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Fostering Innovation through Venture Capital in Kazakhstan

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Abstract

This research explores Kazakhstan's venture capital (VC) landscape, focusing on its evolution, challenges, and strategies for sustainable development. Using a mixed-methods approach, the study combines qualitative interviews with quantitative market data to examine the VC ecosystem and its role in driving innovation and economic growth. Key findings reveal that Kazakhstan's VC sector has seen significant growth in recent years, supported by governmental initiatives, including establishing the Astana International Financial Centre (AIFC) and regional innovation hubs. However, challenges like market immaturity, regulatory hurdles, and limited late-stage funding persist. The study identifies critical success factors, including fostering international partnerships, streamlining regulations, and promoting entrepreneurship through targeted policies. The methodology involves snowball sampling and semi-structured interviews with active venture capitalists to capture diverse perspectives. The thematic analysis highlights the importance of government support, collaboration among stakeholders, and the need for accessible data to drive informed decision-making. Survey responses further emphasize the reliance on early-stage investments, the lack of strategic investors, and difficulties securing funding for local startups. Comparative analysis with other Central Asian markets reveals that Kazakhstan's ecosystem is more advanced but still faces challenges in sustaining growth. Strategic recommendations to enhance the investment climate include aligning regulatory frameworks with international standards, improving access to finance, and expanding entrepreneurial education, underscoring the need for regional cooperation among Central Asian countries to foster VC investment across borders. By addressing these challenges and leveraging identified opportunities, Kazakhstan and neighboring countries can establish sustainable VC ecosystems to support economic diversification and innovation. This research contributes to understanding VC dynamics in developing economies and provides actionable insights for stakeholders aiming to optimize the venture capital environment in Central Asia.
Keywords: Venture capital, Developing countries, VC investment culture, Innovation ecosystem, Entrepreneurial ecosystem, Kazakhstan.

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Introduction

Kazakhstan's venture capital (VC) industry has experienced a remarkable surge in growth and transformation in recent years, setting the stage for a promising future. Several trends emerged in 2023 that highlight the market's dynamic nature. Firstly, Kazakhstan has seen a phenomenal increase in the volume of venture capital financing, growing more than five times over the past five years. This growth has positioned Kazakhstan as a leader in venture deals within Central Asia and the Caucasus, with the country's venture capital deals in 2023 exceeding USD 80 million. This surge in activity predominantly features pre-seed and seed funding rounds, suggesting a robust pipeline of early-stage companies ready to innovate and scale (Kovshova et al., 2024; Nichkasova, 2024), placing the industry at a critical juncture, marked by significant growth potential and unique challenges.

The Kazakh government has played a pivotal role in supporting this growth through substantial investments in priority technological sectors such as EdTech, MedTech, AgriTech, and GreenTech, among others. Initiatives like the Single Window of the National Innovation System, a platform that centralizes and simplifies the application process for support measures for innovative projects, have been crucial in streamlining access to these measures and fostering a transparent and efficient innovation process. These governmental efforts are supplemented by strategic funding for technology transfer and business incubation, further reinforcing the startup ecosystem (Karazhanova & Kim, 2024). Moreover, the development and expansion of physical infrastructure like Astana Hub and a network of regional innovation hubs have been instrumental. These hubs decentralize innovation activity nationwide and connect Kazakhstani entrepreneurs to international networks, enhancing their global reach and competitiveness (Smagulova & Goncalves, 2023; Kuzhabekova, 2024).

The region's drive towards innovation, bolstered by strategic governmental policies, presents substantial opportunities for venture capitalists. These trends indicate a vibrant and growing venture capital landscape in Kazakhstan, supported by governmental initiatives and an increasing number of domestic and international investors. The focus on early-stage funding and technological innovation, coupled with strategic government support, positions Kazakhstan as an emerging global venture capital market. However, these opportunities are accompanied by distinct challenges, such as market instability, regulatory issues, and the recent impact of COVID-19. These challenges underscore the need for innovative solutions and the importance of strategic partnerships. These partnerships are vital to leveraging the opportunities and mitigating the threats facing the venture capital industry in this region. This emphasis on partnerships highlights the need for collaboration in navigating the complexities of the VC industry in Kazakhstan.

The VC industry in Asia, with a particular focus on Kazakhstan, has witnessed significant trends, opportunities, and challenges in recent years, shaped by both regional dynamics and global economic shifts. The rise of technology startups and increased digitalization across sectors have spurred regional investment interest. In Kazakhstan, the government's strategic initiatives to diversify its oil-dependent economy have positioned the country as a developing hub for VC investment, particularly in tech-oriented startups (Mercurio et al., 2021). The introduction of the Astana International Financial Centre is a testament to Kazakhstan's commitment to becoming a financial and innovation hub in Central Asia, offering tax incentives, a favorable legal environment, and infrastructure support to attract VCs and startups alike. However, the VC landscape in Kazakhstan and broader Asia faces challenges and threats. Market volatility, regulatory uncertainties, and geopolitical tensions can deter investment flows and affect the overall investment climate (O'Connor et al., 2021; Lee & Cho, 2022).

In recent years, there has been a growing interest in understanding the dynamics of VC investment and its impact on economic development, particularly in developing countries. Venture capital is crucial in financing innovative startups and high-growth potential businesses, contributing to job creation, technological advancement, and economic growth (Lerner & Nanda, 2020, 2023). However, the VC landscape in developing countries presents unique opportunities and challenges that warrant exploration. Developing countries are characterized by emerging economies with a burgeoning entrepreneurial ecosystem and a growing interest in innovation (Stam & Van de Ven, 2021). However, access to traditional financing sources such as bank loans and public markets is often limited for startups and early-stage companies, leading to a reliance on alternative funding sources such as VC. Furthermore, cultural norms, regulatory frameworks, and institutional infrastructure shape the investment culture in developing countries. Cultural factors such as risk aversion, lack of entrepreneurship education, and stigma associated with failure can influence investor behavior and attitudes toward VC investment.

This study defines entrepreneurial ecosystems as the interactions of different players and elements that promote and improve entrepreneurial activity in a particular location or industry. It distinguishes between innovation and entrepreneurial ecosystems. The former are communities that support innovation processes and create technologies and innovations, while the latter focus on entrepreneurship development. Innovation ecosystems are made up of interacting actors that create value through innovation. Entrepreneurial ecosystems theorize entrepreneurs' ability to access external resources and innovate (De Brito & Leitão, 2021; Baldwin et al., 2024). These environments include funding availability, chances for business growth, favorable regulations, education resources, and a society that promotes entrepreneurial spirit. Research on entrepreneurial ecosystems has mainly examined how these elements encourage creativity, assist new businesses, and stimulate economic development. This study examines how the relationships and resources provided by various stakeholders, such as entrepreneurs, investors, government bodies, educational institutions, and support organizations, impact the ecosystem's health and productivity. Examining Kazakhstan's VC environment from the entrepreneurial ecosystem's viewpoint is essential, as well as recognizing how different factors, such as government policies, investor actions, market situations, and cultural influences, support or hinder VC and entrepreneurship development. The study aims to find and suggest tactics to reinforce the ecosystem to boost its ability to back and maintain entrepreneurial projects, specifically in VC funding.

Despite challenges, developing countries offer unique investment opportunities in Fin-Tech, E-commerce B2B/B2C, platform marketplace, and GovTech. However, the limited availability of early-stage capital, underdeveloped regulatory frameworks, political instability, and currency volatility can deter investors and impede the growth of the venture capital ecosystem. This study aims to fill the knowledge gap on VC activities in developing nations, specifically concentrating on Kazakhstan. It aims to investigate the specific chances and obstacles investors and entrepreneurs encounter in these markets, frequently marked by inadequate regulatory structures, political uncertainty, and restricted availability of traditional funding options. Although VC could bring about substantial economic benefits by promoting innovation and boosting economic development, the challenges of the VC sector in developing markets such as Kazakhstan still require thorough comprehension. It provides entrepreneurs with financial resources, strategic guidance, mentorship, and networking opportunities, enabling them to scale their businesses and compete in global markets. In developing countries, where access to capital is constrained, a gap exists on how VC can catalyze entrepreneurship and innovation, driving economic growth and job creation. This study examines these changes, suggesting practical approaches to encourage a favorable atmosphere for VC funding and aims to fill this gap by providing a nuanced understanding of the VC landscape in developing countries, exploring the opportunities and challenges faced by investors and entrepreneurs, and identifying strategies to foster a conducive environment and ecosystem for venture capital investment.

Venture capitalist and investment culture in developing countries is essential for unlocking the full potential of entrepreneurship and innovation for sustainable economic growth and development (Goncalves et al., 2024; Goncalves & Vasquez, 2024). This paper seeks to contribute to the existing body of knowledge by shedding light on the opportunities and challenges inherent in the venture capital landscape of developing countries and proposing actionable recommendations for fostering a vibrant and inclusive entrepreneurial ecosystem. Venture capital is an important funding source for startups in the financial markets. It plays the most crucial role in identifying high-potential and innovative firms. This paper aims to investigate the importance of the level of skills and knowledge of private or governmental investors; it is a crucial factor that influences the success of a startup and has a high impact on the success of a startup business. It discusses the comprehensive literature on investment culture in startup businesses in developing countries, identifies the VC investment evaluation criteria, and uses the Mensarius Oath of ethical investing.

Given this backdrop, the overarching question guiding this research centers on identifying the critical factors that influence the success of venture capital investments in Kazakhstan within the context of developing countries' broader venture capital landscape. Specifically, the research seeks to understand how the unique challenges and opportunities presented by the Kazakhstani and broader Asian markets affect venture capital flow, the strategies employed by venture capitalists to navigate these markets successfully, and the role of governmental policies and international standards in fostering a conducive environment for VC investments. This inquiry aims to bridge the existing knowledge gap by offering a comprehensive analysis of the venture capital ecosystem in developing countries, focusing on Kazakhstan, thereby contributing to formulating actionable strategies for

enhancing the investment culture and fostering economic growth and innovation in these regions. Finally, this paper also examines Kazakhstan's VC landscape, contextualized within the broader spectrum of developing countries. It aims to augment the extant literature through a detailed review and critique of the existing studies cited, enhancing understanding of the VC field in these regions.
This research paper is structured into several sections to provide a comprehensive analysis of the venture capital industry in Kazakhstan. Following the introduction, the Literature Review discusses relevant theories and models that frame understanding venture capital dynamics in developing markets. The Methodology section outlines the mixed-methods approach, including qualitative interviews and quantitative market analysis, which underpins the empirical research. The Findings section presents insights gathered from survey responses and semi-structured interviews with venture capitalists, detailing the current state and challenges of venture capital in Kazakhstan. The paper then transitions into the Discussion section, where the implications of these findings are examined, considering existing theories and models. This leads to the Conclusion section, synthesizing the research outcomes and offering strategic recommendations for stakeholders to enhance the venture capital ecosystem in Kazakhstan. Recommendations for future research suggest areas for further investigation to build on the foundational research.

Literature Review

The VC industry of Kazakhstan operates within a unique set of dynamics that have attracted scholarly attention and have led to the development of various theories and models. Incorporating strategies to attract VC investments and foreign direct investments (FDI) is a critical component of the economic policies adopted by developed and developing nations, which marks a significant departure from the attitudes prevalent in the 1950s and 1960s when developing countries viewed FDI, even more so VC investments during privatizations, with suspicion and perceived them as a threat to their sovereignty, especially when foreign entities established local operations (UNTAC, 2019). However, the globalization of markets and monetary policies has led to a shift in perspective among these nations, who now see the value in welcoming not only FDI but also VC investments (Groh et al., 2023).

Theories and Models

A prominent theory, the Institutional Framework Theory (IFT), posits that the efficacy and growth of the VC market in Asia, particularly in countries like Kazakhstan, are heavily influenced by the institutional environment, including the legal, regulatory, and economic frameworks. Scholars argue that robust legal and regulatory frameworks and sound economic policies create a conducive environment for VC investments by reducing risks associated with market volatility and regulatory uncertainties (Aitken & Harrison, 2022). This theory underscores the importance of governmental policies in fostering a thriving VC ecosystem, particularly in developing markets where such frameworks are under development. These scholars have highlighted the critical role of robust legal and regulatory frameworks in stabilizing the VC environment, thus reducing market volatility and regulatory uncertainties. This study acknowledges the significant influence of institutional frameworks in fostering VC markets in developing economies. Nevertheless, this perspective could be enriched by integrating insights from many scholars, who posit that institutional voids in developing markets present challenges and opportunities for investors (Amini Sedeh et al., 2022), which is beyond the scope of this study. Such inclusion would offer a more nuanced understanding of how institutional deficiencies could be strategically utilized as investment opportunities.

Another significant theory to consider is the Cultural and Social Network Theory (CSNT), which emphasizes the role of cultural factors and social networking in the venture capital industry (Gannon & Roberts, 2020; Aitken & Harrison, 2022). The concept of social capital originated from community studies and permeated the role of cultural and social networking. Social capital is often defined as a public good, not private property. This study applies CSNT to elucidate VC dynamics in Kazakhstan, noting the pivotal role of social capital in investment decisions, especially within high-context cultures such as those in Asia. Other scholars, however, assert that social capital refers to social resources embedded in the network of relationships possessed by an individual or social unit (Gannon & Roberts, 2020; Shiell et al., 2020; Zhanturina, 2023). A notable critique of social capital within economic studies stems from a discernible incongruence between the theoretical underpinnings of this notion and its empirical research. Previous research suggests that entrepreneurs with substantial social capital are more likely to attract VC investment (Yi et al., 2023). However, the specific influence of social capital on entrepreneurs' preference for venture capital financing remains an open question, as cultural norms and social networks play a crucial role in investment decisions in Asia and, by extension, Kazakhstan (Glücksman, 2020). This theory suggests that relational dynamics, trust, and reputation are pivotal in the decision-making processes of VCs, reflecting the high-context cultural settings of Asian countries (Lee, 2021; Shiel et al., 2020). Although not the focus of this study, this analysis could be deepened by contrasting these dynamics with those from lower-context cultures, like the U.S. or Europe. Incorporating Hofstede's exploration of cultural dimensions could enhance the comparative analysis, thereby broadening the understanding of how cultural variances influence VC practices globally.

The Innovation Ecosystem Theory (IET) is also relevant to this study's analysis, focusing on how the interplay between various actors within the ecosystem, such as startups, investors, government, and academia, drives the growth of the VC industry (Gu et al., 2021; Joseph et al., 2021). This theory posits that a vibrant innovation ecosystem, supported by strategic governmental policies and a collaborative culture among stakeholders, is critical for the success of venture capital in fostering economic growth and technological advancement. This study discusses the synergy among startups, investors, government, and academia within the VC ecosystem, describing the contributions of these actors and a deeper exploration of the interactions within this ecosystem. It provides valuable insights into how these relationships dynamically support the innovation ecosystem, arguing that such references enrich the current understanding of the complex interplay within the VC sector.

Focusing on Kazakhstan, these prominent theories address the VC industry and offer comprehensive insights into the factors driving its development and challenges. The IFT, CSNT, and IET underscore the multifaceted nature of venture capital investments in the region, highlighting the importance of regulatory frameworks, cultural and social dynamics, and a supportive innovation ecosystem. These theories provide a valuable framework for understanding the complexities of the VC industry in Kazakhstan and the broader Asian context.

An essential foundation for understanding the dynamics of the VC industry in Kazakhstan is essential. By integrating IFT, CSNT, and IET, its juxtaposition reveals how legal and regulatory frameworks, cultural influences, and collaborative ecosystems collectively influence VC activities. These theories are crucial for dissecting the complex interrelations that drive investment behaviors and outcomes in emerging markets. Highlighting these theoretical frameworks enriches the understanding of Kazakhstan's VC landscape. It guides policymakers and investors in designing strategies that accommodate cultural nuances and regulatory requirements, fostering a more robust and adaptive VC environment. This theoretical grounding serves as a critical basis for the subsequent empirical analysis in this study, ensuring that its recommendations are well-informed and contextually relevant, aiming to optimize VC operations and economic growth within the region.

Kazakhstan's Venture Capital Environment

Kazakhstan's venture capital (VC) environment is characterized by a dynamic interplay of opportunities and challenges that shape its investment landscape. As the country progresses, it has garnered attention due to its strategic initiatives and potential for high-tech sector growth. The Kazakh government has fostered an attractive investment climate through various initiatives. These include the establishment of the Astana International Financial Center and the launch of the *Digital Kazakhstan* program, which have both aimed at creating a more conducive environment for venture investments by implementing legal reforms, offering tax incentives, and developing special economic zones (Гумар et al., 2023; Mukanov, 2023; Smagulova & Goncalves, 2023).

In addition to government support, Kazakhstan has seen substantial growth in technological sectors attracting venture capital. Investments are solid in emerging industries such as EdTech, MedTech, AgriTech, and Artificial Intelligence (AI). These sectors diversify the economy and open new avenues for venture capital. The increasing focus on these areas underscores the nation's commitment to evolving beyond its traditional industries and engaging more deeply with global technological advancements. Furthermore, international collaborations are expanding, providing Kazakh startups crucial access to global markets. The development of regional innovation hubs and participation in international tech exchanges enhances this trend, offering local entrepreneurs the necessary platforms to scale their operations internationally (Kuzhabekova, 2024). Despite these promising developments, Kazakhstan's VC environment faces significant challenges. The market is still maturing, as evidenced by the predominance of early-stage investments and a lack of late-stage funding. This market immaturity can limit startups' growth potential as they seek to scale operations beyond the initial stages (Kim & Geum, 2023).

Regulatory and bureaucratic hurdles persist, posing challenges that can deter domestic and foreign investors. The complexity of the regulatory environment and cumbersome bureaucratic procedures can impede Kazakhstan's efficiency and appeal as an investment destination. Additionally, the market's heavy reliance on foreign investment exposes it to global financial instabilities and geopolitical tensions, which can influence investment flows and decisions. According to recent extant research, startups felt equally “neutral” or “somewhat weak” when evaluating their investment opportunity and applying for financing from local venture organizations and angel investors (Khassenova et al., 2020; Kulanov et al., 2020; Lee, 2021; Nurgaliyeva et al., 2022; Beisengaliyev et al., 2023; Smagulova & Goncalves, 2023). It is also well-known that information technology (IT) startups face many challenges in finding investment resources at the beginning of the idea and business venture. At the same time, 31% of startups rate a "Somewhat strong" ability of startups in this field to engage foreign investments (Joseph et al., 2021).

However, researchers argue that it is more accessible for Kazakhstan’s startups to apply for and receive financing from foreign investors than domestic ones (Pittz et al., 2021). Still, even if a startup gets a grant, receiving it will take a long time, as it needs to do much paperwork. In particular, the condition Government Policy: Support and Relevance was highly rated by experts, receiving a 5.6 score, second among GEM Level B economies, while Government Policy: Taxes and Bureaucracy (score 5.5) was third. These show an impressive commitment by the state to supporting entrepreneurship, even as many competing priorities emerged during the pandemic. Indeed, this appears to be a state priority (Smagulova & Goncalves, 2023).

Knowledge management (KM) and development are vital functions in an innovation system (Goncalves, 2020; 2021). However, developing countries usually need to catch up in this function. In contrast, developed countries typically work at the cutting edge of technology and knowledge, helping them to be more innovative. Developing countries cannot rely only on domestic research and development (R&D) to fill the gap, as knowledge sharing becomes paramount, especially in digitalization. Hence, they should seek different knowledge choices, such as R&D, technological learning, and imitation (Doszhan et al., 2020; Goncalves, 2020; 2021).

Kazakhstan’s government strongly supports local technological businesses and start-ups highly. However, government policy, including taxes and bureaucracy, ranked third, which was confirmed in the findings of this study, which partly supports one of the hypotheses, as receiving investments brings more bureaucracy. Indeed, this appears to be a state priority, and solutions to these issues are needed. Some policies, such as loan guarantees for promising entrepreneurial projects, may incentivize financial institutions to lend more tightening environment. Policies offering tax incentives for sharing intellectual property (IP) could immediately benefit those new businesses looking to grow in the competitive technology field (Goncalves, 2021; Smagulova & Goncalves, 2023). Entrepreneurs must also place a more significant emphasis on collaborative marketing. Such collaborations include raising funds abroad, attracting foreign investors, and developing better connections with government agencies to improve indirect access support, such as loan guarantees adopted by the Small Business Administration in the U.S.

The lack of reliable and comprehensive data is a notable issue within the VC landscape. This deficiency hampers investors' informed decision-making and limits the ability to track market trends and outcomes effectively. Efforts are underway to address this gap, but significant improvements are needed to enhance data accessibility and transparency, which are crucial for sustaining investor confidence and facilitating robust market analysis (Berre & Le Pendeven, 2023). Addressing these challenges will be critical for Kazakhstan as it seeks to capitalize on its potential and sustain the growth of its venture capital market. Strategic focus on enhancing regulatory frameworks, increasing support for late-stage funding, and improving data availability will be critical focus areas. As Kazakhstan continues to develop its VC environment, it remains positioned to play a significant role in the broader Central Asian economic landscape, provided that these systemic challenges are effectively managed.

Understanding the current state and the distinctive challenges and opportunities within the Kazakh VC landscape is crucial. The supportive role of government policies, such as establishing the Astana International Financial Centre, alongside the regulatory and bureaucratic hurdles, provides a detailed overview of the country's VC ecosystem's strengths and weaknesses. This comprehensive understanding is vital for stakeholders navigating or improving this environment. It underscores the necessity for continued development of supportive infrastructure and policies that foster innovation and attract local and international investors, which is a foundational analysis in this study. It helps inform subsequent discussions on strategic recommendations and further research directions, thereby emphasizing the importance of a tailored approach to enhance the VC environment in Kazakhstan.

VC Market Overview of the Republic of Kazakhstan

The VC industry is a crucial driver of innovation and economic growth. This overview helps shed light on the market's current state and potential future in Kazakhstan, as depicted in Figure 1. Available data on the VC market in Kazakhstan for 2018 to 2022 indicate that current known data only represents approximately 60% of the total market activity (Demeuov et al., 2024; Kazbekova et al., 2024); hence, limited access to information persists.

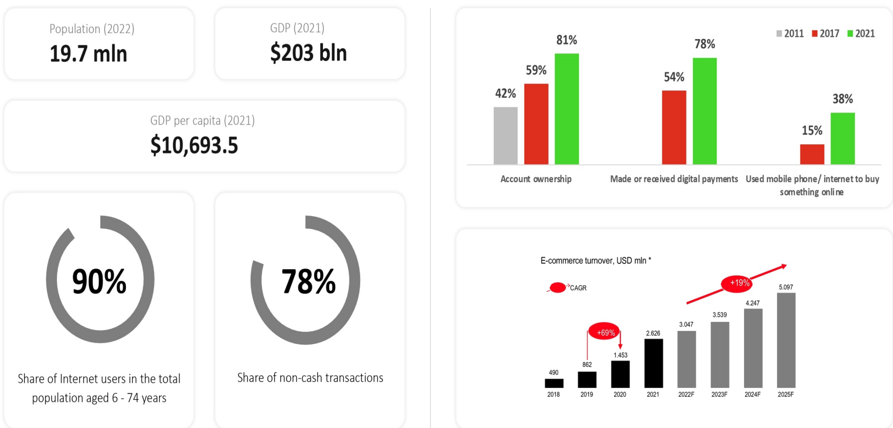

Figure 1 - Economic Overview of Kazakhstan. Source: *Public sources, Committee on Statistics, Findex by World Bank 2022, KMPG, National Bank of Kazakhstan, Official information source of the Prime Minister of the Republic of Kazakhstan, Euromonitor, KPMG Notes: (*) KPMG applied its methodology to build the market volume model and evaluate the forecast.*

Kazakhstan is rapidly transforming into a digital nation. The state is actively involved in promoting innovation by creating the necessary infrastructure and by implementing digital reforms. Such as the “Digital Kazakhstan” program (2018-2022) and the adoption of the Law on Investment and VC funds. The establishment of the Astana International Financial Centre will enhance the investment climate, the "Technological Breakthrough due to Digitalization, innovation and Science” program (2021 - 2025), and the “DigitEL” national project.

The attractiveness index, depicted in Figure 2, summarizes factors that shape national VC and private equity (PE) markets into one composite measure. The determinants of vibrant VC and PE markets have been extensively studied in academic literature, which reviewed and collected data for an index spanning several years to verify these studies and contribute to a better understanding of the drivers of international VC and PE activity. With every subsequent index edition, it can assess the proper criteria for VC and PE investors. These criteria are derived from the research on the topic and can be grouped into six sub-headings. These sub-headings illustrate the structure of the index as each present one of six “key drivers” of country attractiveness for investors in VC and PE assets, including economic activity, depth of capital market, taxation, investor protection and corporate governance, human and social environment, and entrepreneurial culture and deal opportunities.

These key drivers define a subset of criteria that must be assessed for sample countries to aggregate the index. Kazakhstan's position in the VC ranking has been improving over the years. However, as a peer group comparison, it still lags behind similar economies like the Philippines, Vietnam, Indonesia, and Pakistan, as depicted in Figure 2 (Groh et al., 2018; Mulvey & Goncalves, 2022; Groh et al., 2023).

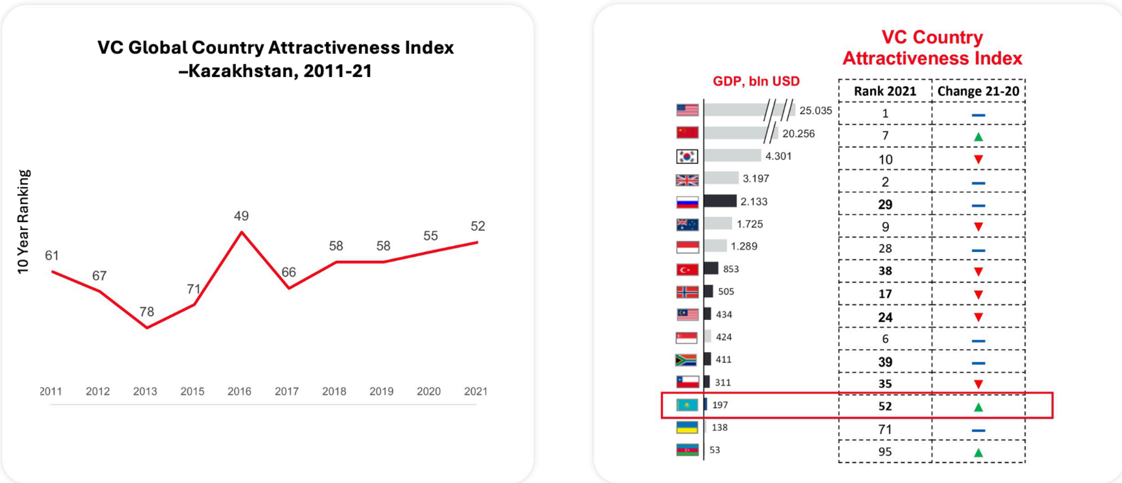

Figure 2 - VC country attractiveness index. *Source: The Venture Capital & Private Equity Country Attractiveness Index, Public sources*

According to the VC market overview report, Marketplaces/E-Commerce (41%) and Fintech (12%) are the key market sectors due to rising internet integration and the country's relatively young population. The rise of VC funds in Kazakhstan, both domestic and international, as shown in Figure 3, indicates growing interest and potential for investing in the country’s startup ecosystem.

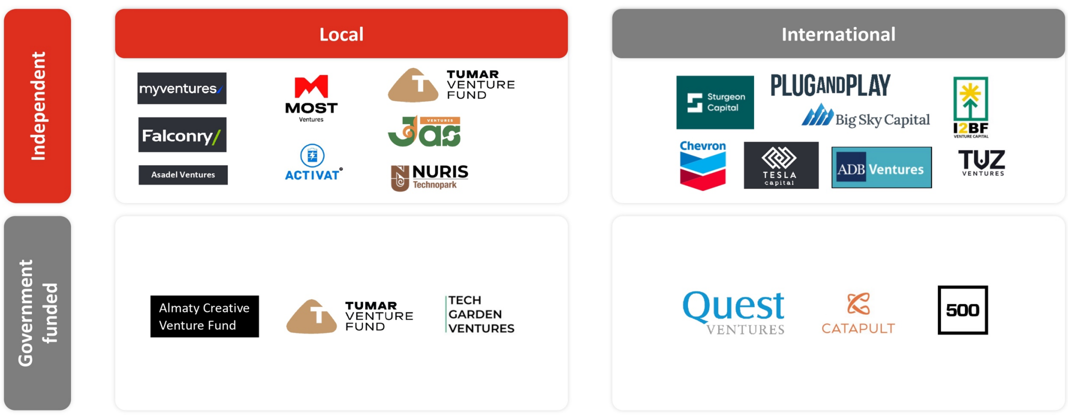

Figure 3 - VC funds in Kazakhstan. *Sources: public sources, MOST internal data, and company websites. Note: The list may not be exhaustive.*

Industry experts have a positive outlook for the future of the VC market in Kazakhstan. They believe the market has significant potential for growth and development in the coming years (Alibekova et al., 2020; Sembieva et al., 2020; Toimbek, 2022; Nagimova, 2023). However, challenges still need to be addressed to further develop and mature the market. The following are some areas described as of central importance:

- Financial support
  - Investment matching programs - Governments can set up programs that match private sector investments in startups, effectively leveraging public money to attract more private investment.
  - Research and development support - Governments can provide funding and support for R&D activities to help startups develop new technologies and innovative products.
  - Guarantee schemes - Governments can guarantee venture capital and business angel funds to reduce investment risk and increase funding availability.
- Tax and Regulation
  - Provide tax advantages for venture funds, business angels, accelerators, and corporate venture funds. These include tax exemptions for capital gains, tax-free return of capital, investment tax deductions, and tax incentives for foreign investors.
  - Relaxation of Regulations - To facilitate foreign investors' investments in Kazakhstan, the government would relax regulations for foreign portfolio investments and simplify setting up and managing venture capital funds.
  - Reduce Restrictions on Bank, Pension Fund, and Insurance Company Investment Strategies - Following international practice, many countries' pension funds, banks, and insurance companies can invest a small portion of their assets in venture investments.
- Infrastructure and ecosystem development
  - Encourage collaboration – Such initiatives should include universities, research institutions, and industry to create an environment for commercializing and nurturing new technologies and innovations.
  - Review Policies on Innovation in Universities—The government allocates funds to develop scientific and technological innovation, but creating and adopting innovations takes time.
  - Improve communications among VC market ecosystem players – Such initiative could aid in determining a player to consolidate information to develop VC. It would promote addressing the issue of creating an information environment that enables entities to find each other and stimulates relations. In addition, a player's objective may include intellectual property (IP) concerns:
    - Establishment of IP Registers - IP offices should have registers for owners to record their IP ownership and lenders to record their interests in IP assets.
    - Offer of Government Subsidies - Governments sometimes subsidize the costs of IP audits and valuations. This may make the difference for applicants going through the process or deciding it is too expensive to apply without assurance of success.

In addition, several important issues regarding the relationship between VC investment and the performance of startups still need to be studied. First, the literature needs to pay more attention to the learning capacity of startups. The firms' subsequent business output after receiving external resources may vary depending on their capacity. A startup without proper learning capacity and a well-organized internal system cannot fully benefit from VC investment. However, it is also possible that the interests of VC companies are not aligned with the success of the startups they finance. As startups are often obliged to disclose the core information about their business to VC companies to receive investments, some VC firms may intend to exploit startups' ideas and information in their own best interests. Thus, understanding these two possible different intentions of VC companies related to reputation is a crucial requirement for examining the effects of VC investment on startup performance (Joseph et al., 2021).

An overall understanding of Kazakhstan's current venture capital landscape is indispensable for a comprehensive analysis of the sector's growth, its structural components, and the macroeconomic factors influencing its trajectory. Awareness of the critical benchmarks for evaluating Kazakhstan's position and potential within the global VC ecosystem through detailed market overviews and comparisons with similar economies is vital, especially considering the unique blend of challenges and opportunities facing venture capitalists in Kazakhstan, such as the influence of governmental policies, economic activity, and cultural factors on investment strategies. Such analysis is vital for stakeholders, including policymakers and investors, to understand the nuances of the local VC market. It can guide informed decision-making and strategic planning to leverage Kazakhstan's burgeoning potential as a regional innovation hub.

Research Methodology

This methodology section, akin to leading research in this industry (Zhuparova et al., 2022), outlines a comprehensive approach to exploring the venture capital landscape in Kazakhstan through the experiences and insights of VCs active in the region. Combining snowball sampling with semi-structured interviews as primary data collection methods allows for gathering in-depth insights to capture various perspectives, contributing valuable knowledge to venture capital research (Hossain et al., 2024). It employs a qualitative research approach to explore VCs' perspectives and strategies with investments in Kazakhstan. It employs a mixed-methods approach, combining qualitative analysis of interviews and survey results with quantitative data analysis of the venture capital market and investors' critical decision criteria. It focuses on Kazakhstan’s VC market as a developing country to capture diverse experiences and contexts.

Participant Selection Criteria

To ensure that the study captured diverse and insightful perspectives from professionals deeply embedded in Kazakhstan's venture capital ecosystem, participants were selected based on rigorously defined criteria aimed at encompassing a broad range of experiences and roles within the industry:

- **Role**: Participants must be currently active as venture capitalists, including roles such as fund managers, partners, or senior executives in venture capital firms, to ensure that they are actively engaged in investment decision-making.
- **Experience**: Individuals must have at least three years of experience in the venture capital sector to ensure a seasoned understanding of the industry dynamics. This criterion helps filter in professionals who have navigated multiple market cycles and can provide depth to their insights.
- **Investment Activity in Kazakhstan**: Participants must either have made venture capital investments in Kazakhstan within the past three years or have concrete plans to invest within the next 12 months. This criterion ensures that the participants are familiar with the local market conditions and financially committed to the region's venture ecosystem.
- **Diversity in Investment Focus**: To capture a wide array of strategies and viewpoints, the study includes venture capitalists who focus on different stages of investment (e.g., seed, early-stage, growth) and sectors (e.g., technology, healthcare, fintech).

Participant recruitment was strategically approached through snowball sampling, initiating with a select group of venture capitalists known to the researchers or identified through preliminary industry research (Hossain et al., 2024). These initial participants were then requested to recommend other venture capitalists who met the above criteria. This method facilitated access to a broader network of relevant participants, enriching the study's depth and breadth of perspectives. Additionally, efforts were made to ensure initial contacts were varied across different VC firms and investment focuses to avoid potential biases associated with snowball sampling. This structured approach to participant selection and recruitment was designed to enhance the representativeness and reliability of the findings by incorporating a broad spectrum of knowledgeable contributors from Kazakhstan's venture capital community.

Semi-Structured Interviews

Semi-structured interviews were strategically employed to gather in-depth insights from participants. They combined the consistency needed for comparative analysis with the flexibility to delve into emergent themes. Each interview was designed to last no less than 45 minutes, a duration that was determined to be optimal for discussing complex topics comprehensively while keeping the conversation focused and manageable.

The development of the interview guide was a meticulous process, grounded in a thorough review of relevant literature and aligned with the study's overarching objectives. This guide served as a roadmap for the interviews, ensuring all discussions adhered to the research themes while allowing for the spontaneous exploration of new insights. The guide included a series of open-ended questions and prompts designed to elicit detailed responses in several key areas:

- Investment Strategies and Decision-Making Processes - Exploring the rationale behind investment choices and the strategic considerations influencing those decisions.
- Perspectives on the Venture Capital Landscape in Kazakhstan - Gathering views on the current state and future directions of the VC market in Kazakhstan.
- Challenges and Opportunities of Investing in Kazakhstan - Identifying the primary hurdles and advantages encountered by venture capitalists in the region.
- Future Investment Plans in the Country – Aimed at anticipated trends, strategy shifts, and prospects for the VC sector in Kazakhstan.

During the interviews, the semi-structured format allowed the researchers to balance addressing the guide's predefined questions and pursuing emergent lines of inquiry. This approach facilitated a deep dive into specific topics, with the flexibility to ask follow-up questions or request clarification when responses unearthed new information or were ambiguous. This method enriched the data collection process, providing a robust dataset that captures the complexities and nuances of the venture capital environment in Kazakhstan.

The semi-structured interviews also enabled a rigorous analytical approach. The interviews yielded a rich mix of quantitative and qualitative data, allowing interviewees to express their thoughts on structured topics while encouraging them to introduce and expand on other relevant issues. This hybrid data collection approach was instrumental in developing a comprehensive understanding of the VC landscape, ensuring the analysis was grounded in industry practices and perspectives.

Data Analysis

The data gathered from semi-structured interviews were meticulously transcribed verbatim to preserve the accuracy of participant responses. Following transcription, the analysis was conducted using thematic analysis, a robust qualitative method allowing in-depth data exploration. This analysis aimed to uncover recurring themes, patterns, and insights crucial for understanding Kazakhstan's venture capital investments.

The data analysis process included:

1. Familiarization with Data: The research team reviewed the interview transcripts in detail. This step involved reading the transcripts several times to gain an in-depth understanding of the content and to begin noting initial ideas and impressions that could inform subsequent coding.
2. Generating Initial Codes: Using a systematic approach, initial codes were generated by identifying and labeling relevant data features that appeared noteworthy or potentially significant about the research questions. This coding was done manually through a combination of ATLAS.ti to ensure that nuances in the data were not overlooked.

3. Searching for Themes: Codes were then collated into potential themes. This involved grouping all data relevant to each code into potential themes and gathering all relevant data. This stage was critical in organizing the data into meaningful clusters that reflect the underlying patterns or issues expressed by the participants.
4. Reviewing Themes: The identified themes were then reviewed and refined to ensure they formed a coherent pattern, were distinguishable, and were relevant to the research questions. This review involved a recursive process of returning to the dataset, checking if the themes adequately represented the coded extracts, and ensuring that they conveyed an accurate picture of the data.
5. Defining and Naming Themes: Each theme was defined and named in a way that succinctly captures the essence of the data. Clear definitions and names help provide an insightful summary of the results that can be easily communicated to stakeholders.
6. Reporting data: Conclusions and recommendations were developed by weaving the thematic analysis results with direct participant insights, illustrating the themes, and providing authentic evidence of the researchers' interpretations. The reporting meticulously details how data led to the identified themes, offering transparency in the research process and enhancing the credibility of the findings.

Ethical Considerations

Ensuring ethical integrity and participant protection was paramount throughout the research process. Prior to conducting the semi-structured interviews, written informed consent was obtained from all participants. The consent forms, provided in both English and Kazakh in a double-column format, detailed the nature of the study, ensuring that participants were fully aware of the scope and purpose of their involvement. These forms explicitly stated that the interviews were non-invasive and posed no risk to the participants. Moreover, they highlighted the participants' rights to withdraw from the study at any time without any repercussions, ensuring autonomy and voluntary participation.

Stringent measures were adopted to safeguard privacy and confidentiality. All personal identifiers were meticulously removed from interview transcripts and subsequent analyses. This procedure was rigorously applied to maintain anonymity, protecting the participants' identities and responses. The study also outlined the procedures followed to ensure the security of the collected data. All electronic data were encrypted and stored securely, accessible only to the research team. Physical copies of consent forms and notes were kept in a locked file accessible only by the lead researcher.

Regarding oversight, while the study did not require approval from an institutional review board (IRB), the research protocols were designed to adhere to the highest ethical research standards. The decision to forego IRB review was based on the professional and non-personal nature of the interview content, focusing solely on business practices and decision-making processes within the venture capital sector. Nonetheless, the research team committed to conducting the study with full ethical responsibility, following the ethical guidelines similar to those required by IRB to ensure a high standard of research integrity. These comprehensive ethical practices not only complied with general ethical research standards but were also tailored to respect the cultural and professional norms of the participants in Kazakhstan, thus reinforcing the study's ethical rigor.

Research Question & Hypothesis

The main research questions drove this study:

1. What is the current level of investment culture, and what will be the most effective strategy to help improve it? This research question aims to assess the current level of investment culture and identify strategies to improve it. Extant literature suggests no variation in investment culture across demographics. In contrast, differences may exist in investment culture that can be addressed through targeted strategies.
2. How can Kazakhstan attract more foreign IT investors and create a healthy ecosystem for investors and entrepreneurs? This question investigates the relationship between efforts to

attract foreign investors and the development of a healthy investment ecosystem. Current literature suggests no relationship between these factors.

Based on these two overarching questions, two complex hypotheses have been formulated and tested:

- Hypothesis 1: There needs to be a higher level of investment culture in Kazakhstan.
- Hypothesis 2: Starting an IT business and getting investment in Kazakhstan is complex.

Research Models & Instruments

The study's research model was designed to examine Kazakhstan's investment culture and venture capital (VC) ecosystem, recognizing this developing country's unique challenges and opportunities. The methodology incorporated quantitative and qualitative elements to ensure a comprehensive analysis of the VC market. A comprehensive survey was developed using Google Forms to collect investor data for quantitative analysis. This survey, comprising both closed-ended and open-ended questions, aimed to gauge the investors' satisfaction and agreement levels on various statements about their experiences and perceptions of the VC environment in Kazakhstan. The survey was distributed via email to maintain the integrity of the responses, ensuring the anonymity and confidentiality of all participants.

In addition to the survey, qualitative analysis was a significant and meticulous study component. Responses from the survey and interview answers were carefully transcribed and imported into ATLAS.ti, a software tool used for qualitative data analysis. This process facilitated a thorough thematic analysis, identifying common themes and patterns within the data. Such an approach enabled the researchers to delve deeper into the qualitative data, enhancing their understanding of the underlying factors influencing the VC market in Kazakhstan.

This mixed-method approach, utilizing both Google Forms for data collection and ATLAS.ti for data analysis, provided a robust framework for exploring the complexities of Kazakhstan's venture capital environment. Integrating quantitative and qualitative data helped paint a richer picture of the investment culture, contributing valuable insights that could inform policy and investment strategies in the region.

Data Analysis and Findings

The data collected through a mixed-methods approach is crucial in bridging the theoretical framework outlined earlier and the real-world application and implications within the Kazakhstani market. It validates the theoretical expectations against the practical realities faced by investors and entrepreneurs in the region, offering critical insights into Kazakhstan's VC environment. By examining the responses from venture capitalists, data from market analyses, and surveys, nuanced realities of investment culture, governmental support, and regulatory frameworks shape the VC landscape in Kazakhstan surfaces. These insights are pivotal for understanding the effectiveness of existing policies and the tangible barriers to VC investment in the region, providing a robust foundation for proposing informed, strategic recommendations to enhance the entrepreneurial ecosystem and attract more significant investment to foster economic growth and innovation.

Collected Data, Survey Results, and Interviews.

The survey collected responses from 23 participants. Table 1 presents the background characteristics of the respondents regarding how long they have been in the VC market. Most participants have been in the VC market for less than five years, 19% of investors have been in the VC market for more than five years, and 14.3% have been in the VC market for more than ten years. The ratio of investor type is Private domestic (69.6%) and Private International (30.4%).

Table 1. Respondents' VC overview assessment

Questions	Assessment level				
	Very poor	*Poor*	*Neutral*	*Good*	*Excellent*
How would you assess the level of Investment Culture in Kazakhstan?	2 (8.7%)	10 (43.5%)	9 (39.1%)	1 (4.3%)	1 (4.3%)
How would you assess, in general, the taxation and regulation aspects of the local Kazakhstani venture capital market?	4 (17.4%)	6 (26.1%)	8 (34.8%)	5 (21.7 %)	0
How would you assess government support to develop and improve the local venture capital market (Kazakhstani)?	0	11 (47.8%)	6 (26.1%)	6 (26.1 %)	0
Please assess the level of infrastructure and ecosystem of the venture capital market in Kazakhstan	0	9 (39.1%)	11 (47.8%)	3 (13%)	0

Table 1 also provides an overview of the respondents' assessed level of Investment Culture in Kazakhstan. Overall, the assessment was poor, with 47.6% of participants indicating a low level. This question tests Hypothesis 1.

The survey also captured participants' agreement level on a statement that Kazakhstan lacks strategic investors, with 47.8% responding as strongly agree and 34.8% agreeing. A lower number of strategic investors in a country's VC market might be one of the causes of a low level of investment culture. The survey also assessed agreement with a statement on Kazakhstan's Venture Capital attractiveness index, whether it is declining or not. Notably, 52.2% of responders disagree with this statement. That is also confirmed by the Kazakhstan VC market overview report, which shows that for the past ten years, the country's attractiveness level has been increasing (Lee & Cho, 2022).

Table 2 provides an overview of respondents' agreement level on whether starting a business in Kazakhstan and getting investments is easy; 43.5% of respondents are neutral on the first statement, 39.1 % disagree that attaining investments for startups in Kazakhstan is easy, and 60.9% disagree that the process of attaining investments for startups in Kazakhstan is easy. These questions were added to test and examine Hypothesis 2.

Table 2. Overview of respondents' agreement level

Questions	Level of agreement				
	Strongly disagree	***Disagree***	***Neutral***	***Agree***	***Strongly agree***
Do you agree that the venture capital attractiveness index in Kazakhstan is declining?	5 (21%)	12 (52.2%)	3 (13%)	1 (4.3%)	2 (8.7%)
Do you agree that there is a lack of strategic investors in Kazakhstan	0	1 (4.8%)	3 (13%)	8 (34.8%)	11 (47.8%)
State your level of agreement with the following statement: “Starting an IT business and getting investment in Kazakhstan is easy.”	1 (4.3%)	9 (39.1%)	10 (43.5%)	3 (13%)	0
How strongly would you agree with the statement: “The process of attaining investments for startups in Kazakhstan is easy.”	1 (4.3%)	14 (60.9%)	7 (30.4%)	1 (4.3%)	0

The survey includes a section to identify the level of government support and questions to assess the taxation and regulation aspects of the local VC. Figure 4 provides an overview of respondents' assessed level of Investment Culture in Kazakhstan. Overall, the assessment was medium, with 33.3% of participants indicating a natural assessment. The government support rating is assessed at a poor level overall. According to survey responses across two types of participating investors, private domestic and private international. Their primary criteria for investing in a startup as a critical decision point, most commonly, is scalability (95.7%), the robust leadership team (87%), market validation (60.9%), and business model (56.5%).

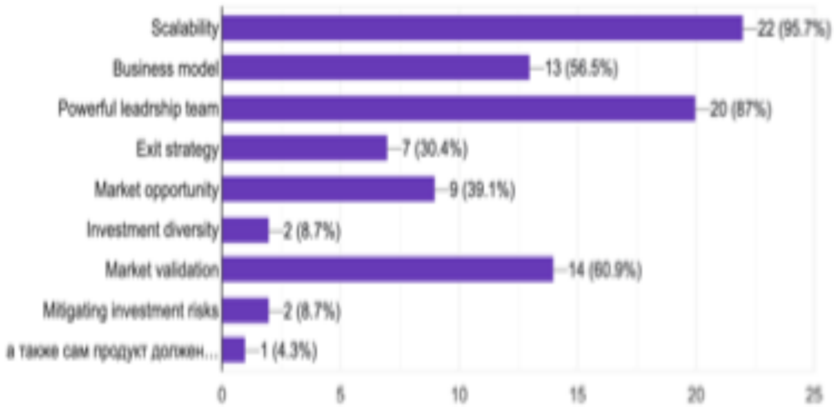

Figure 4 - Main criteria for investing in startups among responders.

Coding of Interview Results

The semi-structured interviews included questions related to improving investment culture, attracting foreign investments, and legalizing angel investments in Kazakhstan. The interviews assessed the importance of ethical investing, government support, market sectors like DeepTech and FinTech, project selection criteria, and the role of accelerators in fostering startup development and cooperation with global venture capital funds. Questions and highlighted quotes from discussions during the interview are provided below (Table 3). Venture investors and local and international industry experts shared their opinions on several questions, which opened our hypotheses.

Table 3. Themes and representative quotes emerge from semi-structured interviews (first round) of investors and experts in the VC industry about the level of the VC market and investment culture in Kazakhstan.

Theme	Representative quote
2. How can qualified investors and investing culture (VC) in Kazakhstan be leveled?	• "Popularization of investment courses for business angels. That also will help to bring foreign investors" [Expert from VC industry] • "As part of my work, I come across various investors who sometimes conduct their activities in what I call unethical or toxic" [Venture investor] • "Corporate funds with clear signs of toxicity" [Venture investor] • "More developed than other Central Asian countries" [International expert]
2. How to bring new market sectors?	• "The project must solve the pain in the market" [Venture investor] • "The project must be significantly better than its competitors in the market" [Venture investor] • "The establishment of an efficient and transparent legal and regulatory framework aligned with international standards will develop the market and offer greater incentives and benefits for private investors" [Expert from VC industry] • "E-commerce and fintech are expected to continue growing; however, new industries are already becoming popular on the market" [Expert from VC industry]
2. How can the attractiveness index for foreign investments be leveled up?	• "It is expected that cooperation with global venture capital funds will boost the appeal for foreign investors" [Expert from VC industry] • "To attract international investors, if more, collaboration cooperation, co-investing" [International expert]
2. Does the lack of diversity in the IT sector affect the venture capital market?	• "DeepTech, FinTech, E-Commerce top market sectors" [Expert from VC industry]
5. Need to improve government support	• "Need to level up Government support for investors, particularly income tax regulations" [Expert from VC industry] • "Large share of the state in the economy 60%" [Venture investor] • "Financial and non-financial support measure from the government is expected to boost the market activity" [Expert from VC industry] • "The main goal of the country is to make it an easier process" [International expert]

To provide a nuanced understanding of Kazakhstan's VC market, Table 4 synthesizes common responses from interviews and surveys conducted with stakeholders within the sector. The use of ATLAS.ti facilitated the data analysis and offered a robust depiction of the prevailing circumstances and strategies in the VC landscape. The findings were analyzed through ATLAS.ti, offering insightful results about the strategic operations and environmental dynamics of the VC market in Kazakhstan. These insights are crucial for stakeholders aiming to optimize their investment strategies and for policymakers dedicated to enhancing the entrepreneurial ecosystem within the region.

Table 4. Interview and survey results coding

Code	Groundness	Comments
Demographics	2	
E-Commerce top market sectors in KZ	2	Approved during the Literature review, KZ VC market overview
Ethics	2	Hypothesis 1
government support needs to improve it	4	Part of Hypothesis 1
Industry trends	5	Hypothesis 2
lack of investment culture agreement	5	Hypothesis 1
learning courses for investors	5	Part of Hypothesis 2

A noteworthy strategy identified involves promoting investment courses aimed at business angels. These courses are designed to attract local and foreign investors and enhance overall investor support by equipping business angels with the necessary skills and knowledge to navigate the investment environment effectively. Such educational initiatives are critical as they bridge knowledge gaps and foster a more informed investor base.

The results of the second round of the interview process are provided below (Table 5). In this round, we focused on two questions: about government support types and how local investors usually make decisions.

Table 5. The second round includes a short interview that discusses how investors make decisions and what kind of government support will be best for Kazakhstan's VC industry.

Theme	Representative quote
1. How do investors in KZ make decisions? (Data-driven decision-making, Third-party advisors, Recommendations from industry experts, background info from startups)	• "Mostly it's not data-driven because investors don't have open access data" [Venture investor] • "If it is investing in international startups, that is more likely data-driven; if it's a local startup, most startups bring their analysis and background info in their pitch presentation" [Venture investor] • "Gut feeling, personal relationship, business model, on their own experience, foreign investors are ready to invest to the idea, local investors are not, they usually require a traction of startups" [Local expert] • "Usually, they research on their own. If it is pre-seed, there is no data; seed-stage startups have more data. Also, startups provide competition info, data roaming, and historical numbers" [International expert]
2. What kind of types of governmental support? (As a co-investing or providing support program and other)	• "Government support as a co-investing it is not our case" [Venture investor] • "The best way to support it is to create a healthy environment and tax benefits" [International expert]

Moreover, government support emerges as a crucial element in bolstering investor confidence. Specific policies related to income tax regulations are underscored as essential for creating a conducive investment climate. The differentiation between viable and hazardous investments highlights the importance of ethical investment practices. This differentiation ensures that investments are profitable but also sustainable and responsible, reflecting a commitment to long-term value creation rather than short-term gains. This emphasis on ethical practices should make stakeholders feel secure and responsible in their investment decisions.

Additionally, project selection criteria within the VC market are heavily focused on market need, competitive edge, client value, scalability, validated business models, and financial stability. These criteria are instrumental in guiding investment decisions, ensuring capital is allocated to ventures with the potential for high impact and sustainable growth. The analysis also points to the significant role of financial and non-financial government support, which includes the development of business accelerators and cooperation with global VC funds, which are pivotal in stimulating market growth. Such initiatives facilitate the entry of local enterprises into broader markets, enhancing their visibility and viability.

Success cases and international collaborations are not just important; they are the backbone of the responses. These elements are vital in attracting global investors and contributing to the country's economic development. They showcase Kazakhstan's potential as an emerging venture capital and innovation hub, highlighting successful ventures attracting substantial international attention and investment. This emphasis on success and collaboration should make stakeholders feel proud and optimistic about the future of the VC market in Kazakhstan.

The research approach utilizing Google Forms and ATLAS.ti has demonstrated significant efficacy in gathering and analyzing Kazakhstan's venture capital (VC) market data. This model facilitated a comprehensive overview, capturing intricate details through quantitative and qualitative lenses. Insights from interviews with VC experts across Central Asian countries underscore Kazakhstan's comparative advancement in the venture capital sector. These discussions highlighted Kazakhstan's evolving ecosystem, marked by several success stories, the burgeoning presence of startups, and active engagement with international venture capital experts.

One of the pivotal factors contributing to Kazakhstan's VC success is its emphasis on fostering stakeholder collaboration and cooperation. By promoting co-investing and partnerships, the country has effectively attracted international venture capital, enhancing its standing in the Central Asian region. This underscores the importance of your potential contribution to the country's venture capital sector. Moreover, efforts have been made to streamline investment processes, significantly smoothing procedures for foreign investors. This strategic focus simplifies the operational aspects of investing in Kazakhstan, making the country a more attractive destination for international capital and reinforcing its appeal to the global venture capital market.

These findings underscore the robust nature of Kazakhstan's approach to developing its venture capital sector. The emphasis on international collaboration and streamlined processes is crucial in cultivating a competitive and efficient VC environment. Using Google Forms and ATLAS.ti in this research has provided a clear and effective method for capturing these dynamics, offering valuable insights into the strengths and opportunities within Kazakhstan's venture capital landscape.

Research Limitations and Further Research

While providing comprehensive insights into the VC ecosystem in Kazakhstan and its interplay with broader developing market dynamics, this study acknowledges several limitations that pave the way for further research, a significant one being its geographic and cultural specificity. Focused solely on Kazakhstan, the findings may not directly apply to other developing countries with distinct cultural, economic, and regulatory contexts, limiting the generalizability of the results and the applicability of the study's recommendations.

Data accessibility is a significant challenge in venture capital markets, particularly in developing countries like Kazakhstan. The lack of transparency and comprehensive documentation can make it difficult to obtain reliable data, which is crucial for a complete and accurate analysis of the VC landscape. These data availability limitations compromise the depth and accuracy of the research findings.

The literature review could have included more recent analyses from other developing and emerging markets with significant VC activities, such as Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan in central Asia, and in different global regions, such as India, Brazil, Chile, Colombia, and Mexico. Comparisons could highlight unique strategies or common challenges faced in these environments. However, the dynamic nature of the VC market also presents a further challenge to the study. The rapidly evolving nature of the VC market, coupled with swift changes in global economic conditions, technological advancements, and regulatory frameworks, represents a snapshot in time and can quickly make the findings obsolete. The dynamic and fluid nature of the VC ecosystem necessitates continuous monitoring and analysis to capture developing trends, challenges, and opportunities that could significantly impact investment behaviors and outcomes. This temporal limitation suggests that this study can benefit from regular updates to stay relevant, which can be resource-intensive and difficult to manage.

Integrating more quantitative data to substantiate qualitative assessments would further strengthen the arguments, providing a robust foundation for the theoretical propositions discussed. Reliance on qualitative data can be limiting. While the study's mixed-methods approach provides a robust framework for analysis, heavy dependence on qualitative data gathered through semi-structured interviews and surveys introduces a degree of subjectivity. The perspectives collected, although valuable, may not comprehensively represent the broader investor and entrepreneur communities within Kazakhstan, thus potentially skewing the results.

The study also lacks a longitudinal perspective, which could significantly enrich the understanding of how the VC environment in Kazakhstan has evolved. Longitudinal research would allow for a more detailed examination of trends and the long-term effects of market and policy changes, providing a deeper insight into the sustainable impacts of venture capital investments. Further research should consider including such analysis, which could enhance the findings and offer a more detailed and comparative perspective, contributing more significantly to the existing literature on VC in developing countries.

While comprehensive, the scope of theoretical frameworks employed in the study may not encapsulate all relevant theories or recent developments in the field. Expanding the theoretical base could provide a richer, more nuanced understanding of the multiple factors influencing venture capital in developing markets. Moreover, comparative studies examining the VC ecosystems in other developing markets could offer valuable benchmarks and lessons for Kazakhstan. Such research could uncover universal principles and strategies that promote a thriving venture capital environment and context-specific challenges and solutions. Additionally, exploring the role of technological innovation, particularly in the fintech and green tech sectors, could provide critical insights into the future direction of venture capital investment and its contribution to sustainable economic growth. By addressing these limitations and pursuing further research, scholars, and practitioners can continue to refine and expand the understanding of venture capital's pivotal role in fostering innovation and economic diversification in developing markets.

Discussion, Conclusions, Recommendations

This study uncovers several unique aspects of Kazakhstan's VC market, particularly the role of governmental policies like establishing the Astana International Financial Centre in attracting VC investments. This strategic approach aligns with global trends and signifies a significant shift for a nation transitioning from an oil-based economy to one focused on diversified innovation.

Discussion

Government policies are crucial in creating favorable environments for VC investments, as seen in Kazakhstan's strategic initiatives like the Astana International Financial Centre. The focus on governmental initiatives mirrors findings from other developing markets, underscoring the catalytic role of government-led funds in energizing VC sectors, corroborating the observations made in the current study concerning the impact of similar strategies in Kazakhstan. Understanding local market nuances and forming strategic partnerships are essential in navigating the VC ecosystem, as emphasized by Institutional Framework Theory. Challenges facing the VC industry in Kazakhstan include market volatility and regulatory uncertainties, echoing concerns raised in recent literature. Overcoming these challenges requires an integrated approach involving government support, technological advancement, and cultural and social dynamics insights. The study contributes fresh insights into navigating complexities within Kazakhstan's developing market, highlighting the importance of strategic, regulatory, and socio-economic factors in shaping the VC landscape and driving economic growth. The findings indicate that in Kazakhstan, it is easy to start a business. Respondents of the GEM report said they had the knowledge and skills to start a business. Still, according to our survey results, it is hard for startups to survive in a market due to the low level of investment culture and unhealthy competition.

Based on previous studies, literature reviews, venture capital market overviews, surveys, and interviews with local VCs, the investment process looks like the process provided by theory. However, Kazakhstan's investment culture needs improvements to attract more international VC funds and strengthen partnerships. Secondly, it drives the new generation to set an entrepreneurial mindset to bring new innovative ideas into the market. The partners ' choice is another crucial factor in VC funds' decision-making process. The influence of the fund’s partners is medium/high in all cases. This is because the VC fund creates the ecosystem for the startup, so when partners (and potential clients) do not believe in the startup, it will be challenging to develop this ecosystem.

Conclusions

The research makes a particularly unique observation about the extent of government integration within Kazakhstan's VC ecosystem. This contrasts sharply with more developed VC markets like Silicon Valley in the United States, where private initiatives predominantly drive the innovation landscape. This difference highlights a distinctive model of VC development, where governmental involvement plays a more pronounced role in shaping the investment climate. The findings of this research illuminate the complex interplay of opportunities and challenges within Kazakhstan's VC ecosystem, set against the broader canvas of developing markets in Asia. At its core, the study reveals a landscape ripe with potential, catalyzed by strategic government initiatives such as the Astana International Financial Centre, which seeks to position Kazakhstan as a nexus for innovation and venture capital investment. These efforts underscore a deliberate shift towards diversifying the economy, encouraging technological advancement, and fostering an environment conducive to venture capital activity. This strategic orientation aligns with global trends emphasizing the importance of innovation ecosystems in driving economic growth and technological progress.

However, the VC landscape in Kazakhstan has its challenges. This study underscores the complexities of navigating market volatility, regulatory uncertainties, and the broader impacts of global phenomena such as the COVID-19 pandemic. These factors collectively introduce a layer of complexity that VCs must adeptly manage. The study also highlights the critical need for a nuanced understanding of local market dynamics, the importance of strategic partnerships, and the pivotal role of a supportive regulatory and legal framework in mitigating these challenges and leveraging the inherent opportunities within Kazakhstan's VC sector.

The following are the main conclusions from this study on the venture capital industry in Kazakhstan:

1. **Potential for Growth**: Kazakhstan shows significant potential for growth within its VC industry, particularly in technology startups. Strategic governmental policies and initiatives like the Astana International Financial Centre bolster this potential, which aims to transform the country into a financial and innovation hub.
2. **Challenges to Overcome**: Despite the potential, substantial challenges hinder the progress of the VC industry in Kazakhstan. These challenges include market instability, regulatory issues, and the lingering economic impacts of the COVID-19 pandemic, all of which create a somewhat uncertain investment climate.
3. **Importance of Partnerships**: The study highlights the critical importance of local and international partnerships in leveraging the opportunities and mitigating the risks within the

VC industry. Collaborative efforts are vital for navigating the complexities of the VC landscape in Kazakhstan.

4. **Role of Government**: Governmental support is pivotal in developing a healthy VC environment. Transparent regulations and adherence to international standards are necessary to foster trust and attract more investments.

Theory Implications

The study contributes to the theoretical understanding of venture capital dynamics in developing markets. It provides practical insights that can be used by policymakers, investors, and other stakeholders to optimize the VC landscape in Kazakhstan. It also contributes to the existing body of knowledge by offering a comprehensive analysis of the VC ecosystem in Kazakhstan, highlighting actionable strategies for stakeholders to navigate its complexities. It underscores the importance of fostering a vibrant and inclusive entrepreneurial ecosystem supported by robust legal and regulatory frameworks aligned with international standards (Stam & Van de Ven, 2021). These elements are crucial for enhancing the investment culture, catalyzing economic growth, and driving innovation in developing markets.

Applying the IFT, CSNT, and ECT frameworks in this study significantly enhances the theoretical understanding of the VC landscape in developing countries, particularly Kazakhstan. The IFT underlines the importance of robust legal and regulatory frameworks for reducing risks associated with market volatility and regulatory changes, thus fostering a secure environment for VC investments. Meanwhile, the CSNT highlights the impact of cultural norms and social networks on investment behaviors, pointing out that social capital and cultural context are critical in shaping investor decisions and entrepreneurial success. Lastly, the ECT illustrates how the synergy among various ecosystem actors—startups, investors, governments, and academia—can drive the growth and sustainability of the VC industry. Collectively, these frameworks provide a comprehensive understanding that helps identify strategies to overcome barriers and leverage opportunities within the VC ecosystem in Kazakhstan. The study argues that enhancing these theoretical aspects can lead to a more vibrant and inclusive entrepreneurial ecosystem, catalyzing economic growth and innovation in emerging markets.

The VC industry in Kazakhstan, and by extension in developing markets, stands at a crossroads of opportunity and challenge. The path forward requires a collaborative effort among government entities, venture capitalists, and entrepreneurs to create a sustainable ecosystem that nurtures innovation and economic development. By addressing the outlined challenges and leveraging the identified opportunities, Kazakhstan can realize its potential as a burgeoning hub for venture capital investment, contributing to the broader narrative of economic diversification and innovation in developing markets.

Recommendations

This study provides several critical recommendations to enhance Kazakhstani's VC ecosystem's overall effectiveness and attractiveness to domestic and international investors. Firstly, the findings advocate strengthening legal and regulatory frameworks to provide clarity and stability, essential for attracting venture capital. The establishment and operation of VC funds should be streamlined with clear tax incentives and protective measures for intellectual property rights, following the successful models observed in more developed VC markets. Drawing from the success of the MOST Venture, further expansion of such frameworks can significantly boost investor confidence and attract local and international venture capital.

Secondly, the findings emphasize the importance of fostering strategic partnerships between the government, venture capitalists, and the entrepreneurial community. Such collaborations are crucial for creating a supportive startup ecosystem facilitating access to finance, mentorship, and market opportunities. Government policies should encourage corporate venture capital initiatives and public-private partnerships to spur innovation and give startups the necessary resources to scale. Furthermore, enhancing the capacity for technological advancement and innovation within the entrepreneurial ecosystem is deemed essential. This could be achieved through significant investments in research and development, technology parks, and incubators that provide startups and early-stage enterprises with the necessary infrastructure and support services. Encouraging universities and research institutions to engage more actively with the private sector could help bridge the gap between academic research and commercialization, fostering a culture of innovation.

Third, enhancing the capacity for technological advancement and innovation within the entrepreneurial ecosystem is essential. This can be achieved through investments in R&D, technology parks, and incubators that offer startups the necessary infrastructure and support services. Encouraging universities and research institutions to engage with the private sector can also bridge the gap between academic research and commercialization, thereby fostering a culture of innovation. These initiatives should be complemented by policies that encourage the adoption of new technologies across industries, thereby creating a robust market for innovative solutions.

Lastly, programs that build entrepreneurial and investment expertise within Kazakhstan should be initiated, expanded, and supported, which could include educational programs focused on venture capital, entrepreneurship, and innovation management for both potential investors and entrepreneurs—enhancing the knowledge base and skills of the local workforce in these areas, which can drive the development of a sophisticated VC market. These programs should target potential investors and entrepreneurs to cultivate a sophisticated VC market. Moreover, international collaboration and exchange programs can expose local entrepreneurs and investors to global best practices and networks, further enriching the domestic ecosystem and enabling Kazakhstan to leverage its strategic initiatives to become a leading center for venture capital investment in the region, fostering economic diversification and sustainable growth.

By implementing targeted recommendations, Kazakhstan is poised to enhance its stature as a premier hub for venture capital investment within the region, promoting economic diversification and sustained growth. The study's contributions are manifold, focusing primarily on the development of the ecosystem and innovation policies. Enhancing Kazakhstan's investment culture through popularizing educational courses for business angels is critical. Such initiatives equip potential investors with the necessary skills and knowledge and raise the country's attractiveness to international venture capital. This strategy is pivotal in cultivating a more robust and informed investment community, which can drive more strategic and impactful investments.

Furthermore, there is a pressing need for policy revision concerning university innovation. Although the government has committed funds to foster scientific and technological innovations, the pace at which these innovations are developed and adopted remains slow. Streamlining this process would accelerate innovation and maximize the utility of government allocations, thereby enhancing the overall productivity of research and development activities.

A significant opportunity exists to improve university technology transfer and commercialization efforts. Offices dedicated to these tasks should be well-equipped and adequately funded to perform intellectual property (IP) valuation and technology commercialization and serve as catalysts for applied innovation. By fostering solid collaborations between entrepreneurs and researchers, these offices can bridge the gap between theoretical research and practical application, thus enhancing the commercial viability of scientific advancements. The strategic focus on these areas will strengthen Kazakhstan's venture capital environment and position the nation at the forefront of regional economic innovation and growth. This holistic approach to ecosystem development and innovation policy is instrumental in realizing the full potential of Kazakhstan's strategic initiatives in the venture capital sector.:

Government support is pivotal in fostering a conducive environment for venture capital investment, mainly through favorable taxation and regulation systems. Governments can enhance their economies' attractiveness to domestic and international investors by reducing the financial risks associated with venture capital investments. One effective strategy is the provision of investment tax deductions for capital invested in venture capital funds. Such deductions can significantly decrease the net return on investment required, making venture capital initiatives more appealing and financially viable for investors.

Moreover, support for research and development (R&D) is a cornerstone in nurturing a dynamic startup ecosystem. Governments can spur innovation by providing startups with the necessary funding and support to develop new technologies and products. This form of support not only strengthens the technological foundation of the economy but also facilitates the commercialization of new inventions and innovations, thereby accelerating economic growth and diversification.

These government initiatives—enhancing tax regulations and bolstering R&D—create a favorable framework that encourages investment and innovation. By implementing these supportive measures, governments can ensure their countries remain competitive in the increasingly global race for venture capital investment and technological advancement. Such strategies are essential for fostering an environment where startups can thrive and where investors are more willing to commit their resources.

Recommendations for Other Central Asian Countries

Kazakhstan's VC industry has made progress; it has soared to significant heights through strategic reforms and initiatives, providing a shining model for other Central Asian countries to follow. The following recommendations, drawn from Kazakhstan's remarkable journey, offer a clear path for the region to cultivate sustainable VC ecosystems and attract foreign investments, instilling a sense of inspiration and optimism in the audience.

Adopting International Standards and Regulatory Reforms

Kazakhstan's alignment with international standards has fostered a conducive environment for investment by mitigating risks and enhancing transparency (Smagulova & Goncalves, 2023). Other Central Asian countries should similarly streamline their regulatory frameworks to meet global best practices. By reducing market uncertainties and improving legal clarity, these countries can attract domestic and foreign venture capital, ensuring a more secure and attractive investment environment.

Promoting Innovation Hubs and Government Initiatives

Establishing the Astana International Financial Centre (AIFC) and regional innovation hubs has catalyzed technological innovation in Kazakhstan (Smagulova & Goncalves, 2023). These efforts exemplify the importance of infrastructure for fostering entrepreneurship. Other Central Asian nations can replicate this approach by setting up sector-specific hubs focusing on GreenTech, MedTech, and FinTech, which have proven effective in diversifying Kazakhstan's economy (Kovshova et al., 2024). Governmental support through targeted policies and investment incentives will be essential to build vibrant innovation ecosystems across the region (Goncalves et al., 2024).

Encouraging Early-Stage Funding Opportunities

Kazakhstan's focus on pre-seed and seed funding has established a robust pipeline of early-stage startups. Other Central Asian countries should develop similar funding mechanisms, leveraging public-private partnerships. These partnerships, where the government and private investors share the risk and reward of funding startups, can provide the necessary seed capital. Early-stage funding is crucial for nurturing innovative ideas and encouraging entrepreneurship, especially in economies with limited access to traditional financing. Establishing these programs will allow other nations to cultivate a generation of startups poised for growth and global competitiveness.

Building Regional Cooperation and Investor Networks

International partnerships and collaborative networks have been instrumental in bolstering Kazakhstan's ability to attract foreign investors. Other Central Asian countries can significantly benefit from fostering regional cooperation, creating cross-border networks of venture capitalists, and co-investing in promising startups. These initiatives will strengthen investor confidence and make the audience feel united and part of a larger, collaborative effort, ultimately driving regional economic growth.

Developing Entrepreneurial Education and Training Programs

Kazakhstan has enhanced its investment culture by promoting educational programs for business angels and investors (Smagulova & Goncalves, 2023). Other Central Asian countries should prioritize similar initiatives to develop a well-informed entrepreneurial and investor base. Training programs in venture financing, entrepreneurship, and business management can equip individuals with the skills to thrive in competitive markets. These programs will also attract international investors seeking professional ecosystems and knowledgeable partners (Stam & Van de Ven, 2021).

Reducing Bureaucratic Hurdles

Despite improvements, bureaucratic challenges remain a barrier in Kazakhstan's investment landscape. However, Central Asian countries can learn from Kazakhstan's experience and take steps to simplify administrative procedures for venture capital funds and reduce regulatory burdens. By providing tax incentives for VC investments and offering financial support through loan guarantees, these countries can significantly reduce bureaucratic hurdles, making the audience feel relieved and hopeful about the future of investment in their countries.

Leveraging Digital Transformation Programs

Kazakhstan's *Digital Kazakhstan* initiative has positioned the country as a leader in regional digitalization efforts, fostering innovation and attracting investments (Mukanov, 2023). Other Central Asian nations should develop similar digital strategies to modernize their economies and infrastructure. Emphasizing digital transformation will enable these countries to keep pace with global technological advancements and create favorable conditions for VC investments in tech sectors such as FinTech and E-commerce (Karazhanova & Kim, 2024).

Adopting such a strategy, other Central Asian countries can foster more vibrant venture capital ecosystems and drive economic diversification. Implementing these recommendations—from regulatory reforms and early-stage funding to digitalization efforts—will position the region as a competitive hub for innovation. Collaboration through regional networks and entrepreneurial education will strengthen investment cultures, ensuring sustainable growth and attracting global investors. Central Asia can unlock its full potential as an emerging destination for venture capital through concerted efforts to reduce bureaucratic hurdles and promote innovation.

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