

Dynamics of Entrepreneurship Development in Kazakhstan

Alima Dostiyarova
JSC “University KIMEP”, Kazakhstan

This paper is an overview on dynamics of entrepreneurship development in Kazakhstan. Kazakhstan is one of the successfully developing countries in the post-Soviet area. The overview of the economy, government policy and its impact on economic growth and development of entrepreneurship in Kazakhstan during twenty years of independence were observed. The data for analyses were used from different sources: government statistics, Kazakhstan Entrepreneurship Development Fund (DAMU), reports of Global Entrepreneurship Monitoring (GEM) and World Bank, International Monetary Fund, World Factbook, Kazakhstani Policies and other sources. The study did not find a strong correlation between Gross Domestic Product (GDP) rate and rate of entrepreneurship change; rate of GDP and rate of production output produced by small businesses and entrepreneurship. However, there is an opportunity for further research to investigate qualitative and quantitative factors, which influence the entrepreneurship development in a country.

INTRODUCTION

Nowadays, there is a lively interest to development of ‘post-Soviet countries’. Kazakhstan is one of successfully developing countries in the post-Soviet era. But two decades ago like many other transition economies, Kazakhstan experienced a drastic decline in economic activity following its independence in 1991. Despite significant macroeconomic and structural reforms, real GDP dropped to about 60 percent of its 1990 level in 1995 (Statistic Agency of the Republic of Kazakhstan). Since 1999 economic growth has resumed and a new stage of financial development has begun in Kazakhstan. However, there were problems during the first years of independence because the economy of Kazakhstan and that of other post-Soviet countries were closely interconnected and it was a crucial collapse for the first five-seven years. Since 1999 there has been a rapid growth in the economy and the GDP has been increasing by approximately nine to ten percent annually (Statistic Agency of the Republic of Kazakhstan, <http://www.stat.kz>), in comparison with development of entrepreneurship in Kazakhstan with other economies. The market analysis of a country, financial sector development, investment allocation, government policy, inflation and unemployment, problems and other factors were analyzed. This paper is an investigation of how all of these factors relate to entrepreneurship development and economic growth in Kazakhstan.

Nowadays, the Kazakhstani economy is mostly represented by oil and gas, telecommunication and energy power sectors. The government has launched numerous supporting programs such as "Innovative Industrial Development Strategy for 2003-2015", long-term "Kazakhstan Strategy 2030", the program "30 corporate leaders of Kazakhstan" and others, where the perspectives of non-oil & gas sector development, modernization of economy, government and business sector cooperation and many other important issues

are being considered. Since 2004 the Government has seriously taken into account the development of entrepreneurship in Kazakhstan. The “Program of development and supporting of small business and entrepreneurship for 2004-2006” was initiated. According to the World Bank survey report "Doing Business in Kazakhstan" the entrepreneurship in Kazakhstan has moved from 63rd place in 2009 up to 59th place in 2010 on a global ranking of 183 economies (Doing Business report, 2010). (See Table 1 in Appendix)

The comparative analysis of small businesses in Kazakhstan and developed countries shows marked lag indicators such as contribution to GDP and employment despite that entrepreneurship in Kazakhstan as well as in the developed countries represents more than 90 percent of all managing subjects. So, the share of annual volumes of output by subjects of small business in the developed countries makes from 43 percent (Canada) to 57 percent (Germany) of GDP respectively, whereas its share is three times lower and makes only 15 percent in Kazakhstan (Analytical Report of DAMU, 2010). (See Table 2 in Appendix)

The population occupied in the entrepreneurship and small business is an important indicator to be considered. The general employment indicators for Kazakhstan are also lower in comparison with that of developed countries: over the last five years this indicator has reached a plateau at 23 percent, whereas in Canada it is 47 percent and in Japan it is up to 75 percent. (Analytical Report, DAMU, 2010).

The branch structure of entrepreneurship and small business in Kazakhstan in comparison with other economies is different. Almost 40 percent of entrepreneurs in Kazakhstan are involved in the sphere of wholesale and retail trade, more than 20 percent of entrepreneurs function in agriculture. (Analytical Report of DAMU, 2010). (See Table 3 in Appendix)

In the USA the structure of small business is allocated in services (58 percent), more than 20 percent of entrepreneurs function in trade and construction business. (Analytical Report of DAMU, 2010). (See Table 4 in Appendix)

The tendency of decreasing in the overall share of industrial entrepreneurship in Kazakhstan in branch structure of entrepreneurship for the last four years is observed. It tends to increase dependence of home market on import. Such tendency does not promote the economy diversification as it needs to develop industrial sector, particularly, manufacturing industry.

LITERATURE REVIEW

Entrepreneurship plays a positive role for economic growth. According to Baumol, “it has long been recognized that the entrepreneurial function is a vital component in the process of economic growth...” (Baumol, 1968). Schumpeterian theory that “entrepreneurship is crucial for understanding economic development” (Zoltan Acs et al, 2010) proves that “the dynamics of the process can be vastly different depending on the institutional context and level of development within an economy” (Zoltan Acs, et al, 2010, Hubner, 2000). Neace notices that “long-term success in economic development, particularly in developing economies, depends to a significant degree on a growing network of small entrepreneurial enterprises” (Neace, 1999). However, “entrepreneurship does not impact an economy simply through higher numbers of entrepreneurs. It is important to consider quality measures, like growth, innovation and internationalization.” (GEM report, 2011). For Kazakhstan every step in developing economy was very important decision. The aim of the government policy in relation to entrepreneurship and small business in Kazakhstan is establishing of the middle class by development of the entrepreneurship oriented on high-quality and high-technological manufactures. (DAMU, <http://www.damu.kz>).

Entrepreneurship development in Kazakhstan

From the very first days of its independence, Kazakhstani government paid close attention to small business and entrepreneurship development. The Law of the Republic of Kazakhstan “On Protection of and Support to Private Entrepreneurship” was accepted in 1992, then the “State Programme of Support and Development of Entrepreneurship in the Republic of Kazakhstan for 1992-1994” was approved and as a result in 1997 the President of the Republic of Kazakhstan issued a decree establishing Small

Entrepreneurship Development Fund (DAMU). The main purpose of the Fund was to encourage the emergence and economic growth of small business entities (hereinafter referred to as SBEs) in Kazakhstan and to make the use of government funds spent towards small business support more efficient (DAMU, 2007).

In 2007 “Kazakhstan became the first country to sign a joint development agreement directly with the US Government, known as the Program for Economic Development” (Toxanova, 2007) and during January 2007 Kazakhstan became the first Central Asian country to be accepted to the GEM (Global Entrepreneurship Monitoring) Consortium (Toxanova, 2007). So, Kazakhstan participated in a global survey of the World Bank (Doing Business) and Global Entrepreneurship Monitoring (GEM) and was represented in comparison with other countries.

There are government and commercial institutions in Kazakhstan to strengthen the government support and boost the development of small business. Among them is the Ministry of Industry and Trade of the Republic of Kazakhstan, which is the highest government authority, responsible for government policy realization as well as development of small business and entrepreneurship. The Ministry is a central executive authority that reports to the Government and President of the Republic.

The Department of entrepreneurship development is the structural unit within the Ministry of Industry and Trade of the Republic of Kazakhstan, which is responsible for government support in the standard-legal regulation of the entrepreneurship development. (DAMU, 2011). The local departments perform as the government support of entrepreneurship at the regional level. Among other organizations which contribute to development of entrepreneurship are the Board of entrepreneurs under the President, the Center of engineering and transfer of technology, the Corporation for export development (Kaznex), National Innovation Fund, Investment Fund, Bank of Kazakhstan development and other organizations that support and speed up the process of innovation and entrepreneurship development. Kazakhstan has managed to outstrip other CIS countries and keep advancing forward. (See Table 5 in Appendix)

Entrepreneurship in Kazakhstan is represented by small businesses - eight percent, farm business – 24 percent and individual businesses – 68 percent. (See Table 6 in Appendix)

Since Kazakhstani independence the entrepreneurship process has started in a country. But for successful development of entrepreneurship there is a need for such a model which considers not only the number of increasing of enterprises but the model that takes into account qualitative factors of entrepreneurship. According to Neace, “trust is a major resource for small business success and crucial for starting and sustaining new enterprises” (Neace, 1999). Neace (1999) promotes a model where along with ‘entrepreneur profile’ the ‘entrepreneurial process’ is represented as one of the important composite parts. The main attributes are ‘value creation’, effective & efficient resources using, financial and social instruments such as technological material, labor and ‘consumer satisfaction and community well-being’. (See Figure 1 in Appendix)

This model shows that there are some other factors which influence the entrepreneurship development in a country, especially, in a developing country like Kazakhstan. In Kazakhstan the government’s support of entrepreneurship such as consulting, special programs in financing, training has worked from the first days of existence. The correlation analysis was employed in order to see the relationship among the GDP and rate of entrepreneurship change and GDP and output done by small business and enterprises.

ANALYTICAL FRAMEWORK

Entrepreneurship brings innovation, creates employments and speeds up the country’s economic development (Hozelitz, 1952). Despite that “GDP is less appropriate for cross-countries analysis of entrepreneurship development” (Obraztsova et al, 2010), we assume the correlation analysis using GDP rate for one country – Kazakhstan.

The following hypotheses were postulated:

Scenario One:

1. H0: There is a strong correlation between GDP rate and rate of number of enterprises change.

2. H1: There is a low or no correlation whatsoever between GDP rate and rate in the number of enterprises change.

Scenario Two:

1. H0: There is a strong correlation between GDP rate and rate of products output produced by small businesses and entrepreneurship.
2. H1: There is a low or no correlation between GDP rate and rate of products output made by small businesses and entrepreneurship.

The correlation analysis was carried out in order to find a relationship between GDP rate change and entrepreneurship change rate in Kazakhstan. Under the GDP rate change data of Kazakhstan Statistical agency with a given GDP rate change in accordance with the previous year was used. The entrepreneurship rate change is calculated in accordance with the previous year:

$$\text{Rate ENTP} = (\text{Number of ENTP new} - \text{Number of ENTP past} | \text{Number of ENTP past}) * 100\%$$

The period from years 2001 to 2010 (ten years) was considered due to lack of data.

Output rate is calculated in accordance with the data of previous year:

$$\text{Output Rate} = (\text{Output new} - \text{Output past} | \text{Output past}) * 100\%$$

The same period 2001 to 2010 was considered due to lack of data for output registration.

Rates Analyses

The measure which estimates the rate of change in the number of small businesses and enterprises in country spreads from the maximum rate of 130.7 percent to the minimum value - minus 6.3 percent. The negative value shows decreasing in a number of enterprises which had taken a place after the financial crisis of 2007. The average entrepreneurial number rate was 23.7 percent. As for rate of production output made by entrepreneurs, there is a spread from the maximum value of 389.1 percent to the minimum negative value – minus 7.8 percent as a result of decreasing of the number of enterprises; the average production output rate was 80.8 percent.

Statistical Analysis

In Scenario One the hypotheses are tested by correlation analysis between GDP rate and Rate of the entrepreneurship number change. The results show that there is a correlation between two terms ($r=0.645$), correlation is significant at 0.05 level ($p=0.044$). We do not reject the H0 in Scenario One: There is a strong correlation between GDP rate and rate of number of enterprises change. (See Table 7 in Appendix)

In Scenario Two the hypotheses are tested by correlation analysis between GDP rate and Rate of output change produced by entrepreneurship and small businesses. The results show that there is a correlation between these two terms ($r=0.466$), but it is not significant ($p=0.175$). The hypothesis H0 in scenario Two is not supported: there is no statistically significant correlation between GDP rate and Rate of output change produced by entrepreneurship and small businesses. (See Table 8 in Appendix)

SUMMARY AND CONCLUSION

This paper discusses the dynamics of entrepreneurship development in Kazakhstan since its independence. Despite the government support and encouragement in venture creation, the economic layout in a country has its impact on entrepreneurship activities. Although the GDP rate from 1999 has grown consistently there are also an inflation and unemployment rates. The inflation rate varies from 13.5

(maximum) percent in 2001 to 6 percent in 2003 (minimum) and rate of unemployment varies from 10.4 percent in 2001 (maximum) and 7,3 percent (minimum) in 2007 (www.stat.kz). (See Table 9 in Appendix)

The study should be considered in the light of data availability and some other limitations. This study is an attempt to find and consider correlation between GDP rate change and rates of enterprises change and rate of production output. Although, the correlation coefficient between GDP rate change and rates of enterprises change is statistically significant, existence of entrepreneurship in developing country with twenty years history and experience should be considered with other qualitative factors such as Human Development Index (HDI), which is supported by Obratsova and Chepurenko (Obratsova, 2010, Hozelitz, 1952), Global Entrepreneurship and Development Index (GEDI), proposed by Acz (Acz et al, 2010), Cultural Index (Katchanovski, 2000) which allows to measure both quantitative and qualitative factors of entrepreneurship. Moreover, “the GEDI captures the contextual feature of entrepreneurship by focusing on entrepreneurial attitudes, entrepreneurial activity and entrepreneurial aspirations” (Acz et al, 2010).

Thus, on the basis of the review of macroeconomic indicators of small business and entrepreneurship development, it is possible to draw the following conclusions:

- Kazakhstan has a rhythmic economy with positive determinants for further development. The entrepreneurship contribution into country GDP exists, the growth of absolute figures of entrepreneurship in Kazakhstan takes a place;
- The negative factors in the sector of small business and entrepreneurship, the share of production in GDP and the volume of production are still there;
- Volumes of crediting of businesses by banks from their own resources and the sources alternative to government programs of support of small business and entrepreneurship were considerably reduced.
- There is a necessity of the government co-ordination of small businesses and entrepreneurship with a view of updating and improvement of negative tendencies of development of small business employing both financial and non-financial tools as well.
- The government plays positive role that leads to lower risks and opens up new opportunities for the entrepreneurship development in the country.

This paper is unique because it covers the analysis of Kazakhstani market and develops the growth model for the period of twenty years of country’s independence.

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APPENDIX

**TABLE 1
RANKING OF DOING BUSINESS IN KAZAKHSTAN**

Kazakhstan's ranking in Doing Business 2011

Rank	Doing Business 2011
Ease of Doing Business	59
Starting a Business	47
Dealing with Construction Permits	147
Registering Property	28
Getting Credit	72
Protecting Investors	44
Paying Taxes	39
Trading Across Borders	181
Enforcing Contracts	36
Closing a Business	48

**TABLE 2
MACRO ANALYSIS OF KEY FIGURES AMONG DEVELOPED COUNTRIES AND
KAZAKHSTAN**

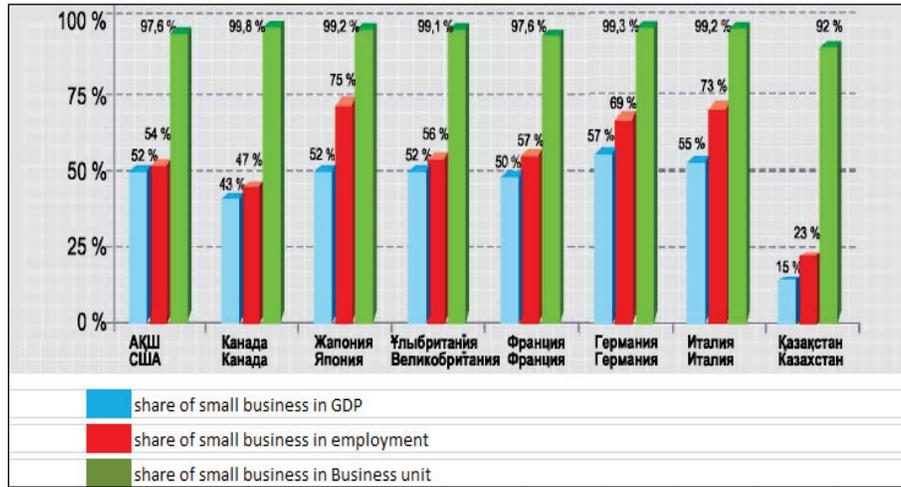


TABLE 3
MAIN FACTORS OF SMALL BUSINESS & ENTREPRENEURSHIP BY INDUSTRY SECTORS



TABLE 4
INDUSTRIAL COMPOSITION OF SMALL & MEDIUM-SIZED BUSINESSES BY COUNTRIES

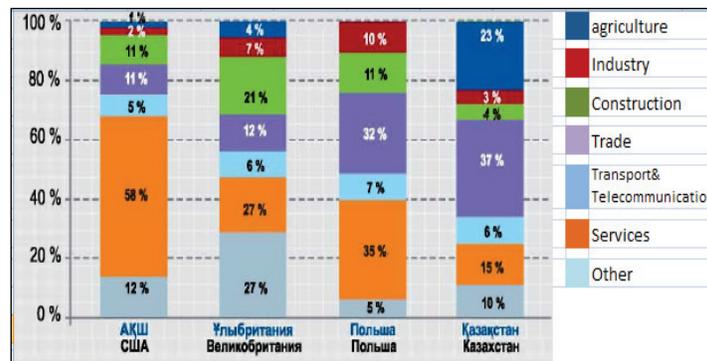
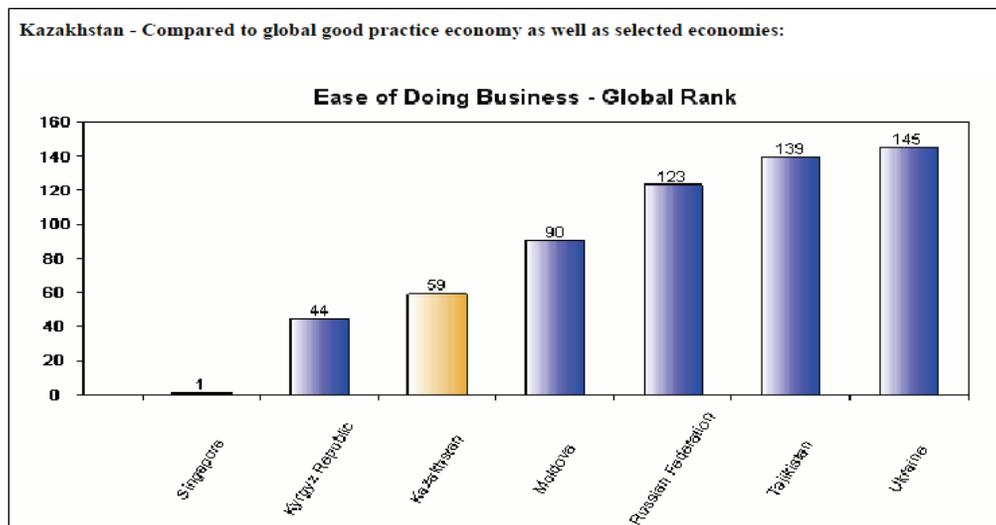
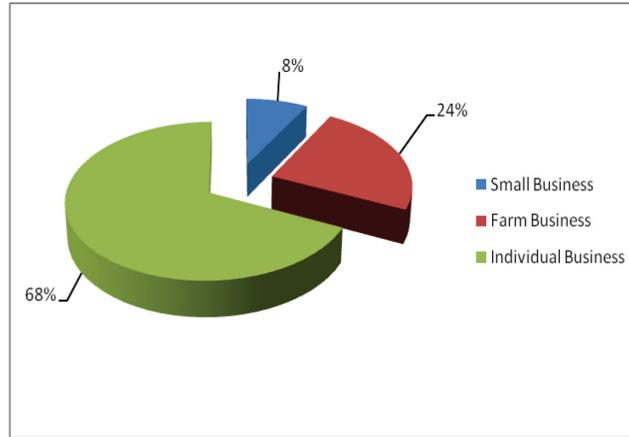


TABLE 5
GLOBAL RANK AMONG SELECTED COUNTRIES



**TABLE 6
THE ENTREPRENEURSHIP STRUCTURE**



**FIGURE 1
ENTREPRENEUR PROFILE**

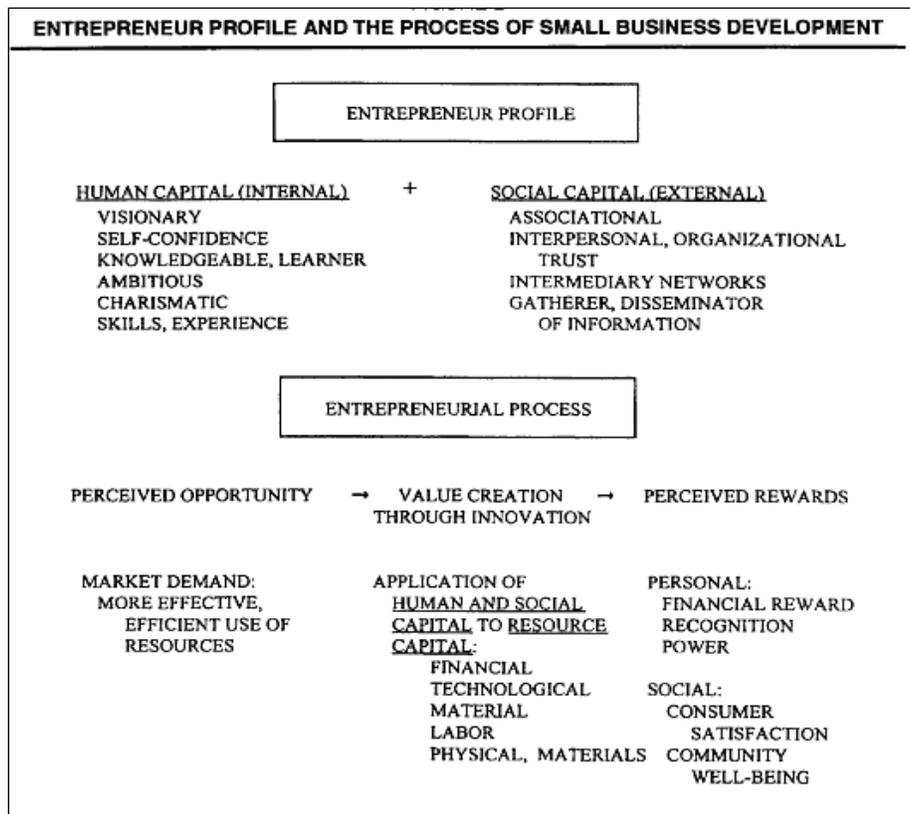


TABLE 7
SCENARIO ONE. CORRELATION BETWEEN GDP RATE AND RATE OF
ENTREPRENEURSHIP CHANGE

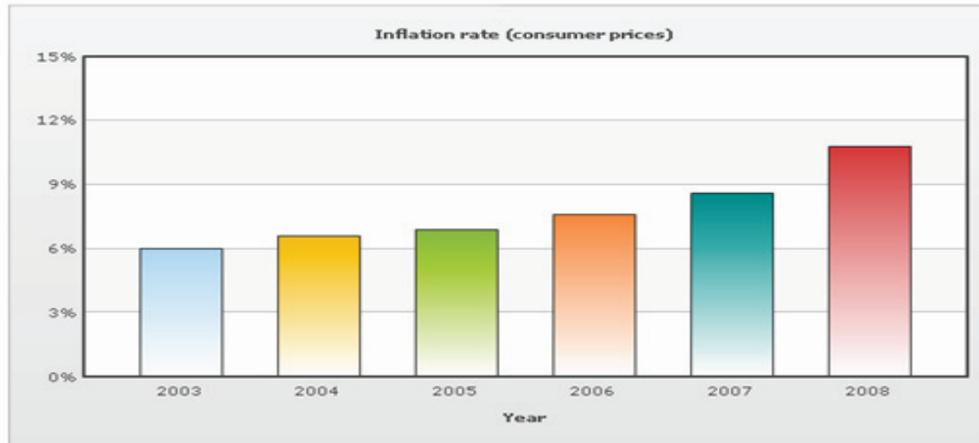
		Correlations	
		GDPrate	ENTRrate
GDPrate	Pearson Correlation	1	,645*
	Sig. (2-tailed)		,044
	Sum of Squares and Cross-products	117,160	809,690
	Covariance	13,018	89,966
	N	10	10
ENTRrate	Pearson Correlation	,645*	1
	Sig. (2-tailed)		,044
	Sum of Squares and Cross-products	809,690	13444,461
	Covariance	89,966	1493,829
	N	10	10

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 8
SCENARIO TWO. CORRELATION BETWEEN GDP RATE AND OUTPUT RATE

		Correlations	
		GDPrate	Outputrate
GDPrate	Pearson Correlation	1	,466
	Sig. (2-tailed)		,175
	Sum of Squares and Cross-products	117,160	1942,050
	Covariance	13,018	215,783
	N	10	10
Outputrate	Pearson Correlation	,466	1
	Sig. (2-tailed)		,175
	Sum of Squares and Cross-products	1942,050	148364,401
	Covariance	215,783	16484,933
	N	10	10

TABLE 9
INFLATION RATE
SOURCE – CIA WORLD FACT BOOK



Year	Inflation rate (consumer prices)	Rank	Percent Change	Date of Information
2003	6.00 %	58		2002 est.
2004	6.60 %	59	10.00 %	2003 est.
2005	6.90 %	166	4.55 %	2004 est.
2006	7.60 %	168	10.14 %	2005 est.
2007	8.60 %	175	13.16 %	2006 est.
2008	10.80 %	194	25.58 %	2007