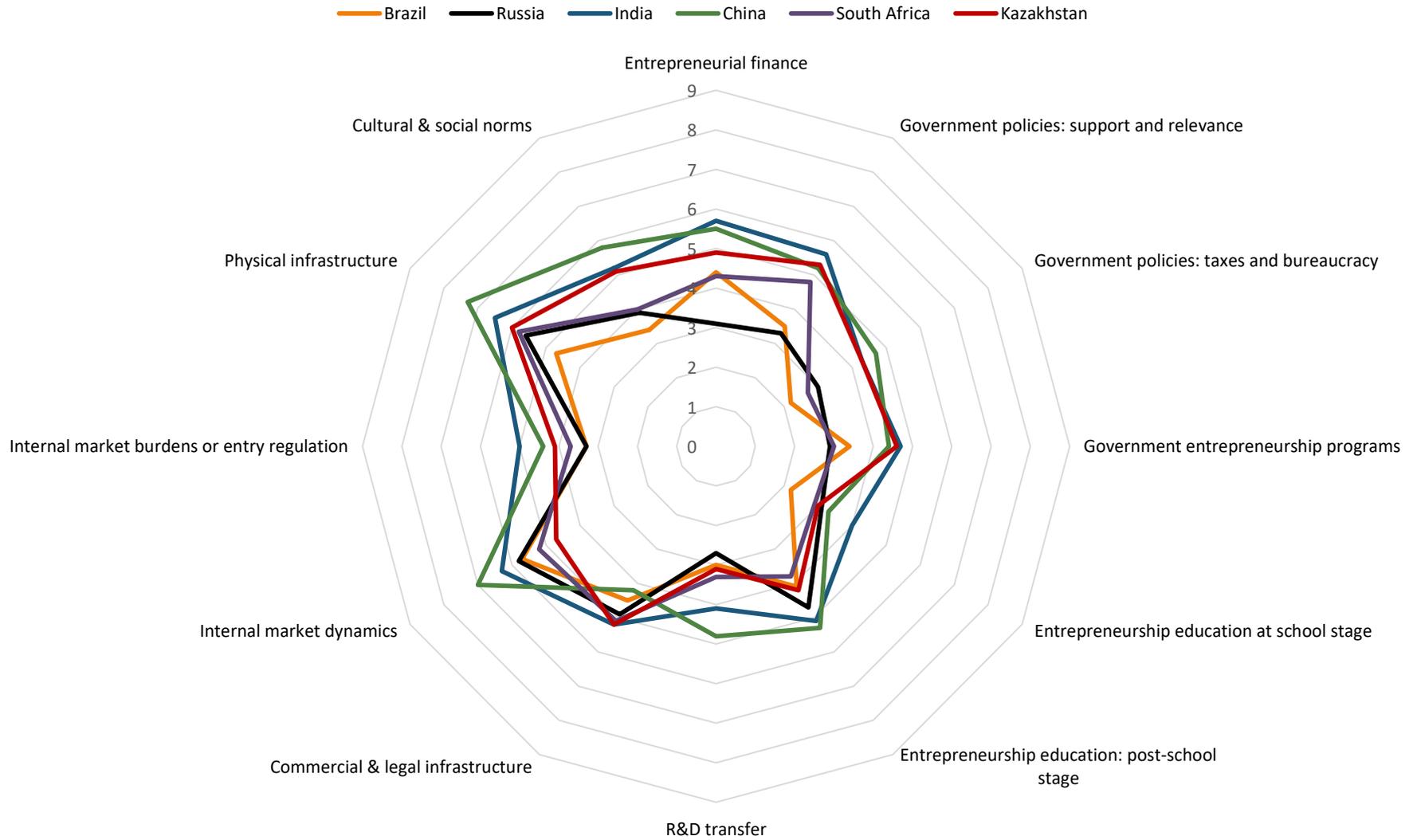
**Figure 3.12 Average status of Kazakhstan's ecosystem compared to GEM and Asia & Oceania ecosystems, 2016**



**Figure 3.13 Average status of Kazakhstan's ecosystem compared to factor-driven nations and GEM ecosystems, 2016**



**Figure 3.14 Comparative position of Kazakhstan's ecosystem, 2016**



**Table 3.11 Comparative data on entrepreneurship ecosystems, 2016**

	GEM	Asia & Oceania	Efficiency driven	Kazakhstan	Brazil	Russia	India	China	South Africa	Factor-driven	Innovation-driven
Entrepreneurial Finance	4.15	5.03	4.07	<b>4.86</b>	4.4	3.1	5.7	5.5	4.3	3.9	4.5
Government Policies: Support and Relevance	4.19	4.98	3.92	<b>5.27</b>	3.5	3.3	5.6	5.2	4.8	4.7	4.5
Government Policies: Taxes and Bureaucracy	3.87	4.81	3.67	<b>4.34</b>	2.2	3.0	4.3	4.7	2.7	4.4	4.3
Government Entrepreneurship Programs	4.27	4.67	3.96	<b>4.64</b>	3.4	2.9	4.7	4.4	3.0	4.4	4.8
School-level Entrepreneurship Education	3.12	3.68	2.93	<b>3.04</b>	2.2	3.1	4.0	3.3	2.9	2.8	3.4
Post-school Entrepreneurship Education	4.54	4.9	4.59	<b>4.2</b>	4.1	4.7	5.1	5.3	3.8	4.6	4.7
R&D Transfer	3.81	4.39	3.55	<b>3.1</b>	3.0	2.7	4.1	4.8	3.3	3.2	4.4
Commercial and Legal Infrastructure	4.92	4.91	4.72	<b>5.21</b>	4.5	4.9	5.2	4.2	5.1	5.1	5.2
Internal Market Dynamics	5.06	6.27	5.08	<b>4.73</b>	5.7	5.8	6.3	7.0	5.2	4.8	4.9
Internal Market Burdens	4.13	4.63	4.04	<b>4.1</b>	3.3	3.3	5.0	4.4	3.7	4.0	4.6
Physical Infrastructure	6.31	6.82	6.38	<b>6</b>	4.7	5.6	6.5	7.3	5.8	6.0	6.8
Cultural and Social Norms	4.7	5.46	4.76	<b>5.1</b>	3.4	3.9	5.2	5.8	4.0	4.5	4.9

### 3.5 MAIN CONSTRAINTS AND SUPPORTS FOR ENTREPRENEURSHIP

This section summarizes experts' responses regarding the three main constraints on entrepreneurship in Kazakhstan and three main facilitators of entrepreneurship in Kazakhstan.

Curiously, Kazakhstan experts viewed government policies as both main constraints on entrepreneurship (56.7%) and main facilitators of entrepreneurship (70/27%). Corruption also loomed large as one of the main constraints on entrepreneurship in Kazakhstan (56.7%). For example, one expert talked about corruption in state agencies, courts and state-run companies. Another expert discussed an enormous number of quasi-state agencies competing with private enterprises. A great number of experts pointed out some flaws in financial

support for new ventures. For example, experts discussed entrepreneurs' lack of capital and collateral making impossible for them to get a bank loan as an important constraint on entrepreneurship. Experts also thought that internal markets are inundated by exports from the European Union, Russia and China hampering the advancement of domestic entrepreneurship. Some also raised concerns about entrepreneur competence. Along with pointing out some flaws in financial support, experts also stated that there are some serious improvements in the financial support system, talked about the improving business climate and government support programs helping entrepreneurs to start and ramp up new ventures.

**Table 3.12 Topics cited by GEM experts from Kazakhstan as main constraints and supports for entrepreneurship, 2016**

Constraints	%	Supports	%
Government policies	56.76	Government policies	70.27
Corruption	56.76	Financial support	29.73
Financial support	51.35	Economic climate	27.03
Internal Market Openness	18.92	Government programs	21.62
Capacity for Entrepreneurship	16.22	Education & Training	21.62
Physical Infrastructure Access	13.51	Internal Market Openness	18.92
Government programs	10.81	Cultural & Social Norms	13.51
Economic climate	10.81	Internationalization	10.81
Education & Training	8.11	Capacity for Entrepreneurship	8.11
Cultural & Social Norms	5.41	Labor costs, access and regulation	5.41
Work Force Features	5.41	Information	5.41
R&D transfer	2.7	R&D transfer	2.7
Commercial Infrastructure	2.7	Commercial Infrastructure	2.7
Political, Institutional and Social Context	2.7	Political, Institutional and Social Context	2.7
Economic Crisis	2.7	Corruption	2.7
Different performing of small, medium and large companies	2.7		
Internationalization	2.7		
Information	2.7		

*\*Note: experts could indicate several constraining and supporting factors*

### 3.6 MAIN RECOMMENDATIONS TO IMPROVE THE ENTREPRENEURIAL ECOSYSTEM

Kazakhstan experts also suggested some ways of improving the entrepreneurial ecosystem in the country. Many experts discussed how to make government policies more entrepreneur-friendly (59.5%). For example, one expert suggested a systemic decrease in administrative barriers faced by new businesses. Another wanted to take quasi-state organizations off the market since they often use their power and influence to secure the best contracts. Experts discussed how to wage war against corruption. One suggestion was

making jurisprudence more transparent. Another popular topic was how to improve education and training (24.32%). Thus, one expert advocated better educating the population about entrepreneurship and how one can start and maintain one's own business. Other experts' recommendations included providing state support for business angels, giving tax credits to nascent entrepreneurs, and improving the transportation system to facilitate logistics and operations.

**Table 3.13 Topics cited by GEM experts from Kazakhstan to make recommendations to improve the entrepreneurship ecosystem, 2016**

Recommendations	%
Government policies	59.46
Financial support	40.54
Education & Training	24.32
Corruption	21.62
Physical Infrastructure Access	18.92
R&D transfer	10.81
Political, Institutional and Social Context	10.81
Information	10.81
Capacity for Entrepreneurship	8.11
Government programs	5.41
Internal Market Openness	5.41
Economic climate	5.41
Commercial Infrastructure	2.7
Cultural & Social Norms	2.7
Perceived Population Composition	2.7
Different performing of small, medium and large companies	2.7
Internationalization	2.7

*\* Note: experts could indicate several areas and recommendations*

# 4

## CONCLUSIONS AND RECOMMENDATIONS



## 4 CONCLUSIONS AND RECOMMENDATIONS

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Kazakhstan economy in 2016 was affected by the trends that began in 2015 as the Global economic contraction continues to impact negatively any countries' economic performance.

At the same time, Kazakhstan's successful economic reforms allowed it to stay at 36th place in the Global Competitiveness rankings. Importantly, Kazakhstan government set the development of entrepreneurship as a national priority. This has led to some major improvements in the entrepreneurship framework compared to the group of BRICS countries. Experts observe that Kazakhstan has made it easier for entrepreneurs to start new businesses, lowered the tax burden, created government agencies that facilitate financing for small and growing businesses, and put in place a relatively well-developed and affordable physical, legal and commercial infrastructure for entrepreneurship.

Comparative analysis of APS data for 3 consecutive years (from 2014 to 2016) indicates that some key indicators such as TEA (total early-stage entrepreneurial activity) rates, assessment of entrepreneurship as a good career choice and motivational index have somewhat decreased from 2014 to 2016, possibly as a result of an economic shock following low oil prices and currency fluctuations. The reasons for business discontinuation has also changed - lacking profitability became more important reason of the business exit, while problems with finance are mentioned less in 2016 than in 2014. Another interesting trend is almost equal participation of men and women in TEA in Kazakhstan, which remains stable for the last two years of observation.

Similar to APS data, NES data demonstrate that assessments of the state of entrepreneurial finance have become much more positive in 2016 compared to 2014, though some areas, such as equity funding and IPO funding, clearly cause expert concern. Kazakhstan experts' assessments of the government policies, including relative ease of starting a venture and the predictability and consistency of tax policy were more positive in 2016. However, experts negatively assessed government's bureaucracy and the ability of entrepreneurs to cope with it. Importantly, Kazakhstan experts appear to view prioritization of entrepreneurship at the local level as insufficient.

NES demonstrates that number of government programs is sufficient and entrepreneurs can get many types of assistance through one agency. However, experts were concerned about employees' competency, effectiveness of government support programs and the quality of support provided in science parks and business incubators. Another critical issue, which raised experts' alarm, is the knowledge transfer from universities and public research institutions to new and growing firms.

Considering APS and NES data on Kazakhstan allows making the several recommendations. It is critical to develop a comprehensive system of entrepreneurial education in the country; to lower Kazakhstan entrepreneurs' fear of failure; to facilitate transfer of advanced technologies from universities and other knowledge creators and intermediaries to small and growing businesses; to better communicate state support programs to SMEs and to improve competencies of the local agencies involved in implementation of government's policies; to protect interests of small and growing businesses against the virtual monopoly of large and established businesses and to continue war on corruption.

## NOTES

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<sup>1</sup> Bosma, N.S., Z. Acs, E. Autio, A. Coduras and J. Levie (2009). Global Entrepreneurship Monitor 2008 Executive Report. London Business School: London; Universidad del Desarrollo: Santiago, and Babson College: Wellesley, MA

<sup>2</sup> Porter, M. E., J. J. Sachs, and J. McArthur (2002) Executive Summary: Competitiveness and Stages of Economic Development. In: Porter, M, J. Sachs, P.K. Cornelius, J.W. McArthur, and K. Schwab (Eds), The Global Competitiveness Report 2001-2002 (pp 16-25) New York: Oxford University Press.

<sup>3</sup> <http://russian.doingbusiness.org/data/exploreconomies/Казахстан/>

<sup>4</sup> GEM Global Report 2016/2017, p. 17

<sup>5</sup> Ibid, p. 17

<sup>6</sup> Ibid, p. 17

<sup>7</sup> Ibid. p. 21

<sup>8</sup> Ibid, p. 25

<sup>9</sup> Ibid, p. 30



