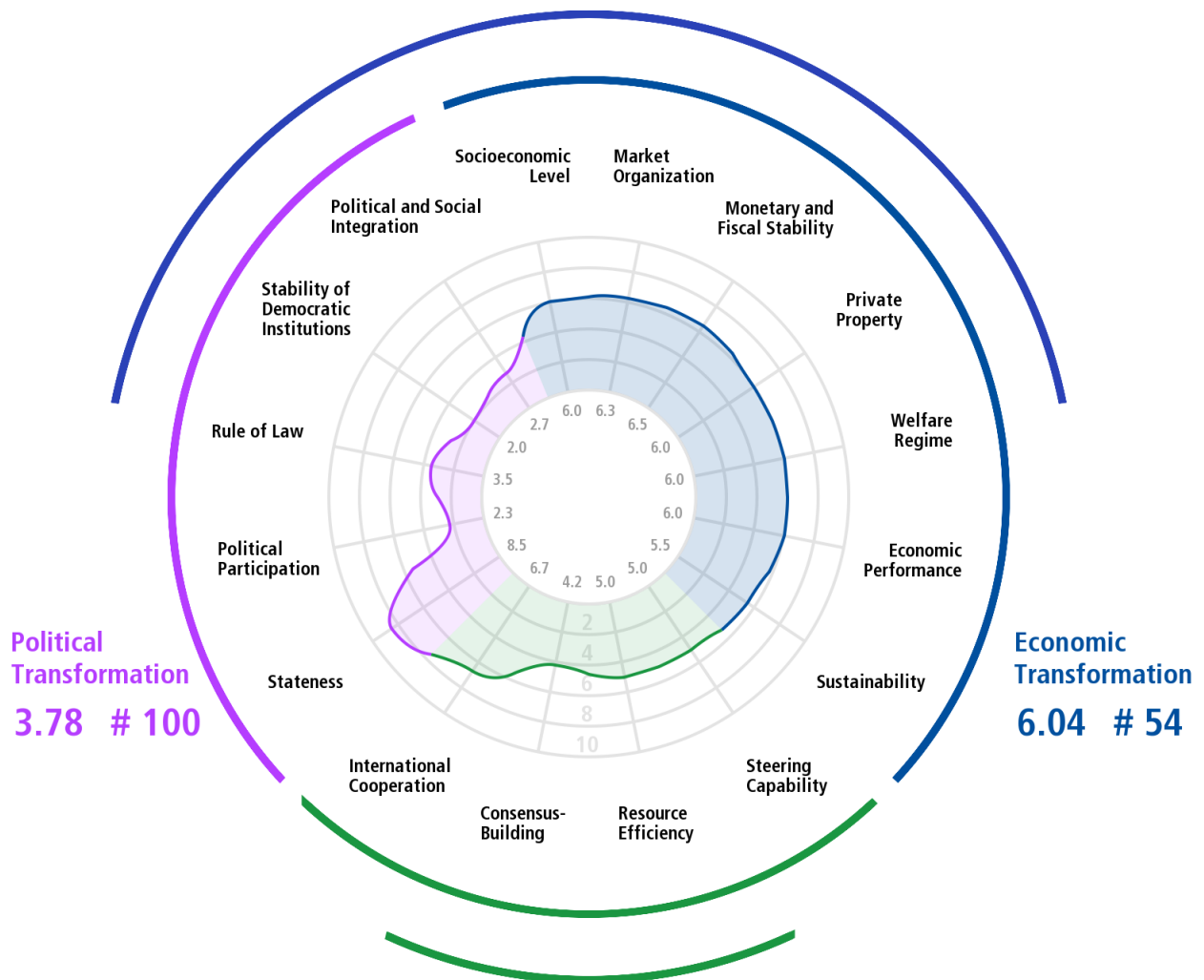


Kazakhstan

Status Index

4.91 # 87

on 1-10 scale out of 137



Political Transformation
3.78 # 100

Economic Transformation
6.04 # 54

Governance Index

4.56 # 80

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – Kazakhstan. Gütersloh: Bertelsmann Stiftung, 2020.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	18.3	HDI	0.817	GDP p.c., PPP \$	27831
Pop. growth ¹	% p.a.	1.3	HDI rank of 189	50	Gini Index	27.5
Life expectancy	years	73.0	UN Education Index	0.817	Poverty ³	% 0.4
Urban population	%	57.4	Gender inequality ²	0.203	Aid per capita \$	3.3

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The 2017 to 2018 period in Kazakhstan was relatively uneventful, compared with the previous one. No general election was held, although in 2017 the country witnessed a major constitutional reform, for the first time since 2011. As a result, the government and parliament received additional powers and saw – at least in theory – their status boosted at the expense of the presidency, which had progressively concentrated the bulk of decision-making powers in its hands during prior years. Namely, the president can no longer issue decrees having the force of law when it comes to matters of war and peace or if parliament has failed to examine a presidential proposal within a month's time. Likewise, parliament can no longer delegate lawmaking authority to the president for up to one year, as was previously the case. Parliament can further remove ministers from office, if they are deemed to have violated any law: this possibility already existed before 2017, but the president could veto parliament's removal decision.

The real impact of the above changes has yet to be seen because nothing has changed in practice: the president still remains in charge of all state policies and major personnel decisions. The 2018 law granting Nazarbayev the right to the life chairmanship on the national Security Council, refurbished in the first half of 2018, was seen by many observers as an indication of his long-rumored intention to step down while becoming a mentor to his successor (the Deng Xiaoping scenario). This in fact happened in March 2019 and his constitutionally designated successor, Kassym-Jomart Tokayev, became president of the Senate (his position was taken over by Nazarbayev's eldest daughter Dariga Nazarbayeva).

Since 2014, Kazakhstan has been seeking to restore growth to precrisis levels amid low oil prices, high volatility in other commodity markets, and deepening banking turmoil at home. Four banks lost their licenses in 2017 to 2018 and one of the country's largest, Tsesnabank, appears to be in need of a massive bailout. The government has already pledged support with new infusions of taxpayer money and from the state-controlled Oil Fund. In late January 2019, Nazarbayev harshly criticized the government and the central bank for poor coordination of economic development

policies, lax oversight of banks, insufficient lending to the real economy and high levels of corporate debt, coupled with low or negative profitability.

The macroeconomic situation continued to be subdued, even though Kazakhstan weathered the storm of 2015 to 2016. Official inflation is contained within a target band; public debt is low; the current account deficit contracted after the price of oil rebounded, and the government's budget deficit has improved, although public spending still depends heavily on one-off transfers from the Oil Fund. The official rate of unemployment remains low, but a high number of self-employed workers masks the real state of affairs. The government intends to reduce the size of the informal economy, estimated at around a third of GDP, by making the self-employed pay taxes in exchange for social protections.

Despite the difficult socioeconomic context, protests were rare in 2017 to 2018. In May and June 2018, the police broke up two unauthorized rallies in Almaty, which were apparently held at the initiative of the Democratic Choice of Kazakhstan (DVK), an unregistered political movement of Nazarbayev's exiled opponent and former banker Mukhtar Ablyazov. The DVK was banned as an extremist organization in March 2018.

The uncertain economic situation did not prevent Kazakhstan from significantly improving its standing in the highly regarded Ease of Doing Business Index by the World Bank. It jumped from 36th in 2018 to 28th in 2019. The country ranks first worldwide in terms of minority investor protection. At the same time, international organizations call on the Kazakhstani executive to start implementing much-needed structural reforms, given low domestic competition resulting in zombie companies, the extremely high share of the state in the economy, low labor productivity and extremely low spending on research and innovation. Even though the government has ramped up its efforts to publicize the fight against corruption and arrests of numerous high-ranking officials took place between 2017 and 2019, the international community still estimates that not enough is being done.

History and Characteristics of Transformation

Kazakhstan's independence from the Soviet Union in December 1991 marked a starting point for its unprecedented political and economic transformations. The early post-independence years witnessed initial steps toward democratic liberalization amid a very steep economic decline. Under President Nursultan Nazarbayev, a former Communist Party chief who had been at the helm of the country since 1986, the economy was partially liberalized and growth restored.

President Nazarbayev's authoritarianism has become more apparent since the end of 1994 when he dismissed parliament on a pretext and ruled by decree for nine months until new elections were held. In May 1995, his term in office was extended by national referendum. In August 1995, a second referendum approved a new constitution, which reshaped the government from a

parliamentary democracy into a presidential republic. Members of his family began to be placed in key governmental and business positions.

Political maneuvering among the country's elites first became public knowledge in November 2001. A political struggle involving the president's son-in-law, Rakhat Aliyev led top government officials and leading businessmen to openly oppose Nazarbayev for the first time. They founded their own political movement, the Democratic Choice of Kazakhstan (DVK), and called on the president to speed up pro-democracy and market reforms. The government officials involved were subsequently fired and/or silenced through cooptation. The DVK, other opposition activists and the free media were all subjected to increasing repression. The parliamentary elections of September 2004 were judged as neither free nor fair by the OSCE and saw the majority of seats go to the presidential Fatherland Party (Nur Otan), with the opposition winning only one seat.

Kazakhstan is arguably the most successful post-Soviet republic to make a transition from a centralized economy to a free market. After a steep economic downturn, Kazakhstan achieved economic growth for the first time in 1996 and maintained it for ten years. The discovery of the giant Kashagan oil field off the Caspian shore in July 2000 marked the beginning of a new chapter in the country's economic history, and a new deal was brokered in 2008 to the clear advantage of the Kazakhstani government. Kazakhstan set up a national oil fund in January 2001 to reduce its vulnerability to price swings in the world energy markets and to accumulate funds for future generations.

In May 2007, an unprecedented legislative change was approved by parliament, lifting the two-term restriction on the presidency and allowing Nazarbayev to be president for life. The president was simultaneously given the right to officially head the ruling Nur Otan party, which further strengthened the presidency at the collective expense of the government, parliament and civil society. Presidential authority was also boosted by an increase in the number of senators from seven to 15 and via the incorporation of nine members of parliament into the Assembly of the Peoples of Kazakhstan, a consultative body de facto subordinated to the presidency.

The period from 2009 to 2013 was characterized by Kazakhstan's chairmanship of the OSCE in 2010, a strong international and regional profile and a spike in social unrest at home. The OSCE chairmanship did not lead to stronger commitments to respect for human rights or more open and free elections. In December 2011, at least 14 protesters were killed by the police while demanding unpaid danger money, higher wages and better working conditions. Kazakhstan's first ever suicide bombing occurred in 2011, in the western oil city of Aktobe, and continued later that year with another botched attempt in Atyrau, also in the west.

Amid the economic downturn that began in 2014 when the price of oil started tumbling, Kazakhstan enacted urgent anti-crisis measures, literally pumping billions of dollars into the troubled banking, agriculture and construction sectors. The low-growth environment did not prevent Nazarbayev from being reelected for another five-year term in April 2015 and the lower chamber of parliament being renewed under the leadership of Nur Otan in spring 2016. A month after the parliamentary elections, the authorities had to deal with large-scale protests over a controversial land reform initiative, purportedly allowing the sale of arable land to foreigners. The

proposed reform was quickly scrapped, but once again showcased the country's internal fragility against a backdrop of high inequality.

The 2017 constitutional reforms reallocated a certain number of responsibilities between the presidency, the government and parliament, thereby boosting the latter two's autonomy. However, none of these otherwise significant changes has been implemented in practice so far. The Nazarbayev administration has stubbornly evaded the issue of political liberalization during more than two decades of its rule and there is little expectation that genuine democratic reforms will materialize overnight, especially as the post-2014 economic slowdown lingers. It is hard to see that Nazarbayev's unexpected resignation in March 2019 will in any way change this picture.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The central government is in control of most of Kazakhstan's territory and relies on a powerful security and law enforcement apparatus to maintain law and order. The 2017 to 2019 period did not witness notable outbreaks of violence that would suggest a loss of control over domestic security and public order on the part of the central authorities. Limited areas, especially in western and southern Kazakhstan, are partly controlled by organized criminal groups that derive revenue from oil theft, arms smuggling, contraband and tax fraud.

One such group was dismantled in late 2017 and a total of 26 people were sentenced to various prison terms in August 2018. The group specialized in large-scale oil theft from pipelines in Aktobe Oblast, western Kazakhstan, and operated under the protection of a high-ranking official at the Ministry of Internal Affairs. As regards terrorist threats, the National Security Committee (KNB) successfully prevented 11 acts of terror in 2017 and three more in January to July 2018, according to the KNB's official statements.

The concept of nation-state remains widely accepted within Kazakhstani society, as based on the moderately nationalist post-independence model, which has been reinforced in recent years. The authorities continue to cater mostly to the Kazakh ethnic majority, which accounted for almost 67.5% of the total population in early 2018, up from 63.1% in 2009 and 53.4% in 1999. Meanwhile, the share of ethnic Russians decreased from 23.7% in 2009 to 19.8% in 2018.

In February 2018, President Nazarbayev approved the final version of a new Latin-based script for the Kazakh language, which is the only official language under the constitution. The full transition from Cyrillic, currently in use, to Latin is scheduled by 2025. This shift will not have a significant impact on the Russian-speaking portion of the population, which will continue to use Russian in everyday communication.

Question
Score

Monopoly on the
use of force

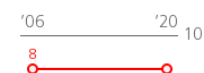
9



1

State identity

8



1

The increased role of Kazakh in education, public service and the media contributes to further marginalization of non-Kazakh-speakers, mainly Russians and other Slavic ethnicities. Yet, this does not translate into an organized protest activity. At the same time, so-called Oralmans, or ethnic Kazakhs who have repatriated from China, Mongolia and Central Asia, continue to be denied basic citizenships rights. They often live in poverty, are unemployed and have trouble integrating into a society where spoken Russian and basic education are prerequisites for improving their social status.

If within the Kazakh ethnos, certain clear boundaries have arisen between supporters of ethnic identity and apologists for cosmopolitanism, between rural and urban culture, between supporters of secular and religious paths of development, many representatives of various ethnic groups living in Kazakhstan have equally serious problems with identity. Most of them fell into the “trap of blurred self-identification,” when, figuratively speaking, they continue to live in Kazakhstan in their bodies, and their head in Russia, identifying themselves more with the Russian political, ideological, and informational fields.

From the point of view of some national-patriotic groups, there is no Kazakhstan identity, but there is a Kazakh identity, which should be based on an ethnic principle. Here, the emphasis is on the primacy of the “titular nation.” In turn, in the opinion of participants in various religious movements, a person, first of all, must identify himself with the religion to which he belongs, and then with his own ethnic group. Finally, there are those who still believe that tribal identity should be primary. The struggle between these different conceptions of identity will most probably intensify.

At the same time, from the point of view of the Kazakhstani authorities, this identity should be built on the basis of civil identity, such that, regardless of ethnicity, people must identify themselves as citizens of Kazakhstan.

Kazakhstan remains a fundamentally secular state and the influence of religion on state politics is heavily constrained. The state regulation of religious affairs is currently based on a law adopted in late 2011 in the wake of the first post-independence terrorist attacks earlier that year. The law aims to better regulate the activities of religious associations by forcing them to register with the Ministry of Justice and subordinating their day-to-day operations to a dedicated public organ.

In September 2016, President Nazarbayev decreed the establishment of a Ministry for Religious Affairs, which in September 2018 was renamed the Ministry of Public Development. During 2017, the authorities suggested amending the Law on Religious Activities by strengthening some of its provisions and introducing new ones, such as a total ban on niqabs in public places. Conversely, hijabs, which do not fully cover a woman’s face, should not be banned. As of early 2019, no amendments have been adopted yet.

No interference of religious dogmas

9

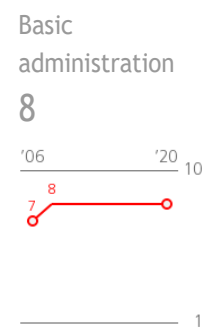


1

Kazakhstan is undergoing a serious transformation of religion, including in connection with the process of urbanization, which leads to the destruction of old religious traditions and the emergence of new rules. Already, the transformation of the religious field leads to a clash of secular and clerical identity in Kazakhstan. The first is power, and the second is that part of society that places religious identity above a national or civil one.

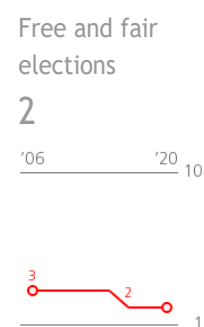
Kazakhstan has a relatively well-developed system of public administration and public services provision across the country, especially by comparison with the less developed economies of southern Central Asia. The healthcare and educational sectors still benefit from a positive Soviet legacy, including significant residual infrastructure that has been supplemented by new facilities mainly concentrated in Astana/Nursultan, Almaty and regional capitals.

Nevertheless, a non-negligible part of the population lacks access to basic utilities such as water, electricity and gas for heating or cooking. For example, despite the abundance of natural gas in western Kazakhstan, the central and northern portions of the country have yet to gain access to the still-planned gas distribution infrastructure. In March 2018, the Energy Ministry estimated total costs at almost \$1 billion. Tax administration is another good example of uneven policy implementation: while tax collection is generally good at the corporate level, the informal economy remains significant, in particularly as represented by “self-employed” individuals.



2 | Political Participation

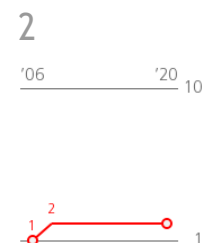
The 2017 to 2019 period did not witness general elections to the legislature (the last parliamentary vote was held in March 2016) or the presidency (the last presidential elections took place in April 2015). Overall, the Kazakhstani political system is heavily skewed towards the executive branch and has been historically characterized by a strong vertical of power dominated by the incumbent. The Central Election Commission lacks independence. Access to national media and successful registration as candidates are all but impossible for outsiders and election rigging is common.



In June 2017, 16 new members were elected to the Senate (which has a total of 47 members of whom 32 are elected and the rest are appointed by the president). Elected senators are chosen by an electoral college comprising local legislators at the district, city and regional levels. The dominance of the ruling Nur Otan party ensured the victory of pro-regime candidates (14 out of 16 new senators are members of Nur Otan).

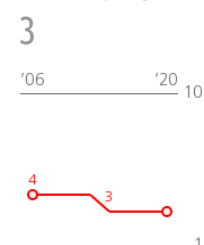
The main source of representative democracy, the Mazhilis (lower chamber of parliament), lacks independence and its oversight of the executive, including the government and the presidency, is inefficient. Since the last parliamentary elections, the Nur Otan Party, of which ex-President Nazarbayev remains chairman, had 84 members in parliament out of 107. The two other parties, Ak Zhol and the Communist People's Party, have seven members of parliament each, but are fully aligned with Nur Otan on the majority of issues. The president and his family have effective veto power over elected officials' decisions. They are followed by various interest groups organized for and on behalf of Kazakh clans and local oligarchs whose wellbeing still hinges on the benevolence of the presidential clan.

Effective power to govern



Kazakhstani legislation guarantees the freedom of association and assembly to all citizens. As of November 2018, there were around 22,000 non-governmental organizations officially registered in the country. Of those, only 12,000 or so were active. A third of the latter were registered in a governmental database as recipients of or applicants for public grants. The NGO sector is heavily dependent upon international or local state grants, with international funding not readily available to all organizations. Moreover, the recipients of international grants are subject to more stringent controls by the government.

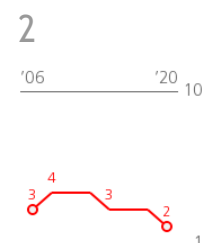
Association / assembly rights



The authorities routinely break up peaceful assemblies and detain their participants on the grounds of public order and security. It is impossible to obtain permits for peaceful protests and, if an unauthorized protest activity takes place, it is quickly cracked down upon by law enforcement.

Media freedom in Kazakhstan is severely limited by the authoritarian nature of the ruling regime. The 2013 clampdown on the few remaining independent media outlets, such as Golos Respubliki, resulted in the near-disappearance of dissenting voices from the media landscape. A further blow was dealt in May 2018 to Ratel.kz, an investigative online media outlet banned by a court order on account of technical irregularities that were deemed spurious by civil society activists. It had been engaged in lengthy litigation with a former Kazakhstani minister, whom the website accused of corruption and extortion. Earlier, in September 2017, journalist Zhanbolat Mamay was handed a suspended prison sentence for alleged money laundering in connection with an embezzlement scandal at BTA Bank. The bank's former chairman Mukhtar Ablyazov is a key opponent to President Nazarbayev and has been living in exile since 2009.

Freedom of expression



In December 2017, the president signed into law amendments to the media law, which were widely criticized by press freedom defenders. They put an end to anonymity for online commenters, who must register with each media outlet under their real names; oblige journalists to seek approval before publishing personal, family, financial or medical details about individuals; and introduce the term propaganda as the spreading of false information in furtherance of an illegal cause.

3 | Rule of Law

The separation of powers is formally established but remains weak. Despite the fact that since 2012 the Mazhilis is no longer a one-party chamber, the ruling party, Nur Otan, dominates and directly translates the will of the executive. The executive branch, especially the presidency, concentrates most power and relies on a docile parliament and a loyal judiciary to further its goals.

In 2017, Kazakhstan implemented a sweeping constitutional reform, which has shifted certain responsibilities from the presidency to the government and parliament. For instance, parliament can remove ministers from office; furthermore, ministers must be appointed by the president after consultations with both the prime minister and parliament, and at the premier's recommendation. The president can no longer issue decrees having the force of law nor can parliament temporarily delegate a lawmaking mandate to the former. However, none of these amendments has been implemented in practice so far.

Similarly to parliament, the judiciary remains dependent on the executive and its decisions are often politicized. The president continues to pick the chairpersons of key courts at the central and regional levels and appoints the chair of the Supreme Court with the approval of a rubberstamp parliament. The 2017 constitutional reform focused little on the judicial branch of government, although the Constitutional Council, which is placed outside the judiciary, saw its status moderately boosted. The president can no longer veto decisions by the council and must seek its opinion every time the constitution is amended. The relevance of these changes should be subject to skepticism given the lack of independence of the Constitutional Council and its light political weight.

In August 2018, the Supreme Judicial Council amended recruitment procedures relating to most judges. The amendments were gradually phased in and have been in full force since 2019. Judges are selected during the course of several examinations, which aim to test their legal knowledge, social and interpersonal skills, resilience to stress and other parameters. This is a welcome step towards greater professionalization of the judiciary body and is part and parcel of a broader multi-stage civil service reform. However, as mentioned earlier, the judiciary is unlikely to obtain significantly more independence from the executive in the near future.

The fight against corruption has been a perennial slogan of the Kazakhstani authorities for over a decade. Political corruption and nepotism remain rampant and undermine the country's efforts to optimize public spending, eradicate wasteful managerial practices and professionalize public administration.

However, both 2017 and 2018 were very eventful on the anti-corruption front. In January 2017, former National Economy Minister (dismissed in December 2016)

Separation of powers

2

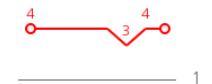
'06 '20 10



Independent judiciary

4

'06 '20 10



Prosecution of office abuse

4

Kuandyk Bishimbayev was arrested and sentenced in March 2018 to ten years in prison for large-scale embezzlement. Arrests also took place in 2017 at the Ministry of Health, a state-owned pharma company, the defense manufacturer Kazakhstan Engineering and the state-owned road construction firm Kazakhavtodor. In 2018, three deputy ministers for energy and a vice minister of foreign affairs were all detained and the ambassador to Uzbekistan was suspended on graft and/or embezzlement charges. While this uptick in anti-corruption can be considered a positive sign, the overall situation is by and large unchanged from prior years.

The anti-corruption struggle in Kazakhstan is more often the result of intra-elite clashes and the struggle for resources and influence among different elite groups.

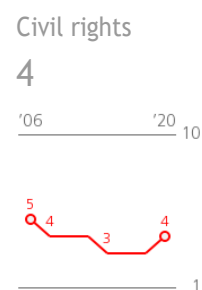
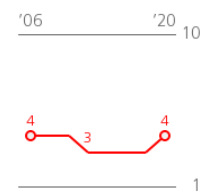
The protection of civil rights is codified in detail, but poorly enforced in practice. A case in point is torture. The Criminal Code and Criminal Procedure Code of 2014, for instance, prescribes that allegations of torture should be automatically registered and investigated as criminal offences; the statute of limitations was abolished; and the maximum penalty was increased to 12 years imprisonment. In 2014, a National Preventive Mechanism against Torture was also introduced which is part of the Office of the Human Rights Ombudsman. However, the use of torture still appears to be systemic, in particular in pretrial detention centers and constitutes a particular danger to active critics of the regime, of whom few remain. In 2017, the Human Rights Ombudsman reported 135 complaints alleging torture, violence, and other cruel and degrading treatment and punishment.

Prison conditions in general remained unsatisfactory and harsh, although some measures, such as the closure of the worst facilities, have been taken by the government. Arbitrary arrest and detention are prohibited by law, but this practice occasionally occurs. For instance, police arrested several trade unionists representing the oil sector, who subsequently spent over a year in prison for their activism. Politically motivated disappearances were reported in the relevant period.

As to citizen's liberties, security agencies are granted extensive rights to infringe upon the secrecy of private communications and financial records, as well as on the inviolability of the home.

Discrimination and harassment of LGBT people is fairly frequent, but prosecutions of such acts have not been reported.

There is a Presidential Commission on Human Rights as a consultative body, which reviews and investigates complaints and issues recommendations in line with international human rights conventions. The government has also invited UN special rapporteurs to visit the country and meet with NGOs working on human rights.



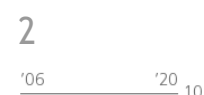
4 | Stability of Democratic Institutions

The existing democratic institutions are directly subordinated to the ruling regime; Kazakhstan has a façade democracy, which has grown more apparent in recent years with the intensification of a crackdown on “non-systemic” opposition. Parliament and local legislative assemblies are dominated by the presidential party, Nur Otan, while other political formations that are allowed to compete in local and national elections profess open allegiance to the Nazarbayev administration.

The 2017 constitutional reform has de jure laid the groundwork for a democratic transformation by endowing parliament with more extensive powers, a right of censure vis-à-vis the government and greater independence from the presidency. However, as long as the authoritarian regime remains in place, little practical change is to be expected.

Democratic institutions enjoy limited legitimacy amid the passivity of the majority of the population, as far as participation in politics is concerned, and the lack of pre-independence democratic experience. The actual veto power over democratic processes belongs to the president and his entourage. No other domestic force, whether a political party, an association, a business lobby or the military, can challenge the president, in defense of democratic order or in general.

Performance of democratic institutions



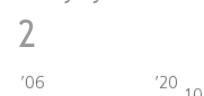
Commitment to democratic institutions



5 | Political and Social Integration

Kazakhstan’s party system is underdeveloped and lacks real competition for the hearts and minds of the electorate in a climate of political illiberalism and social anemia. Parliamentary elections are largely perceived as a formality and the dominance of the ruling party, Nur Otan, is neither questioned nor actively contested through democratic means. The country is currently home to six political parties of which three – Nur Otan, Ak Zhol and the Communist People’s Party – have representatives in the Mazhilis. The latter two position themselves as opposition forces, but in the majority of cases vote in line with Nur Otan. The political spectrum has no distinct division into the right, left and center, although Nur Otan can be characterized as center-right. A member of parliament’s job is widely viewed as a sinecure, allowing its holder to exercise lucrative business activities through family and close associates. In the present authoritarian regime, political parties are inefficient at properly translating the electorate’s will and aspirations into lawmaking.

Party system



Kazakhstan's authoritarianism relegates the country's few active interest groups to the fringes of political and civil society activism. Hence, their activities are mostly focused on implementing apolitical, social aid projects in areas where the government has no means or appetite for action. The Kazakhstan Trade Union Federation, a successor to its Soviet parent, is tightly controlled by the state and lacks both organizational and financial independence. The International Freedom of Speech Foundation, Adil Soz, and the Kazakhstan International Bureau for Human Rights and the Rule of Law were both active in the 2000s, but have since lost much of their ability to restrain arbitrary policy-making.

The only two powerful interest groups with a real ability to influence decision-making are the Kazenergy Association of big energy businesses and the Atameken Business Chamber. Both are chaired by President Nazarbayev's billionaire son-in-law, Timur Kulibayev, who lost his job as Samruk-Kazyna chairman in 2011 in the wake of Zhanaozen protests. These two organizations objectively do very little in terms of social representation.

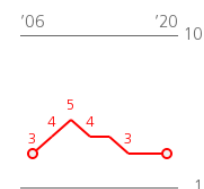
There have been no recent surveys of public opinion in Kazakhstan regarding the general perception of democracy as a form of government and/or democratic institutions more specifically. In 2012, a pair of US-based sociologists conducted a poll on a grant from the National Science Foundation. Its results were published in an academic journal in October 2018. The poll showed that most young Kazakhstanis were rather indifferent to democratic reform and were primarily preoccupied with material wealth and social status. The government actively hailed the 2017 constitutional reform, which implements – at least on paper – some democratic changes – as enjoying wide support among ordinary citizens, based on “thousands” of letters received from all corners of the country. The reliability of this assessment is obviously subject to significant doubt.

Unlike its less developed Central Asian neighbors (as in GDP per capita), Kazakhstan relies to a much more limited extent on social aid organizations and local community associations to deliver basic services and strengthen social cohesion. The social action landscape is fragmented and no nationwide association of cultural, environmental or social organizations is currently in existence.

Despite the post-independence return of religiosity and greater insistence on traditional family and social values, Kazakhstani society is characterized by a high degree of individualism. Loyalty and mutual help are most often delineated by extended family or clan lines, resulting in a fragmentation of social capital. This is probably one of the reasons Kazakhstan is still at the stage of nation-building and has trouble defining a nation-state, as reflected by recurring debates over the most appropriate way to call the country (Kazakhstan vs. Kazakh Republic) and its population (e.g., the failed “Kazakhstani nation” doctrine).

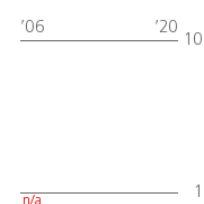
Interest groups

3



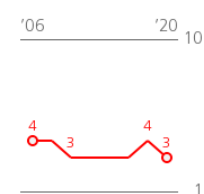
Approval of democracy

n/a



Social capital

3



II. Economic Transformation

6 | Level of Socioeconomic Development

Kazakhstan continues to be a rather unequal society, not much different in this respect from other post-Soviet states that went through turbulent privatization and economic reconstruction in the 1990s and 2000s. According to the UNDP's latest update of 2018 to its Human Development Index database, Kazakhstan ranked 58 out of 189 countries in 2017, which corresponded to the high development category. The country only made modest progress compared to 2016. When discounted for inequality, its HDI loses 7.9%, less than the average of 10.7% for Europe and Central Asia. Kazakhstan's Gini index is mostly in line with data from other post-Soviet countries, although it lags behind Ukraine, Moldova and Kyrgyzstan. Discrimination is immaterial at the levels of race, religion or political affiliation (as applicable to the general population). Gender disparities exist in terms of access to economic resources and political representation while linguistic exclusion is increasingly tangible.

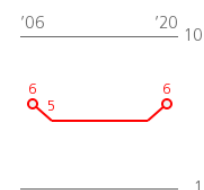
The Labor and Social Protection Ministry stated in November 2018 that the proportion of people living below the national poverty line had decreased to 4.7% as of July 2018. World Bank data show that the percentage of the population living on less than \$3.2 a day at 2011 PPP-adjusted international prices was 0.3% in 2015. No data is available for subsequent years but this percentage has likely remained stable over time, especially as Kazakhstan has recovered some of its growth and stabilized to a certain extent its public finances since the 2015 to 2016 crisis period. The government has proven largely inefficient at tackling poverty nationwide. The short-lived Regional Development Ministry experiment, which lasted from 2013 to 2014, has not been renewed, with regional governments formally tasked with managing social conflicts as soon as they arise obviously without having the means to address their structural causes.

Kazakhstanis have not yet been able to fully recover from the 2015 devaluation. In short, most of them have lived in survival mode since that time. Even according to official data, the overdue debt of Kazakhstani residents on loans to second-tier banks amounts to almost 700 billion tenge. That is, many citizens have to live in debt. At the same time, opportunities to save money on housing, children's education, etc., may never materialize because people cannot escape the trap of permanent social vulnerability.

Question
Score

Socioeconomic
barriers

6



Economic indicators		2015	2016	2017	2018
GDP	\$ M	184388.4	137278.3	162886.9	170538.9
GDP growth	%	1.2	1.1	4.1	4.1
Inflation (CPI)	%	6.7	14.4	7.4	-
Unemployment	%	4.9	5.0	4.9	4.9
Foreign direct investment	% of GDP	3.6	12.5	2.9	0.1
Export growth	%	-4.1	-4.5	6.4	-
Import growth	%	-0.1	-2.0	-1.4	-
Current account balance	\$ M	-6011.6	-8132.1	-5101.9	-51.7
Public debt	% of GDP	21.9	19.7	20.4	21.0
External debt	\$ M	153397.7	163716.7	158917.4	156920.7
Total debt service	\$ M	34954.2	20313.2	27966.7	33601.9
Net lending/borrowing	% of GDP	-2.4	-2.9	-3.2	-
Tax revenue	% of GDP	9.8	9.9	10.6	-
Government consumption	% of GDP	11.6	11.6	10.8	-
Public education spending	% of GDP	2.8	3.0	2.8	-
Public health spending	% of GDP	1.9	2.1	-	-
R&D expenditure	% of GDP	0.2	0.1	0.1	-
Military expenditure	% of GDP	1.1	1.0	0.9	1.0

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Kazakhstan has made significant progress in terms of opening up its economy and liberalizing cross-border trade and investments, namely as evidenced by its improved standing in the World Bank's Doing Business Index since 2007. Recent progress includes steps taken in 2017 to 2018, such as a host of measures aiming to protect the rights of minority shareholders through greater access to corporate information and a clearer separation between ownership and control. Thus, with the overall rank of 28 (up from 36 in 2017), Kazakhstan has retained the world's top spot as far as minority investors' protection is concerned. It has also improved its positions in contract enforcement (4th), property registration (18th), business registration (36th) and

Market organization

6

'06 '20 10

5 6

1

insolvency resolution (37th). Starting a business in Kazakhstan takes five days and five procedures with a cost of 0.3% of GNI per capita.

Despite this excellent ranking, the de facto business entry rates in Kazakhstan are very low. Fundamental deficiencies persist on a structural level. Low competition, mainly caused by the very high share of state-owned companies, price controls, and non-trade barriers that still penalize Kazakhstan's commerce with close trade partners and a significant share of the informal economy are all worth noting. According to a recent study (2018) by A.T. Kearney, Kazakhstan's informal economy was equal to 33.5% of GDP in 2016, slightly below the 2009 level of 34.7%. The world average in 2016 was 23%, down from 26.1% in 2009.

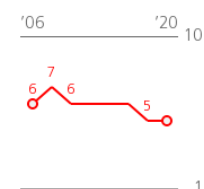
Although Kazakhstan changed over to free-floating foreign exchange rates in 2015, the exchange rate of the tenge is still actively managed by the National Bank of Kazakhstan, which remains by far the largest player in the local forex market, along with second-tier banks. Capital controls also exist for specific transactions over specific thresholds. In its 2018 Global Competitiveness Index, the World Economic Forum highlighted foreign currency regulations as one of the 10 most problematic factors for doing business in Kazakhstan. Access to financing was mentioned as the most serious challenge.

Legal safeguards to protect competition exist and are enshrined in law. Moreover, since the late 1990s, the laws on competition in Kazakhstan aim to stimulate small businesses and private enterprises and to grant them the same rights as established state enterprises. However, little action is taken to prevent anti-competitive behavior. Market dominance is solely established by market shares and without any in-depth analysis of market conditions. The enforcement process is not transparent. In the authority's proceedings, businesses are not granted the right to be heard or access to files. The OECD concluded that the competition law in Kazakhstan is not in line with international regulatory standards. Based on the current legal framework, the Committee on Regulation of Natural Monopolies and Protection of Competition, a competition authority under the auspices of the Ministry of National Economy, is unable to protect competition from the dominance of state-owned enterprises.

As noted in the World Bank Group's Systematic Country Diagnostic, dated April 2018, Kazakhstan suffers from the exorbitant weight of state-owned enterprises (SOEs) on the economy, resulting in weakened incentives for private investment and lesser competition. The state's share in GDP generation is considerably higher than the OECD average and even larger than in such resource-intensive countries as Russia and Venezuela. In addition, the World Bank notes pervasive price controls, which distort competition and undermine the market balance between supply and demand. The government has so far failed to reduce the footprint of SOEs to the level of 15%, as was initially announced in 2015.

Competition policy

5



The World Economic Forum's Global Competitiveness Index 2018 ranks Kazakhstan 57 out of 137 economies. However, it is ranked only 114th in the intensity of local competition, 84th in the effectiveness of anti-monopoly policy and 101st in the broader foreign competition category.

Most of the time, it is hard to prove the existence of cartels. In 2017, the Kazakhstani authorities conducted only seven investigations into purported cartels. SOEs widely benefit from their quasi-monopoly positions in many economic sectors, including access to cheap credit and significant room for price fixing.

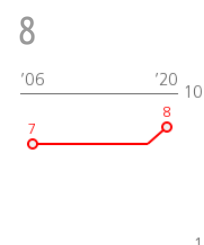
Kazakhstan has made significant progress in recent years in terms of trade liberalization. It jumped from 36th in 2018 (35th in 2017) to 28th in the World Bank's Doing Business Index 2019. According to the bank, the greatest progress has been achieved in such areas as contract enforcement, cross-border trade and new business registration, with minor gains in insolvency resolution, property registration and access to electricity. The OECD's FDI Restrictiveness Index 2017 ranks Kazakhstan 37th among 68 economies, with a level of restrictiveness twice higher than that of Denmark but 2.8 times lower than that of Russia. As of 2017, Kazakhstan applied as a WTO member (since 2015,) the average most favored nation tariff rate of 6.5%, which was slightly above the 6.4% average bound tariff.

In March 2017, the government created a new state-owned company, Kazakh Invest, tasked with attracting foreign direct investments. Similar institutions had already existed for years such as the Foreign Investors Council under the presidency of Kazakhstan. In 2015, the investment and development minister became in parallel the first investment ombudsman. In 2017, the authorities adopted the 2018-2020 National Investment Strategy drafted with assistance from the World Bank; it aims at increasing FDI by a quarter by 2022.

By law, foreign companies are not prevented from freely operating in the country, although specific restrictions exist on foreign ownership of media assets (20%), domestic and international air transportation (49%) and telecoms (49%). Kazakhstan has yet to remove telecom restrictions as required by its WTO membership, as well as to authorize foreign bank and insurance company branches by 2020. Other non-tariff barriers include common licensing requirements and quotas as established within the Eurasian Economic Union. A special restriction in the form of local content regulations applies to the oil and gas sector.

Following the revocation of Kazinvestbank's operating license in 2016, the National Bank of Kazakhstan (NBK) further cancelled the licenses of four other banks within the next two years: Delta Bank (2017) as well as Qazaq Banki, Eximbank and Astana Banki. In November 2018, NBK chairman Daniyar Akishev blamed inadequate corporate governance, inefficient risk management, unethical credit practices – whereby loans were extended to insolvent borrowers – and financial reporting manipulation of these problems. In June 2017, Halyk Bank, majority-owned by

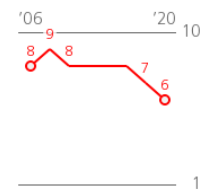
Liberalization of
foreign trade



Banking system

6

President Nazarbayev's middle daughter Dinara and her husband Timur Kulibayev, both Forbes billionaires, acquired its nearest competitor, Kazkommertsbank, for KZT 1 (the target had negative book value). In exchange for Halyk Bank's consent to recapitalize Kazkommertsbank for an additional \$557 million, the government used taxpayer money to purchase the failed BTA Bank's debt to Kazkommertsbank in the amount of more than \$6.3 billion.



In October 2017, the government approved \$1.23 billion worth of preferential loans to four large banks (ATF Bank, Tsesnabank, Eurasian Bank and BankCenterCredit), having pledged a total of \$2 billion to the troubled banking sector. Despite this generous aid, the media reported in mid-2018 that Tsesnabank had privately received a further \$447 million from the NBK in order to deal with its liquidity problems. This news caused anxiety within the domestic banking sector as to Tsesnabank's ability to withstand its difficulties. Nazarbayev's chief of staff Adilbek Dzhaksybekov, whose family controls Tsesna Holding, of which the bank is one of many assets, was reportedly sacked for that reason.

As of 2017, the banks' average capital-to-assets ratio stood at 11.8%, a good result after several years of tightening up of capital requirements. Yet, by November 2018, the banks' assets had shrunk to 42.1% of GDP, down from 46.5% in January 2018; the loan portfolio had decreased from 26.2% to 22.9% and the deposits had melted from 40.7% to 22.9%. For the purposes of comparison, in 2010, banking sector assets amounted to 70% of GDP and total loans to 60%. The NBK had failed to restore confidence in the tenge as the share of dollar deposits were 47.4% of the total in November 2018.

In the addition to poor NBK supervision, the lack of hard budget constraints in the "too big to fail" environment and weak corporate governance, the banks have too much liquidity, which they are reluctant to lend to the real economy, as they are worried about the future availability of stable funding. Non-performing loans averaged 7.9% in December 2018, down from 12.7% at the end of 2017. More worryingly, they amounted to 10.5% at Halyk Bank that had by then absorbed Kazkommertsbank and were close to 10% at two other banks in the top six, ATF Bank (9.5%) and Eurasian Bank (8.8%). Among the 28 remaining Kazakhstani banks, the third largest in assets, Tsesnabank, has been in breach of prudential regulations since September 2018. At that time, S&P downgraded both its credit rating and outlook. In January 2019, the government offered a de facto bailout to Tsesnabank worth over \$3.4 billion over 15 years (by issuing non-government bonds). Reuters reported the authorities were urgently looking for an external buyer.

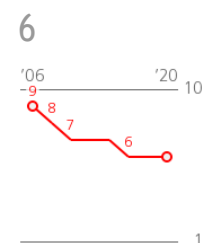
8 | Monetary and fiscal stability

During the 2017 to 2018 period, the National Bank of Kazakhstan (NBK) was rather successful in stabilizing inflation after two tumultuous years (2015 and 2016). In January 2016, the price of oil dropped below \$30/barrel, its lowest point since 2003, and the tenge was allowed to depreciate steeply starting in August 2015. After hiking the base rate to 17% in February 2016, the NBK had gradually decreased it to 9% by June 2018, but raised it again slightly by 25 basis points in October 2018. The base rate has since been unchanged (as of January 2019). Annualized inflation stood at 7.1% in 2017 and at 5.1% in 2018, falling in the second case within the NBK's band of 5-7%. The exchange rate remains volatile but this is mostly the result of external factors, given Kazakhstan's dependence on the price of oil and the situation in Russia, where the economy has deteriorated further.

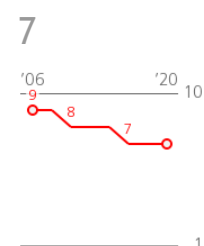
Besides the heavy weight of external economic factors, the NBK is constrained in its action by two other structural weaknesses. Despite its formal independence, it is under pressure from the government, and even more so the presidential administration, to deliver on national growth targets, which are difficult to reconcile with inflation targeting. The NBK lacks autonomy, with its chair being at the mercy of the president and overshadowed by the influence of many cabinet ministers. The second difficulty is the poor state of the banking sector, which has yet to recover from the 2008 to 2009 financial crisis. The NBK's inability to enforce common rules for banks, whose shareholders include powerful politicians or their family members, has led to the collapse of several banks and further loss of the population's trust in the banking sector. As a result, the surviving banks keep excess liquidity on hand out of fear of bank runs and prefer to earn riskless income from government securities and other financial instruments than to lend to the real economy.

Kazakhstan's fiscal policy has been gradually stabilizing since 2018, following massive public spending in 2014 to 2017 as part of the government's support for large infrastructure projects (mainly construction), agriculture and the troubled financial sector. In 2017, government budget deficit stood at 2.9% of GDP and the 2018 target was 1.1%. During the first 11 months of 2018, it amounted to 0.8% of GDP. At the same time, the budgetary equation is heavily reliant on so-called mandatory transfers from the National Fund, which are planned deductions from taxes on oil revenue that end up in government reserves. Upon deduction, the deficit was close to 6% in January to November 2018. The deficit of the non-oil economy is even higher and stood at respectively 10% and 8.9% in 2016 and 2017, according to the World Bank. If one-off expenditures are factored in, it increases to 12.8% for 2017. Public debt slightly rose in 2018 but stays below 18% of GDP. The government reluctantly resorted to external borrowing, thereby keeping public debt stable and compensating with increased transfers from the coffers. In both 2015 and 2016 (last available periods), the country borrowed more than it lent, as per World Bank statistics, with net borrowing approaching 3% of GDP.

Monetary stability



Fiscal stability



9 | Private Property

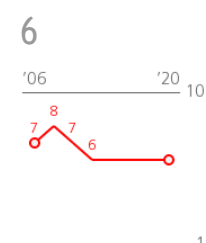
Private property rights are enshrined in Article 26 of the constitution (which was not affected by the 2017 constitutional reform), the Civil Code and the Land Code. Recent years have seen a string of reforms aimed at improving the protection of property rights, as well as streamlining the acquisition and disposal of privately owned property. In the 2019 Doing Business ranking by the World Bank, Kazakhstan was ranked 18 out of 190 countries in terms of ease of property registration. This is one position lower than the 2018 score and on a par with 2017. In the previous edition, the bank noted positive steps towards improved transparency and clearer and more functional dispute resolution mechanisms pertaining to land administration.

Despite the above solid score, structural enforcement issues persist. In November 2018, a US court awarded \$525 million to Moldovan businessman Anatol Stati, who had sued the Kazakhstani government in 2010 over a gas project gone bankrupt. He claimed that his business venture had been deliberately destroyed by the authorities. In 2017, a New York bank froze some \$22 billion worth of National Fund assets in an embarrassment for the Nazarbayev administration, but a Belgian court reversed the freeze in early 2018. Also, in 2017, a Kazakhstani court ordered Forbes Kazakhstan and several other media outlets to publicly retract their statements concerning a former Kazakhstani minister, whom they had accused, inter alia, of racketeering. The minister's junior business partner had reportedly been deprived of his holding through extortion. As of mid-2018, several journalists were under investigation for defamation.

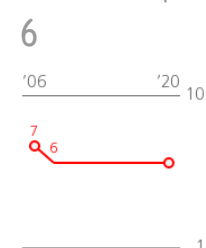
In February and March 2017, respectively, two investors from Germany and Armenia wrote public letters to President Nazarbayev in protest of the alleged expropriation of their businesses in Aktobe. Both complained of arbitrary actions by tax and other local authorities. In September 2018, a Kazakh-born US investor accused his former business partner, a high-ranking police official in the northern Pavlodar Oblast, of racketeering. Earlier, in July 2018, Supreme Court Chairman Zhakip Assanov chided lower courts for taking the side of corporate raiders and cited two recent cases.

The official rhetoric underlines the strategic role of private enterprise in socioeconomic development, the creation of new jobs, and the diversification of the economy away from the crisis-stricken energy sector. However, through the sovereign wealth fund, Samruk-Kazyna, which accounts for about 60% of Kazakhstan's GDP, the state perpetuates historical imbalances. In November 2018, Deputy Prime Minister Yerbolat Dossayev described the state's share in the economy as "very high" and said that 70% of all business activity in the country was directly or indirectly due to government tenders. He advocated a reduction of state participation to 15% of GDP by 2022. Similar estimates were made in 2015, when the government presented a refurbished privatization program, but they have not

Property rights



Private enterprise



materialized. In December 2018, a round table attended by World Bank experts also stressed the need to accelerate the divestment of state assets, describing the state economy as resistant to progress and reform.

In 2018, Kazakhstan partially privatized state-owned uranium company, Kazatomprom, which obtained a dual listing on the London and Kazakhstan Stock Exchanges. Samruk-Kazyna sold a 15% stake in exchange for \$451 million. While less than a third of the shares was bought by foreign investors through global depositary receipts, a new significant shareholder is the Single Pension of Kazakhstan, which belongs entirely to the state. On the whole, the state sold assets worth \$607 million in 2018 and \$285 million in 2017. In many cases, privatized companies ended up in the hands of local oligarchs such as Nazarbayev's son-in-law Timur Kulibayev, who in 2016 informally acquired the Kamkor group of companies, a major player in railway logistics.

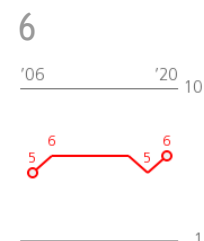
10 | Welfare Regime

Amid the ongoing economic crisis caused by the drop in oil sales revenue in 2014 and subsequent price volatility, the Kazakhstani government has recently embarked upon a comprehensive welfare reform. The bulk of it concerns so-called self-employed individuals, who are either seasonal workers or individual businessmen without formal registration and a stable stream of revenue. Starting in 2019, they will have to make “single comprehensive payments” set at the lowest possible level for rural workers, which will provide access to social benefits and healthcare. Despite certain criticisms, especially with regard to the inability of some people to make even minimal contributions, this reform looks like the only sensible way out of the informal economy. In 2018, the official share of self-employed individuals was 24%, down from 35% in 2008. Their actual number may be higher.

Also beginning in 2019, the government increased the social minimum wage by 50% with immediate effect for some 1.3 million people. In July 2018, it introduced extra social protection for families where there are children with disabilities and beginning in 2020 the duration of unemployment benefits will be six months for all types of unemployed applicants (instead of four). The new tax code, in force since January 2018, temporarily reduced social taxes and insurance contributions payable by employers (from 11% to 9.5% and from 5% to 3.5%, respectively), until 2025. The notional defined benefit component (equal to 5% of pay) of the new pension system dated 2015 has been postponed from 2018 to 2020. Health insurance contributions by employers have been postponed by a year, from 2019.

At the president's instruction, the government enacted in 2018 a subsidized mortgage program called 7-20-25 (nominal annual interest rate capped at 7%, 20% down payment and 25-year duration). However, many Kazakhstanis still find mortgages inaccessible due to insufficient incomes and other unpaid debt. In 2018, the

Social safety nets



government announced a personal bankruptcy reform aimed at allowing debtors to restructure their liabilities, but it was quickly scrapped because of the potential negative impact on the demand for subsidized home loans.

According to the World Economic Forum's 2018 Global Gender Gap report, Kazakhstan ranks 60 out of 149 countries. It is 32nd in terms of economic participation and opportunity, 30th in education attainment, 42nd in health and survival and only 94th in political empowerment. The latter is a sore spot as only 27.1% of members of parliament and a meager 5.6% of ministers are women. Men account for 62.9% of "legislators, senior officials and managers," whereas women represent the bulk (62.7%) of "professional and technical workers." Women's estimated earned income is only 59.4% of men's, despite the fact that women have higher rates of enrollment of primary, secondary and especially tertiary education. The labor force participation rate for females is considerably higher, at 82.8%, compared with men's 73.7%. Kazakhstan's official unemployment data are historically biased, but even they show a disparity between men and women, to the latter's disadvantage (5.5% vs 4.4%).

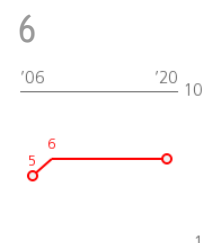
Kazakhstan is the only country in Central Asia (except Turkmenistan, which is unrated) that made progress from 2016 to 2017 in the UNDP's Gender Inequality Index (GII). It has made significant progress since 2011 and especially since 1995. In 2017, it ranked 43rd in the GII right after Serbia, the US and Latvia. The closest another Central Asian country came to Kazakhstan's ranking was Uzbekistan (59th). The literacy rate for both men and women in Kazakhstan remains upwards of 99.7%.

Inequality based on race, religion and political convictions is immaterial. Ethnic inequality is primarily driven by the progressive tightening of requirements regarding access to the public service sector, more specifically the linguistic requirement. Kazakh is the only official language, while Russia has the constitutional status of "the language of interethnic communication." This does not confer upon it any particular prerogatives. For instance, eligibility for the state-sponsored scholarship program Bolashak is restricted to fluent Kazakh speakers, most of whom are of pure Kazakh descent.

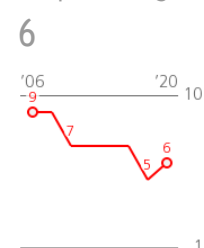
11 | Economic Performance

Kazakhstan's economic growth was very negatively affected by the 2014 oil slump, owing to the country's significant dependence on the international price of oil, and the effects of this slowdown are still being felt today. In 2017 and 2018, there was a relative stabilization of public finances as the price of oil grew higher, but renewed growth is heavily contingent on positive price dynamics in the highly volatile energy market. GDP per capita growth was finally back in positive territory in 2017 (+2.6%) after two years of contraction. Meanwhile, GDP per capita, PPP has been steadily increasing amid the general slowdown.

Equal opportunity



Output strength



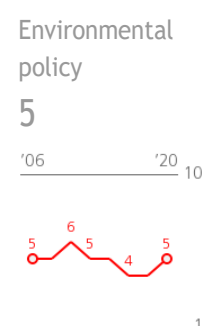
The uncertainty surrounding the future situation in the commodities markets reflects the disparity in official estimates of GDP growth in 2019. The Kazakhstan central bank expects real GDP growth at 2.7%, compared with the National Economy Ministry's forecast of 3.8%. Inflation is expected to stay within the 4% to 6% target band in 2019 and to decrease progressively to 3% to 4% in 2020 to 2023. This forecast is also very dependent on how much dollar revenue Kazakhstan will be able to obtain through the sale of hydrocarbons abroad. World Bank data show that inflation was down from over 14% in 2016 to 7.4% in 2017, as the price of oil stabilized and the central bank's inflation targeting policy started bearing first fruit.

The budget deficit will definitely persist into the near future: the government estimates it at 1.5% of GDP in 2018 and expects 1.4% in 2020 and 1.3% in 2021. The non-oil deficit should decrease to 5.3% in 2021, although the implementation of this scenario is largely beyond the government's control, barring considerable headway in tax collection efficiency and an uptick in non-oil-driven economic growth. Public debt will likely stay close to 20% and will not pose a significant macroeconomic risk. Unemployment is traditionally pegged in official statistics to 5% to 6%, with the reliability of these data consistently put into question. In 2018, the higher price of oil allowed Kazakhstan to reduce its current account deficit by a considerable margin: in January to September, it represented \$500 million compared with \$4.6 billion the year before. The trade balance improved by 66.2% and reached \$20.1 billion, thanks to a 45.6% increase in oil and gas condensate exports.

12 | Sustainability

Kazakhstan has made more efficient environmental protection one of the top priorities for the next few years. In 2017, the government allocated KZT 63.3 billion for this purpose, up by 13% from 2016. Expenses on the "stabilization and enhancement of the environment" increased by a factor of 90 to KZT 50 billion, as the authorities ramped up their efforts to unlock the tourist potential of the Shchuchinsk-Burabay area in northern Kazakhstan. Renewable energy (RE) is a critical element in the overall strategy of diversifying energy sources and reducing emissions. In February 2018, the National Economy Ministry announced total planned investments of some KZT 1 trillion into RE with a view to commissioning 52 new facilities, in addition to the 55 existing ones, by 2021. The EBRD has pledged up to EUR 200 million worth of investments into priority RE development projects.

In the middle of 2017, Kazakhstan held an international exhibition (EXPO 2017) centered on the theme of energy. The government expects that the country will obtain close to half of its total energy consumption from RE by 2050. This is an ambitious goal, as the share of RE in the energy mix does not presently exceed 1-1.5%. Intermediate goals are 3% in 2020 and 10% in 2030 (for the sake of comparison, the EU plans to increase the share of RE in its own energy consumption to 27% by 2030). The government is officially supporting RE investments through a special law. In



2017, a new system of subsidies was introduced. It replaced the pre-2017 framework in which investors into RE projects obtained fixed tariffs for the sale and distribution of electricity for a period of 15 years. In early 2018, the government announced the launch of a CO2 emissions trading platform, but its implementation has yet to take place.

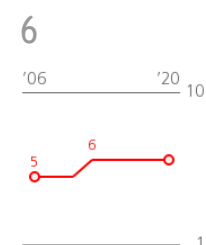
Overall, given Kazakhstan's heavy reliance on polluting industries for sustaining economic growth, the environmental policies and regulations that are meant to reduce CO2 emissions, among other goals, are effectively subordinated to pro-growth objectives.

Kazakhstan spends about 3% of GDP on public education while R&D expenditures lag considerably behind and currently do not exceed 0.2% of GDP. Thanks to a solid system of secondary and higher education in Soviet times, the country maintains high literacy rates and has compulsory schooling. In 1993, President Nazarbayev established the Bolashak scholarship program to educate youths abroad. The scope of the program was expanded in 2005 and today focuses on postgraduate education in technical fields in line with domestic demand for trained specialists. Astana-based Nazarbayev University is the national center of excellence in higher education, due in large part to its western-style curriculum and high-caliber staff from the best western universities.

Fundamental science and research remain underfunded. World Bank data show that R&D spending by the public and private sectors does not exceed 0.2% of GDP, amid ample access to cheap government finance and high levels of economic concentration in key industries. The allocation of scientific grants declined between 2015 and 2018 by 43% from KZT 16.7 billion to KZT 9.5 billion and the number of research projects dropped during the same timeframe. In December 2018, Deputy Education Minister Askhat Aimagambetov announced changes to the funding of scientific work consisting in the upfront allocation of half a budget at the start of each calendar year, to be followed by 40% and 10% allocations. He did not specify any changes to the amount of allocable funds. In February 2018, President Nazarbayev approved the Strategic Development Plan until 2025, which aims by that time to increase R&D spending to 1% of GDP, on a par with Russia. The goal does not seem to be realistic, given that its implementation is predicated on an increase of private funding from 7% to 50%.

In 2015, Kazakhstan was ranked 39th in the UN Education Index. In the former Soviet Union, only the three Baltic states, Belarus and Russia had better rankings. Kazakhstan's position significantly improved compared with 1990, from 0.606 to 0.805. In terms of higher education quality, Kazakhstan ranks 56 out of 137 in the World Bank's 2017 to 2018 Global Competitiveness Index. This is the 6th best result in the former Soviet Union (after the Baltics, Russia and Ukraine) and the best one in Central Asia. The trend is moderately upward sloping.

Education policy /
R&D



Governance

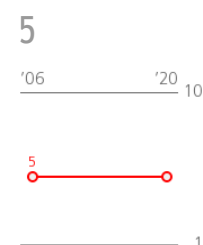
I. Level of Difficulty

Kazakhstan has a mixed post-Soviet legacy of: resource-intensive economic output, a well-educated workforce and well-developed secondary and higher education and healthcare systems, on the positive side, and a landlocked situation, insufficient transport infrastructure for such a vast territory, and weak institutions, on the negative side. The Kazakhstani economy grew at an annualized rate of 23.9% between 2000 and 2009, with its GDP expanding from \$16.9 billion at the end of 1999 to \$133.4 at the end of 2008 (both in current USD). In comparison, its population only increased by 5.2% during the same period. However, the abundance of natural resources, which drove growth almost exclusively throughout the 2000s during the so-called commodities “superboom,” has become a powerful curse as predicted by the Dutch disease theory. The energy sector has historically attracted the bulk of all FDI, resulting in structural underinvestment and uncompetitive pricing patterns in non-extractive industries.

Kazakhstan’s landlocked position means it depends on the good will of its neighbors to trade with the rest of the world. Oil exports through Russian territory via the Caspian Pipeline Consortium are an illustration of this. On the whole, land-based trade is constrained by long distances, high tariffs, and a lack of infrastructure. The infrastructure developments of recent years still cannot compensate for the country’s unfavorable geographic location and ninth-largest area in the world with an insignificant population.

Weak institutions are partly a result of Kazakhstan’s prior lack of democratic experience as the country directly transitioned from feudalism to tsarism under the Romanovs and later to a command economy and centralized totalitarian governance in Soviet times. However, it is also true that the country’s ruling regime and political elites have not deliberately invested in a democratic transition, so that Kazakhstan lags behind its southern neighbor, Kyrgyzstan, which has succeeded in building democratic institutions however unstable and prone to manipulation.

Structural
constraints



Kazakhstani civil society is fundamentally weak and is relegated to the margins of political and socioeconomic life where it is less likely to interfere with the way state policies are decided and implemented by the ruling regime. There is no ingrained culture of civic activism and many registered NGOs and public associations have no access to stable funding, lack technical skills and human resources, and are more generally not recognized for their worth. The state of dependence on state grants creates a vicious circle in which the recipients of state funding find it hard or impossible to criticize the government, whether within the areas of their direct responsibility or on secondary issues.

Access to international funding has been curtailed in recent years, as Kazakhstan became an upper-middle-income economy, according to World Bank and IMF data. Foreign donors increasingly insist on greater participation by the local authorities in the development of civil society. In October 2018, the Ministry of Public Development hosted a seminar attended by over 300 participants from across the country. Its goal was to discuss the draft Civil Society Development Plan until 2025. The previous plan by the same name was adopted in 2006 and expired in 2011; there has been no dedicated state program since then. Speaking at the 8th Civil Society Forum in November 2018, President Nazarbayev underlined the importance of NGOs and called on the government to finalize the new plan as soon as possible.

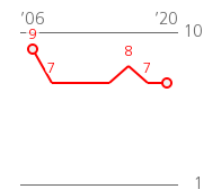
Following the tragic death of Kazakhstan's only Olympic champion in figure skating, Denis Ten, in July 2018 (he was murdered by thieves), many civil society activists called for the resignation of Interior Minister Kalmukhanbet Kassymov, the same official who presided over the crackdown on protests in Zhanaozen in 2011. The minister has kept his job but the authorities have initiated police reform. Although the initial idea was to replicate the successful Georgian experience during the presidency of Mikhail Saakashvili, approved changes will consist in redundancies, better training, more accessible housing for police officers and their families, as well as more face-to-face work with ordinary citizens. There are no specific plans to fight corruption, unlike what was done in Georgia.

The authorities maintain a tight grip on protest activity and use all sorts of excuses to ban mass rallies, even if it is understood they will be held peacefully and subject to a prior authorization. In 2017, a two-week strike occurred in western Kazakhstan where up to 700 oil workers protested against the prohibition of their independent trade union. The strike ended with the arrests of its leaders. In July 2017, another 700 people took part in a strike at one of the mines in central Kazakhstan, protesting harsh working conditions and inadequate pay. Their numbers soon dwindled and the company reacted by suing the workers after talks stalled. More significant protest action occurred the following year.

In two episodes, in May and then in June 2018, the authorities rounded up the participants of peaceful rallies in Almaty. They claimed they had been instigated by former banker Mukhtar Ablyazov, who has been living in exile in Europe since 2009.

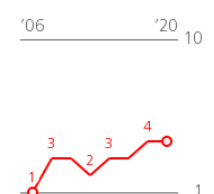
Civil society traditions

7



Conflict intensity

4



He was freed from custody in a French prison in late 2015, following the Nazarbayev administration's failure to extradite him to Russia. Ablyazov's Democratic Choice of Kazakhstan (DVK) organization, which he had co-founded and chaired in the 2000s, before resurrecting it from exile, was officially banned as extremist in March 2018. All in all, protest activity largely lies in the social realm and only occasionally reflects otherwise tenuous political cleavages.

II. Governance Performance

14 | Steering Capability

The Kazakhstani executive regularly sets long-term strategic goals. This most often happens in response to President Nazarbayev's personal initiatives. These include the Kazakhstan 2050 strategy of 2012, the 2015 announcement of 100 practical steps to implement key five institutional reforms to enable Kazakhstan to become one of the world's 30 most developed nations, or the Strategic Development Plan until 2025, which was adopted in February 2018. Goal-setting is rarely done on a systematic basis, with many programs interrupted and replaced by new ones before the end of their term and in the presence of considerable overlaps. The post-2014 period has been particularly difficult for the government against the backdrop of deteriorating economic fundamentals and the need for increased micromanagement.

Short-term considerations almost always prevail over long-term ones, often in direct contradiction to previous official announcements. For instance, in April 2018, Nursultan Nazarbayev publicly pledged that the government would no longer bail out failing financial institutions after having spent over \$10 billion in direct and indirect aid to the sector. Yet, in August 2018, the National Bank of Kazakhstan first extended an emergency loan to Tsesnabank, Kazakhstan's third-largest bank in assets and second-largest according to its loan portfolio, and then in September agreed to buy its toxic assets. In January 2019, a further aid package, totaling \$3.4 billion, was approved between the wholly private bank and the state. Banking sector reform is long overdue, but the executive lacks the political will to clean up the sector. Most banks are somehow related to the presidential family, high-ranking government officials or oligarchs. Meanwhile, the NBK lacks the administrative weight to liquidate bad banks before in a timely manner and is constantly torn between micromanaging the exchange rate of the tenge, containing inflation and ensuring conditions for sustained growth.

The government's ability to prioritize and properly organize its policy measures is structurally inadequate. Regulatory impact assessments are rarely conducted and strategic planning is almost always short-term and uncoordinated among various

Question
Score

Prioritization

5

'06 '20 10

4 5

1

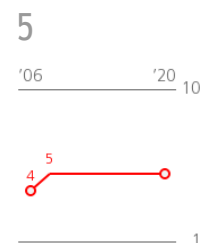
ministries. Civil society and unaffiliated experts are increasingly involved in prior consultations, yet there is no evidence to suggest that their opinions are consistently taken into account.

Similarly to policy formulation, policy implementation is often inconsistent with the initial goals set and is ultimately subordinate to short-term thinking. The lack of political will to initiate drastic reforms that would more likely than not upend the status quo and lay the foundation for yet-to-be-seen political liberalization is at the origin of Kazakhstan's many woes. Economic diversification is a good example. Kazakhstan has sought to diversify its economy away from the oil and gas sector for over a decade now, with little to show as of 2019. In fact, given the turbulent crisis and post-crisis period of 2008 to 2010 and the subsequent economic turmoil of 2014 to 2016, the state has grown increasingly present in the economy, instead of retreating from it. In its latest country economic memorandum dated November 2018, the World Bank urged Kazakhstan to implement radical reforms by creating a level playing field for all firms and downsizing state participation in the creation of GDP. So-called parastatal entities, in which the state maintains a sizeable ownership percentage but which are supposed to operate according market rules, represent a strong drag on the already-weak reform current. The redistribution of financial flows among state and parastatal entities is a major element of domestic power struggles and naturally tends towards concentration and consolidation within a small circle of powerbrokers.

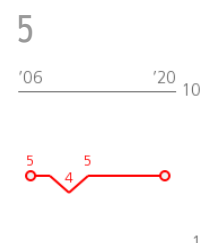
Policy learning is haphazard and most of the time the result of a conjuncture rather than an outcome produced by an efficient, operational and constantly evolving institutional framework. As an illustration, after the 2011 protests in Zhanaozen, which (according to official statistics) led to the deaths of 16 people and left more than 100 wounded, the executive instituted a number of tactical changes without attempting to address the root causes of social strife. The Ministry of Regional Development was a short-lived experience and the burden of managing labor conflicts at an early stage currently lies entirely with regional governments. The same level of flexibility was shown by the government in the wake of the 2016 land protests. The authorities initially planned to enshrine specific elements of the failed land code amendments in the constitution during the 2017 constitutional review, but ultimately abandoned the idea before tensions had time to escalate.

The banking sector reform is another good case in point. The very costly bailouts of 2008 to 2009, of BTA Bank, Kazkommertsbank, Alliance Bank and Temir Bank in particular, were supposed to be a good lesson learned from real-life experience. Ten years later, the authorities are still struggling to rein in the banks' reckless lending practices and to uproot the most egregious corporate governance flaws. The government's innovation has been limited to strictly enforcing formal rules on capital adequacy and loan loss provisions in line with international best practices (e.g., Basel

Implementation



Policy learning



III), whereas risk management continues to be highly deficient and conflicts of interest abound.

Still, some successes also must be noted, such as the rollout and enhancement of e-government and wider recourse to electronic tendering for state contracts. On structural issues needing corrective measures on a priority basis, long-term conjuncture-insensitive innovation has been almost entirely supplanted by short-term opportunistic decision-making.

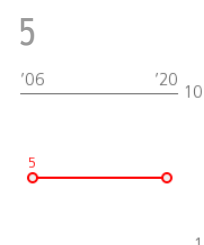
15 | Resource Efficiency

Appointments to and dismissals from key government positions are the prerogative of the president. Although the 2017 constitutional reform endows parliament with enlarged authority, for instance, to restrict the president’s choice of prime minister to the list of candidates fielded by the ruling party, these changes have little bearing on the political situation in the country. Parliament is still in the hands of a single party of which Nursultan Nazarbayev is chairman, even after his resignation as president in 2019. The appointment of most ministers, except for the ministers of foreign affairs, defense and interior, is supposed to be a shared responsibility of the president and premier, with a mandatory consultation with parliament. In practice, the prime minister, the entire cabinet, Supreme Court justices, regional and major city governors and many other officials are appointed by the head of state at his sole discretion.

The context is different for the majority of civil servants, whose recruitment and employment are governed by the 2015 Law on Civil Service. Back in 2012, all public servants were divided into several classes with their career advancement increasingly based on performance. In spite of these reforms based on OECD standards, public administration is still viewed as clunky and inefficient. In its 2018 Global Competitiveness Index, the World Economic Forum identified “inefficient government bureaucracy” as the sixth most problematic factor for doing business in Kazakhstan, while corruption was rated second.

In terms of budget discipline, two factors are worth pointing out. Kazakhstan’s high dependence on unpredictable external conditions makes it extremely difficult to ensure sound budget planning and execution, short of carrying out time-consuming structural improvements. With the changing prices of oil, growth forecasts are regularly revised, sometimes several times a year, as well as inflation, current account deficit/surplus and budget deficit expectations. The Accounts Committee is in charge of supervising budget execution. In November 2018, its chairwoman, Natalya Godunova, said that some \$856 million worth of irregularities had been uncovered in January-September. Similar statistics were published in prior years, reflecting a quasi-constant in officially acknowledged budget mismanagement. Transparency

Efficient use of assets



Kazakhstan recently concluded that the Accounts Committee itself had become much less transparent since 2005, based on its reduced disclosures.

Instead of being a collective function, policy coordination is almost single-handedly performed by the presidential administration, which exercises effective oversight over governmental decisions and extends its controlling function to regional governments. Relations between the government and parliament may appear on surface to be competitive, as cabinet ministers frequently have to justify themselves before members of parliament. Yet, final decisions are almost always driven by the presidential administration and meet little resistance from either members of parliament or from the cabinet members concerned. The last word is always with the president. It is therefore unsurprising that whenever a contentious issue arises that may adversely impact people's livelihoods, direct appeals are made to the president. The incumbent has the authority to scrap draft laws by either vetoing them or making them disappear from parliamentary debates, to revoke or amend existing measures and to suggest new ones that are then quickly approved through formal democratic processes.

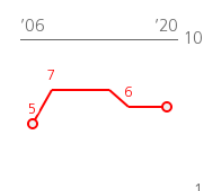
As a result, policy coordination takes place in accordance with a top-down pattern, with no space left for civil society participation, institutionalized lobbying (which is nonexistent) or interministerial compromise seeking. This occurs in a context of low competition regarding policies as opposed to politics (e.g., access to the president; access to financial resources, often at the expense of sound policy-making, etc.).

Anti-corruption in Kazakhstan is the prerogative of the National Anti-Corruption Bureau (NAB). This is the successor of the Agency for Civil Service and the Fight Against Corruption, which in 2014 replaced the Agency for Fighting Economic and Corruption Crimes. In 2015, the agency was renamed NAB and became a functional part of the New Ministry of Civil Service. In 2016, this ministry was abolished and replaced by the Agency for Civil Service and the Fight Against Corruption, the organizational structure of which includes the NAB. Both the chair of the agency and the head of NAB are directly appointed by the president. The NAB is in charge of implementing the National Anti-Corruption Strategy for 2015 to 2025, which was approved by President Nazarbayev in December 2014. In November 2015, the president also signed into law a new anti-corruption bill that superseded the 1998 law.

The NAB is endowed with both investigative and preventive functions and its personnel are subject to the same principles of recruitment and ethics as any other civil servants. In 2017, the NAB estimated that Kazakhstan lost annually about \$3.7 billion to bribery. Since 2017, the number of arrests of high-profile government officials has significantly increased. For instance, former National Economy Minister Kuandyk Bishimbayev was detained in January 2017 and sentenced to 10 years in prison in March 2018 for large-scale bribery and embezzlement. In 2018, three vice ministers of energy, a vice minister of foreign affairs and one ambassador were detained on corruption charges. According to the NAB, 1,726 anti-corruption cases

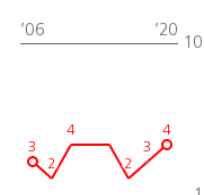
Policy coordination

6



Anti-corruption policy

4



were opened in January to October 2018 and 1,126 public servants became the targets of criminal probes. The Kazakhstani authorities have also intensified efforts to publicize their anti-corruption policies using a combination of social media, on-site visits and public discussions.

Another tool actively used by Kazakhstan is public councils, which operate in state bodies and currently comprise some 4,000 members. Since 2015, over 220 such organizations have been created. According to official statistics, they have conducted 200 monitoring missions, examined 8,000 draft laws and 213 reports by regional, district and city governors. This is in addition to the wide deployment of e-government, through which the authorities expect to combat corruption by eliminating direct physical interaction between citizens and public officials.

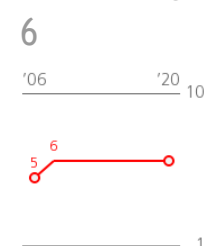
Despite all these measures and some notable arrests, corruption continues to be perceived as a systemic problem. The World Economic Forum's Global Competitiveness Report 2018 identifies corruption as the second most serious challenge for doing business in Kazakhstan, at 13.8 out of 16 (highest risk). In early 2018, two scholars at Nazarbayev University's Higher School of Public Policy noted in a research paper that, while e-government has helped, as intended, to reduce petty competition, it has proved powerless in the face of grand, including political, corruption.

In September 2016, the director of the Khorgos logistics center was arrested in flagrante delicto while receiving a \$1 million bribe. However, all charges against him and his associate were dropped in April 2017. As regards embezzlement on grand scale, the fate of four Kazakhstani banks that lost their licenses in 2017 to 2018 is indicative of inefficient enforcement. While both the central bank and even President Nazarbayev have publicly stated that previous shareholders engaged in illegal practices by lending depositors' savings to affiliated or outright insolvent companies, none of them has been prosecuted. It is well known that all of these banks formerly belonged or were closely linked to local oligarchs, some of whom are themselves connected to members of the presidential family.

16 | Consensus-Building

Little has changed with regard to the level of acceptance of both democracy and the market economy by the political establishment and ruling elite. Back in 1991, Nursultan Nazarbayev proclaimed the "first economics, then politics" principle, which has been the guiding tenet of his presidency ever since. While a general consensus continues to date, there is no clear understanding among political actors regarding what ultimate shape the Kazakhstani-style democracy and market economy should take. Nazarbayev has repeatedly stated that Kazakhstan will follow its own path of democratization, taking into account its historical experience, the mentality of its people and the hard-taught lessons of instability in numerous democratic

Consensus on goals



countries without a strong leader. It is clear that once the Nazarbayev era ends, the parameters of Kazakhstan's march towards democracy will have to be redefined.

Similarly, while the market economy is unanimously accepted as a fundamental virtue (hence the relative unpopularity of communist ideas considered an element of the past), there is no consensus whatsoever on the long-term strategic steps to be taken to arrive at this ideal.

Kazakhstan's political establishment can hardly be divided into reformers and defenders of the status quo, given the authoritarian nature of the regime, which has become even more repressive in the past few years. Kazakhstan's peculiarity is that it has experienced since independence a climate of political illiberalism, intentionally left unreformed and largely closed to public debate by the Nazarbayev administration. Therefore, no current political force that is formally or tacitly allowed by the regime to enjoy the benefits of being part of the establishment has democratization, construed as political liberalization, on its agenda.

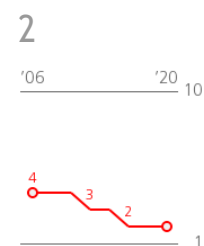
The situation is inherently uncertain because a change of leadership could open a window of opportunity for genuine democratization, as it has so often happened in former autocracies around the world. Nazarbayev's half-hearted resignation in March 2019, however, indicates that he is intent on preserving the integrity of his regime and acting as a last resort from behind the scenes.

Speaking of purely economic reforms, it is obvious that the more liberal-minded elements of the establishment are sidelined. The 2013 pension reform, which merged all private pension funds into one managed by the state, led to the departure of National Bank Governor Grigory Marchenko, who left politics for good. The truly reformist class of young officials was broken apart in the 2000s, after the failure of Mukhtar Ablyazov, then a government minister, and some of his associates to challenge Nazarbayev. Many of those individuals, such as former NBK Governor Kairat Kelimbetov, were subsequently coopted and turned their backs on their earlier liberal views.

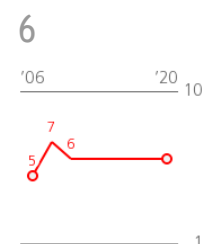
Unlike many other post-Soviet countries, Kazakhstan has been spared protracted instability and has managed to ensure the widespread acceptance of Nazarbayev's "first the economy, then politics" principle of 1991 at the cost of continuous maneuvering, consistent state propaganda and adroit image-building. The period of rapid growth in the 2000s benefited large chunks of the population, which still remembered vividly the poverty of perestroika and the first post-independence decade. This result was mostly achieved through the application of trickle-down economics, which simultaneously saw the emergence of a new oligarchic class clustered around the presidential family.

Nazarbayev has been efficient at mitigating social conflict by means of generous handouts, inflation-indexed social benefits, and the avoidance of inter-elite instability

Anti-democratic actors



Cleavage / conflict management



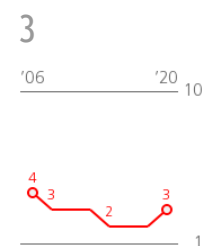
that could have translated into turmoil at lower echelons. The 2011 Zhanaozen protests are a sore spot in this otherwise successful track record, but the incumbent and the political system he has built have preserved their integrity. In parallel, the president has been successful at balancing various clans (including the key three ones: southern, western and northern/central) against one another by accommodating their particularistic economic interests.

Civil society is a very marginal actor and does not actively participate in the formulation or execution of state policies, even in those areas where it has the most to say. The government is keen to emphasize the direct involvement of civil society members in the discussion of new legislative initiatives, state programs or long-term plans, strategies and concepts. During the latest constitutional reform of 2017, the commission in charge of general coordination, while being chaired by the head of the presidential administration, included independent members of the legal profession, scholars and public activists. The same is true for other state commissions or committees organized for a specific purpose. However, these entities or individuals do not exercise any influence over the outcome of deliberations they are called to participate in; nor do they own their results.

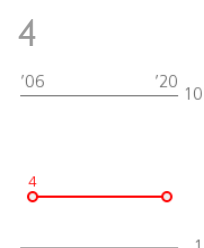
In April 2017, prominent Kazakhstani political scientist Dossym Satpayev withdrew from the Public Council under the Single Pension Fund (the one created as a result of the controversial pension reform of 2013). He was followed by liberal economist Rakhim Oshakbayev and the president of a non-governmental foundation called Financial Freedom, Bota Zhumanov. At the time, Satpayev had only chaired the council for two months. He told the media that his decision was due to the reluctance of the pension fund management to let the Public Council raise controversial issues, pinpoint problems and identify underlying deficiencies. He harshly criticized the fund for rejecting his proposal to create a working group, by which the most topical problems would be discussed in an open setting with a view to elaborating a collective roadmap. His example is illustrative of the broader situation in Kazakhstan.

There is no past or ongoing process of reconciliation with the past. Kazakhstan's pre-independence history is for the most part exempt from explicit judgmental references to past injustices, even though such injustices are mentioned as part of the wider historical context. They include the mass famine of the 1930s during collectivization, which was brutally enforced by the Stalinist regime not only in Kazakhstan, but also in Russia itself, Ukraine and other Soviet republics. Unlike Ukraine, which chose to commemorate the famine known as Holodomor, thus creating tensions with neighboring Russia, Kazakhstan took up a non-accusatory approach. The tsarist and Soviet periods are broadly presented in current Kazakhstani historiography as those of colonization; however, no explicit discourse of victimization exists.

Civil society participation



Reconciliation



17 | International Cooperation

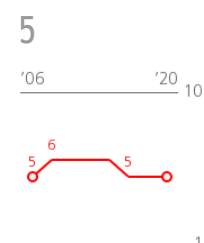
Since gaining independence from the Soviet Union in 1991, Kazakhstan has actively relied on the international community for the provision of economic and development assistance, first, as means of combating the post-independence crisis and then to kickstart growth, modernize the economy and smooth out social disparities. OECD Development Assistance Committee data show that net development assistance inflows increased from \$15.4 million (here and afterwards in current USD) in 1993 to a peak of \$338.1 million in 2008 before dropping off every year since then to less than \$60 million in 2017. While Kazakhstan became an upper middle-income country (as per the World Bank classification) in 2006, the reduction in foreign aid began to manifest itself with a lag of three years or so. It is now assumed that Kazakhstan should spend more of its own money on domestic development goals. Having spent some \$450 million on humanitarian projects in third countries since 1997, Kazakhstan launched in 2017 its own Official Development Assistance program in April 2017. A special law and a strategic plan through 2025 were adopted.

The efficiency of use of international development assistance is hard to quantify in a long-term perspective. The country's failure to implement structural reforms that have been recommended for years by international organizations, such as economic diversification, political liberalization and market-based privatization, indicates that most of the funds were used to satisfy short- or medium-term policy goals. On the one hand, international assistance has certainly helped Kazakhstan to modernize more quickly and ramp up its GDP per capita to the upper middle-income level within a decade and a half. On the other, its current vulnerability to external shocks is evidence of a systemic lack of strategic focus.

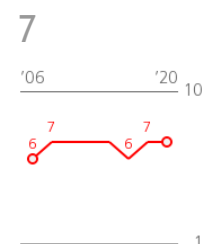
Kazakhstan is traditionally presented as a role model in its regional neighborhood and within the former Soviet Union in terms of its successful cooperation with the international community. The country enjoys strong credibility in the global arena and has succeeded in boosting its prestige and visibility through hosting such landmark events as the OSCE summit in 2010, the 2011 Winter Asian Games, Expo 2017 Astana, the rotating chairmanship of the UN Security Council in January 2018, the Syria peace process in Astana (ongoing since 2017) and various regional integration initiatives.

In 1992, Nazarbayev proposed to the UN General Assembly convening the first Conference on Interaction and Confidence-Building Measures in Asia. He has been deeply and personally involved in trade and security integration in the CIS since the early 2000s. His leadership resulted in the creation of the Shanghai Cooperation Organization and the Customs Union, which in 2014 became the Eurasian Economic Union.

Effective use of support



Credibility



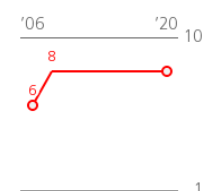
There are also some credibility issues. Kazakhstan is regularly criticized by international NGOs for its authoritarian regime, the impaired rule of law and restrictions on the freedoms of expression and assembly. Several legal cases have been brought before the UN Human Rights Council, including those of former Kazatomprom CEO Mukhtar Dzhakishev (sentenced to 14 years in prison beginning in May 2009) and former conscript Vladislav Chelakh (sentenced to perpetuity in prison in 2012). Kazakhstan has repeatedly refused to retry their cases, despite criticisms of irregularities and bias during their trials. The 2011 Zhanaozen protests and the government's ham-fisted response drew international condemnation, including a harsh resolution by the European Parliament. However, Kazakhstan's legitimacy in the eyes of international partners has remained strong.

As far as regional cooperation is concerned, Kazakhstan has long advocated for closer diplomatic, trade, cultural, scientific and security ties among Central Asian countries. Multi-vector foreign policy is a hallmark of Kazakhstan's relations with its Russian and Chinese neighbors, as well as with remote partners in Europe, North America, the Near and Middle East and Southeast Asia. The Eurasian Economic Union, which Kazakhstan, Russia and Belarus cofounded in 2014, currently also includes Kyrgyzstan. In March 2018, Astana hosted a regional summit limited to the Central Asian heads of state (in keeping with its tradition of regional isolation, Turkmenistan delegated the speaker of parliament in lieu of the president). Such a summit was made possible by the good working relationship between Nazarbayev and Uzbekistani President Islam Karimov's successor Shavkat Mirziyoyev. The latter has also established direct channels of communication with his counterparts in Kyrgyzstan and Tajikistan after long years of border conflicts and trade blockades at Karimov's initiative.

In fall 2017, Kazakhstan toughened customs controls at the border with Kyrgyzstan, following then Kyrgyzstani President Almazbek Atambayev's accusations of interference in the presidential election campaign that he directly leveled against Nazarbayev. The situation remained tense for several months but bilateral relations subsequently normalized, thanks in part to Nazarbayev's overture to the new president of Kyrgyzstan, which were eagerly welcomed and reciprocated.

Regional
cooperation

8



Strategic Outlook

The agenda for the next several years will be dominated by the long-expected succession of Nursultan Nazarbayev, which started with his resignation in March 2019. In June 2018, Senate Chairman Kassym-Jomart Tokayev and not only Nazarbayev's designated but sworn-in successor, who is considered a member of Nazarbayev's inner circle, shared his personal opinion about the likelihood of the incumbent's another run for president in 2020 when his current five-year term will expire. He said that Nazarbayev was a rational person and would likely not stand for reelection. His words were interpreted as a trial balloon to test the waters of public opinion. In hindsight, it appears that Nazarbayev's resignation was carefully prepared for most of 2018. It entails him retaining important levers of power, such as lifetime chairmanship of the refurbished Security Council and of the leading party, Nur Otan. For the time being, it also entails that his daughters will not inherit power, as indicated in a rare interview with Bloomberg in November 2016.

Kazakhstan's failure to build inherently stable and long-lasting democratic institutions is part of the reason there had been so much uncertainty around the presidential succession. It is widely understood that the 2017 constitutional reform was aimed at creating conditions favorable to the emergence of a semi-presidential authority after the end of the Nazarbayev era. At the same time, in summer 2018 the president signed into law a new bill establishing him as the lifetime chairman of the Security Council, a heretofore obscure consultative body, which is now referred to as a principal constitutional organ. With this status in hand plus the chairmanship of the leading party, Nazarbayev can retain considerable control over state affairs, namely by obliging the president to consult with him on appointments to ministerial and other strategic positions.

While its foreign policy will continue to define Kazakhstan's place and role in its neighborhood, in particular as regards relations with Russia and China, the domestic economic situation will be of much higher importance, right after political stability. Kazakhstan has been trying since 2014 to offset the negative effects of the economic slowdown induced by a sharp fall in the price of oil, with mixed results. The banking sector is in deeper crisis than in the aftermath of the 2008-2009 financial meltdown; economic diversification is stalling; low unemployment figures mask widespread job precariousness outside of Astana and Almaty; budget planning is still inefficient and based on short-term policy goals. International organizations unanimously underline the need to restore confidence in the government's ability to fight corruption, boost labor productivity and enhance domestic competition. The implementation of structural socioeconomic reforms is key to Kazakhstan's future capacity for reaching long-term goals, such as becoming one of the world's 30 most developed nations.