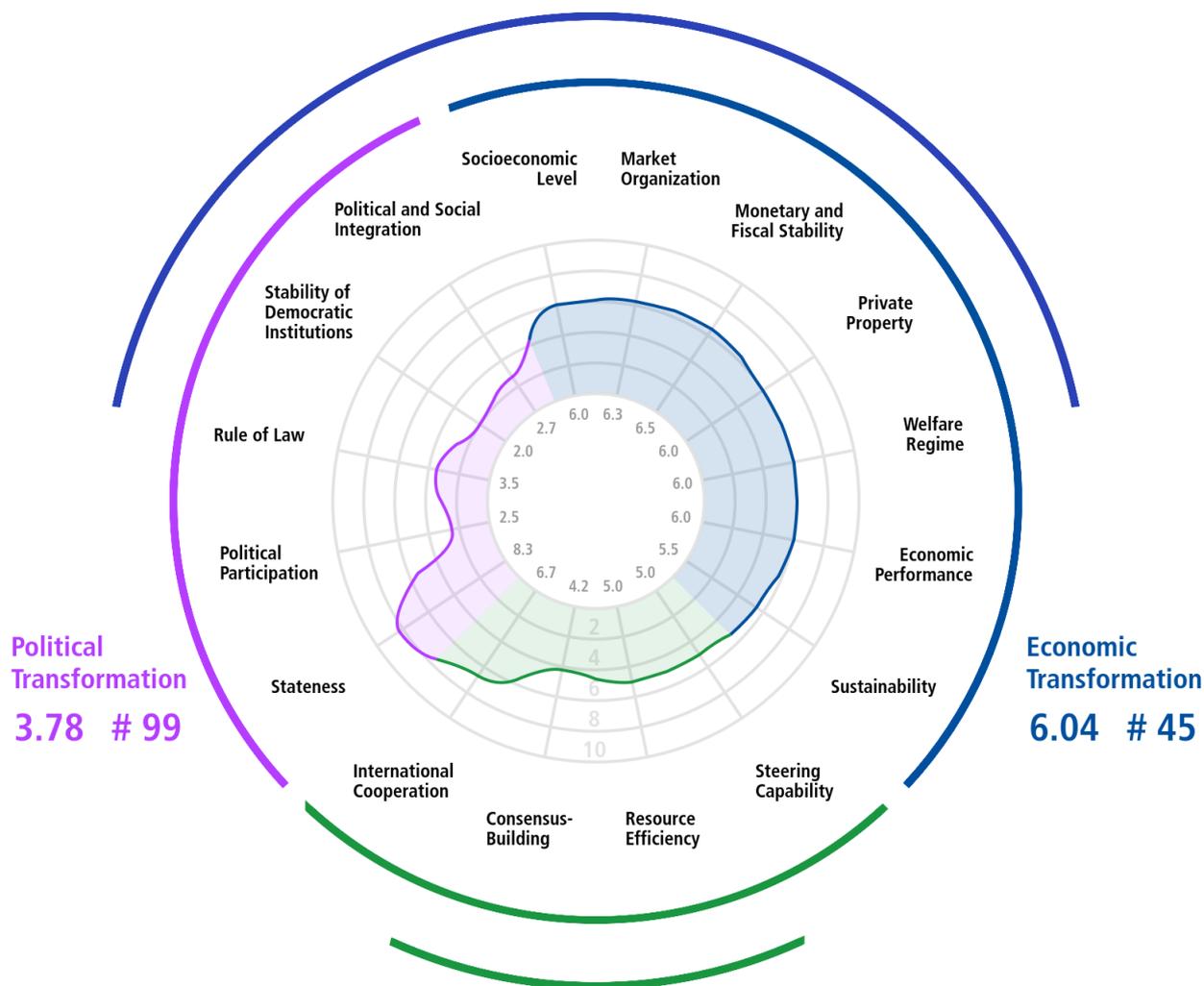


Kazakhstan

Status Index

4.91 # 79

on 1-10 scale out of 137



Political Transformation
3.78 # 99

Economic Transformation
6.04 # 45

Governance Index

4.56 # 79

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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>.

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Key Indicators

Population	M	18.8	HDI	0.825	GDP p.c., PPP \$	26729
Pop. growth ¹	% p.a.	1.3	HDI rank of 189	51	Gini Index	27.8
Life expectancy	years	73.2	UN Education Index	0.830	Poverty ³	% 0.2
Urban population	%	57.7	Gender inequality ²	0.190	Aid per capita \$	2.9

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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 2019-2021 reporting period was marked by the long-awaited transition of presidential power from Nursultan Nazarbayev to his anointed successor Kassym-Jomart Tokayev. Nazarbayev continues to wield power by continuing to act as chair of the ruling Nur Otan Party, which renewed its majority in the Mazhilis in January 2021, as chair-for-life of the National Security Council, a constitutional body that has effective veto power over key policy decisions, as leader of the nation (since 2010), and as an honorary senator.

The reform process initiated by Tokayev has so far consisted in mostly symbolic or cosmetic improvements. A National Council of Public Trust was established in mid-2019 to involve civil society more closely in policymaking. The government triumphantly claims that, through the council, civil society has been provided the opportunity to contribute to at least 10 draft laws. Still, the degree of its involvement in real decision-making remains very limited. Moreover, the council has since been deserted by several members who are unhappy with its predominantly ceremonial attributes.

Both 2019 and 2020 were marred by medium-intensity protests over the authoritarian nature of the regime, Tokayev's election (with more than 70% of the votes) and, more recently, the COVID-19 pandemic. The health emergency hit the Kazakh economy hard, which contracted in 2020 and remains at the mercy of a recovery in the price of oil to resume growth. To date, reserves accumulated in the National Fund have been sufficient to finance the bulk of anti-crisis measures, but lower levels of growth, high inflation, rising poverty and increasing, if hidden, unemployment, will soon take their toll on Kazakhstan's collective well-being.

International organizations continue to call on the executive to finally start implementing much-needed structural reforms to address issues such as weak domestic competition, which results in so-called zombie companies, the state's continued high degree of involvement 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 its fight against bribery and corruption and is reportedly vigorously cracking down on COVID-19-related economic crimes, grand political corruption continues to be a sizable challenge.

The COVID-19 pandemic caught the Kazakhstan authorities off guard and the public health system quickly buckled under the growing rate of infections. As first statistics were published, questions rose quickly as to their objectivity, in particular regarding the blurred separation line between double pneumonia and the new coronavirus. The government still managed to stave off an outright health catastrophe by allocating emergency funding to tide over the unemployed and erecting field hospitals to make up for the shortage of intensive care unit (ICU) beds.

History and Characteristics of Transformation

Following Kazakhstan's independence in 1991, President Nursultan Nazarbayev, a former Communist Party chief who had been at the helm of the country since 1986, took steps to liberalize the economy and, by the mid-1990s, restored economic growth. His authoritarianism became apparent at 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 positions in government and the private sector.

Kazakhstan is arguably one of the most successful post-Soviet republics to have made the transition from a centralized economy to a relatively free market. After a steep economic downturn, Kazakhstan achieved economic growth for the first time in 1996 and maintained it for 10 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 Kazakhstan government. Kazakhstan set up a national oil fund in January 2001 to reduce its vulnerability to price swings in 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 People of Kazakhstan, a consultative body with nominal powers.

The period from 2009 to 2013 was characterized by Kazakhstan's chairmanship of the OSCE (2010), a strong international and regional profile and a spike in social unrest at home. The OSCE chairmanship, however, did not lead to stronger commitments being made to ensuring 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 another attempted suicide bombing took place later that year in Atyrau, also in the west. More acts of terrorism would occur in 2012 and 2016, laying bare Kazakhstan's fragility in the face of a worsening socioeconomic situation. Amid the economic downturn that began in 2014 when oil prices started tumbling, the Kazakhstan government enacted urgent anti-crisis measures by literally pumping billions of dollars into the troubled banking, agriculture and construction sectors.

The country's 2017 constitutional reform reallocated a certain number of responsibilities from the presidency to the government and parliament, thereby boosting the latter two's autonomy. However, none of these otherwise significant changes have been implemented in practice so far. In March 2019, Nazarbayev abruptly resigned, leaving the door open for a much-awaited succession. Senate Speaker Kassym-Jomart Tokayev inherited the top job and was elected for a five-year term in an early election of June 2019. The lower chamber of parliament was renewed in January 2021, with Nur Otan still chaired by Nazarbayev keeping a majority of seats and full control over two minor winning parties' agendas.

Despite Tokayev's public commitment to reform, Kazakhstan's political system remains unchanged, and its economy is still not diversified as it is heavily dependent on oil exports. Changes introduced by Tokayev in 2019-2020 have been mostly cosmetic and procedural. In addition, as chair for life of the National Security Council, Nazarbayev de facto wields veto power over key decisions, thereby blocking any radical but overdue initiatives that could propel the country into a post-Nazarbayev era. The COVID-19 pandemic has put Kazakhstan's oil-dependent economic model to a harsh test, but the regime has been successful to date in averting domestic turmoil.

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 2019 – 2021 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, continue to be partly controlled by organized criminal groups which derive revenue from oil theft, arms smuggling, contraband and tax fraud.

In 2019, the National Security Committee (KNB) prevented three acts of terrorism in central and southern Kazakhstan and dismantled seven extremist groups while 140 people were sent to prison for terrorism-related offenses. In January 2020, the KNB arrested five individuals from central and southern Kazakhstan on terrorism charges. Later, in February 2020, the KNB arrested four individuals planning bomb attacks during annual Nauryz (Kazakh New Year) celebrations; they were sentenced to lengthy prison terms in December. In March 2020, an extremist carrying a homemade explosive device was arrested in the capital, Nur-Sultan. In May 2020, the KNB and the Interior Ministry together dismantled in Almaty two large organized criminal groups specialized in armed robberies and racketeering.

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 68.5% of the total population in early 2020, up from 63.1% in 2009 and 53.4% in 1999. Meanwhile, the share of ethnic Russians decreased from 23.7% in 2009 to 18.9% by early 2020.

In February 2018, then-President Nazarbayev approved the final version of a new Latin-based script of the Kazakh language, which is the only official language under the constitution. In late 2019, his successor Kassym-Jomart Tokayev called that

Question
Score

Monopoly on the
use of force

9



1

State identity

8



1

version “unfortunate” and called for revisions. A modified script was presented to the president in November 2020. The full transition from Cyrillic to Latin, currently in limited use through government communications, is supposed to take place 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.

The increased role of Kazakh in education, public service and the media contributes to further marginalization of non-Kazakh-speakers, mainly Russians, other Slavic and Turkic ethnicities, including Kazakhs. Yet, this has not translated into an organized protest activity. At the same time, Oralmans, ethnic Kazakhs who have repatriated from China, Mongolia and Central Asia, continue to face certain challenges integrating into a new society where spoken Russian and basic education are prerequisites for improving their social status.

Besides the linguistic divide, there is no consensus within society as to how to define the “Kazakhstani nation,” a concept first mentioned by President Nazarbayev in 2004. In 2010 – 2011, the concept was openly opposed by nationalist forces, which staged peaceful rallies against it, claiming that it undermines the central role played by Kazakhs in Kazakhstan’s developing statehood. Although this long-running debate has had no serious consequences for the legitimacy of the nation-state, the term “Kazakhstani nation” has since been carefully avoided in the public discourse.

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 at better regulating the activities of religious associations by subordinating their registration to the Ministry of Justice and their day-to-day operations to a dedicated public organ. In September 2016, then-President Nazarbayev decreed the establishment of a ministry for religious affairs which has been known as the Ministry of Information and Public Development since 2019.

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, would not have been banned. As of 2019, the law had been recalled from parliament without explanation. Given the sensitivity of religious issues in Kazakhstan, no new attempts to reform the legislation have been made since then.

No interference of religious dogmas

9

'06 10 '22 10

1

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 health care and educational sectors still benefit from a positive Soviet legacy, including significant residual infrastructure which has been supplemented by new facilities mainly concentrated in Nur-Sultan, Almaty and regional capitals. However, the COVID-19 outbreak has revealed additional weaknesses in the education system in terms of access to and availability of technology and internet across the country.

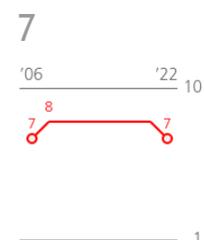
Nevertheless, a non-negligible part of the population lacks access to basic utilities such as water, electricity and gas for heating or cooking. For example, despite the abundance of natural gas in western Kazakhstan, the central and northern portions of the country have yet to gain access to the still-planned gas distribution infrastructure. In March 2018, the Energy Ministry estimated total costs at almost \$1 billion, but no progress has been made to date. 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.

The COVID-19 pandemic, which led to a national emergency from mid-March to mid-May 2020, laid bare the state of unpreparedness of Kazakhstan’s public administration for the digital age. The continuation of regional lockdowns beyond May 2020, coupled with another deterioration in the global and local sanitary situations at the end of 2019, has only accentuated the problem. While official statistics say that 70% of Kazakh citizens have access to the internet, few have the broadband internet, especially in rural areas. The egov.kz portal through which the government decided to make one-time relief payments of about \$100 per eligible person crashed on day one. Public Services Centers (PSC) have been delivering only those services that could not be digitized, leaving many in a state of limbo. In January 2021, the PSCs experienced a major IT disruption, resulting in long waiting times.

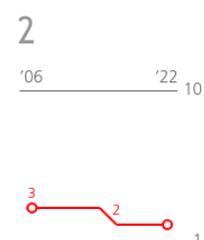
2 | Political Participation

In March 2019, President Nazarbayev abruptly resigned from the presidency and was succeeded by Senate Speaker Kassym-Jomart Tokayev, who was subsequently elected to the presidency in June 2019 for a five-year term. Tokayev won nearly 71% of the popular vote. As in past elections, the Office for Democratic Institutions and Human Rights (ODIHR) Election Observation Mission commended the general quality and efficiency of voting process organization. But it was again heavily critical of the ruling regime’s extensive use of administrative devices to favor Nazarbayev’s anointed successor. Thus, its report deplored “clear violations of fundamental freedoms as well as pressure on critical voices.” However, there is little doubt that, under these circumstances, Tokayev won a majority although the extent of his victory was cast into doubt by unprecedented street protests during which the police arrested more than 700 people in two days.

Basic administration



Free and fair elections



In October 2020, President Tokayev called a regular general election for January 2021. The COVID-19 pandemic allowed the authorities to implement safety measures which served as an additional barrier for opposition-minded activists and likely limited post-election protests to a bare minimum. As a result, elections to the lower chamber of parliament, the Mazhilis, occurred peacefully and mostly uneventfully. The ruling Nur Otan Party maintained its grip on power with 71% of the vote and 76 seats out of 107, followed by two pro-regime parties: Ak Zhol (11% and 12 seats) and the People's Party of Kazakhstan (10% and nine seats). The Nationwide Social-Democratic Party, the only opposition party with nationwide representation, boycotted the elections.

Earlier, in August 2020, 17 seats in the 49-strong Senate were distributed among regime loyalists. The elections drew very limited interest, given that 34 senators are chosen by local councilors rather than the general electorate (15 others are presidential appointees). COVID-19 had little relevance for both the organization and the outcome of voting. General elections are conducted regularly at the national level and universal suffrage by secret ballot is ensured.

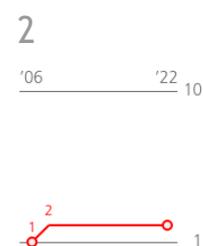
The main source of representative democracy, the Mazhilis (lower chamber of parliament), lacks independence and its oversight of the executive, including the government and the presidency, is inefficient. Since the latest parliamentary elections, the Nur Otan Party, of which Nursultan Nazarbayev remains chairman even after his resignation from the presidency in March 2019, has 76 members in parliament out of 107. The two other parties, Ak Zhol and the People's Party of Kazakhstan (ex-communists), divided up the rest of the seats and are fully aligned with Nur Otan on the vast majority of issues.

The president and his family have effective veto power over elected officials' decisions, with Nazarbayev also chairing for life the National Security Council and exercising outsized influence over other branches of government, namely the executive and judiciary. Considerable influence is also exercised by various interest groups organized for and on behalf of Kazakh clans and local oligarchs whose well-being still hinges on the benevolence of the presidential clan.

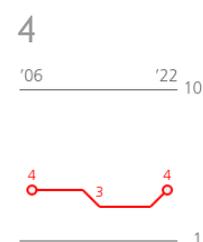
The Kazakhstan constitution guarantees the freedom of association and assembly to all citizens. As of November 2018, there were around 22,000 non-governmental organizations officially registered in the country. Of those, only 12,000 or so were active. A third of the latter were registered in a governmental 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.

The authorities routinely break up peaceful assemblies and detain their participants on the grounds of public order and security. It is almost impossible to obtain permits

Effective power to govern



Association / assembly rights



for peaceful protests and if an unauthorized protest activity takes place, it is quickly cracked down upon by law enforcement. New May 2020 legislation on peaceful assemblies, which was developed in response to President Tokayev’s “listening state” doctrine, contains some improvements (“all that is allowed by law is not banned;” notification in lieu of authorization; a shorter notification period than previously), but is still structurally flawed. Authorities can still prohibit a peaceful assembly on 13 legal grounds (Article 14); when they allow a protest to take place, they impose a specific location.

The lockdown period enabled the government to restrict much of the street protest activity. The first post-lockdown rally was held in Almaty in September 2020 and included only about 100 people. The authorities actively used the existing sanitary restrictions to limit the scale of protests following the January 2021 parliamentary elections, after which there was only a very limited outpouring of discontent compared with the early presidential election in June 2019.

Media freedom in Kazakhstan is severely limited by the authoritarian nature of the ruling regime, which despite the 2019 change in president, remains deeply undemocratic. The 2013 clampdown on the few remaining independent media, such as Golos Respubliki, resulted in the near disappearance of dissenting voices from the media landscape. In December 2017, President Nazarbayev signed into law amendments to the media law, which were widely criticized by press freedom defenders. The changes put an end to anonymity for online commenters who must now register with each media outlet using their real names, obligates journalists to seek approval before publishing personal, family, financial or medical details about individuals, and introduced the term “propaganda” as the spreading of false information in furtherance of an illegal cause. In June 2020, defamation was decriminalized, but the other obstacles remain.

COVID-19 created additional challenges. In March 2020, President Tokayev called on the authorities to stop dissemination of rumors and provocative reports. Many journalists and bloggers have been harassed by the authorities for their critical coverage of the pandemic, especially if it involved talking to medics. In April, a journalist in the southern city of Shymkent was interrogated for seven hours after publishing a Facebook post. In the same month, two reporters were arrested in the western city of Atyrau for covering the dire working conditions at a local hospital.

Reporters Without Borders have regularly denounced Kazakhstan’s treatment of journalists during opposition rallies, as well as – most recently – during the parliamentary elections in January 2021. Several journalists were arbitrarily denied access to polling stations on COVID-19-related grounds.

Freedom of expression

2

'06 '22 10



3 | Rule of Law

The separation of powers is formally established but remains weak. Even though the Mazhilis has no longer been a one-party chamber since 2012, 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. Since President Nazarbayev's resignation, the former president and his administration have formed a new center of power, which exercises outsized influence over Nazarbayev's successor. For instance, as lifetime chairman of the National Security Council, Nazarbayev can veto most key decisions by President Tokayev and his government, which prevents genuine political transformation and neuters most formal constitutional advances.

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.

During the state of emergency which lasted from March 16 to May 11, 2020, the presidency expanded its authority, thanks to a special law hastily rushed through parliament. The legislature took a backseat to the executive for the duration of the pandemic and has been left with less oversight over its actions since the state of emergency was lifted. The only potentially serious implication of such strengthening of presidential powers is their possible misuse (by Tokayev or a different person) in future emergencies, as well as the lingering of some emergency measures that have remained in place.

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 of 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 is subject to skepticism given the lack of independence of the Constitutional Council and its light political weight. The judicial system remains nontransparent and acquittals are very rare (1 out of 1,000 defendants in 2019).

Separation of powers

2

'06 '22 10



1

Independent judiciary

4

'06 '22 10



1

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.

The 2019-2021 period was less impressive than the previous one in terms of the number and seniority of government officials prosecuted for abuse of power and corruption, with some dismissals. In 2019, a vice minister of education was arrested for bribery, making her the only cabinet-level official to face such charges during the year. In 2020, the minister of health, his deputy and the CEO of a state-owned pharmaceutical company were all arrested in connection with pandemic-related fraud.

In January 2021, the anti-corruption agency disclosed around 100 criminal cases of alleged bribery and corruption by civil servants in connection with the pandemic, half of which relate to the misuse of taxpayers' money. During 2020, 210 corrupt officials were brought to trial while 722 others were jailed, among them: a regional governor, five judges and two cabinet-level executive secretaries (at the rank of vice minister).

Kazakhstan's judiciary is subject to political interference in corruption cases against high-ranking officials and other high-profile figures, especially if they have fallen out of favor with the ruling regime. Prosecution is less politicized and more compliant with the law in the case of lower-level civil servants. The same applies to public scrutiny, with cases against high-profile individuals often closed to the press.

Meanwhile, the long-running corruption investigation in the city government of Nur-Sultan over the aborted Light Rail Transport (LRT) system project, which caused a major international embarrassment given the involvement of Chinese state-owned lenders, is widely believed to have deliberately failed to identify the real culprits. Despite President Tokayev's renewed calls for an impartial investigation, the arrests made so far likely point to a lack of appetite for going after well-connected individuals from within the ruling elite.

The protection of civil rights and liberties is codified but poorly enforced in practice. The freedoms of expression and association are curtailed when it comes to independent-minded journalists, protest groups or public associations critical of the government and the ruling regime. Independent trade unions are actively discriminated against, especially since the 2011 Zhanaozen and the 2019 Tengiz riots, which highlighted the importance of keeping them in check to avoid large-scale social unrest. In December 2018, the International Trade Union Confederation suspended the Kazakhstan Trade Union Federation's membership, citing its total loss of independence. It has not been restored since. The use of torture in the penitentiary system is systemic and constitutes a particular danger to active critics of the regime, of whom there remain only a few.

Prosecution of office abuse

4

'06 _____ '22 10



1

Civil rights

4

'06 _____ '22 10



1

COVID-19-related restrictions have mostly impacted the ability of people to assemble peacefully, as well as media freedoms. The state of emergency, now lapsed, and subsequent lockdowns officially guaranteed fundamental rights and freedoms and no significant violations have been reported. Yet, ongoing digitalization has introduced new technological means to implement limitations of privacy. In addition to professional journalism, blogging has been subjected to tighter controls by the authorities in the reporting period to avoid the proliferation of critical comments or the exposition of the government's mishandling of the health crisis.

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 ruling regime.

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. This is especially obvious in light of the unfinished presidential succession from Nazarbayev to Tokayev, with the former having established his own autonomous center of power since resigning the presidency in 2019.

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. According to a 2012 survey sponsored by the U.S. National Science Foundation and analyzed in a 2018 article by two U.S. scholars, including a Kazakh-born professor, the Nazarbayev generation is more ambivalent about democracy, the fight against corruption and political liberalism than the older generation. It is more concerned with economic wealth than democratization, they conclude. No further social research has been conducted to date to analyze a possible change in attitudes.

The actual veto power over democratic processes belongs to a duo of the current and former presidents, who always act in unison in public, but between whom Nazarbayev is the one who still has the final say. No other domestic force, whether a party, an association, a business lobby or the military, can challenge the Nazarbayev clan's hold on power, whether in defense of the democratic order or out of self-interest. Forces that are viewed as a threat to the regime have been traditionally excluded from the political arena via administrative and judicial means, e.g., registration denied to the Alga! Party by the Ministry of Justice or a court ban on Mukhtar Ablyazov's Democratic Choice of Kazakhstan, which is on Kazakhstan's official list of extremist organizations.

Performance of democratic institutions



Commitment to democratic institutions



The COVID-19 crisis has not caused a notable change in the distribution of power among branches of the government, in the context of the executive's traditional unchallenged dominance over the rest of the political system. Yet, the presidency acquired additional authority from parliament, mostly for the duration of the health emergency but with possible spillovers into the post-COVID-19 period.

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 registered political parties of which three – Nur Otan, Ak Zhol and the People's Party of Kazakhstan (former communists) – have members in the Mazhilis. The latter two position themselves as opposition forces but mostly 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.

Kazakhstan's authoritarianism relegates the few active interest groups to the fringes of political and civil society activism. Hence, their actions 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 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 policymaking.

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.

In 2018, a district court slapped the extremist organization designation on Mukhtar Ablyazov's unregistered party, Democratic Choice of Kazakhstan, effectively banning it from the country. The Oyan, Qazaqstan Movement (Wake Up, Kazakhstan), established in mid-2019 in the context of the last presidential election, has not been banned (yet), but its activists are regularly harassed by law enforcement.

Party system

2

'06 '22 10



Interest groups

3

'06 '22 10



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 among the population. In 2012, a pair of U.S.-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 Kazakhstani citizens 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 from 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.

The COVID-19 crisis has had no visible effect on the population’s attitudes toward democracy and democratic processes, with most reactions being to the government’s handling of the crisis, rather than the extent of the regime’s commitment to democracy and democratization, including through the prism of the quality of crisis management.

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).

The 2019 power transition provided a long-awaited impetus for social activism, for example, with the creation of the Oyan, Qazakstan Movement, which advocates for root-and-branch political reform. Despite its popularity among youth, it is mostly limited to large urban centers, with little to no traction in rural areas and no readily available platform for promoting its views.

No impact from the COVID-19 crisis on the state of social cohesion has been observed.

Approval of
democracy

n/a

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n/a _____ 1

Social capital

3

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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 privatization and economic reconstruction in the 1990s and 2000s. According to the UNDP's latest update in 2020 to its Human Development Index database, Kazakhstan ranked 51st out of 189 countries in 2019, which corresponds to the "very high development" category. The country made modest but steady progress compared to the preceding five to seven years. When discounted for inequality, its HDI loses only 7.2% (2018 data), which places the country between Estonia and Hungary, both EU members. Discrimination is immaterial at the levels of race, religion or political affiliation (as applicable to the general population). Although Kazakhstan's standing in the UNDP Gender Equality Index has been improving from year to year, disparities exist in terms of access to economic resources and political representation, while linguistic exclusion is increasingly tangible.

The World Bank's World Development Indicators 2020 report puts the percentage of the population living on less than \$3.2 a day at 2011 PPP-adjusted international prices at 0.3% in 2017, unchanged from 2015. No data is available for subsequent years but this percentage likely remained stable over time, at least until the COVID-19 pandemic began in 2020. In particular, according to the Ministry of Labor and Social Protection, the proportion of people living below the national poverty line decreased further from 4.7% in 2018 to 4.3% in 2019, but spiked to 5.7% by the middle of 2020, the worst result since 2011. In rural areas, the updated average official rate is considerably higher, at 7.8%.

The government has proven largely inefficient at tackling poverty nationwide. The short-lived Ministry of Regional Development 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.

Question
Score

Socioeconomic
barriers

6

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	166805.8	179340.0	181667.2	169835.4
GDP growth	%	4.1	4.1	4.5	-2.6
Inflation (CPI)	%	7.4	6.0	5.2	6.7
Unemployment	%	4.9	4.9	4.8	6.1
Foreign direct investment	% of GDP	2.8	0.0	1.8	-
Export growth	%	8.0	9.6	2.2	-
Import growth	%	1.0	6.6	11.6	-
Current account balance	\$ M	-5101.9	-138.5	-7296.4	-6272.8
Public debt	% of GDP	19.9	20.3	19.9	26.3
External debt	\$ M	158949.0	156979.0	158958.0	162974.4
Total debt service	\$ M	27922.1	33643.0	32770.0	30605.4
Net lending/borrowing	% of GDP	-3.1	1.3	-0.9	-
Tax revenue	% of GDP	10.3	11.7	11.8	-
Government consumption	% of GDP	10.5	8.3	9.1	-
Public education spending	% of GDP	2.8	2.6	2.9	-
Public health spending	% of GDP	1.9	1.8	-	-
R&D expenditure	% of GDP	0.1	0.1	-	-
Military expenditure	% of GDP	0.8	0.9	1.1	1.1

Sources (as of December 2021): 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 from 2007 onwards. Recent progress includes steps taken in 2017-2018, 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. Also, starting a new business has become much easier since 2018: it takes on average five procedures and four days to register a business, at a cost of 0.2% of income per capita.

Along with these improvements, fundamental deficiencies persist on a structural level. Low competition mainly caused by the very high share of state-owned companies, price controls, 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 2019 report by the Kazakhstan National Academy of Sciences, which cites data from the Commonwealth of Independent States' statistics body, Kazakhstan's informal economy comprises 22 – 27% of total economic activity. The IMF's 2018 assessment was significantly less optimistic, pegging it at 39%.

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.

As noted in the World Bank'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 low competition. The state's participation 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 free 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 it initially announced it would do in 2015, although in 2019, it was close to the target, at 16%, as per governmental statistics.

Together with low labor productivity, reduced competition has perverse effects on research and innovation: World Bank data show that R&D spending by the public and private sectors does not exceed 0.2% of GDP in an environment of ample access to cheap government financing and high levels of economic concentration in key industries. The World Economic Forum's Global Competitiveness Report 2019 ranks Kazakhstan 55th out of 141 economies (up from 59th in 2018). However, it is ranked only 80th in terms of competition in services and 70th in terms of the extent of market dominance.

Market organization

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Competition policy

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'06 '22 10



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Kazakhstan has made significant progress in recent years in terms of trade liberalization. It is currently ranked 25th in the World Bank's Doing Business Index 2020. According to the bank, most progress has been achieved in such areas as contract enforcement (ranked 4th), the protection of minority investors (7th) and new business registration (22nd). The OECD's FDI Regulatory Restrictiveness Index 2019 ranks Kazakhstan 42nd out of 84 economies, with a level of restrictiveness two times higher than that of Chile but two times lower than that of Russia. As of 2019, Kazakhstan applied as a WTO member (since 2015) the average most favored nation tariff rate of 6.1%, (i.e., less than the 6.5% average final 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%). In December 2020, Kazakhstan authorized foreign bank and insurance company branches, subject to strict licensing.

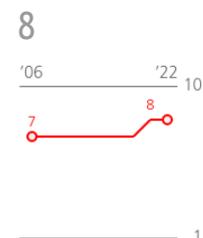
The turbulent period of 2016-2018 was marked by the cancellation of five banking licenses, the state-sponsored recapitalization of the second-largest bank by a bigger rival and the bailout of a bank owned by the family of the president's chief of staff. By November 2018, Kazakhstan's banks' assets had shrunk to 42.1% of GDP, down from 46.5% in January; the loan portfolio had decreased from 26.2% to 22.9% and the deposits had melted down from 40.7% to 22.9%. For purposes of comparison, in 2010, banking sector assets amounted to 70% of GDP and total loans to 60%.

The National Bank of Kazakhstan (NBK) failed to restore confidence in the tenge as the share of dollar deposits was 47.4% of total deposits in November 2018. In 2019 – 2020, the NBK pulled the license of a single lender, Tengri Bank.

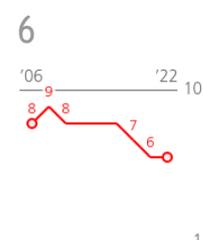
In the addition to inadequate NBK supervision, the lack of hard budget constraints in the “too big to fail” environment and weak corporate governance, banks have too much liquidity which they are reluctant to lend to the real economy as they are worried about the future availability of stable funding.

The COVID-19 pandemic put the Kazakhstan banking sector under renewed strain. In March and April 2020, Fitch Ratings and Moody's, respectively, downgraded the sectoral outlook from “stable” to “negative.” According to NBK data, by September 1, 2020, the share of non-performing loans in all banks had increased 9.5% since January. A prolonged pandemic might put the entire banking system at risk of systemic failure and could prompt the government to relieve some lenders' burdens.

Liberalization of foreign trade



Banking system



In June 2019, President Tokayev announced the cancellation of eligible personal loans to the tune of approximately \$250 million. The measure was expected to benefit some 500,000 people. Yet, the pandemic has mostly affected SMEs and the amount of emergency aid, if called for by a significant deterioration in the banks' prudential ratios, would be considerably higher than that sum.

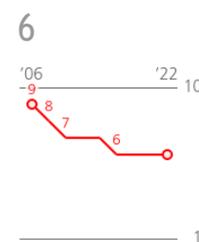
Despite all the challenges facing the banking sector, the average tier capital adequacy ratio well exceeds the legal minimum of 7.5% and was 21.3% on January 1, 2021. Still, many individual banks remain vulnerable to even minor shocks, which could become contagious and have a domino effect across the banking system.

8 | Monetary and fiscal stability

The National Bank of Kazakhstan (NBK) was able to keep annual inflation steady in 2019 at 5.4%, after 5.3% in 2018 and 7.1% in 2017. The year 2020 was particularly challenging for the country's macroeconomic stability as the price of oil plunged in March and has since failed to recover to pre-pandemic levels. At the same time, global and regional growth stalled before giving way to economic contractions. As a result, the annualized inflation rate increased to 7.4% on average and to 11.3% for food products specifically. The NBK intervened forcefully but briefly during several periods of the year, helping amortize the tenge's depreciation to a relatively modest 10% (up from minus 15% in January – April). To contain inflationary pressures, the NBK raised its policy rate from 9.25% to 12% in March, but the rate has since been lowered back to 9% with a +/-1% margin. The tenge's real effective exchange rate (REER, 2005=100) stood (as of writing) at 84.4, not far from its all-time low (since 1995) of 81.1 in January 2016. This means that the national currency remains weak, in a boost to hard-currency-earning exporters.

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 both President Tokayev and his predecessor and overshadowed moreover by many cabinet ministers. The second difficulty is the poor state of the banking sector which has yet to recover from the 2008-2009 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. Anti-crisis measures implemented in 2020 have done little so far to reverse the negative multi-year trend.

Monetary stability



Until the COVID-19 pandemic struck, Kazakhstan's fiscal policy had been gradually stabilizing since 2018, following massive public spending in 2014-2017 as part of the government's support for large infrastructure projects (mainly construction), agriculture and the troubled financial sector. Traditionally, the budgetary equation is heavily reliant on so-called mandatory transfers from the National Fund (NF), which are planned deductions from taxes on oil revenue that end up in government reserves.

The health emergency in Kazakhstan and among its trading partners has had a cooling effect on the export-driven economy and looks as if it will have lasting consequences. According to government statistics, the current account had a deficit of \$4.1 billion in January – September 2020, compared with a higher deficit of \$5.1 billion a year earlier, although the trade balance, a core component of the entire balance of payments, shrank from \$14.1 billion to \$7.8 billion year-on-year.

Kazakhstan has not been eligible for debt relief or emergency assistance from multilateral financial institutions, and instead has had to ramp up its borrowing on market conditions. In 2020, the government borrowed \$4 billion through treasury sales and plans to borrow an additional \$4.5 billion in 2021. This total new borrowing amounts to nearly 5.5% of estimated GDP in 2020. Varying estimates by Russian and western credit rating agencies peg Kazakhstan's debt-to-GDP ratio at the end of 2020 at between 22.5% and 26.5%. Meanwhile, the budget deficit plunged to 6.4% of GDP for the whole of 2020. According to the Ministry of Finance, the non-oil deficit turned out to be much larger than initially estimated, 10.8% instead of 7%, due to the scale of the contraction. Fitch Ratings expect the total deficit to return to 2.1% in 2021 in a recovery scenario. The government will use the NF reserves to plug budget holes, financing countercyclical spending and offset, where necessary, exchange rate fluctuations, which have a direct bearing on national economic competitiveness. In 2020 alone, the NF lost a net amount of \$2.4 billion despite strong investment gains in its asset management portfolio.

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 2020 Doing Business ranking by the World Bank, Kazakhstan ranked 24th out of 190 economies in terms of ease of property registration. This is somewhat lower than in 2019. However, in previous years the bank consistently noted positive steps toward 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 U.S. court awarded \$525 million to Moldovan businessman Anatol Stati who

Fiscal stability

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Property rights

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had sued the Kazakhstan 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 Kazakhstan court ordered Forbes Kazakhstan and several other media outlets to publicly retract their statements regarding a former Kazakh minister whom they had accused, inter alia, of racketeering. The minister's junior business partner had reportedly been deprived of his holding through extortion. Earlier, in July 2018, Supreme Court Chairman Zhakip Assanov chided the lower courts for taking the side of corporate raiders and cited two recent cases.

The Stati case has been ongoing, with Kazakhstan arguing – successfully on a few occasions (most recently in December 2020 in New York) – that the Moldovan businessman committed document forgery and falsified other evidence. Elsewhere, the Kazakhstan Supreme Court unexpectedly reversed in January 2021 earlier court decisions in a case between a German investor and the former minister of construction and his family, but a retrial could still prove unfavorable to the foreign side.

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 still accounts for about 60% of Kazakhstan's GDP, the state perpetuates historical imbalances. In November 2018, then-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 deemed feasible a reduction of state participation in the economy to 15% of GDP by 2022 (official data put state participation at 16% in 2019, albeit – most likely – without accounting for the “quasi-state” sector, which extends to indirectly controlled companies). Similar estimates were made in 2015, when the government presented a refurbished privatization program, but these reductions have not materialized. In December 2018, a round table attended by World Bank experts also stressed the need to accelerate divestment of state assets, describing a 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 were bought by foreign investors through global depositary receipts, a new significant shareholder is the Single Pension of Kazakhstan, which entirely belongs to the state. In many cases, privatized companies end up in the hands of 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.

Private enterprise

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In January 2021, President Tokayev, who had repeatedly criticized the slow pace of privatization, asked the government to speed up the process. In September 2020, the government reported that its 2016 – 2020 plan had been fulfilled by 93%, even though many strategic aspects had been left out. During the COVID-19 pandemic, the authorities refrained from nationalizing privately owned businesses, whether through bailouts and by other means.

10 | Welfare Regime

Following the economic crisis caused by a drop in oil sales revenue in 2014 and the subsequent price volatility, the Kazakhstani government embarked upon a comprehensive welfare reform. The bulk of it concerns self-employed individuals who are either seasonal workers or individual businessmen without formal registration and a stable stream of revenue. Starting in 2019, they have to make “single comprehensive payments” set at the lowest possible level for rural workers, which provide access to social benefits and health care. 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 (latest data), the official share of self-employed individuals was 24%, down from 35% in 2008. Their actual number may be even 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 with disabled children, and in 2020 the duration of unemployment benefits was extended to six months for all types of unemployed applicants. 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 was postponed from 2018 to 2020. Health insurance contributions by employers were 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 it inaccessible due to insufficient incomes and other unpaid debt.

Also in 2018, the 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 demand for subsidized home loans. In 2020, the government allowed eligible working people and pensioners to use accumulated pension savings above a legal minimum, different for each category, toward acquiring real estate, medical treatment or asset management.

Social safety nets

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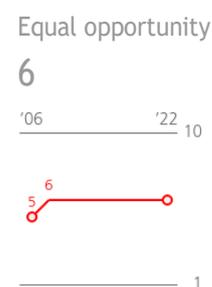


Following the one-time write-off of bank debt in July 2019, which benefited some 500,000 low-income earners, the Tokayev administration announced in April 2020 a package of support measures in the context of the COVID-19 pandemic. They included: KZT 42,500 in unemployment benefits to those who had lost jobs or a large portion of their salaried income; food baskets for the most vulnerable; a 10% increase in state pensions and some benefits; a utility bills cap for the most vulnerable in areas hit hard by the pandemic and related cash compensations for select categories of people; assurances of well-functioning food supply chains in pandemic-hit areas; access to health services even without valid medical insurance; and deferred interest and principal payments for state-sponsored home loans. While some of these anti-crisis measures were one-offs and a few others were discontinued in 2020, the government has kept the remaining ones in place and has pledged further support in case of need.

According to the World Economic Forum's 2020 Global Gender Gap report, Kazakhstan ranks 72nd out of 153 countries. It is 37th in terms of economic participation and opportunity, 63rd in education attainment, 74th in health and survival and only 106th 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 (60.4%) of "professional and technical workers." Women's estimated earned income is only 60% of men's despite the fact that women have higher rates of enrollment in tertiary education that endows them with a high skill level.

Kazakhstan's official unemployment data are historically biased but even they show a disparity between men and women, to the latter's disadvantage (5.4% vs. 4.6%). Kazakhstan and Kyrgyzstan are the only countries in Central Asia (except Turkmenistan, which is unrated) that made progress from 2018 to 2019 in the UNDP's Gender Inequality Index. Kazakhstan, in particular, has made significant progress since 2011 and especially since 1995.

Inequality and discrimination based on race, religion and political convictions exist. For example, Nur Otan and other state bodies limit the employment of those openly practicing a religion. Ethnic inequality is primarily driven by the progressive tightening of requirements regarding access to public service, more specifically the linguistic requirement. Kazakh is the only official language while Russian has the constitutional status of "the language of interethnic communication." This does not confer upon it 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

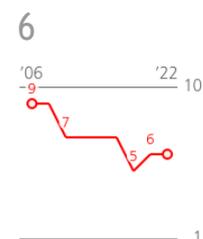
Kazakhstan's economic growth was very negatively affected by the 2014 oil slump, owing to the country's significant dependence on the international price of oil, and the effects of this slowdown are still being felt today. While in 2017 and 2018, there was a relative stabilization of public finances as the price of oil grew higher, future growth is heavily contingent on positive price dynamics in the highly volatile energy market.

The 2020 pandemic, which is partly to blame for another oil price crash at the beginning of the year, has been a major economic disruption with lasting effects. Real GDP contracted by 2.6% in 2020 (but only by 0.9% in nominal terms). In 2019, the economy grew by 4.5%. Inflation statistics also reflect a negative trend, given the inflation rate's spike from 5.4% to 7.5% in annualized terms. Growth and lower inflation are expected in 2021, but the uncertain global and regional economic outlooks cloud the horizon.

The budget deficit was 6.4% of GDP after a considerable contraction in state revenue from export sales (as the price of oil plunged in March 2020 and has not recovered since) and an increase in spending to lessen the effects of the pandemic. The non-oil economy had an even larger deficit of 10.8% compared to an initial estimate of 7%. In 2019, the non-oil deficit was 6.3% and was fully covered by discretionary transfers from the National Fund, the sovereign wealth fund. Even if the growth outlook drastically improves, barring considerable headway in tax collection efficiency and an uptick in non-oil-driven economic growth, budget deficits will continue to persist, albeit under 3 – 4% according to some forward-looking analyses.

Public debt will only slightly exceed a quarter of GDP in 2021 and will not pose a significant macroeconomic risk. Unemployment is traditionally pegged in official statistics to 5-6%, with the reliability of these data consistently put into question. The current account had a deficit of \$4.1 billion in January-September 2020, compared with a higher deficit of \$5.1 billion a year earlier, although the trade balance, a core component of the entire balance of payments, shrank from \$14.1 billion to \$7.8 billion year-on-year. For the purposes of comparison, the current account had a deficit of only \$500 million in the first nine months of 2018, while the trade balance was as large as \$20.1 billion during the same period.

Output strength



12 | Sustainability

Kazakhstan has made more efficient environmental protection one of the top priorities for the next few years. Capital investments in environmental rehabilitation projects increased by 30.9% in January – November 2020, amounting to nearly \$350 million. Renewable energy (RE) is a critical element of 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 European Bank for Reconstruction and Development (EBRD) has pledged up to €200 million worth of investments into priority RE development projects. In January 2021, President Tokayev signed into law the new Environmental Code, which enables the largest polluters (of which 50 account for over 80% of total emissions) to modernize production with state support in the form of environmental tax breaks for up to 10 years. The code also introduced the waste-to-energy concept in a bid to incentivize the recycling of industrial and household waste.

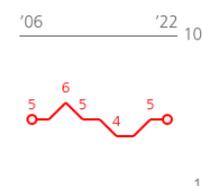
In the middle of 2017, Kazakhstan held an international exhibition (EXPO-2017) centered on the theme of energy. The government expects that the country will obtain close to half of its total energy consumption from RE by 2050. This is an ambitious goal as the share of RE in the energy mix does not presently 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 had to be postponed until the adoption of the new Environmental Code in 2021 and still requires formalization via special legislative acts.

Kazakhstan spends about 3% of GDP on public education while R&D expenditures currently do not exceed 2% of GDP. Thanks to a solid system of secondary and higher education in Soviet times, the country maintains good literacy rates (99.8% in 2018) and has compulsory schooling (UN Education Index 2019: 0.830, consistently better in each year since 2011).

According to the OECD's Program for the International Assessment of Adult Competencies survey results, "adults in Kazakhstan perform below the OECD average in literacy and numeracy," while the 2018 International Computer and Information Literacy Study concluded that "33% of Kazakhstani eighth grade students have not reached the minimum level of computer and information literacy." The problem of inequality in education, depending on the type of school, language of instruction, and location (urban versus rural) remains.

Environmental policy

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Education policy / R&D

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In 1993, President Nazarbayev established the Bolashak scholarship program to educate youth 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.

Basic science and research remain underfunded. However, despite the pandemic, the allocation of scholarly grants by the Ministry of Education alone increased in 2020 by 63% compared with 2019 while total funding across the entire government grew by 42.3%. Revenues accumulated in 2017 – 2019, during the period of economic stabilization, certainly played a role in maintaining planned spending largely unchanged. That said, prospects for 2021 and beyond remain bleak.

In December 2018, Deputy Education Minister Askhat Aimagambetov announced changes to the funding of scholarly 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, then-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. This goal does not seem to be realistic given that its implementation is predicated on an increase in private funding from 7% to 50%.

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 as well as health care systems on the positive side, and a landlocked situation, an insufficient transport infrastructure for such a vast territory, and weak institutions on the negative side. The abundance of natural resources, which led to annualized economic growth of 23.9% in 2000-2009 during the commodities “superboom,” has become a powerful curse in line with 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.

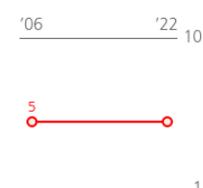
Weak institutions are partly a result of Kazakhstan’s prior lack of democratic experience since the country directly transitioned from feudalism to tsarism under the Romanovs and later to a command economy and centralized totalitarian governance in Soviet times. However, it is also true that the country’s 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.

The 2019 presidential succession has not resulted in the slightest structural change, with the former President Nazarbayev still exercising tremendous influence over Kazakhstan’s domestic and foreign affairs. The continued lack of political liberalization is coupled with insufficient progress in economic diversification since Kazakhstan’s economy remains structurally dependent on oil exports. Meanwhile, the domestic banking sector and capital market are too fragile and too small, respectively, to sustain a multi-year transformation strategy on their own.

The COVID-19 pandemic represents the newest challenge to political and economic transformations. To date, Kazakhstan has managed to maintain relatively modest infection rates and experienced only a moderate number of deaths. The economic impact of the health crisis is mainly due to external rather than internal economic factors.

Structural
constraints

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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 since 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 August 2020, President Tokayev promulgated the Civil Society Development Concept until 2025, the official aim of which is to strengthen the “system of partnership” between the state, businesses and civil society. A previous plan by the same name was adopted in 2006 and expired in 2011.

In recent years, a new wave of citizen activism has been emerging. Today, the majority of civic activities take place outside of NGOs. Activism has arisen in various forms, from mass protests (the Oyan, Qazaqstan Movement or Feminita marches) to individual actions such as “You Can’t Run Away From the Truth: I Have a Choice,” solo pickets, art activism and citizen assistance initiatives, including those in support of the LGBTQ+ community.

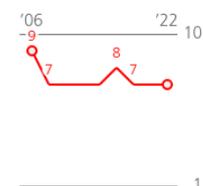
The growing citizen activism is eclectic and even chaotic. Some activists more directly and openly oppose the state than traditional NGOs, since they do not face the challenge of maintaining permanent dialogue with the authorities. At the same time, civil activism is pragmatic; activists are looking for practical solutions to specific problems as an alternative to involvement in politics.

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 will be subject to a pre-authorization (or, since 2020, duly filed notification). Labor strife intensified at the end of 2020 after a period of relative calm in 2018 – 2019 and for most of 2020 (partly due to COVID-19 restrictions). Some 300 railway workers went on a strike in Zhezkazgan, central Kazakhstan in December 2020. In the following month, there were three separate actions at a foreign-owned engineering company, a gold mine and an oil company, all in western Kazakhstan. The latter strike was the largest of the three and included participation by 200 workers.

Contrary to previous reporting periods, 2019, the year in which Kassym-Jomart Tokayev constitutionally succeeded President Nazarbayev, was marked by politically driven protests, some of which turned violent. Following Nazarbayev’s resignation in March and up until the early presidential election in June, sporadic protests

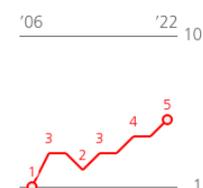
Civil society traditions

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Conflict intensity

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demanding democratization took place in various cities. The protest drive gained steam by mid-June when the police arrested more than 500 protesters unhappy with Tokayev's election result (above 70%). Smaller protests inspired by the outlawed Democratic Choice of Kazakhstan, an unregistered movement headed by the exiled former banker and the regime's political opponent, Mukhtar Ablyazov, took place in July – December. Similarly, small actions occurred in January – February 2020 while in April – July, limited numbers of people took to the streets to protest the government's COVID-19 strategy. Rather than fomenting protest activity, the pandemic has stifled it, helping the regime to keep protesting in check in the wake of the January 2021 parliamentary elections.

In February and July 2020, interethnic clashes occurred in southern Kazakhstan between Kazakhs and Dungans, and Kazakhs and Uzbeks, respectively. The former incident ended with the deaths of 11 people and more than 50 injuries. The authorities consistently deny the existence of interethnic tensions, despite the fact that the February 2020 incident reportedly led to the emigration of 12,000 Dungans into neighboring Kyrgyzstan. The socioeconomic fallout of the pandemic will only exacerbate tensions.

II. Governance Performance

14 | Steering Capability

The Kazakhstani executive regularly sets long-term strategic goals. This most often happens in response to presidential initiatives. These include the Kazakhstan 2050 strategy of 2012, the 2015 announcement of 100 practical steps to implement key five institutional reforms, which should enable Kazakhstan to become one of the world's 30 most developed nations and the Strategic Development Plan until 2025, which was adopted in February 2018. Goalsetting 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 terms of assets and second-largest in terms of loan portfolio, and then in September agreed to buy its

Question
Score

Prioritization

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toxic assets. In January 2019, a further aid package totaling \$3.4 billion was concluded 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, in which most banks are somehow related to the presidential family, high-ranking government officials or oligarchs. Meanwhile, the NBK lacks administrative weight to liquidate bad banks in a timely manner and is constantly torn between micromanaging the exchange rate of the tenge, containing inflation and ensuring conditions for sustained growth.

Since taking office in 2019, President Tokayev has decreed the establishment of four new government agencies, including the Agency for Strategic Planning and Reform (September 2020), which has taken over a vast portfolio of advisory, coordination and planning functions from the Ministry of National Economy. The COVID-19 pandemic has clearly shifted the government's focus toward short-term anti-crisis measures, but official discourse has not changed as a result and pre-pandemic long-term goals are still fully on the agenda. Also, in September 2020, Tokayev established the Supreme Reform Council under the presidency, in a sign of his personal commitment to long-term transformation objectives. Speaking in front of the entire parliament in January 2021, the president proposed a third package of political reforms (after one in December 2019 and another in September 2020) which are intended, among other things, to carry the country into a post-pandemic future.

Similarly to policy formulation, policy implementation is often inconsistent with the initial goals set, the interim and final assessment and the evaluation, 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, still with little to show for its efforts as of 2021. In fact, given the turbulent crisis and post-crisis period of 2008-2010 and the subsequent economic turmoil of 2014-2016, the state has grown increasingly present in the economy instead of retreating from it. So-called parastatal entities in which the state maintains sizable ownership but which are supposed to operate according to 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 toward concentration and consolidation within a small circle of powerbrokers.

In its latest Kazakhstan economic update, dated December 2020, the World Bank noted that “the COVID-19 crisis further emphasizes the need for strategic planning to prioritize government action, making strategic choices in light of the reduced fiscal space and social needs” and called for “strong implementation to achieve tangible results.” Long-term policy implementation remains a structural challenge although, in the World Bank's assessment, the Kazakhstan authorities' have implemented

Implementation

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strong policy measures to minimize the pandemic’s impact on the population and the economy. One of the main negative effects of the pandemic could be further delays to Kazakhstan’s political and economic transformation, and the current regime is unlikely to refrain from blaming COVID-19 for its lack of progress.

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. Banking sector reform is a good case in point. The costly bailouts of 2008 – 2009 and 2017 – 2018, which included a large number of banks, were supposed to serve as a lesson learned from real-life experience. However, the authorities are still struggling to rein in banks’ reckless lending practices and to deracinate their most egregious corporate governance flaws. The government’s innovations have been limited to strictly enforcing formal rules on capital adequacy and loan loss provisions in line with international best practices (e.g., Basel III), whereas risk management continues to be extremely deficient, and conflicts of interest abound.

Some successes also must be noted, such as the rollout and enhancement of e-government and expanded access to electronic tendering for state contracts. In terms of structural issues requiring corrective measures at a priority level, long-term conjuncture-insensitive innovation has been almost entirely supplanted by short-term opportunistic decision-making.

Shortly before the start of the pandemic, the government approved two new strategic development programs in place until 2025, in health care and education. No further strategic plans were adopted during the pandemic and the government’s response to the health emergency has been mostly situational, with short-term, targeted measures. In his address to the nation in September 2020, President Tokayev touted “pinpoint restrictions and flexible lockdowns” and promised the development of a comprehensive anti-pandemic plan. The proliferation of new bureaucratic initiatives appears to have been thus far the principal tool for countering the pandemic.

15 | Resource Efficiency

Appointments to and dismissals from key government positions are the prerogative of the president, with an additional layer of oversight by the former President Nazarbayev since 2019. 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. The appointment of most ministers, except for the ministers of foreign affairs, defense and interior, is a shared responsibility of the president and premier with a mandatory consultation of parliament. In practice, the prime minister, the entire cabinet, Supreme Court justices, regional and major city governors and many other officials are directly appointed by the head of state, who must consult with Nazarbayev as chairman of the National Security Council.

Policy learning

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Efficient use of assets

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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, which are based on OECD standards, public administration is still viewed as clunky and inefficient. In its Global Competitiveness Index reports, the World Economic Forum has repeatedly pointed to “inefficient government bureaucracy” as a structural challenge for doing business in Kazakhstan. Regulatory and administrative inflation is a prominent issue as well, such that the creation of a new ministry or agency, or the adoption of new laws and regulations, are often viewed as a sufficient response to a specific problem.

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 October 2020, its chairwoman, Natalya Godunova, informed President Tokayev of a number of irregularities in the provision of COVID-19-related, anti-crisis financial aid. Throughout 2020, the Kazakhstan authorities managed to avoid reallocating resources toward the fight against COVID-19, instead drawing on National Fund reserves to finance emergency measures. National Fund usage statistics are publicly disclosed by the central bank (NBK) on a monthly basis and in detail in the NBK’s annual reports.

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 president always has the last word. However, since President Nazarbayev’s resignation in March 2019, supreme power has been de facto shared between him and his successor, Tokayev, although Nazarbayev has a final informal say on many key matters.

It is therefore unsurprising that whenever a contentious issue arises that may adversely impact people’s livelihoods, direct appeals continue to be made to the president in his capacity as the last hope and authority for social justice. 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

Policy
coordination

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

In line with his concept of a “listening state,” President Tokayev established in July 2019 the National Council of Public Trust, with the aim of empowering civil society and making it an integral part of the policymaking process. The authorities affirm that from 2019 until 2021 the council has actively participated in the elaboration of 10 new laws. Nonetheless, the council has a purely consultative function and many initiatives by its most outspoken members have been simply ignored. Policy coordination still largely occurs at the central executive level under the direct oversight of the presidential administration. The COVID-19 pandemic has only boosted the tendency toward centralization, leaving regional governments with little practical room for maneuvering.

Anti-corruption in Kazakhstan is the prerogative of the Anti-corruption Agency. This was created in June 2019 as the successor to the National Anti-corruption Bureau (NAB) under the Agency for Civil Service and the Fight Against Corruption. The agency is subordinated to and reports directly to the president. It has inherited from the NAB the implementation of the National Anti-corruption Strategy for 2015 – 2025, approved by President Nazarbayev in December 2014. In November 2015, Nazarbayev also signed into law a new anti-corruption bill that superseded the 1998 law. The agency is endowed with both investigative and preventive functions and its personnel are subject to the same principles of recruitment and ethics as other civil servants.

In recent years, the Kazakhstani authorities have 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 as state bodies and currently comprise over 4,000 members. Since 2015, over 220 such organizations have come into existence. In the same year, the Law on Access to Information took effect, but its efficient use has been severely curtailed by various exemptions and contradictions in other legislation.

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. In its 2020 assessment report, the World Bank praised the increased alignment of Kazakhstan’s mandatory e-procurement rules with global best practices, yet also expressed some criticisms. In particular, the open tender method led to a contract award in only 33% of cases in 2017. Wholly state-owned companies still remain largely outside the unified legal framework (which now

Anti-corruption
policy

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encompasses parastatal entities as well), while material obstacles limiting competition are faced by foreign bidders.

In January 2020, Kazakhstan became the 50th member state of the Council of Europe’s organ in charge of ensuring compliance with and effective implementation of the council’s anti-corruption standards. Known as Group of States against Corruption (GRECO), it will conduct a multi-stage evaluation of Kazakhstan’s anti-corruption practices in coming years.

Despite all the successes to date, corruption continues to be perceived as a systemic problem. In August 2020, President Tokayev acknowledged the problem and unveiled five anti-corruption pillars: systematic prevention; the fight against everyday petty corruption; digitalization of government services; the protection of businesses; and increased public oversight.

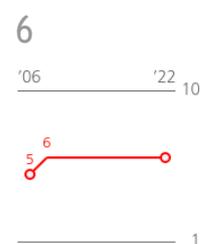
In January 2021, President Tokayev instructed the government to lay the groundwork for a new independent agency tasked with the prevention of economic crimes. Prior to 2014, the Agency for Fighting Economic and Corruption Crimes was responsible for both anti-corruption activities and fighting organized financial crime, such as money-laundering, fraud and terrorism financing. The new structure will likely complement the work of the NAB’s successor by focusing on disrupting organized criminal groups that abuse the domestic financial system and international financial conduits to achieve criminal ends.

Also in January 2021, universal asset and income declarations were introduced, with deployment in several stages. In Stage 1 (2011 – 2022), the obligation to declare one’s assets applies to public officials and their spouses. In Stage 2, (2023), it will extend to employees of state institutions and quasi-public sector entities and their spouses. In Stage 3 (2024), it will further extend to the managers and owners of legal entities and sole traders, plus their spouses. The declaration will become universal as of 2025.

16 | Consensus-Building

Little has changed from previous years 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 domestic policymaking ever since. While consensus continues to date, there is no clear understanding among political actors as to what ultimate shape Kazakhstan’s 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 countries

Consensus on goals



without a strong leader. It is clear that once the Nazarbayev era finally ends, the parameters of Kazakhstan's march toward 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. Since succeeding Nazarbayev as president in March 2019, Kassym-Jomart Tokayev has made a series of overtures to civil society and pledged that he will take steps in the direction of political and economic liberalization. These developments notwithstanding, Kazakhstan continues along the development path laid out by Nazarbayev, who remains a formidable political force.

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 existed since independence in 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 genuine transition to a post-Nazarbayev era could open up a window of opportunity for authentic democratization, as has so often happened in former autocracies around the world.

With regard to economic reforms, it is obvious that the 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.

Nazarbayev's successor, President Tokayev, is ostensibly pushing for greater democratization and political modernization. However, he has neither the intention nor the ability to reform the current system in a profound way. In a keynote article published in January 2021, the president cautioned against quick reforms, in yet another demonstration of his reluctance to set out on a radically reformist course.

Anti-democratic
actors

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Unlike many other post-Soviet countries, Kazakhstan has been spared protracted instability and has managed to ensure the widespread acceptance of Nazarbayev's "first economics, 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 that could have translated into turmoil at lower echelons.

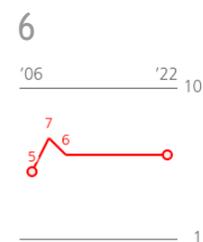
The 2011 Zhanaozen protests are a sore spot on this otherwise successful track record. Although the vertically organized political regime that Nazarbayev built has since proved resilient, labor strife continues to pose a challenge. It intensified at the end of 2020 after a period of relative calm in 2019 and for most of 2020 (partly due to COVID-19 restrictions). Some 300 railway workers went on a strike in Zhezkazgan, central Kazakhstan, in December 2020. In the following month, three separate actions occurred, at a foreign-owned engineering company, a gold mine and an oil company, all in western Kazakhstan. The latter strike was the largest of the three and included 200 workers. Also in 2020, two deadly interethnic clashes occurred between Kazakh communities and Uzbek and Dungan communities in the south of Kazakhstan.

Civil society is a very marginal actor and does not actively participate in the formulation or execution of state policies due to very limited windows of opportunity, even in those areas where it has 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, often for show. 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.

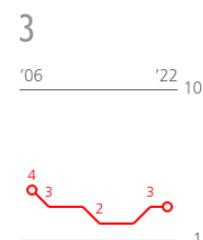
In February 2020, political activist Bakhytzhan Bukharbay quit the National Council of Public Trust (formed in mid-2019) over his opposition to a draft law on assemblies, which, in his view, had been sabotaged by the cabinet of ministers in contradistinction to the president's own wishes.

Since Tokayev's election to the presidency, a new wave of civil society organizations, often informal, has emerged. They include the Oyan, Qazaqstan Movement, which is confined to the sidelines of political life, but has nonetheless managed to mobilize

Cleavage /
conflict
management



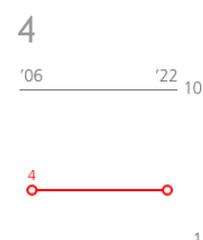
Civil society
participation



interest in structural reform, for example, around key national events such as the January 2021 parliamentary elections. As regards the COVID-19 pandemic, Kazakhstan's civil society was not consulted by the government, which, from day one, has handled the crisis in a centralized and rigidly administrative way.

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 fostering 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. In June 2020, the Ak Zhol Party, which has had only about 11% of members in the Mazhilis since January 2021, called on the government to seek international recognition of the mass famine of the 1930s, which is believed to have cost then-Soviet Kazakhstan close to half of its Kazakh-speaking population. The regime's position on the issue remains cautious since it wants to avoid tensions with Russia, a strategic partner.

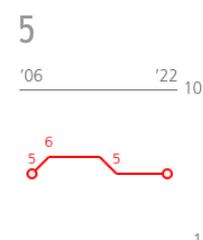
Reconciliation



17 | International Cooperation

OECD Development Assistance Committee data show that net development assistance inflows to Kazakhstan increased from \$15.4 million 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 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.

Effective use of support



Despite Kazakhstan's high income per capita, China has continued to lend money to the country, most frequently at preferential rates and increasingly as part of its cross-border Belt and Road Initiative. As of July 2020, Kazakhstan owed ~\$10 billion to China in total, half of which was sovereign and quasi-sovereign debt.

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 in recent 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

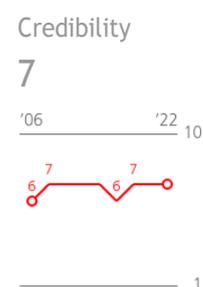
goals. On the one hand, international assistance has certainly helped Kazakhstan to modernize more quickly and ramp up its GDP per capita to the upper middle-income level within a decade and a half. On the other, its current vulnerability to external shocks is evidence of a systemic lack of strategic focus.

In June 2020, Kazakhstan qualified for a \$1 billion assistance package from the Asian Development Bank, a fraction of its broader COVID-19-related assistance to developing partner countries to the tune of \$20 billion. It is not known at this time how effectively this aid has been used, but there is little indication it will have created a notable change in Kazakhstan's long-term development strategy. While the Asian Development Bank (ADB) mentions plans to work closely with the Kazakhstan government in implementing structural reforms, its financial assistance does not appear to have any strings attached.

Kazakhstan is traditionally presented as a role model in its regional neighborhood and within the former Soviet Union in terms of its successful cooperation, leadership and mediation with the international community. The country enjoys strong credibility in the global arena and has succeeded in boosting its prestige and visibility through holding such landmark events as the OSCE summit in 2010, the 2011 Winter Asian Games, Expo 2017, the rotating chairmanship of the UN Security Council in January 2018, the Syria peace process in Astana/Nur-Sultan and various global and regional integration initiatives. Kazakhstan is also seeking membership on the UN Human Rights Council in 2022 – 2024.

In 1992, Nazarbayev proposed to the UN General Assembly to convene the first Conference on Interaction and Confidence-Building Measures in Asia and 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 Eurasian Economic Community, which in 2014 became the Eurasian Union.

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 (imprisoned in 2009 under Nazarbayev and released in 2020 under the new president, Kassym-Jomart Tokayev) and former conscript Vladislav Chelakh (sentenced to perpetuity in 2012). 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, most recently thanks to President Tokayev's high-profile diplomatic career and the international respect he earned as the 11th Director-General of the UN Office at Geneva in 2011 – 2013. The COVID-19 pandemic has not affected Kazakhstan's international credibility in a notable way.



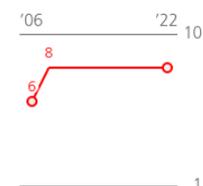
As far as regional cooperation is concerned, Kazakhstan has long advocated for closer diplomatic, trade, cultural, scientific and security ties among Central Asian countries. Multi-vector foreign policy is a hallmark of Kazakhstan's relations with its Russian and Chinese neighbors as well as with remote 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 and Armenia. In March 2018, Nur-Sultan 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.

In November 2019, Nazarbayev continued his personal diplomacy by representing Kazakhstan at the 2nd Central Asian Summit in Tashkent in his capacity as former president. Despite Kazakhstan's decision to toughen customs controls at the border with Kyrgyzstan for several months in 2017 (after Kyrgyzstan President Atambayev openly criticized his Kazakhstan counterpart), the two countries have remained close. President Tokayev extended a warm welcome to the new Kyrgyzstan leader Sadyr Japarov on his second trip abroad in March 2021. Relations are also cordial between Kazakhstan and Uzbekistan despite a historic rivalry, which has become less pronounced since Mirziyoyev succeeded Islam Karimov in 2016.

Kazakhstan actively participates in various regional organizations, including the Shanghai Cooperation Organization (SCO) and the Collective Security Treaty Organization. In November 2020, Tokayev called the SCO "one of the most successful international organizations." Kazakhstan is also committed to closer regional cooperation with Afghanistan.

Regional cooperation

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Strategic Outlook

Given that the 2019 presidential succession did not result in Nazarbayev's departure from politics and the beginning of a new era in Kazakhstan's contemporary history, the next few years will be dominated by mostly futile debates about the direction in which Kazakhstan will go once Nazarbayev is definitively out of the picture. Contrary to some earlier expectations, Nazarbayev has not shown a willingness to facilitate a smooth transition of power to a younger generation unrelated to his persona or his family through ties of individual loyalty or economic dependence. However reformist Tokayev wants to be or appear, his freedom to maneuver is constrained by Nazarbayev's lasting, overbearing, influence as chairman for life of the National Security Council, a constitutional body capable of vetoing key decisions made by the executive.

The COVID-19 pandemic has laid bare the inherent vulnerabilities of Kazakhstan's oil-dependent economic model and unreformed political system tied to a single man and a command-administrative hierarchy. To move forward, Kazakhstan needs to carry out painfully overdue structural reforms by: making the political arena competitive and tolerant of views neither shared nor favored by the ruling regime, strengthening competition with a focus on SMEs, reinforcing the rule of law and the quality of public administration, fighting grand corruption and nepotism with improved efficiency, and overhauling the financial sector to render it more resilient, transparent and accountable as well as less politicized, etc.

In January 2021, President Tokayev chaired the Supreme Council for Reform, which he established by decree in September 2020. According to media reports, the council's meeting discussed the drafts of several new strategic initiatives: the National Development Plan until 2025, the upgraded Public Policy Planning framework, the Public Administration Development Concept until 2030, and the Privatization Plan until 2025. It also discussed a package of urgent reforms to be implemented in response to the ongoing pandemic and a suggested legislative and organizational foundation for the next nationwide census. The timely implementation of these various initiatives could yield improvements in the near and medium terms if implemented and evaluated strategically. They are still unlikely to compensate for the lack of institutional foundations at the level of root-and-branch prodemocracy reforms.