Entrepreneurship in Kazakhstan

- Global Entrepreneurship Monitor 2007 Kazakhstan National Report
This report constitutes the first annual assessment and study of the entrepreneurial activity in Kazakhstan as a result of participating in the Global Entrepreneurship Monitor (GEM) research program for the first time in 2007. The report is based on the analyses of the national sampling survey of Kazakhstan adult population, and it includes recommendations that may be used to further develop governmental support for entrepreneurship in Kazakhstan.

The report has identified some priority areas in entrepreneurship that can be addressed to the Government of Kazakhstan in order to improve the Kazakhstan enabling environment for entrepreneurship development. The recommendations contained in this report are primarily intended as a starting point for further discussion with the Kazakhstan Government and non-government organizations, in order to develop a comprehensive action plan for addressing the problems highlighted in this study.

The data and analysis of this report provide unique information about entrepreneurship in Kazakhstan that is helpful for policy makers, business people and academic community of the country.

The report was created by a team of specialists at the Research Institute on Sustainable Regional Development (RISRD) of Innovative University of Eurasia, in city of Pavlodar, Kazakhstan.
Acknowledgements

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Thanks to Innovative University of Eurasia, and its Vice-President Larissa Frezorger, for support and collaboration. Thanks also to the BRiF Research Group for a superb job in conducting adult population sampling survey for GEM in Kazakhstan.

We thank the national experts who took part in GEM research and made a huge contribution into Kazakhstan economic development.

Also, we thank our advisor Alex Liu, a researcher of Stanford University and a Director of the RM Institute in Los Angeles of USA, for his advice, collaboration and valuable inputs that made the creation of this report possible.
Terminology used in the report

Global Entrepreneurship Monitor (GEM) - a research program producing cross-national assessment of entrepreneurship by collecting relevant harmonized data on an annual basis.

Adult Population Survey (APS) – a representative national sample of at least two thousand adults (18-64 years old).

National Experts Survey (NES) – an interview of at least 36 national experts in entrepreneurship.

Nascent entrepreneur – an individual actively involved in setting-up a business he or she will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than 3 months.

Baby business or young firm owner - an individual who is currently an owner-manager of a new business that has paid salaries, wages, or any other payments to the owners for more than 3 months, but not more than 42 months.

Early-stage entrepreneurs – nascent entrepreneurs and baby business owners together.

Total Entrepreneurial Activity (TEA) – percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business (as defined above).

Established business owner – an individual who is currently an owner-manager of an established business, i.e. business that has paid salaries, wages, or any other payments to the owners for more than 42 months.

Overall entrepreneurship – combines both early-stage entrepreneurs and established business owners.

High-expectation entrepreneur - an individual who is either a nascent entrepreneur or an owner-manager of a new business (as defined above) and expects to employ at least 20 employees five years from now.
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Introduction

According to the official statistics, small and medium enterprises (SME) are developing very fast in Kazakhstan. In 2007, SME sector experienced 15% growth and comprised 845,737 enterprises. More than 20.6% of working population is working in SME sector. The share of SME in country’s GDP exceeded 30.0% (“Business and power”, 2008).

However, entrepreneurs themselves are not as optimistic as we expected. And there is a decrease in growth rate in Kazakhstan SME sector. The growth rate of acting enterprises comprised 120.7% in 2004 over previous year, but it has decreased to 100.8% in 2006. Moreover, only one third of registered enterprises are active by now (Batalov, 2007).

What is then the real situation with entrepreneurship in Kazakhstan and what indices should be taken to correctly evaluate it? In our opinion, the GEM methodology allows to uncover the main problems of entrepreneurship development most comprehensively. GEM research program produces cross-national assessment of entrepreneurship by collecting relevant harmonized data on an annual basis. Since its inception in 1997 by scholars at Babson College and London Business School with 10 countries participated in research, GEM has expanded to 42 countries in its 2007 cycle. GEM’s contribution to understanding of entrepreneurship is unique since it provides consistent cross-country information and measurement of entrepreneurial activity in global context. Unlike most entrepreneurship data sets to measure newer and smaller firms, GEM studies the behavior of individuals with respect to their starting and managing a business.

There are three main objectives in GEM’s focus:

- To measure differences in the level of entrepreneurial activity between countries.
- To uncover factors determining national levels of entrepreneurial activity.
- To identify policies that may enhance national level of entrepreneurial activity.

Long-term GEM research showed that in many developing countries, including Kazakhstan, GDP growth and life quality improvement are accompanied by the growth of average size of businesses, and these entrepreneurs driven to start a business by necessity often end as employees of large businesses. For this reason, it is necessary to focus our attention on the creation of jobs in large business. This question is answered by GEM 2005 Report on High-Expectation Entrepreneurship, which claims that not large, but high-expectation small enterprises, called also “fast-growing companies” or “gazelles”, in spite of their small quantity (approximately 1.5%) make the biggest input to economic development of their countries and ensure up to 80% of total expected jobs by all entrepreneurs. Thus, NOT THE QUANTITY of country’s entrepreneurs alone is important for economic progress and competitiveness, but their QUALITY.

GEM allows finding out the high-expectation entrepreneurs among the huge amount of people who involved in business, and identify their rate in the number of able-bodied citizens of the country. In 2007 GEM survey has shown that number of high-expectation entrepreneurs in Kazakhstan that expect more than 20 jobs in their businesses in 5 years, is 0.76% only. At the same time the highest rate of them that fixed in China – 4.02%, Columbia – 3.67%, UAE – 3.25% is exceeded the high-expectation entrepreneurs in Kazakhstan many times. This finding suggests that state support must be selective, i.e. to be directed to that small group of high-growth entrepreneurs to extend their number.

If government wishes to support the selected enterprises that really are or potentially can be a high-growth company, it is necessary to develop the main criteria for their selection. This question requires additional specific research within GEM and analysis of the dynamic of high-
growth entrepreneurship development during not less than three consecutive years. Nevertheless, in this first report of entrepreneurship development in Kazakhstan, we have found some most significant characteristics of high-growth entrepreneurship. First of all, they are the firms that:
- create new jobs (high-expectation);
- offer innovative products or / and services and use new / latest technologies (innovative);
- oriented on export or import substitution (export-oriented).

Innovative entrepreneurship is an important engine of economic progress. Offering new products or services and using new technologies make important contribution in competitiveness of the country. According to the analysis given below, Kazakhstan remain behind the other countries in the competitiveness rating. Per our survey, only 5.31% of adult population among TEA uses very latest technology (not older than one year), while such indicator in Latvia comprises 9%. Turkey and Russia are not far away from Latvia – 8.54% and 8.52% correspondingly. The situation with product/service novelty is even worse. There are only 2.89% of adult population among TEA reported they offer product/service that is new to ALL customers. The same indicator for Turkey is equal to 40.18% (!), for Russia – 17.96% and for Latvia – 10.4%.

This result puts Kazakhstan at the end of the innovativeness list in comparison with other more competitive countries. It justifies the presence of correlation between innovative entrepreneurship and country’s level of competitiveness. One of the main reasons that in 2007 Kazakhstan dropped down to 61st place in competitiveness rating is weak innovative entrepreneurship development.

As practice proves the large business in developing countries is found in raw-materials production only. That is why the implementation of innovative industrial policies in Kazakhstan depends on the conditions created for successful high-growth entrepreneurship development. This type of entrepreneurship is aimed at and is able to secure through its active economic growth.

According to the cross-national analysis of entrepreneurship development in 42 countries, Kazakhstan has good preconditions for high-growth entrepreneurship development. The attitude of the Kazakhstan population towards entrepreneurial activity is highly positive, with 83.0%-84.0% considering it as a perspective career and a way to high status and respect. Moreover, 53.8% estimate business opportunities to be good and about 40.0% of the population believe that they have the ability to start their own business. In contrast to many other countries in Kazakhstan a big number of women are engaged in entrepreneurship (40%). In overall business, our country takes the 16th place among 42 countries participating in GEM survey. That means that Kazakhstan has all conditions so that good quantitative indices could make qualitative changes in entrepreneurship development and thereby raise the competitiveness of the country.
Summary of key statistics

The 2007 GEM survey data revealed that early-stage entrepreneurial activity in Kazakhstan measures 9.4% of adult population between 18-64 years old, comprising 4.3% nascent entrepreneurs and 5.2% new firm owners/managers. The number of established business is 5.8% of adults.

The highest rate of entrepreneurial activity is indicated in Southern Kazakhstan, with 44.9% early-stage and 35.7% established business. Western Kazakhstan has the lowest rates of entrepreneurial activity at 9% early-stage and 7.8% established business.

Gender distribution in early-stage and established businesses are more or less 60% male and 40% female entrepreneurs. The most active age group in early-stage entrepreneurship is 25-54, which is about 75% of all early-stage entrepreneurs. The dominating age groups in established business are 35-54 years old, which is more than 60% of all established business owners. Both early-stage and established business are represented by more Kazakhs (53.2% and 40.3% correspondingly), followed by Russians (27.3% of early-stage and 39.3% of established business).

Whilst 35.8% of new ventures were started through necessity, because of no another employment alternatives, some 17.7% of early-stage entrepreneurs consider entrepreneurial activity as both a necessity and chance to utilize economic and political opportunities. Increasing personal income is the main motivator for 34% of young entrepreneurs and 12.5% of them want to get independence.

0.76% of early-stage entrepreneurs expect more than 20 jobs in their businesses in 5 years; 3.4% are export-oriented, i.e. expecting more than 75% of their customers to live outside country. 2.9% of early-stage entrepreneurs are selling product or service which is new to all customers; 5.3% of them use latest technology in their businesses.

The attitude of the Kazakhstan population towards entrepreneurial activity is highly positive, with 83.0%-84.0% considering it as a perspective career and a way to high status and respect. Moreover, 53.8% estimate business opportunities to be good and about 40.0% of the population believe that they have the ability to start their own business. The majority (65.3%) also recognizes the significant contribution of the mass media in creating an attractive image of entrepreneurial activity. On the other hand, the fear of failure prevents 51.5% of people from starting a new business. The possible reasons of this fear are imperfections of tax policy and a large number of administrative barriers.

The highest rate of entrepreneurial activity is observed in Consumer Services Sector which accounts for 44.1% of early-stage activity and 33% of established business. The Extractive Sector is represented by 14.6% early-stage and 28.9% established business; the Transformation Sector accounts for 32.4% of early-stage activity and 30.2% of established business, whilst the Business Services Sector is in an early stage development and measures only 9.0% in early-stage activity and 8.1% in established business.
1. Entrepreneurship in Kazakhstan

Early-stage Entrepreneurial Activity

In this section, GEM 2007 Adult Population Survey (APS) dataset is used to present a general description of Kazakhstan entrepreneurship. Per GEM methodology, we will focus here on describing early-stage entrepreneurship activity, established business, innovative entrepreneurship and high-expectation entrepreneurship.

GEM 2007 APS data suggest that 4.32% of the adult population (392 thousands) in Kazakhstan is nascent entrepreneurs, or, individuals who are just starting a venture and taking active steps towards making it a successful business. According to GEM a nascent entrepreneur is on the first and the earliest stage of business creation. Compared with other GEM countries, Kazakhstan is close to the average rate of nascent business in other GEM countries which is equal to 4.93%; however our country is far away from the highest rates of nascent business indicated by Peru (15.11%) and Venezuela (14.85%). The lowest nascent business rate is in Russia (1.33%).

The next stage of business development is the birth of a new firm. A new firm is paying wages or salaries for less than 3.5 years. According to the GEM survey 5.25% of the adult population (about 477 thousands) in Kazakhstan is the owners and/or managers of a new firm. In comparison with other GEM countries Kazakhstan is close to the GEM average 4.38%, it is still far away from the maximum indicated by Thailand (18.6%).

Taken together, nascent entrepreneurs and new business owners and/or managers of a new firm make up another GEM concept called total early-stage entrepreneurial activity (TEA). Thus, we have 9.36% of the adult population in Kazakhstan involved in TEA. It means that close to 850 thousands individuals in Kazakhstan are in the early stage of business creation. Compared to other 41 countries participating in GEM survey (Figure 1.1), the level of early-stage entrepreneurship in Kazakhstan can be characterized as somewhat equal to GEM average (9.07%). The highest TEA rates are fixed in Thailand (26.87%) and Peru (25.89%), the lowest – in Austria (2.44%).

Figure 1.1: Early-stage entrepreneurial activity by country
Established Business

Another important GEM concept considers *established business owners (EB)* or individuals who manage and at least partially own a business that has paid wages or salaries for more than 3.5 years. According to GEM 2007 APS data there are 5.77% of adults (524 thousands) in Kazakhstan considered to be established business managers/owners. 62.78% of adult population within EB is fulltime involved in the business. 19.55% started and managed a different business before the current entrepreneurial activity. Figure 1.2 shows the established business ownership by country.

![Figure 1.2: Established business by country](image)

Similarly to TEA rate Kazakhstan is close to GEM average (6.59%), still it is much lower than the maximum fixed by Thailand (21.35%). The lowest rate is in Belgium (1.4%).

Table 1.1 provides a ranking by country according to the levels of development of different entrepreneurial activities – early-stage, established and overall business. It can be seen from the table that Kazakhstan has a good position in early-stage entrepreneurial activity, and somewhat worse position in established business. High early-stage entrepreneurial activity can be explained by the rapid development of Kazakhstan’s economics, while lower established business activity – by the presence of administrative, tax and law imperfections in business sphere. In overall business, our country is the 16th among 42 countries participating in GEM survey. The leader is Thailand, and the worst result is shown by Russia.

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<td>4.91</td>
</tr>
<tr>
<td>41</td>
<td>Russia</td>
<td>2.67</td>
<td>41</td>
<td>Russia</td>
<td>1.68</td>
<td>41</td>
<td>Belgium</td>
<td>4.55</td>
</tr>
<tr>
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<td>Austria</td>
<td>2.44</td>
<td>42</td>
<td>Belgium</td>
<td>1.4</td>
<td>42</td>
<td>Russia</td>
<td>4.35</td>
</tr>
</tbody>
</table>

**AVERAGE 9.07 AVERAGE 6.59 AVERAGE 15.66**

**Innovative Entrepreneurship**

In many entrepreneurship definitions, innovation is the essential feature that distinguishes a genuinely entrepreneurial venture from ‘just another business’. In GEM’s adult population survey, three measures allow us to investigate the innovative propensity of Kazakhstan business owners. These three measures concern: (1) product or service novelty, (2) competitor differentiation, and (3) use of technology.

The first measure “Product/service novelty” indicates how many nascent and young businesses report their product/service is new to all customers.
The 2007 data reveal that a substantial majority of business owners in Kazakhstan provide no products or services that any customer would perceive as new, unfamiliar or innovative. Thus, customer oriented innovation is low. As the table above indicates Kazakhstan is only one from the bottom (ahead of Hungary) with the product/service novelty rate of 2.89%. Worldwide, business owners offering very innovative products and services to their customers are located in the United Arab Emirates, Puerto Rico and Turkey. The average rate of product/service novelty comprises 15.94% for 42 countries. Unfortunately, level of product and service novelty in Kazakhstan is lower than most.

The second innovation propensity measure that GEM collects is differentiation from competitors. Business owners are asked the following question: “Right now, are there many, few, or no other businesses offering the same products or services to your potential/actual customers?” The more competitors that are offering the same product/service, the lower the differentiation oriented innovation. The next table indicates the percentage of TEA reporting that there are NO businesses offering the same product/service.

Indicator of competitive differentiation for Kazakhstan comprises 5.52% of TEA. The highest indicator is fixed for Denmark at the level of 19.43%, the lowest – for India (0%).

The detailed picture of competitive differentiation of Kazakhstan’s business is represented in the next figure.
As is the case with customer-oriented innovation, this measure indicates a lack of innovative activities among Kazakhstan's business owners, for both early-stage and established. The majority of businesses in Kazakhstan offer the same products/services as their competitors.

The last component of innovative propensity measured by GEM is technology oriented innovation. This is measured by asking business owners the following question: "Have the technologies or procedures required for this product or service been available for less than a year, or between one to five years, or longer than five years?" The longer the technology or procedures have been available, the lower the technology oriented innovation is. The next table represents the percentage of TEA using the very latest technology in their businesses, i.e. a technology only available since last year.

Kazakhstan’s business owners score on technology oriented innovation is quite low (5.31%). The most innovative countries in this regard are the United Arab Emirates (about 35%), followed by Norway (25.27%) and Croatia (about 25%). Very few Kazakhstan’s business owners use technology that is less one year old.

The detailed picture of technology oriented innovation of Kazakhstan’s business is represented in the next figure.
The majority of entrepreneurs in Kazakhstan use old technology – 81.77% of early-stage and 91.86% of established businesses. Thus, Kazakhstan’s business owners lack technology oriented innovation. They do not appear to take advantages of new technologies and procedures.

**High–expectation Entrepreneurship**

GEM study defines high-expectation activity as all nascent and baby businesses which expect to employ at least 20 employees within five years’ time. This criterion examines the growth intentions of business owners. Commitment to growth has been recognized as an important feature of a truly entrepreneurial venture.

Kazakhstan in the middle of the table indicates 0.76% of high-expectation entrepreneurs. Worldwide this indicator is not very high, with the highest one in (China 4.02%), followed by Colombia (3.67%) and the United Arab Emirates (3.29%). Thus, high-expectation entrepreneurial activity is rare worldwide. Depending on world region and country, only
approximately 1.09% on average of the adult-age population (18-64 year olds) is involved with nascent or baby businesses that expect to employ 20 or more employees in five years’ time.

Another way of achieving growth is through export. Business owners worldwide were asked in GEM survey how many of the customers live outside the country of their businesses. The next table represents the percentage of TEA reporting 76-100% of their customers live outside country where TEA has their businesses.

**Figure 1.9: Export-orientation by country**

![Export-orientation by country](image)

The most export-oriented country according to the data above is Hong Kong (20.32%); the least export-oriented is India (0%). Kazakhstan’s rate of export-oriented TEA equals 3.37%.

The detailed picture of export orientation by Kazakhstan’s entrepreneurs is represented in the figure below.

**Figure 1.10: Export orientation in Kazakhstan**

![Export orientation in Kazakhstan](image)

As indicated in the table above only 3.37% of TEA and 0.74% of EB in Kazakhstan are achieving their growth through export.
2. Portrait of Kazakhstan’s Entrepreneur

Location

According to GEM 2007 APS data Kazakhstan adult population (9,082 thousands) is distributed unequally. In the Southern Kazakhstan the population makes 41.4% or 3,760 thousands adults, it is four times as much as in the Central Kazakhstan (8.8% or 799 thousands), for instance.

Figure 2.1: Adult population distribution in regions of Kazakhstan

The reasons for this unequal distribution are the geographical conditions, business traditions and economical conditions. Different parts of Kazakhstan create different conditions for the economic development, which are reflected in the dissemination of the entrepreneurial activities.

Figure 2.2: Distribution of entrepreneurial activity in regions of Kazakhstan

The entrepreneurial activity in Kazakhstan varies a lot in its nature and composition. The entrepreneurial activity is based on those facilities that are provided either by the natural and geographical conditions, or the entrepreneurial activity directly depends on the entrepreneurial traditions like in the Southern Kazakhstan. The lowest rate of entrepreneurial activity in the Western Kazakhstan does not necessarily define this area as a business-passive one. This
territory is the heart of the oil industry, which entails the development of larger companies, which do not belong to the group of entrepreneurial smaller companies.

Kazakhstan was and still remains an agricultural country, whether the urban population is 58.7% and rural population is 41.3%, which is quite significant settlement. Therefore entrepreneurial activity is presented both in village and city.

The rural and urban entrepreneurial activity is distributed among the parts of Kazakhstan in the following way.

![Figure 2.3: Rural entrepreneurship](image1)

![Figure 2.4: Urban entrepreneurship](image2)

The data in the figure 2.4 shows that the early urban entrepreneurship is active in the Northern Kazakhstan, the established urban entrepreneurship is active in the Eastern and Central Kazakhstan, high-expectation entrepreneurs are in the Northern Kazakhstan. More detailed analysis defines that in the Northern Kazakhstan the early-stage entrepreneurs are 3 times as active as the established entrepreneurs. This gives the evidence to the rapid growth of the entrepreneurial activity within the last 3-5 years. The causes for this growth are most likely connected with the development of Astana, which directly and indirectly encouraged the economic potential of the region.
Age, gender and ethnicity

The age characteristics of Kazakhstan population allow estimating the potential of the country to proceed the long term economic strategies. Though not long ago Kazakhstan experienced demographic changes, which influenced its age, ethnic and population balance because of significant migration processes, still Kazakhstan has a favorable age composition. Thus, the age groups of the entrepreneurial class are distributed in the following way.

Figure 2.5: Age of entrepreneurs in Kazakhstan

As it is seen in figure 2.5, the age group 24-35 dominates in the early-stage entrepreneurship. The age of the established entrepreneurs is 35-44. The high-expectation entrepreneurs are mostly the young people, they make up to 65%. The people in the age of 55-64 do not take much risk in starting business, therefore the number of them is quite small in all types of entrepreneurial activity.

Figure 2.6: Age of entrepreneurs according to their distribution in age groups

The most active age group in early-stage entrepreneurship is 25-54, which is about 75% of all the entrepreneurs. The proportionally even age distribution among the age groups suggests that the market and economic field provides conditions for the entrepreneurs of different ages to enter
and establish business activities. The dominating age groups in established business are 35-54 years old, which is more than 60% of all the established entrepreneurs. The comparison of the age distribution in early-stage and established business clearly shows that the active age groups vary: in early-stage entrepreneurship the number of younger business people is more than that of the established business. The rate of the early-stage entrepreneurs aged 18-24 is much higher than the rate of the same age in the established business: 7.9% versus 0.9%. This significant difference shows that the entrepreneurs becomes younger, which may be stimulated by the better entrepreneurial education and environment for the business initiatives. The optimistic percentage 7.9% of the young entrepreneurs at the age of 18-24, on the one hand, shows the high potential of the generation to take over the entrepreneurial inheritance. On the other hand, this positive trait should be taken with care: what potential the young people bring into the overall development of the entrepreneurship across the country, what kind of business and for how long they will be able to run it, whether they have enough knowledge, experience and skills to implement the entrepreneurial activity. It is also important to keep the track of the younger entrepreneurs in their growth within the years. Thus, the young generation should be taken care of in order to support the successive entrepreneurial activity.

According to GEM 2007 Executive Report, TEA rates are particularly low among the older adults in Asian countries that were a part of the former Soviet bloc. However, rates of entrepreneurial activity among younger people in these countries, as well as in Kazakhstan, are on a par with those in high income countries. TEA rate of Kazakhstan entrepreneurs aged 18-24 is high. There are many motivating factors which push the younger generation to the entrepreneurial activity: motive to increase income, to gain financial independence, to utilize the business opportunity, education background, family traditions. Each factor has its certain role. According to GEM data, young entrepreneurs seek for financial independence and are guided by the desire to increase their income. The other motives such as to utilize the business opportunity, to reach the independent status, to gain the social status are also exercised, but not pronounced. The further research of the factor most influential for the young starting entrepreneurs can be used to create the better conditions for the entrepreneurs to meet their needs.

Another interesting issue considers at what age entrepreneurs discontinue their entrepreneurial activity. The highest rate business discontinuation is performed by entrepreneurs in the age of 45-54 followed by the age group 35-44. About 10% of 35-44 entrepreneurs discontinue business for another business opportunity, which means that the entrepreneurs develop their strategies and seek for better options in business. But at the same time 5% leave their activity because business is not profitable and the other 5% leave the business because of personal reasons. The older generation of 45-54 added the other two reasons of problems getting the finance and the incident.

The age of 35-54 is considered to be significant for the personal development and self-determination, the age, which is fruitful and calls for professionals. The reason to discontinue business for another opportunity can be explained by the growth and thus be considered as a positive. The other reasons like lack of finance, personal reasons, incident and lack of profit should be treated. The further investigation of the reasons and the remedy measures can prevent the entrepreneurs in the middle of their career from leaving it.

The typical gender entrepreneurship situation is that a significant gender gap exists between the overall entrepreneurial activity of male versus female entrepreneurs and business owners. In low/middle-income countries, like in Kazakhstan, the female gender is more pronounced, where the women entrepreneurship activity is more necessity-driven. Across the world, generations of women from very different backgrounds contribute to their environments and are showing very encouraging signs of entrepreneurial spirit.
Kazakhstan population is composed of 48.7% of men and 51.3% of women. In entrepreneurship the number of men in early-stage and established business is higher than that of women.

The data illustrates that men are more active in all types of entrepreneurship – early-stage, established and high-expectation. Considering both age and gender, early-stage activity is most prevalent in the age group of 25-34 years old (9.0%), while established business peaks among women of 45-54 years old (8.8%). The male entrepreneurship shows quite different picture: the early-stage entrepreneurship keeps high in the 25-54 age group (12.5-13.1%), while established entrepreneurial activity is significantly represented in the age group of 35-44 years old (11.1%).

The factors that can explain the difference in the male and female entrepreneurship root in social and cultural norms of the family psychology, the country traditions and other factors, such as the attitude and willingness to initiate the business conditions within the economic conditions.

Investigating the reasons why the women are less involved in business activity, the key informative questions were attracted: attitude of the men and women to business activity, their skills and fear of failure. According to the data, both men and women regard the business activity as a good career choice and the path to successful status in society. Moreover, they consider the business opportunities in the economy of the country as a favorable one. The women tend to underestimate their skills and knowledge as a reliable background for the business activity (38.82%), while men estimate their background higher (43.27%). Another factor, which contributes into understanding of gender entrepreneurship, is the fear of failure. The women have more fear (53.76%), than men (49.51%). So, these two factors, the business background and the fear of failure somehow influence the gender unequal distribution, though there must be other factors considered as well.

The other sources show that the women entrepreneurs started and still keep promoting the informal business. The reasons that lead the women to informal business are that it is easier to start and control, the entrepreneurial activity has a necessity nature and is not supposed to utilize the opportunities of a regular business culture, the lack of educational and business background. Still, women entrepreneurship takes a significant part in entrepreneurship: 41.7% in TEA and 42.6% in EB.

The ethnic composition of entrepreneurship shows what nationality concentrates the entrepreneurial activity in its hands. This issue tends to give the evidence of what level the national democracy in the multi-national country takes. Now, when Kazakhstan undergoes the
processes of self-identification, it is very important to note what nationality or nationalities are entrepreneurially favorable and experience higher success than the others.

Kazakhstan is multinational country, with more than 120 nationalities. The multinational population is a result of the historical development, industrial and economical developments, and migration flows, soviet and post-soviet times.

GEM research focuses only on the two dominating nationalities Kazakh and Russian, all the other national minorities are presented as “Other”. Kazakhstan’s adult population is composed of 57.2% of Kazakh people, Russian nationality – 27.6% and other nationalities which are migrants from Chechen republic, Tajikistan, Kirgizstan, Ukraine, Germany, Poland, etc. This pattern of distribution is followed across the entrepreneurial groups (fig. 2.8).

![Figure 2.8: Nationality of entrepreneurs according to their distribution among the total amount of entrepreneurs](image)

The nationality composition with dominating Kazakh nationality does not necessarily lead to the leading position of Kazakh entrepreneurs. The table below reveals quite interesting fact, that the other nationalities take the lead in entrepreneurial activities.

![Figure 2.9: Nationality of entrepreneurs according to their distribution in nationality groups](image)
This figure shows the activity of each nationality in entrepreneurship. The activity of different nationalities in entrepreneurship is presented in the following way: the most active nationality both in early entrepreneurship and in established business is the multinational ethnic group, which are called “other” nationalities. The second place in entrepreneurial activity is taken by Russian nationality, followed by Kazak. Though Kazakh population dominates in the ethnic composition of the population, Kazakh turned out to be less active than the other nationalities. Thus, every 11-12 Kazakh is an entrepreneur, while every 10-11 Russian and 8 entrepreneur of other nationality is involved in entrepreneurship. In other words, the Kazakh population of 5 202 thousands is less active in early-stage entrepreneurship with the rate of 8.7%, while the other nationalities with the population of 1 378 thousands have the entrepreneurial activity rate of 11.5%. The entrepreneurs of Russian nationality take the second place. The trick of this finding is that according to the number of entrepreneurs Kazakh are more numerous; according to the activity rate the Kazakh entrepreneurs are passive in comparison with the other nationalities. This partially can be explained that Kazakh people have other career choices like career of the official worker. In general, the nationality distribution within entrepreneurship proves the fact that Kazakhstan creates equal rights and promotes democracy for entrepreneurial activity.

The more detailed study of the nationality composition in entrepreneurship can identify to what extent the nationalities of Kazakhstan have access to the entrepreneurial activity, what sectoral distribution is typical among the entrepreneurs of different nationalities.

**Education**

As societies become more educated, as the labor society of the country become more skilled, the economic development and growth is faster (Baumol, Litan, Schramm, 2007). Education has a defined role in reducing poverty and contributing toward stable, tolerant societies, advanced the technological and innovative growth, stimulates diversification in the market. Some researchers emphasize that education as a key explanation of country’s growth. More educated people are not only more informed citizens, but a more educated society that produces more innovation and enhances growth. Though, the research results also warn not to overestimate the role of education. Advanced qualified education should be regarded as necessary but not significant condition for economic advance.

The educational policy in Kazakhstan exercised significant changes since 1991 year. Before, higher education had the characteristics of the elite education, where only the competitive students are accepted. After 1991, higher education system offered academic service for the mass population, thus contributing into the educational growth of the overall population. This education policy reflects now in the educational background of the different age groups. The age group of 18-34 prefers to have higher education, than the age group of 45-64, who have lower rate of higher education and significant proportion of secondary specialized education.
The educational attainment among the entrepreneurs is the following.

**Figure 2.10: Education of entrepreneurs**

The general tendency in education attainment is diverted to the specialized secondary and higher education, which means that the entrepreneurs tend to obtain higher qualification. The comparison between TEA and EB education gives evidence that EB education level is lower than that of TEA. This fact can be explained by the age difference, where EB entrepreneurs are a bit older than the entrepreneurs of early stage, the people of younger generation, who have education opportunities.

The question about the importance of the education in entrepreneurial initiatives is disputable. The research of Blau and Duncan (1967) (Uhlman, Thurik, 2005) finds out that the education has more impact on the entrepreneurial activity in comparison with other factors. The recent research in the filed of psychology of the individual also proves the positive correlation of educational level and entrepreneurial activity. Though, the group psychology gives the contradictory fact: the higher education decreases the entrepreneurial initiative, as the people with higher education have more opportunities to be employed rather to start business for self-employment. On the other hand, not only education matters, but also the personal qualities of an entrepreneur like goal orientation, risk taking, self-control and etc. According to GEM data about 41% of adult population consider their business knowledge and skills as satisfactory. Women (39%) tend to be less certain about their business background, while men (43.3%) are more satisfied with their level of education. At the same time the statistics states that 6-8% of adult population is qualified enough for entrepreneurial activity.

How much does the education attainment matter for growth of the country and in what ways does the education influences the innovativeness, technological advancement in entrepreneurship: these are the question to be still solved.

**Income/Financing**

Kazakhstan society, as well as the others, has a significant degree of income dispersion among the population. The lower income group with less than 12 000 tenge per month contains about 5.3%, while the well-to-do people with the income of 120 000-240 000 tenge equals to 4.2%. The other high income group with 72 000-120 000 tenge contains 16%. The major part of population, which covers about 67.4% of people, has the income of 12 000-72 000 tenge.

The information about the TEA business people was collected through direct questioning, about 11% did not respond to this question. The rest of the respondents gave the following
information: about 22% has the income of 12 000-36 000 tenge, 38% measures their income between 36 000 – 72 000 tenge, 10% has about 96 000-180 000 tenge. 2.6% TEA business people with the lowest income earn less than 12 000 tenge and 5.3% of people earn the highest income of 180000-240000 tenge.

According to the income picture of the TEA population, dominating group with about 70.4% earn enough money to support them, and about 15.9% has enough income to increase their entrepreneurship activity. The additional information on the motives why the people started their business can also provide the explanation. If the entrepreneurs regard their business activity as a source of income and the necessity to work, then they show less motivation to promote their business activity and increase the income.

In this report the term “informal investment” is used in a broad sense to include investments from the founders of business, family, friends, and other informal sources. The “formal investment” includes money invested by the professional venture capital firms in seed, start-up and expansion-stage companies. Also this investment includes the government financing programs and fund, which aim at the development of the entrepreneurial sector.

The money needed to start up business is calculated from the data, given by the early-stage entrepreneurs. The start-up money varies from the amount of 20 000 tenge to 5 000 000 tenge. 44.6% of the early-stage entrepreneurs invested 2.8% of the start-up money.

In this section the focus is placed on the informal investors, who fall in the categories close family and other relatives, work colleagues, friends and strangers.

The informal investors are essential for a vibrant entrepreneurial society. They form an independent source for entrepreneurship financing, adding the relief to state and bank financing system. With the greater support of the informal investors, the entrepreneurship has additional invisible source, which shows the potential capacity of the entrepreneurship independent financing. The entrepreneurial activity has taken root, as it was mentioned before, through the family channel (Baumol, Litan, Schramm, 2007). Thus it explains that the close family together with the other relatives make in total 57% of all the informal investors. The friends make a group of about 30% of informal investors. The other categories are the strangers (6.0%) and the work colleagues (3.1%). All together the informal investors input about 11.35% of the start-up money, which required at the beginning of any business activity. The percent of adults aged 18 to 64 who are active in informal investors is 4.19%.
The wealthier the nation, the higher the average annual amount of money that each informal investor puts into start-up companies (GEM Financing Report, 2006). The entrepreneurs themselves apart from their individual money sources and the informal investors’ money, may have their business payback as a source of the business financing. In general, the payback money the entrepreneurs estimate to profit from their business equals to 1-5 times as much. The highest payback is expected from the retail trading companies, hotel and restaurant business.

About 70.4% of early-stage entrepreneurs have the household income ranging from 12 000 to 96 000 tenge. Considering the fact that the start up business requires in average about 440 000 tenge, it may be hard for the entrepreneur to find the investment from the profit of the company.
When the entrepreneurs are starting their business, they are very frugal, as a little start-up financing goes a long way. Any investment and financial support may be enough to start a business and provide employment for an entrepreneur. Even in the advanced countries companies start with surprisingly little. More often self-financing by entrepreneurs, from family, friends, and strangers is fundamental to entrepreneurship. Venture capital, which is still not a part of financial practice in Kazakhstan, may be an accelerating tool for the entrepreneurship. A nation that wants to prosper must first and foremost have policies that facilitate investment by the formal and informal investments.

**Business Motivation**

In GEM framework, individuals start a business for two main reasons:
- They want to exploit a perceived business opportunity (opportunity-driven entrepreneurs);
- They are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory (necessity-driven entrepreneurs).

Although most individuals are pulled into entrepreneurial activity because of opportunity recognitions, others are pushed into entrepreneurship because they have no other means of making a living. For those who are pulled into entrepreneurship, two major drivers of opportunity entrepreneurship can be identified: those who are pulled primarily because they desire independence, and those who are primarily pulled to entrepreneurship because they want to increase their income as compared to, for instance, being an employee.

GEM 2007 APS data revealed that almost 34% within TEA are driven to make a business by the opportunity to increase their income. 12.5% within TEA are driven to make a business by the second opportunity motive – independence. In sum, both motives comprise about 46.5% of opportunity-driven entrepreneurs within TEA. Countries with low and high relative prevalence of opportunity-driven TEA are shown in Table 2.1. Kazakhstan can be found in the left part of the table, or, among countries with low rate of opportunity-driven entrepreneurship (less than 50%). The countries with high relative prevalence of opportunity-driven entrepreneurship are primarily high-income countries. In these countries, opportunities may be expected to be more
abundant, and individuals may have more alternatives to make a living. The highest rate of opportunity-driven early-stage entrepreneurial activity is found in Denmark (81%), Sweden (79%), Iceland (78%), and Slovenia (77%). At the lowest scale appear Serbia (29%) and Russia (30%).

Table 2.1: Share of opportunity driven early-stage entrepreneurial activity

<table>
<thead>
<tr>
<th>Group 1: Less than 50% opportunity</th>
<th>Group 2: More than 50% opportunity</th>
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<tbody>
<tr>
<td>Serbia</td>
<td>29%</td>
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<td>Russia</td>
<td>30%</td>
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<td>India</td>
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<td>Brazil</td>
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<td>Turkey</td>
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<td>Dominican Republic</td>
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<td>Croatia</td>
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<td>Latvia</td>
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<td>Argentina</td>
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<td>Peru</td>
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<td><strong>Kazakhstan</strong></td>
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<td>Venezuela</td>
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<td>Hungary</td>
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The remaining share includes people who mention that they have no other way of earning a living and people who became involved in entrepreneurial activity primarily to maintain their income. In Kazakhstan, about 36% of early-stage entrepreneurs were “pushed” into business because they have no another employment alternatives. The similar situation is in Peru (36.92%) and Dominican Republic (35.53%). The highest level of necessity-driven entrepreneurs is in Serbia (53.16%) and Croatia (50.21%). The lowest rate is in Denmark (6.31%) and Ireland (9.01%).

People from the poorest developing countries are driven by poverty and survival, and lack of choice in work to start business ventures, while in developed countries it is an opportunity and innovation that is the primary motivator for starting businesses. The greater the poverty, the more necessity entrepreneurship there is, thus resulting in high rates of entrepreneurial activity (Reynolds, Camp, Bygrave, Autio, and Hay, 2001). Kazakhstan has rich mineral resources, good geographical location and other opportunities to develop but still “entrepreneurship is based on economic necessity, and the entrepreneurs have proportionately lower education” (Acs, Arenius, Hay and Minniti, 2005). In the most developed countries, however, a higher rate of entrepreneurial activity means it is inspired by opportunity, innovation, and a boom in services.
The next figure represents distribution of opportunity-driven and necessity-driven early-stage entrepreneurs in all 42 countries.

**Figure 2.14: Entrepreneurial motivation of TEA by country**

GEM identifies that a vast majority of early-stage entrepreneurs in the selected countries claim that they are attempting to take advantage of a business opportunity. For the purposes of more detailed analysis of the entrepreneurial motives in Kazakhstan the comparison with three selected countries is represented below.

**Figure 2.15: Entrepreneurial motivation of TEA by country**

Considering the factors that motivate people, the figure 2.15 shows that the most opportunity-driven entrepreneurs in Kazakhstan claim that they want to increase income much more than to get independence. The similar situation is in Russia. Latvian and Turkish early-stage entrepreneurs are almost equally motivated by both opportunities – to get independence and increase income.

Starting a new business enterprise involves a need for making a living, but most of the interviewees were also motivated by other factors, most importantly to improve themselves, and to make enough money to achieve certain goals, such as educating their children, building a house, buying a plot of land in their rural home areas and raising their social status. In high-
income countries many of these goals are “necessities”, but for many people in developing countries they are aspirations.

Researchers in developing countries tend to agree that basic entrepreneurial goals (autonomy, opportunity, moderate risk taking) remain primary motives for successful business start-up and growth in developing countries (Frese and de Kruijf, 2000).

As you can see our data clearly indicates that the ratio of opportunity to necessity entrepreneurship is a key indicator of economic development. As more and more of the population become involved with opportunity entrepreneurship and more and more people leave necessity entrepreneurship, the more we are seeing high rates of economic development (Acs, 2006).

It is noteworthy that Kazakhstan has a high TEA due to the growing number of entrepreneurs who are taking advantage of a rapidly growing economy, rather than to the people driven by poverty to start a business.

(to be continued in Part 2)

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