OECD Territorial Reviews

KAZAKHSTAN

2017

OECD

OECD Territorial Reviews: Kazakhstan

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Photo credits: Cover © Jeffrey Fisher

Foreword

The globalisation of trade and economic activity has contributed to improving living standards, boosted productivity and encouraged countries to specialise in their areas of comparative advantage. However, these same processes have also brought new challenges. The gains from globalisation have not always been evenly felt *within* countries – some regions and cities have benefitted far more than others. In response to such growing inequalities, OECD member countries are adopting policies to ensure that the benefits from globalisation are sustainable and inclusive for all citizens and regions. The importance of this was recently reinforced by the 2016 OECD Ministerial Council Statement on enhancing productivity for inclusive growth.

This framework is particularly important for Kazakhstan's economy, which has experienced a period of strong growth over the last decade, fuelled mainly by the extractive industries. In order to boost growth over the medium and long terms, Kazakhstan needs to diversify its economy beyond extractive towards higher value-added activities. The country should focus on developing the enabling factors for growth. Regions and effective regional policies are at the core of this strategy. It is critical that each region and city mobilise its own assets and resources to spur specialisation in areas of competitive advantage and diversify its economy. Furthermore, given that the bulk of public investments occur at the subnational level, building capacity amongst regions and cities and improving multilevel governance will help make public investments more efficient.

This *Territorial Review of Kazakhstan* measures the performance of all regions and assesses the main factors that support – and hamper – growth at the regional level. It reviews the main development policy approaches undertaken in Kazakhstan over the past two decades and the implementation mechanisms adopted at the national and subnational levels. Based on this assessment, the review provides a framework for action to help Kazakhstan adopts a modern approach to regional development. This entails strengthening decentralisation efforts, improving data availability and capacity at subnational level, and better aligning efforts between different levels of government.

This review is part of a series of country reviews undertaken by the OECD Regional Development Policy Committee (RDPC) to study and share innovative practices in regional development policies across OECD member countries. The RDPC is a unique forum for international exchange and debate and has developed a number of activities, including a series of national Territorial Reviews. These studies follow a standard methodology and a common conceptual framework, allowing countries to share their experiences and disseminate information on good practices.

Lamia Kamal-Chaoui
Director, Centre for Entrepreneurship, SMEs, Local Development and Tourism, OECD

Acknowledgements

Table of contents

Tables

Boxes

Executive summary

Main findings

Regional policies can help diversify Kazakhstan's economy and reduce its dependence on natural resources

The Republic of Kazakhstan, home of 17.5 million inhabitants has experienced a long period of high and sustained economic growth with a steady increase in GDP per capita and, in turn, improving overall socio-economic conditions. The exports of oil and gas resources have been a key driver of these positive trends. The share of growth generated by regions specialised in extractive activities and financial and insurance services contribute 72% of the total, while the remaining regions contribute 28%. Against this backdrop the decline in 2014 of the international price of oil highlighted the risks of dependence on natural resource activities. Furthermore, regions specialised in extractive industries have performed well, but benefits have not accrued to other sectors and regions. A critical challenge for Kazakhstan is to diversify its economic base to ensure that it can sustain and prolong its ongoing catching-up process and move into higher value-added goods and services. Regional policies can help with these efforts through a modern approach to regional development. Such an approach seeks to mobilise the growth potential of different parts of the economy and territory based on their respective areas of comparative advantage, rather than focusing on subsidies and compensatory instruments. This in turn can help with diversification efforts and reduce regional inequalities.

Economic activity and settlement patterns are becoming more concentrated, and the country could gain more from agglomeration benefits

Kazakhstan has a large surface area and low population density at 6.3 inhabitants per square km, which is only higher than the OECD countries of Canada, Iceland and Australia. The concentration of settlement patterns and economic activity in Kazakhstan is significantly lower - roughly half - than that of equally large countries such as China, Russia, Canada, Brazil and Australia. The concentration of economic activity and settlement patterns has gradually increased in recent years. The increase has been quite pronounced in comparison to OECD and several large non-member countries with strong engagement with the OECD. Despite the increase in concentration, the associated benefits of economies of agglomeration, which occur when firms and consumer cluster and concentrate close to each other, have not been fully realised in Kazakhstan. For example, the population in medium-sized cities grew less than 1% (0.75), while in large cities it grew close to 6% (5.7) annually between 1999-2011.

Governance reforms must go hand in hand in the implementation of a modern approach to regional development

Policy initiatives in Kazakhstan over the past decades have largely emphasised a top-down approach with little focus on adapting investment to the needs and the priorities of regions. Governance adjustments are needed to administer these policies efficiently along three governance dimensions: horizontally, at the central and subnational levels, and vertically across levels of government. At the same time, decentralisation must advance further in Kazakhstan by strengthen the role of subnational governments, devolving fiscal resources and competences of public policies and deepening efforts to improve capacities of subnational authorities. More efforts should also be taken to further reduce corruption, by promoting evidence-base policy making particularly at subnational level which necessitates the availability of data, putting in place transparency and accountability measures for the use of public resources and setting up monitoring schemes and evaluations.

Key recommendations

Improving the policy framework for regional development

- There is a need to collect better subnational data to promote evidence-based regional policy making in Kazakhstan and nurture policy improvements through evaluation.

- Regional development efforts should help with a national diversification strategy to articulate a regionally-based specialisation policy in areas of comparative advantage. Priorities should focus on skill supply, better matching training efforts to job opportunities and innovation systems.

Strengthening agglomeration benefits

- A national urban policy framework to realise the potential benefits of agglomeration effects is needed. This policy should embed a more strategic approach to urban development.

- Investment strategies should be tailored to the needs of different territories by strengthening inter-ministerial co-ordination.

Governance reforms must go hand in hand

- Vertical co-ordination between levels of government should be strengthened by introducing contracts based on agreed priorities, objectives and procedures for fund management, evaluation and reporting.

- More administrative and fiscal responsibilities should be devolved to subnational governments.

- Capacity at the subnational level should be improved to enhance the quality of public investments and better engage with citizens.

- There is a need to establish clear rules and formulas for subnational level fund allocations to improve the planning process and increase transparency.

- Financial management practices, public procurement and regulatory quality should be improved at subnational level.

Assessment and recommendations

Assessment

Towards economic diversification

Regional policies can help diversify Kazakhstan's economy and reduce its dependence on natural resources

The Republic of Kazakhstan has experienced a long period of high and sustained economic growth with a steady increase in GDP per capita and, in turn, improving overall socio-economic conditions. The exports of oil and gas resources have been a key driver of these positive trends.

Despite these positive developments, the drop in 2014 of the international price of oil highlighted the risks of dependence on natural resource activities. Against this backdrop, a critical challenge for Kazakhstan is to diversify its economic base to ensure that it can sustain and prolong its ongoing catching-up process and move into higher value-added goods and services.

While there is no one-size-fits-all strategy for economic diversification, it is important to improve the enabling factors for growth. These include: human capital development, sound institutional foundations and incentives for innovation. All three areas provide critical support for a sound business environment and are areas where Kazakhstan needs to improve.

Regional policies can help with these efforts through a modern approach to regional development. Such an approach seeks to mobilise the growth potential of different parts of the economy and territory based on their respective areas of comparative advantage, rather than focusing on subsidies and compensatory instruments. In Kazakhstan, this approach can help harness the growth potential across the territory and, by extension, help with diversification efforts and reduce regional inequalities.

There is a systematic lack of data at the subnational level that hinders the identification of strengths and weaknesses in regions and the determination of policy priorities

With a surface area of 2.7 million square kilometres hosting 17.5 million inhabitants, Kazakhstan's surface area corresponds roughly to that of all original EU-15 member countries. When compared to OECD countries, only three members - the United States, Australia, and Canada - are larger. The characteristics of regions within Kazakhstan vary significantly due to differences in climatic conditions, topography and terrain. Such regional diversity is not fully captured in subnational data due to the lack of territorial statistics. Despite the abundance of administrative data, the country still lacks a spatial framework that can assess the performance of regions at different territorial levels. This lack of regional data has impinged upon the capacity of this territorial review to delve

deeper into regional analysis. For instance, there are three tiers of administration at subnational level in Kazakhstan corresponding to the oblast level (14 plus 2 cities), the rayon level (175) and settlements (around 7 000). The first tier (oblast) and second (rayon) corresponds the Territorial Level 2 and 3 units. Most of the analysis conducted in this review is done at the "Territorial Level 2" level, which refers to larger regions. Due to data limitations at TL3, it was not possible to compare the performance of TL3 regions in Kazakhstan to that of OECD TL3 regions or compare gaps between urban and rural regions given that TL3 regions are classified as urban, intermediate, rural close to cities and rural remote.

Data at the subnational level is a necessary tool to help diagnose the strengths and weaknesses at the local and regional levels. This, in turn, can help to better adapt policy responses to the needs and priorities of different regions. In Kazakhstan, more statistics are presently needed at the subnational level. Current data are only available for administrative regions and do not necessarily correspond to patterns of job markets and other aspects of daily life. Accordingly, there is a need to develop definitions and statistics that go beyond administrative boundaries in the medium and longer terms, such as information on functional urban areas.

Economic activities and settlement patterns are becoming more concentrated, contributing to geographic imbalances and growing inequality

Economic activity and settlement patterns in Kazakhstan are less concentrated among TL2 regions than the average across all OECD countries. Kazakhstan has a large surface area and low population density. However, in comparison to equally large countries - such as China, Russia, Canada, Brazil and Australia - the concentration of settlement patterns and economic activity in Kazakhstan is significantly lower.

The concentration of economic activity and settlement patterns has gradually increased in recent years. The increase has been quite pronounced in comparison to OECD and several large non-member countries with strong engagement with the OECD.[1] Kazakhstan records the second highest increase in population concentration over 1998-2011, only behind Turkey and the third highest increase in GDP behind China and Greece. Despite the increase in concentration, the associated benefits of economies of agglomeration, which occur when firms and consumer cluster and concentrate close to each other have not been fully realised in Kazakhstan, particularly in medium-sized cities.

Regional inequality in GDP per capita in Kazakhstan is particularly high. It surpasses the level of regional inequality of all OECD countries and that of several large non-member economies such as Colombia, Brazil, Indonesia and Ukraine. These disparities are largely driven by the strong performance of regions specialised in extractive industries, followed by the above average performance of select regions that benefit from agglomeration effects and finally, by the underperformance of remaining regions. Inequality in Kazakhstan has increased over a 15-year period with a pronounced rise during the period 1998-2006, and a reverse trend in the latter years (from 2007 to 2011).

Regions specialised in extractive industries have performed well, but benefits have not accrued to other sectors and regions

Broadly speaking, there are two dynamic groups of regions in Kazakhstan and a third less dynamic group as measured by average growth rates of GDP per capita and labour productivity. Amongst regions from the two dynamic groups, almost all are specialised in

natural resource activities and few benefit from economies of agglomeration. The rest belong to the less dynamic group. These patters suggest that:

- A geographic pattern in regional performance emerges from strong performing regions located in the west and weaker ones in the east. The strongest performers are natural resource intensive regions (Atyrau and Mangystau), which are located along the Caspian Sea, as well as a few regions with agglomeration benefits. The weaker performing regions are located in the east of the country with the exception of Almaty and Astana, both of which are cities displaying a strong performance.

- Economies of agglomeration have not exhausted their potential in Kazakhstan. There is no positive correlation between population density and GDP growth among regions, suggesting that the benefits of economic agglomeration have not been translated into economic growth. Furthermore, there is room to improve spillover effects of the main agglomerations with their adjacent territories, especially between the city of Almaty and its surroundings. This can be interpreted as evidence that the economic performance of the country is mainly driven by natural resources (gas and oil primarily).

- Higher levels of productivity and strong productivity growth in Kazakhstan are driven by regions specialised in extractive industries as opposed to those specialised in primary, service related (with the exception of Astana city and Almaty city) and manufacturing activities which display overall lower productivity and lower productivity growth rates.

The economic dynamism associated with extractive activities has not yet translated into social progress (reduced levels of poverty and inequality) in the regions specialised in resource extraction. Nor has it spilled over into other economic activities across supply chains or to adjacent regions. Further, current local and regional institutions in Kazakhstan do not provide sufficient incentives for entrepreneurship and innovation leading to economic diversification. Therefore, the catching-up potential of regions standing below the national average has not been realised in Kazakhstan, in contrast to the experiences in many OECD member countries.

The recent drop in the international price of oil (mid-2014) is a source of concern for the oil- and gas-rich regions. For Kazakhstan, however, it also represents an opportunity to implement reforms that can diversify its economy, given the reduced incentives to divert resources to the natural resource sectors.

Regional policies need to further support diversification and bottom-up processes

Although regional policies have evolved in recent years, they need to target drivers of productivity, promote bottom-up development and establish evaluation mechanisms

Kazakhstan has put in place several official strategies, such as Kazakhstan 2020, 2030 and 2050, which consider the need to adopt a regional development approach. These initiatives however tend to substitute existing ones without taking stock of, and improving upon, the existing policies for regional development. Policy efforts are thus characterised by discontinuity and slow progress.

During the early 2000s, regional policies prioritised the need to minimise territorial inequalities by reducing development gaps across regions. This approach was abandoned in 2006 and subsequent regional development strategies focused on growth poles - i.e. targeted investments in the most developed regions and cities. To this end, new mechanisms were pursued including the development of clustered economic activities, small and medium-sized enterprise (SME) promotion, targeted infrastructure development and a focus on stimulating the development of advanced technologies.

Initial approaches to regional development however, failed to alleviate severe economic difficulties present in a number of lagging regions and localities. Consequently, developmental gaps across regions grew even further. Territorial inequalities have decreased since the year 2007, due to the decline in the performance of oil rich regions in the wake of the financial crisis. However, regional inequalities remain considerably higher in Kazakhstan than in OECD countries.

A host of new initiatives and approaches were launched in 2011 to target agglomerations, foster innovation-based industrialisation, and develop new infrastructure. As part of this, the Forecast Scheme for Spatial Territorial Development (FSSTD), Kazakhstan promotes a largely top-down approach by pre-identifying the areas of strength rather than focusing on the framework conditions for development. This stands in contrast to the policy approach adopted in the majority of OECD member countries that attempts to activate the potential of regions by mobilising factors of production and aligning bottom-up initiatives with top-down priorities.

Emphasis was also placed on developing rural areas in Kazakhstan and monotowns (e.g. city/town whose economy is dominated by a single industry). These policy initiatives, however, have not focussed much on adapting sectoral policies to the needs and the priorities of regions. OECD experience points to the need to adopt an integrated approach focusing on the role of innovation, skills, infrastructure and the private sector in order to strengthen regional competitiveness.

The PRD (Programme for Regional Development) that complemented the FSSTD identified growth objectives in the medium term for regions. Nevertheless, budgetary resources to reach these objectives have been somewhat limited. Furthermore the PRD does not include clear guidelines on monitoring and evaluating policy outcomes.

Governance reforms must go hand in hand

Strengthening multilevel governance is a necessary condition to implement effective regional policies in Kazakhstan

Traditional, centrally-led, hierarchical administrative structures are unlikely to design and adapt regional policies to the needs of different territories. Effective governance adjustments are needed to administer these policies effectively along three governance dimensions: horizontally, at the central and subnational levels, and vertically across levels of government.

The multilevel governance approach for Kazakhstan currently faces several gaps and limitations:

- **Centralisation bias**. Policy development in Kazakhstan is highly centralised and top-down. While efforts are being made to strengthen local capacity through indirect elections and some decentralisation, priorities across a wide range of

policy areas - from education to support for entrepreneurship - continue to be set from higher-level governments.

- **Co-ordination gaps**. The degree of horizontal co-ordination is rather low. Relations between ministries are confined to the framework of their respective strategic plans. Once strategic objectives are fixed, ministries continue to operate within sectoral silos and there is little exchange of information at the level of policy implementation and monitoring. These co-ordination problems are aggravated by the weak co-operation culture that prevails in the Kazakh administration.

- **Capacity gaps**. Vertical collaboration with the central government is also made difficult. Because of Kazakhstan's propensity for centralisation, administrative expertise is highly concentrated in the capital. As capacity building requires a certain amount of "learning by doing" it may be that subnational governments need to have responsibilities transferred to them in order to undergo this learning process.

- **Accountability gaps**. A number of changes to support decentralisation were introduced in 2013: 91% of akims (mayors) are now elected (indirect suffrage) but only at the rayon level. In addition, Maslikhats (locally elected representative bodies) play a minor role in the administration of local communities. The accountability of akim executives remains oriented towards the central level (i.e. the presidential administration). Thus, there is little involvement by the local population in public administration activities.

Building subnational government capabilities is a crucial task

The involvement of subnational governments in public investment decisions remains rather limited in Kazakhstan

Public investment (e.g. capital expenditure on physical or soft infrastructure) represents one of the most potentially growth-enhancing forms of public expenditure and may serve as a catalyst for private sector investment. More effective public investment plays a critical role to promote a regional approach than can diversify the economy base beyond natural resources, addressing inequalities, building trust between government and citizens and enhancing wellbeing.

Across OECD countries, more 59% of public investment is conducted at the subnational level - i.e. by states, regions, provinces, and municipalities. Subnational governments in federal countries tend to undertake a higher proportion of public investment than in centralised states. Notwithstanding this fact, investments typically involve multiple levels of government.

In Kazakhstan, the role of subnational governments should be strengthened as partners for public investment with the central government to make the most of public investment opportunities. This requires empowering the role of oblasts and municipalities to act as meaningful partners in the investment process and improving the skill set of local administrators to manage such projects.

Beyond better engagement with subnational governments, effective public investment requires an understanding of local conditions. Timely and reliable data at the local level will help partnering governments monitor and evaluate ongoing conditions and link

public investments to desired outcomes. This includes data to help understand the long-term social, environmental and economic implications of a project, whether it delivers value for money and what the associated risks are.

Subnational governments (particularly at the municipal and community level) are better placed than national ones to engage with citizens on issues that matter to them because stakeholder engagement and consultation is easier to conduct at that scale. They are well positioned to play a strategic role, together with citizens and key stakeholders, in public investment decision making. Early involvement of stakeholders in the decision making process can help communicate expectations, manage risks and lead to improved infrastructure and service delivery.

The OECD has identified 12 Principles on Effective Public Investment across Levels of Government to help governments at all levels assess the strengths and weaknesses of their public investment capacity using a whole-of-government approach in order to set priorities for improvement. The Kazakhstan government could take advantage of these principles to better establish the multilevel governance of their public investment policy.

While some functions have been delegated to lower levels of government, decentralisation still remains limited in Kazakhstan

Kazakhstan's centralised governance approach has been criticised for its numerous deficiencies - e.g. its excessive vertical hierarchy, the domination of the executive power over that of other branches and bureaucratisation. Decentralising government through the delegation of tasks to lower levels of government offers a way to correct these shortcomings. One of the main arguments used to support decentralisation reforms is that devolving competences in public policies to the authorities governing smaller jurisdictions ensures that resources are used in a more efficient way because policies, services and investments can be tailored to local contexts. Furthermore it can lead to improved local democracy and greater accountability.

In Kazakhstan, the idea of decentralisation has been promoted only over the past 15 years. An example is the recently launched (2011) Strategy 2050, which includes specific proposals to decentralise power including an increase in fiscal transfers to regions and, alongside this, enhancing their scope of responsibilities. Overall, these reforms would strengthen the power of regional executives.

Strategy 2050 also recognises that such reforms should be supported by some degree of political decentralisation. Accordingly, a plan was envisaged to allow 2 533 governors of rural districts, villages and 50 towns of district significance to transition from being appointed to being elected (albeit, indirectly). In the wake of this new law, the election of akims (mayors) took place in mid-2013. It is nevertheless a limited step towards political decentralisation since the elections were exercised via indirect suffrage, instead of direct elections by local citizens. The central government also maintained a veto power on candidates. Importantly, the akim election did not include the akims of the oblast and rayon levels, who continue to be appointed by the central government.

In the same period, lower levels of government have also been granted more authority in shaping the design and implementation of regional development policies and programs. This is presumed to encourage lower levels of government to build on their locality's unique strengths. Likewise, multilevel governance approaches that involve national, regional and local governments, along with third-party stakeholders such as NGOs and private sector actors, have been more widespread.

Fiscal equalisation conditions do not provide incentives for an efficient delivery of regional and local programmes

The process of decentralisation remains nevertheless quite asymmetric in Kazakhstan. Some functions are delegated to subnational tiers of government while they remain fiscally dependent on the central government. Local government own source revenues are marginal and their scope for fiscal initiatives is very limited.

Subnational revenues have decreased relative to GDP since 2010. Most regions suffer from fiscal imbalances (apart from the city of Almaty and the two oil rich regions - the donor regions). They generate revenue that is lower than the level of their expenditures and therefore, transfers from the central government cover this gap.

Earmarked transfers and subsidies compensate for deficits, but they do not provide incentives for regions to improve upon their economic situation and use resources in an efficient way. Local administrations have no impact on these transfers, which are managed by the central government.

While greater fiscal autonomy is necessary to instil dynamism at local government level, progress can be achieved in the short term by changing the methodology for calculating transfers and replacing the existing spending approach by a standard cost assessment method based on the provision of public services. Doing so would help to create strong incentives for local governments to better support economic development.

Although efforts have been taken to reduce corruption, there remain areas of concern

The central government has recently taken steps to reduce corruption. A new anticorruption agency was established in 2014. The country has made significant changes to its public procurement legislation and has introduced some elements of e-procurement. A civil service reform has been adopted into law and is being implemented in practice. However, a number of limitations remain (e.g. no changes have been introduced to the system for declaring incomes). Corruption presents a significant challenge to development and Kazakhstan remains at the bottom of the rankings for all countries in Transparency International's corruption perception index (at number 28 in 2015).

A number of pressing challenges that require appropriate reforms, remain. Corruption presents a major obstacle to business activities in the country. Kazakhstan is ranked relatively well on the "ease of doing business" indicator, taking 50th place in 2014 (World Bank classification). However, its ranking is less satisfactory in the case of "illicit payment and bribes" where it was ranked in the 80th place for the same year (World Bank classification).

It is crucial that Kazakhstan create a favourable business environment, particularly for SME development. There is work underway to improve the law on entrepreneurship and there are efforts to draft an anticorruption charter for business. However, to date, neither of these are finalised. Kazakhstan needs to urgently enhance awareness of legal provisions among entrepreneurs. Regular ethics training and corruption prevention is implemented among civil servants but communication to private business on these issues - e.g. business integrity - is scant. A leap forward is necessary.

Recommendations

(1) There is a need to collect better subnational data to promote evidence-based regional policy making in Kazakhstan and nurture policy improvements through evaluation.	Better territorial data and statistics are needed in Kazakhstan to improve regional analysis. The availability of territorial data can help identify the key assets and strength of regions, their bottlenecks for development and the crucial short-term and long-term priorities. This statistical infrastructure is a necessary condition to design strategic regional development programmes by regional and national authorities. A series of regional observatories could be instituted to collect territorial data (see, for example, the initiatives taken by Colombia in this context). The central government should allocate technical skills to these observatories and gradually transfer capacities to subnational authorities. Regional development policies and programmes need to be systematically assessed and monitored and such assessment should be shared with both higher levels of government and local communities. It is important that subnational actors are involved in the process. The outcome of programmes and policy evaluation should also be used to improve them. Policy actors should learn from each other and share best practices. Furthermore, regional observatories could help to evaluate the impact of plans and programmes.
(2) Regional development efforts should prioritise the development of skills, innovation and should focus on better matching training efforts to job opportunities.	Regional development efforts should help with a national diversification strategy to articulate a regionally-based specialisation policy. Such policy would target a number of priority areas and focus on areas of comparative advantage. This demands more effective public resource spending which is concentrated on certain domains of expertise along with the creation of synergies between public support mechanisms for research and development, innovation, industrial promotion and training institutions. In particular, priorities should: • Focus on skill supply and the regional match between labour supply and demand. The supply of students is highly concentrated; half of all graduates hail from the city of Almaty and from eastern and western Kazakhstan. Conversely, oil rich regions produce few graduates. Strategy 2020 sketches out an "investing in the future" initiative, which targets preschool education and 12 year compulsory education. The initiative also seeks to adjust vocational technical education to employers' needs and to improve the quality of higher education overall. However, there is no related programme with which to implement these goals and Strategy 2050 does not focus on these issues. Urgent efforts are presently needed to strengthen the vocational training system, to support on-the-job training and to introduce incentives for lifelong learning.

	• Develop regional innovation systems. Kazakhstan is underinvesting in R&D; the proportion of these expenditures compared to its GDP has remained at a low level, unchanged for more than a decade. Innovation activities are modest even in the top performing regions (i.e. western and northern Kazakhstan, Zambyl and Kustanai). Contributions to the higher education sector are also weak. Only 22 national universities among 132 in total are involved in science and technology activities. Policies to support regional innovation systems (RIS) need to focus on strengthening and developing new research infrastructure, enhancing industry/university linkages and increasing the mobility of researchers.
(3) A national urban policy framework to realise the potential benefits of agglomeration effects is needed.	Cities are important drivers of national growth due to the benefits that are associated with economies of agglomeration. In Kazakhstan the these benefits are not fully realised due to inefficient utilities and municipal infrastructure, a lack of planning, weak co-ordination between central government, regions and city akimats and limited local government experience developing municipal projects suitable for PPPs.

Policies to maximise these benefits need to integrate programmes for the modernisation of the urban transport system, the rehabilitation and expansion of the water supply and sanitisation sector, the maintenance and expansion of the solid waste management system and the rehabilitation of the urban district heating network.

Urban development is also important to invest in the attractiveness of Kazakh cities and encourage domestic and foreign direct investments. The availability of urban technological infrastructure and suitable industrial environments often play a role in investors' decision making to select a location for a new plant or a commercial entity. According to the Kazakh National Agency for Technological Development, there are only seven technoparks, four design offices, one Free Economic Zone and two International Technology Transfer Centres in the country. Urban policies should have more recourse to these spatial instruments and at the same time should adhere to best practice principles, notably with regard to science parks and industrial zones—i.e. the integration of the zone with the wider environment, moderate use of fiscal incentives, and rigorous cost/benefit analysis for public investment decisions. A national urban policy framework can embed a more strategic approach to urban development. |

(4) Investment strategies should be tailored to the needs of different territories by strengthening inter-ministerial co-ordination.	Kazakhstan needs to design and implement investment strategies tailored to the places the investments aims to serve. These strategies should reduce conflicts among sectoral strategies and provide a place-based assessment. The central government should foster the co-operation of the different levels of the executive branch in order to secure adequate resources and sufficient capacities to undertake investments.
	A number of co-ordination mechanisms in Kazakhstan exist, but they appear to be more formal than substantial. The ministries have a limited ability to conduct research and analysis and develop projects not included in their strategic plan, and test policy options in partnership with public and private organisations. Many issues require cross-ministry co-operation, for which co-ordination mechanisms are insufficiently developed.
	Central governments often struggle to overcome their own sectoral approach in favour of integrated approaches to regional development. Co-ordination is needed to encourage the various institutional and managerial systems that formulate and implement regional policy to work together. Consistency is also required to ensure that individual policies are not contradictory, and that they converge in a coherent strategy. This process necessitates political commitment to overcome sectoral tendencies and an overall clarification of roles and responsibilities of different ministries or agencies in the field of regional development. Various horizontal co-ordination governance options include special high-level units, integrated ministries, and interministerial co-ordination via working groups and formal contracts.
	A number of instruments have emerged for this purpose ranging from bodies in charge of co-ordinating the activities of sectoral ministries to ministries with broad responsibilities encompassing traditionally separated sectors. Recourse to inter-ministerial Committees and Commissions offers the simplest solution.
	In Kazakhstan, inter-ministerial and central agency co-ordination and collaboration should be strengthened by promoting informal and working-level networks as well as by introducing horizontal accountability frameworks and the development of rotational programmes for civil servants.

(5) Vertical co-ordination between levels of government should be strengthened.	Developing a true partnership with subnational governments implies participation in decision making and also in the implementation of the regional development policies that the regional or local government helps to design. These arrangements require a high level of commitment, effective knowledge sharing and competence on the part of local representatives. A key challenge in this regard is how to ensure that the proper incentives are provided so that communities act in a way that is both dynamic and rewards initiative and experimentation, but that also promotes consistency in public policy across sectors and regions. A certain balance needs to be realised between top-down and bottom-up approaches (i.e. between the need for co-ordination and the need for flexibility).
	A growing number of OECD countries have found that contracts offer an efficient way to establish co-operation between central and subnational governments (OECD, 2013; 2007). OECD analysis shows that such contracts need to be closely integrated with existing administrative and budgetary arrangements. Many contracts remain largely unsuccessful in changing existing fragmented structures because the relevant competencies that go along with the strategies embodied in the contracts remain unchanged. Another issue is the risk of overstretching existing capacities both at the local and national levels. Contracts can create parallel structures to existing administrative processes, which may increase the administrative burden and the need for know-how to engage in these new structures. Therefore it is crucial to ensure that contractual arrangements are accompanied by training for all levels of government in how to implement them.
	Contracts for regional development should be envisaged in Kazakhstan based on agreed priorities, objectives and procedures for fund management, evaluation and reporting. Such contracts should specify the main objectives of policy, the instruments to be employed and the indicators that would be used to assess progress with respect to policy changes and programme implementation.
(6) There is a need to establish clear rules and formulas for subnational level fund allocations to improve the planning process and increase transparency.	Central government fund allocations to subnational governments are vulnerable to manipulations. Discretion often characterises the allocation of funds. This lack of transparency generates uncertainty that is not favourable to long-term plans and investments. It reduces the incentives for each administration to take initiative to successfully implement policy because a sudden reduction of funds may jeopardise any project that requires more than one year of funding. The negotiation process between the central and lower levels of government should be organised and clarified and clear budgeting and funding principles should be applied.

(7) Financial management practices, public procurement and regulatory quality should be improved at subnational level.	Good practices in budgeting, financial management, public procurement and regulatory quality provide the basis for successful public investment. Matching arrangements and appropriate fiscal frameworks increases the commitment of the different levels of government. The central government needs to set conditions for lower tiers to participate in these arrangements and operations.
	The role of lower tiers of government for public investment is often downplayed in Kazakhstan. Revenue transfers to subnational governments should be increased to widen their margins of manoeuvre and to help them adopt more proactive behaviours with regards to public investment. It is also important that the country benefits more from the knowledge and expertise of lower levels of government regarding local economic opportunities and constraints.
	Procurement is integral to public investment. This activity is vulnerable to fraud and corruption in Kazakhstan. The Central government should therefore enhance transparency at all stages of the procurement cycle and establish clear accountability and control mechanisms.
	Regulatory costs and barriers are often higher at the subnational level. This limits competition and impedes investment. The central government would be well advised to promote procedures at this level to assess areas for which regulatory reform and simplification is the most urgent. It could for example, launch programmes to assess and reduce the costs of compliance at decentralised levels of public administration.
(8) More administrative and fiscal responsibilities should be devolved to subnational governments.	Subnational authorities (at oblast, rayon and local levels) need more autonomy in order to effectively respond to local needs, manage and implement projects, programmes and investments and be accountable to the local population. To this end, the central government should:
	Grant financial leeway to regional and local authorities. In 2014 the Ministry of Economy forwarded several proposals to reduce local government dependency on central government resources. These proposals should be further supported and strengthened. The creation of a few own-source taxes or the introduction of shared taxes (between the central and subnational governments) should be considered in the medium term to create incentives for subnational governments in becoming more involved in bottom-up development initiatives. Local governments should also be given some freedom with regard to fixing rates and bases and allocating own taxation resources. A cadastre needs to be created in order to administer a land tax. There is also a need to grant some liberty to the lower levels of government to manage tariffs and fees associated with the provision of local public

	services. Such increases in local autonomy must proceed alongside rigorous monitoring of local administration and accountability. Transfer new funding capacities to subnational levels in line with an extension of their competencies in the fields of infrastructure, innovation investment and supports for business development. One way to secure this additional supply of funds would be to tap the National Oil Fund - a fund that is increasing. The New Royalty System in Colombia offers one example of what can be achieved to support investment in regions and territories while at the same time strengthening the capacities of subnational governments.
(9) Capacity at the subnational level should be improved to enhance the quality of public investments and better engage with citizens.	Public investment and growth outcomes are correlated to the quality of government including at the subnational level. At all levels of government, professional skills and specific workforce capacities need to be available. The role of lower tiers of government is often downplayed in Kazakhstan. Regional and local administrators largely execute central level directives. The present sub-central administrative system stifles local creativity and initiative and is not conducive to productivity improvements. Civil servants in urban municipalities and rural areas need to take a more proactive stance and to become more involved in designing and implementing policies. To this end, improving capacity at local levels of government is particularly important in Kazakhstan because of its long history of centralisation, which has tended to provide less formal education and training to subnational officials than their national counterparts. At the same time, regional and local governments often lack the institutional capacities to deal with public policies as efficiently as civil servants in the capital. While the central government needs to retrain officials associated with public investment in the central administration, professional skills at subnational level deserve special attention. To this end the central government would be well advised to: 1. Enhance local capacity building by increasing the availability of adequate tools such as data information and analytical competences; 2. Provide technical assistance to local governments and promote exchange of experience and best practices among them in order to improve the quality of services and the efficient use of resources; 3. Promote a public management environment that rewards initiatives and good performances. Involving citizens in decisions that affect their daily lives can

leave to more effective policy making. A bottom-up approach for the role and performances of local governments would not only increase their capacity to provide efficient public services, but would also help them to engage with citizens on issues that matter to them - thus increasing the responsiveness, accountability and transparency of public investments.

Structured well, such initiatives can increase community buy-in for projects. They may also foster dialogue and deal with any conflicts that may arise upfront, such as the recent protests against land reform that lacked public deliberation. Further, the incorporation of a broader array of perspectives can lead to the more effective design of policies, programmes and other investments. Effective public engagement practices require that citizens, businesses or other organisations are involved in the policy process and that outcomes of their feedback are taken into consideration. Such processes go hand-in-hand with the decentralisation of decision-making. In essence, effective public engagement practices require real decision-making and authority at the local level alongside open lines of communication and deliberation between citizens and local governments, transparency and accountability.

Note

1. As part of the OECD Ministerial Council resolution on enlargement and enhanced engagement, certain countries are invited into a process of "enhanced engagement" with a view to possible membership. At present, these are Brazil, China, India, Indonesia and South Africa.

References

OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264197022-en.

OECD (2007), Linking Regions and Central Governments: Contracts for Regional Development, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264008755-en.

Chapter 1

Regional trends in Kazakhstan

This chapter provides an assessment of regional trends and the opportunities and challenges the economy of Kazakhstan faces. The analysis starts with an overview of the macroeconomic and regulatory framework, which provides the setting for the analysis of regional trends. The territorial structure of Kazakhstan is discussed considering the implications of low population density and the presence of natural resources. It then considers the economic performance of regions, including their contribution to national growth and the role of the extractive industry, with regions classified according to their sectoral specialisation. This is followed by an assessment of the main drivers of productivity growth, including factors such as agglomeration economies, education, and infrastructures.

Introduction

The Republic of Kazakhstan has experienced a long period of high and sustained economic growth, with a steady increase in GDP per capita. This has improved socio-economic conditions, most notably reducing poverty rates and raising labour-market outcomes. The main driver of this positive trend is the export of mineral and fossil fuel resources. The economy has benefited from the country's rich natural resources, as reflected in its positive trade balance – at least until the sudden drop in the international price of oil in mid-2014.

Kazakhstan's reliance on mineral and fossil fuel resources, however, presents challenges in the medium and long term that leave it highly dependent on external fluctuations in the demand of oil, gas and other mineral resources. This reliance on natural resource growth has been an important bottleneck in unlocking the country's innovation potential, as is typical of other catching-up economies. As a result, Kazakhstan's economic base remains largely undiversified, and a large proportion of its labour force is still employed in the agricultural sector. One of the key challenges that must be addressed is to diversify its economic base and shift to higher value-added economic activities. This will increase productivity in the medium and long term, intensifying the period of economic expansion.

While no single strategy for economic diversification can be universally applied, key areas for development include improving the framework conditions for growth, including human capital development, sound institutional foundations and incentives for innovation. All three are vital for the private sector, and all have room for improvement in Kazakhstan.

A necessary tool for diagnosing the strengths and weakness at the local and regional level is the availability of data at different geographical scales. In Kazakhstan, more information is needed at the local level to compare its urban and rural trends with international norms.

Given Kazakhstan's large area and low population density, its economic activity and settlement patterns are less concentrated than on average in OECD countries. However, they have gradually been increasing in recent years. The increase in concentration has been quite pronounced by comparison with that of OECD countries. The benefits of economic concentration and agglomeration, however, have not been fully exhausted in cities of all sizes. Although metropolitan areas and small cities are quite dynamic, medium-size cities show room for improvement. Regional inequality in Kazakhstan is particularly high, exceeding the level of regional inequality of all OECD countries and that of developing countries such as Colombia, Brazil, Indonesia and Ukraine. Inequality in Kazakhstan has increased over a 15-year period, with a steep increase in the period from 1998-2006 and a reversal from 2007 to 2011. These disparities are largely driven by the high performance of regions specialised in extractive industries, the agglomeration benefits in several regions and finally, by the underperformance of the remaining regions.

Broadly speaking, Kazakhstan has two groups of dynamic regions in terms of GDP per capita and labour productivity, and a third less dynamic group with average growth rates. Between the two dynamic groups, almost all regions are specialised in natural resource activities or benefit from agglomeration economies. The remaining regions constitute a less dynamic group.

The economic dynamism associated with extractive activities has not yet translated into social progress in the regions that specialise in resource extraction, or spilled over into other economic activities and to economic activities in other regions across value chains. The current local and regional economic structures in Kazakhstan do not provide sufficient incentives for entrepreneurial and innovation activities that could help diversify the economy. In contrast with other OECD member countries, the regions in Kazakhstan that perform below the national average have not demonstrated their potential to catch up.

The substantial and persistent drop in oil prices represents a challenge for the Kazakhstan economy. In mid-2014 the international price of oil halved and it has since remained low. The government reacted with an expansionary fiscal policy, mainly financed with the oil fund precautionary resources. The economy however has suffered, since. The GDP growth rate dropped to 6% in 2013 to 1.15 in 2015, with a projected growth of about 1% in the subsequent years (World Bank, 2015a).

Kazakhstan's macroeconomic performance

Macroeconomic performance has been strong since the turn of the century…

Since Kazakhstan's independence in 1991, its economic performance has been distinguished by two distinct periods. A problematic period of high unemployment and inflation in the ten years after independence was followed by a ten-year period during which the economy grew at a steady pace, with key macroeconomic indicators trending upward. The global financial crisis starting in 2008 did not affect these positive trends.

In the past decade, Kazakhstan's growth rate has outpaced that of neighbouring developing countries and OECD member countries. In a comparison of growth rates in real GDP between OECD countries and emerging economies over the last decade, the Republic of Kazakhstan's rate of growth has been higher than that of the Russian Federation and Turkey, and significantly higher than the OECD average (Figure 1.1).

Kazakhstan's economy displayed more resilience during the recent global financial crisis than OECD economies. The effects of the crisis over the period 2008-2010 caused a significant drop in economic output in all OECD countries. By comparison, the Republic of Kazakhstan experienced the lowest drop and the fastest recovery, which was already under way in 2009, at a time when most other OECD countries were entering into even deeper recession. The fast recovery was helped by a government bailout and stimulus package of USD 10 billion from the National Fund.

Since mid-2014, however, the substantial drop in the international price of oil determined a slowdown of the economy, only partly mitigated by the use of the oil fund reserves. The protracted low price of oil and weak demand for other extractive products represents a challenge for the Kazakh economy and makes the strategy for diversification of the economic activities even more pressing.

Figure 1.1. **Real GDP growth rates, 2000-15**

Despite its strong performance in the past decade, with growth rates with outpaced OECD member countries, the level of Kazakhstan's GDP per capita stands at around one-fifth of the OECD average, and at 75% of Mexico's level (Figure 1.2). In this respect, only the Russian Federation has fared better than Kazakhstan in reducing the gap with the OECD countries – although the drop in the price of oil seems to have a higher negative impact on Russia than Kazakhstan. The expected poor performance of the Russian economy could contribute to the slowdown of Kazakhstan, as Russia represents one of its main trading partners. In this scenario, sustaining structural and institutional reforms will be a key factor for maintaining its catching-up potential.

Figure 1.2. **GDP per capita in selected countries**
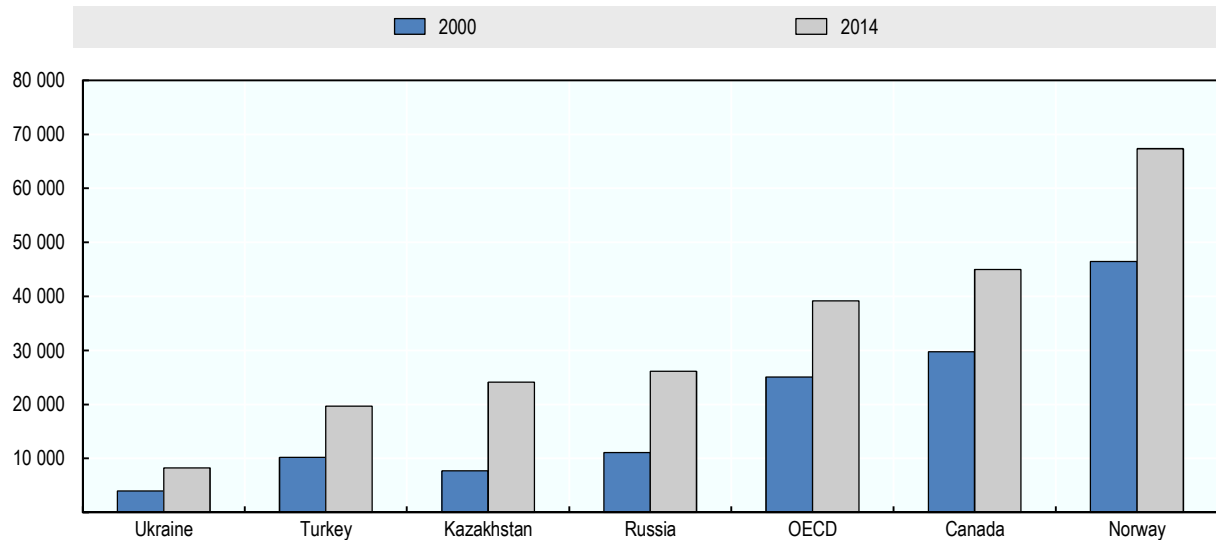
Note: Figures refer to GDP evaluated in PPP current US dollars.

Source: OECD (2016), "Aggregate National Accounts, SNA 2008 (or SNA 1993): Gross domestic product", *OECD National Accounts Statistics* (database), OECD, Paris, http://dx.doi.org/10.1787/data-00001-en; and IMF (2016), *World Economic Outlook database*, (https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx).

Kazakhstan's productivity gap is around half that of OECD countries, despite converging since the year 2002. In the period 2002-2008, the gap in its labour productivity by comparison with OECD countries steadily decreased, from 62% below the OECD average in 2002 to 52% in 2008 (Figure 1.3). After the crisis, the gap temporarily increased, but by 2011, had risen to half of the productivity of OECD countries. Despite the gap, labour productivity in Kazakhstan is close to that of Turkey, Mexico and Chile, and well above the average productivity level of the BRICS countries (Brazil, Russia, India, Indonesia, China and South Africa).

Figure 1.3. **Percentage difference between Kazakhstan's labour productivity and the OECD average**

(Percentage share)
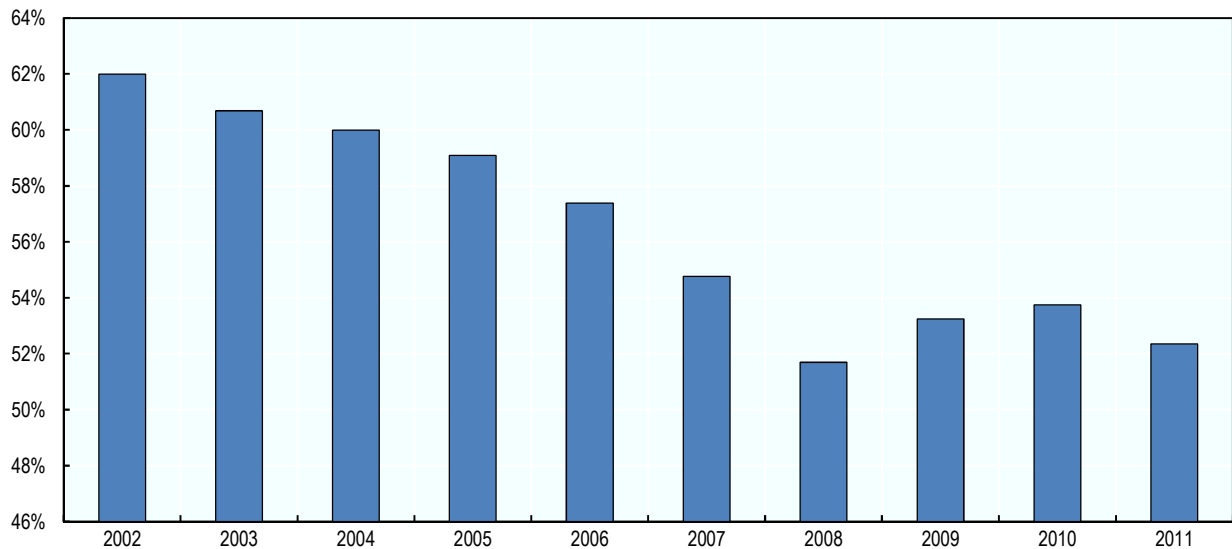
Note: Labour productivity is measured as the ratio between GDP (in constant 2005 USD) and employment.

Source: Own analysis based on data from OECD (2016), "Aggregate National Accounts, SNA 2008 (or SNA 1993): Gross domestic product", *OECD National Accounts Statistics* (database), OECD, Paris, http://dx.doi.org/10.1787/data-00001-en.

The recent robust performance of the economy has been propped up by the increase in fiscal spending and by private investments. Prudent macroeconomic management has also kept inflation relatively low, and the government has accumulated significant fiscal savings in the National Fund and the Central Bank, building up a substantial stock of international reserves.

Kazakhstan has made significant progress in social and labour market indicators…

Demographic patterns in Kazakhstan support a positive outlook. The country has seen a steady increase in total population over the past decade, with an annual population growth rate of close to one full percentage point (0.8%) annually over the 1999-2011 period. This threshold was significantly exceeded after 2007 (Figure 1.4). This trend is a result of the country's robust performance in terms of economic development, which has been boosted by a net inflow of inhabitants. Furthermore, Kazakhstan has a relatively high youth dependency ratio (37%), surpassed only by Israel, Mexico, Colombia, Turkey and Brazil – indicating a large potential future labour force – and a very low elderly dependency ratio (9.6%) – indicating relatively low health care and social expenditures, other things being equal.

Figure 1.4. **Demographic trend, 2000-15**
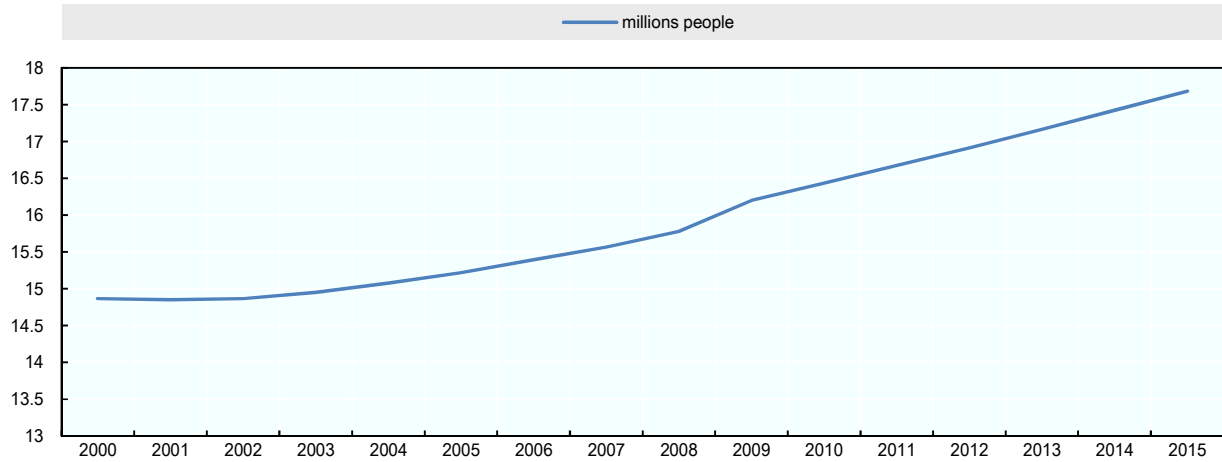
Source: United Nations (2015), *World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*, Working Paper No. ESA/P/WP.241.

The positive demographic trend is complemented by an age structure that presents a pyramidal shape, with large share of young population. This is in contrast to the inverted pyramid structure in most advanced countries, which are characterised by low nativity rate.

Figure 1.5. **Age structure in Kazakhstan**
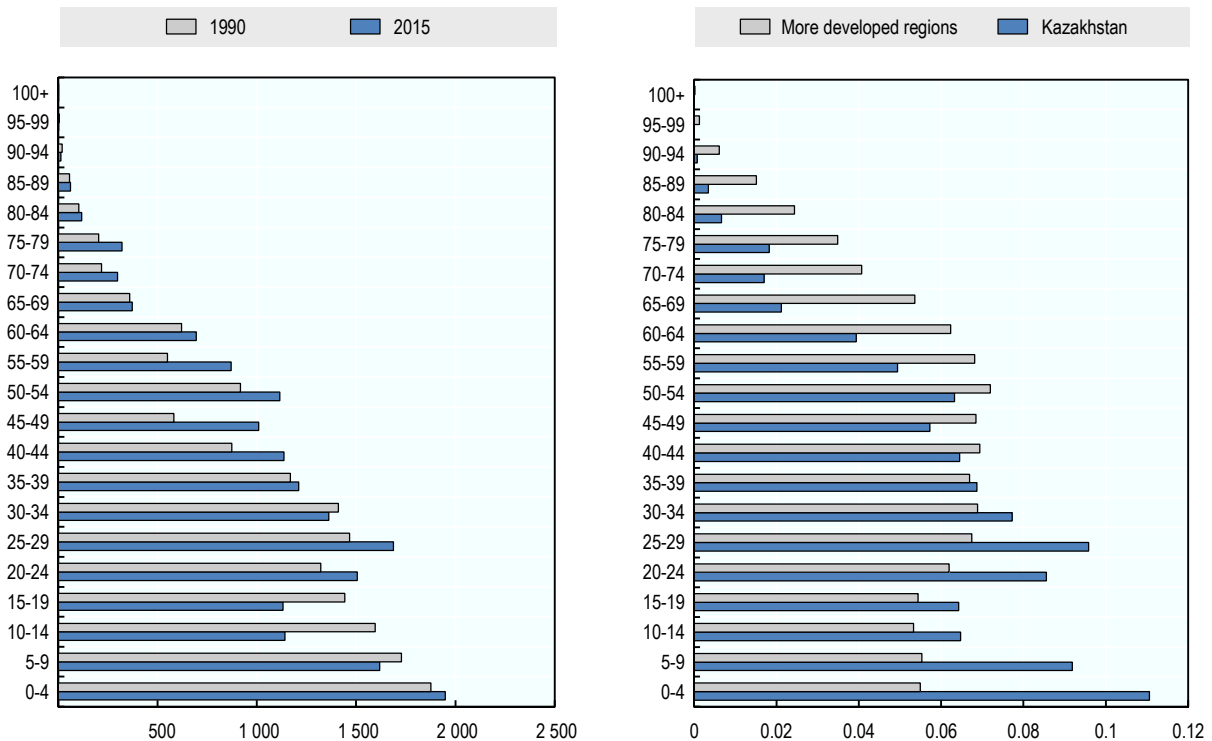
Source: United Nations (2015), *World Population Prospects: The 2015 Revision, Key Findings and Advance Tables*, Working Paper No. ESA/P/WP.241.

Figure 1.6. **Youth and elderly dependency ratios in OECD and non-OECD member countries, 2011**
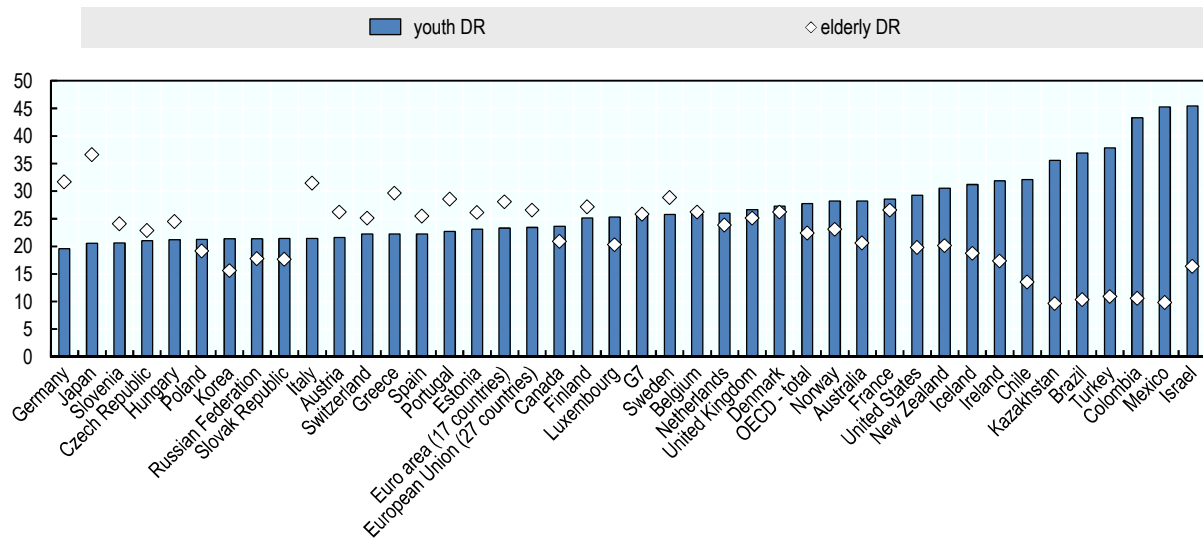
Kazakhstan's poverty rates have declined significantly in the decade 2000-2010. The share of population below subsistence level declined from 46.7% in 2001 to just 5.3% in 2011, with most of the reduction occurring between 2005 and 2006. Although the strong decline could partly have been driven by a change in the methodology of computing the indicator, comparing the trend before and after the year of the methodological change confirms the strong decline in the share of population living below subsistence level.

Figure 1.7. **The share of population below subsistence level has steadily declined in all regions**
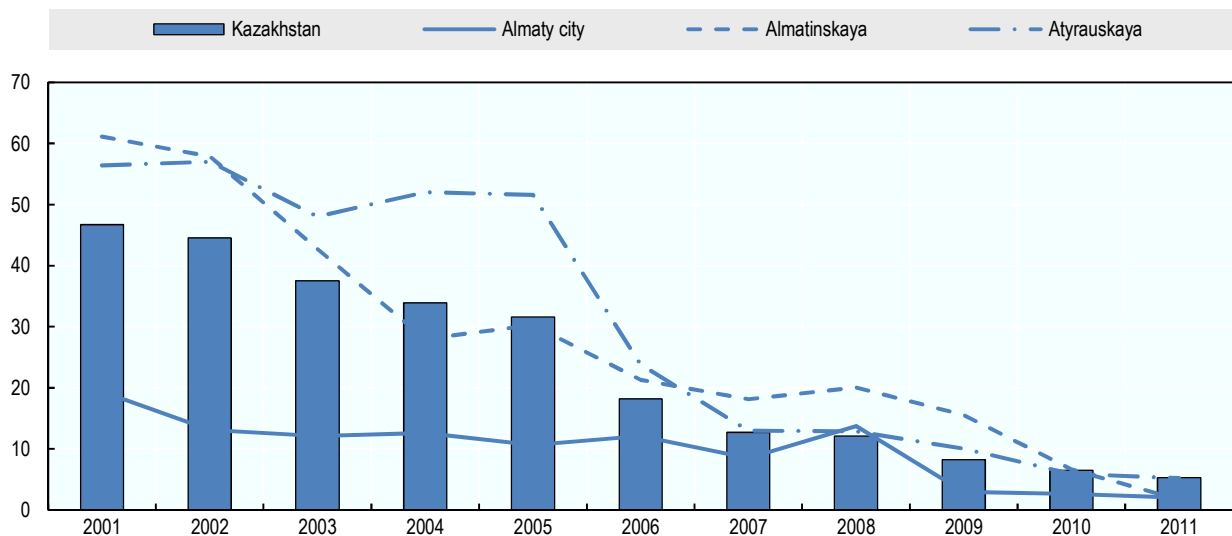
Sustained GDP growth is mirrored by improvements in labour market indicators. The unemployment rate dropped by more than seven full percentage points; falling from 12.8% in 2000 to 6.6% in 2008, slightly above OECD standards, before the global financial crisis. By 2011, it had fallen below OECD levels (8.2%), and stood at just 5.4%, thanks to its resilience to the crisis. This was below the rate in the Russian Federation (6.6%) and in Turkey (8.8%). Employment rates are also in line with OECD standards, accounting for close to two-thirds of the working age population (63.4%) in 2010. Table 1.1 shows that the steady decline of the unemployment rate continues up to 2014 (the latest available date), and seems not to be affected by the drop in the international price of oil.

Table 1.1. **Marked decline in unemployment rate in Kazakhstan, 2000-14**

Time	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Canada	6.93	7.53	8.13	7.93	7.48	7.01	6.52	6.38	6.57	9.54	8.79	7.96	7.72	7.51	7.38
Norway	3.65	3.49	4.12	4.85	4.83	4.81	3.47	2.58	2.75	3.61	4.11	3.45	3.62	3.68	3.75
Turkey	6.58	8.72	10.72	10.71	10.78	10.45	9.92	10.04	10.74	13.91	11.43	9.17	8.54	8.74	9.03
OECD countries	5.78	6.00	6.66	6.79	6.62	6.39	5.86	5.47	5.86	8.51	8.54	7.97	7.89	7.90	7.27
Russian Federation	10.78	9.34	8.14	8.46	8.00	7.31	7.42	6.35	6.46	8.91	7.86	6.93	5.81	5.79	5.48
South Africa	..	23.10	23.49	23.65	21.24	20.04	18.60	18.78	19.69	21.89	22.84	22.56	22.84	22.95	23.15
Kazakhstan	12.80	10.40	9.30	8.80	8.40	8.10	7.80	7.30	6.60	6.60	5.80	5.40	5.30	5.20	5.00

Source: Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (Accessed 15 January 2017).

Figure 1.8 provides a graphical representation of the trends in unemployment in Kazakhstan and in OECD countries. Kazakhstan started from a level of unemployment rate higher than the average across OECD countries, but they steadily declined, and became lower than the OECD average in 2008 when most OECD economies where severely hit by the global financial crisis.

Figure 1.8. **Steady decline of unemployment**
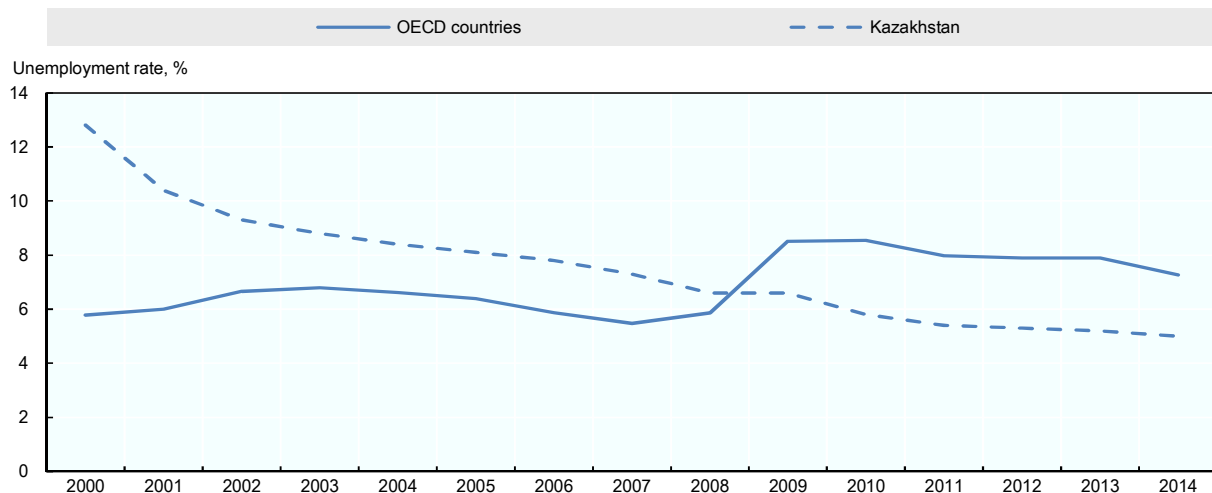
Note: OECD countries refer to the average unemployment rate among OECD member countries.

Source: Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017); and OECD (2017), "Regional demography", *OECD Regional Statistics (database)*, http://dx.doi.org/10.1787/a8f15243-en (accessed on 15 January 2017).

Figure 1.9. **Increase in the employment rate and a stable participation rate, 2001-14**
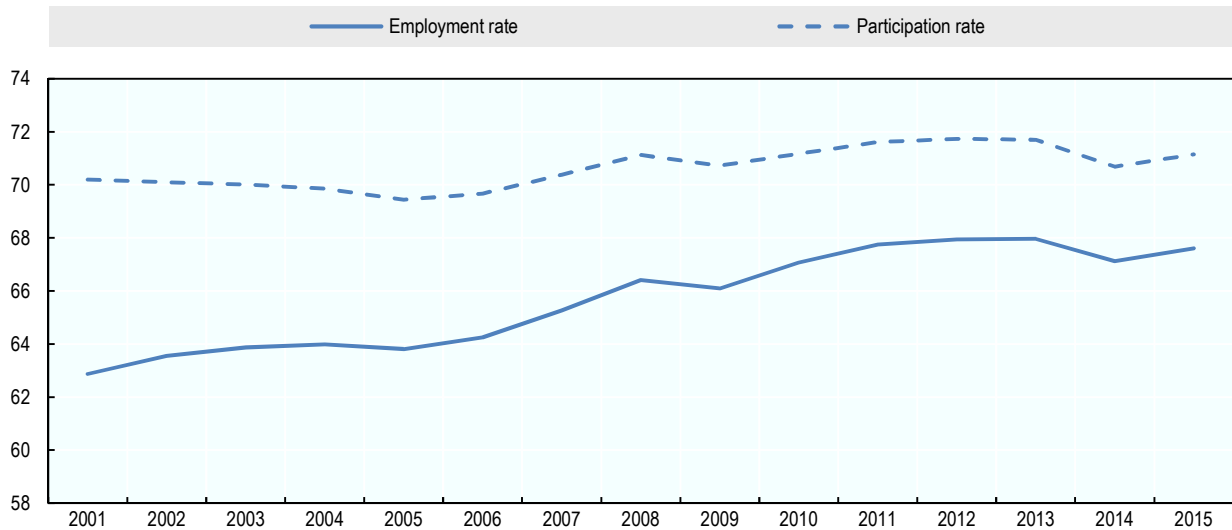
Note: Employment rate represents the number of employed people divided by the working age population; the Participation rate is calculated as the labour force over the working age population.

Source: Own elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

The labour market presents a healthy trend, with a steadily increasing employment rate and a high and stable participation rate (around 70%). This is a good sign in terms of labour market absorption. In 2014 however both the participation and the employment rate experience a drop. This might be linked to the drop in the international oil price, which produced a negative shock to the Kazakhstan economy. The female labour force participation rate in Kazakhstan for those ages 15+ stood at 78.6% in 2013 (World Bank, 2015b). This is quite high; the female labour force participation rate stood at 46% for all countries in Europe and Central Asia in the same year (World Bank, 2015b).

Dependence on extracting industries may be a concern for Kazakhstan's economy…

Export growth has been a key driver of Kazakhstan's recent growth performance, particularly from 2003 onward, with a rapid increase in exports and imports. This trend stalled in 2009, during the global financial crisis. Kazakhstan's trade balance has always been positive, implying that its exports, mainly oil and gas, are financing its imports of goods and services. Heavy reliance on natural resource development can present challenges for the country's development efforts in the medium and long term.

Kazakhstan continues to shift from agricultural to extractive industries and services (mainly the public sector). A profound structural shift occurred in the country during the early and mid-1990s: the agriculture's share of GDP decreased from 35% in 1990 to less than 15% in 1995. Since this time, a sustained shift towards natural resource based activities and services have occurred. The contribution of the agricultural sector to national GDP fell by almost half over a ten-year period, from 8.11% in 2000 to 4.51% in 2010, and its share of total employment dropped from 35% to 28%. In contrast, the mining sector increased its contribution to national GDP from 13% to 19.5% over the

same period and service-based activities employed a larger share of the workforce, from 52% to 58%, despite their decreasing contribution to total output. It is worth noting that the share of industry includes not only mining, but also the processing industry, whose impact on GDP fell from 16.5% to 11.32% between 2000 and 2010.

Figure 1.10. **Sector contribution to Kazakhstan's GDP**
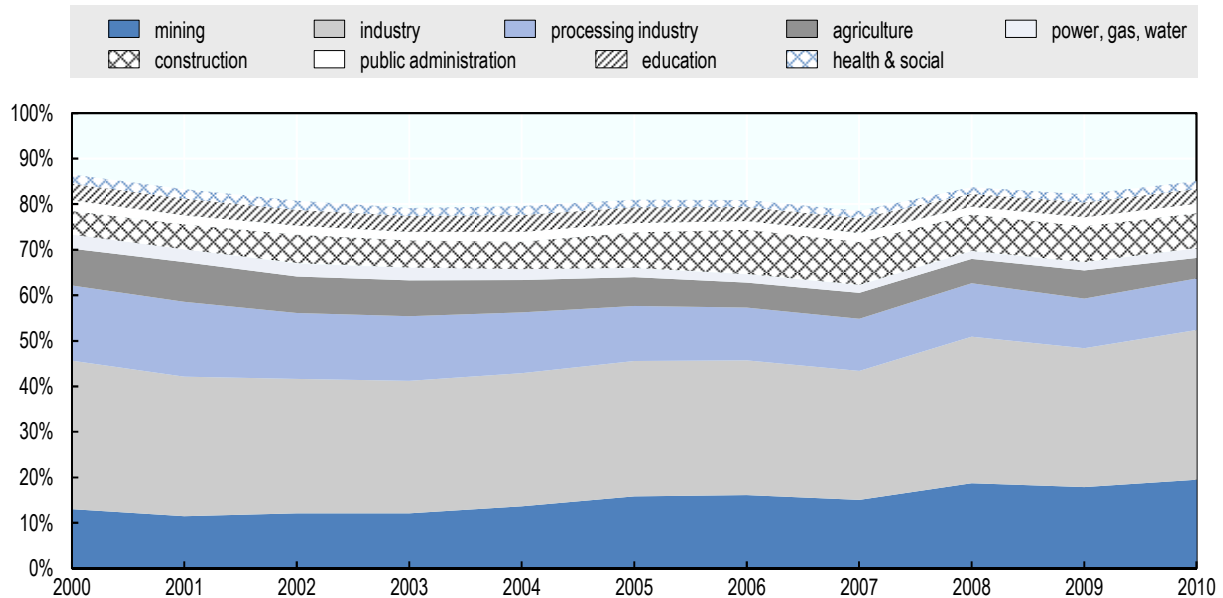
Source: Own elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Kazakhstan's reliance on natural resource activities exposes its economy to volatility, which can potentially impede its diversification efforts and harm productive firms. Instability in oil prices and commodity markets also leads to high levels of uncertainty for domestic and foreign investors, a higher cost of capital, and lower levels of private sector investment. Furthermore, volatility in the real exchange rate can be a significant impediment to innovation and the real economy. Given that the returns to innovation and 'self-discovery' typically accrue over the long term, real exchange rate uncertainty encourages greater fixed capital accumulation and lower investments in innovation, leading to a loss of competitiveness and a decline in the economy's long-run growth potential (Hausmann et al., 2011).

Kazakhstan's current account balance, by comparison with the OECD average and with that of the Russian Federation, is highly volatile, mainly driven by the high percentage of natural resource goods in the export basket and fluctuations in commodity prices. A noticeable, almost perfect correlation appears between exports and the average price of oil in the international markets. In particular, the increase in the value of exports in the period 2003-2008 mirrors a similar increase in the price of oil in international markets.

Commodity-exporting countries are often particularly vulnerable to growth volatility, which may impede diversification even if it does not reduce average growth in the long run. Boom-and-bust cycles affect which firms succeed or fail. In a perfectly functioning market, more productive firms survive and less productive firms are forced out. In boom

and bust cycles, however, older firms are more likely to survive than new ones. Lenders and suppliers, for example, may be less likely to support new entrants under stress than they are to back older firms with which they have long-standing relationships. The problem is that the relative importance of incumbency, as opposed to productivity, appears to be greater in downturns. Sharp cycles are thus more likely to weed out productive new firms; as opposed to less productive older ones (see González et al., 2013).

Figure 1.11. **Current account balance, export, imports, and oil price fluctuation**
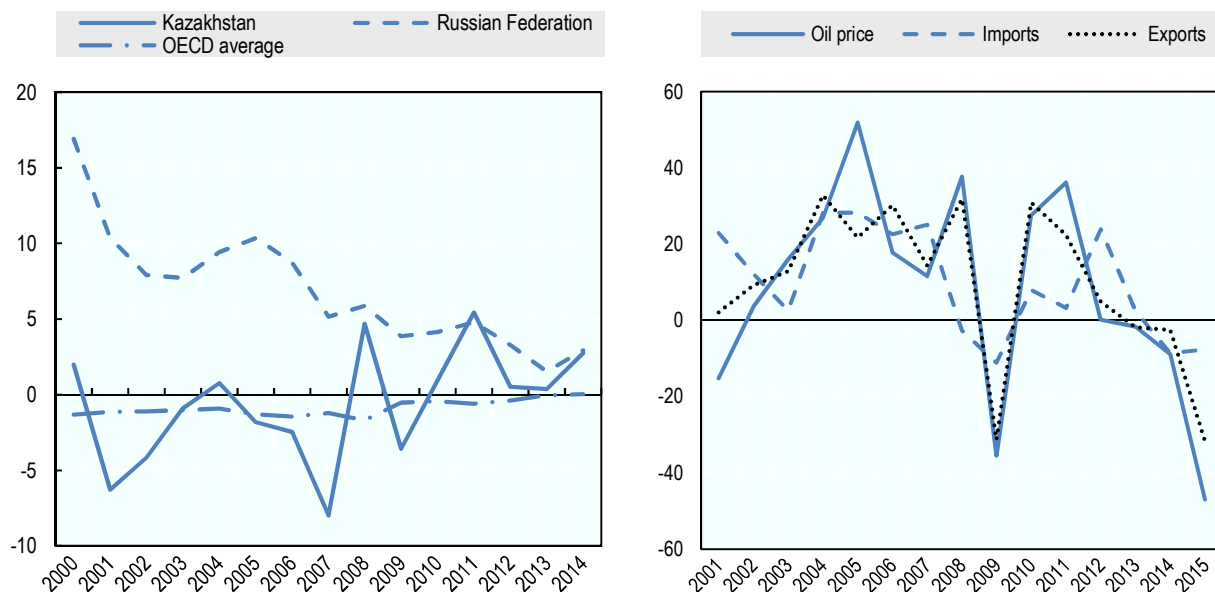
Source: OECD (2015), "OECD Economic Outlook No. 98 (Edition 2015/2)", *OECD Economic Outlook: Statistics and Projections* (database). DOI: http://dx.doi.org/10.1787/bd810434-en and World Economic Outlook Database, IMF, http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx (accessed 10 December 2016).

Extractive activities can make it more difficult to sustain competitiveness in the medium and long term, as well as to diversify the economy and to promote inclusive growth. Heavy reliance on resource extraction may compromise competitiveness in international markets (through exports) and in internal markets (through a sharp rise in non-tradable activities) over the medium and long term (see Box 1.1). Moreover, a large share of Kazakhstan's employment is concentrated in relatively low productivity activities, including agriculture, public services and utilities, while productivity in resource extraction is roughly eight times the national average (Figure 1.12). Diversification thus not only influences stronger average growth overall but employment and equity.

Figure 1.12. **Labour productivity and employment by sector in Kazakhstan, 2010**
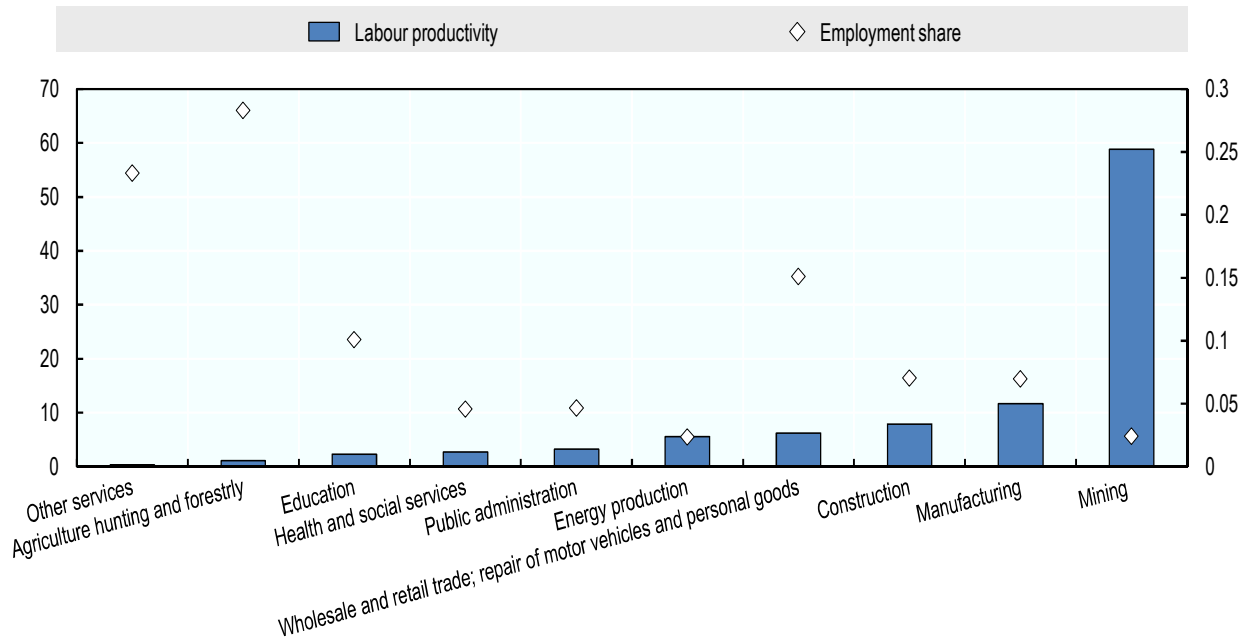
Box 1.1. **The challenges of growth fuelled by natural resources**

A large and profitable resource sector may be an undoubted source of wealth for many regions and countries, but it can present challenges for producers of non-resource tradables and for broader economic development. Rising commodity prices due to resource rents attract labour and capital into the primary sector, which can offer higher wages and rates of return than other sectors. The change in relative prices squeezes the competitiveness of the non-resource tradable sector (Corden and Neary, 1982), a phenomenon often referred to as "Dutch disease" or alternative, the "natural resource curse" (Sachs and Warner, 2001).[1] Given that manufacturing has a high propensity to incite innovation, competition and technological spill overs, a Dutch disease-induced contraction in manufacturing will often result in reduced economic potential and lower long-run growth.

In addition, commodity booms can fuel domestic demand more generally, putting upward pressure on prices, especially in non-tradable sectors. This further hurts the competiveness of producers of non-resource tradables. The strengthening of the exchange rate is often the most visible symptom of this phenomenon, but it can unfold even in the absence of nominal appreciation (e.g. the real exchange rate is a reflection of the relationship between tradable and non-tradable prices in the economy). The problem of sustaining or achieving competitiveness in non-resource tradables has been observed even in places like Greenland, which do not have their own currency (Paldam, 1997).

Box 1.1.**The challenges of growth fuelled by natural resources** *(continued)*

In practice, the movement of labour and capital into the primary sector is likely to have a limited impact on the competitiveness of manufacturing because the supply of oil and other natural resources is highly inelastic, labour mobility is low, and the oil sector employs few workers relative to non-oil sectors. However, the impact of high commodity prices on domestic demand is likely to be important in Kazakhstan. The strengthening of the services sector may also result in a transfer of jobs from the manufacturing to the services, to the extent that labour is mobile between the two sectors (Oomes and Kalcheva, 2007). Such pressures can be very hard even on established producers of manufactured goods and other non-resource tradables; they are even tougher to overcome for nascent firms and sectors trying to establish themselves in highly competitive global markets. Diversification can be particularly difficult for an economy with a booming primary sector.

In addition to these issues, large profits from the extractive industries can create incentives for corruption and rent seeking, thus limiting opportunities for institutional development and private sector growth. The impact of natural resource wealth on corruption and institutional quality has been explored empirically in a number of studies including Mehulm et al. (2006) and Robinson et al (2006). Boschini et al. (2007) show that the impact of natural resources on a country's development depends on both the type of resources that constitute a country's endowment and the quality of its institutions. The "resource curse" may be exacerbated by poor institutions, which further increase the appropriation of these resources. On the other hand, strong institutions can allow a country to escape the ill-fated resource curse, and there are numerous examples of resource rich economies that have effectively transformed their natural resource wealth into tangible economic benefits. Thus, resource wealth is not necessarily an economic disadvantage. The evidence suggests that incomes in resource-rich regions tend to be higher and growth performance need not be affected (World Bank, 2014). Given appropriate institutions and policies, resource-based economies can be quite successful (Ahrend, 2006).

It is, however, often true that the negative environmental externalities associated with resource extraction are concentrated locally, even if a large share of the resource rents are appropriated elsewhere (OECD, 2013d). Moreover, the pressure that resource wealth imposes on non-resource tradables can make it hard to generate high-productivity jobs outside the resource sector. While this need not always matter – very small places can in fact flourish as mono-branch economies – in most cases, policy makers want to see the development of high-productivity sectors outside of the resource industry.

Source: OECD (2015a), *OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russian Federation*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264229372-en.

Kazakhstan must focus on key priority areas for advancing toward higher value-added activities…

Innovation is less prevalent in Kazakhstan by comparison with OECD and enhanced engagement countries.[2] Innovation activities are key drivers of growth in OECD advanced modern economies. The discrepancy between innovation intensity in Kazakhstan and OECD counties is significant. The share of expenditure in research and development as a percentage of GDP (0.15% in 2010) is about fifteen times lower than in OECD member countries. Kazakhstan also falls behind on this measure with respect to Russia (1.1% in 2010), Ukraine (0.83% in 2010) and South Africa (0.76% in 2010) (World Bank, 2015b).

Figure 1.13. **Research and development expenditure as percentage of GDP, 1997-2009**
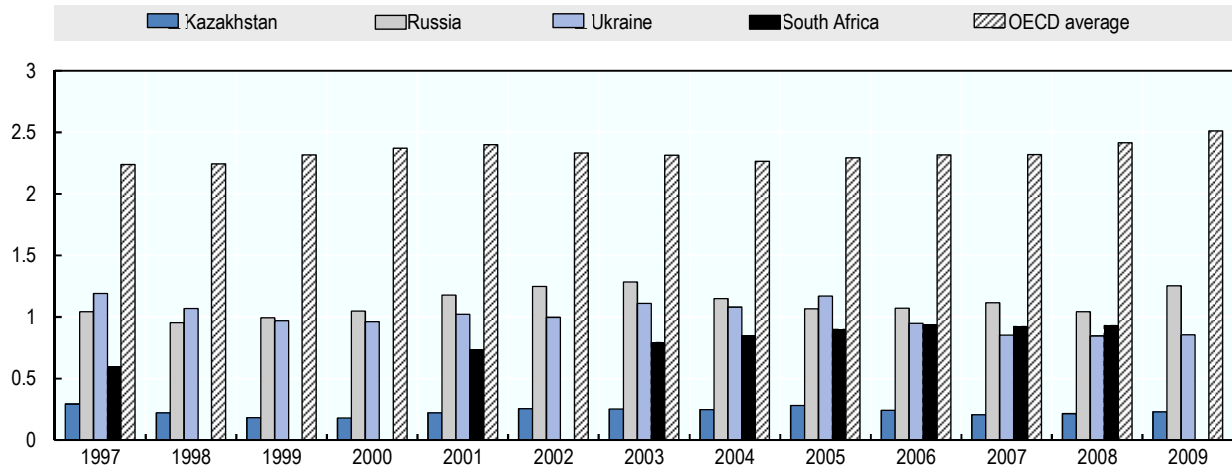
Source: Own elaboration based on World Bank data, http://databank.worldbank.org/data/home.aspx (accessed 10 October 2016).

In the period 1997-2009, the proportion of research and development (R&D) expenditure in Kazakhstan did not change much. This is in stark contrast to the trends observed in dynamic enhanced engagement countries. Investing in innovation for development is crucial for developing countries, as demonstrated in China and East Asian/Pacific countries. Figure 1.14 shows the upward trend in R&D expenditures to GDP observed in these countries in the past decade, as opposed to the flat pattern in Kazakhstan.

Figure 1.14. **East Asian and pacific countries have experienced an increasing trend in Research and Development expenditures, 1997-2009**

(Percentage of GDP)
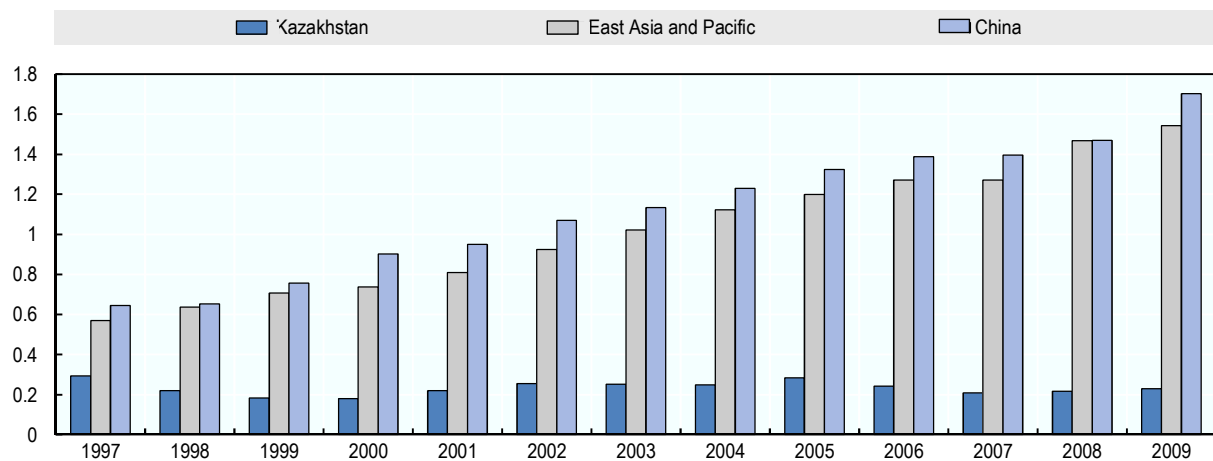
Source: Own elaboration based on World Bank data, http://databank.worldbank.org/data/home.aspx (accessed 10 October 2016).

It is important to keep up momentum in tertiary educational enrolments and vocational training

Human capital and skills are key drivers of modern OECD economies. In Kazakhstan, this domain is particularly important, given the country's high youth dependency ratio (at 40.1% in 2015), which will determine the quality of labour input of its workforce in the future (World Factbook, 2015).

Although the share of population enrolled in primary and secondary education is fairly large, tertiary and vocational education enrolments have been shrinking (see Figure 1.15 below). The number of post-graduate study units has declined from a ten year high in 2005-2007 of 142 units to 102 units in 2009 (Government of Kazakhstan, 2015). In a similar vein, the number of post-graduate research students, and individuals enrolled in candidate of science degrees has also declined over the same ten year period. The number of individuals enrolled in doctoral degrees is an exception to these trends - such enrolments are at an all-time high, reaching 666 in 2009. With the exception of doctoral enrolments, this education pattern can create a problem in terms of human capital and thus the productivity of the workforce. The trend of students in tertiary education and vocational training has been almost unchanged over the years. The strong GDP growth the country has experienced has not increased the rate of pupils attending higher education institutions, with the exception of doctoral candidates. This may prove to be a limitation on Kazakhstan's prospects for growth.

Figure 1.15. **Percentage of students in population**
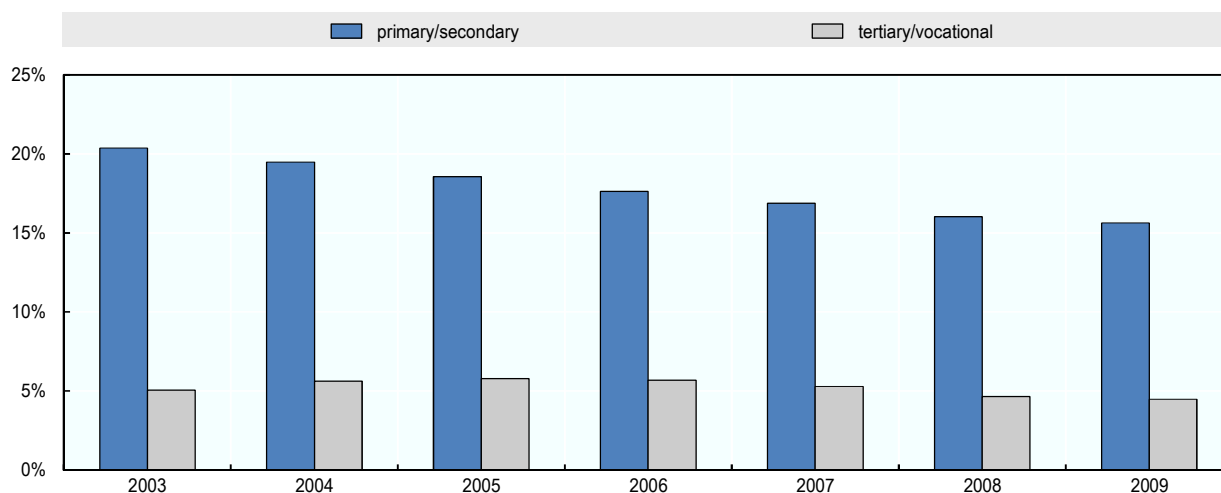
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Kazakhstan's institutions require strengthening

A well-functioning institutional framework is a key pillar to support social and economic development. Some basic conditions for development are linked to the quality of the government in a broad sense, including the rule of law and the prevalence of corruption. Figure 1.17 compares a synthetic index of institutional quality for select countries that takes into account such factors as voice and accountability, political

stability and the absence of violence, government effectiveness, regulatory quality, rule of law and restraints on corruption (Worldwide Governance Indicators, 2017).

Figure 1.16. **The quality of government in selected countries**
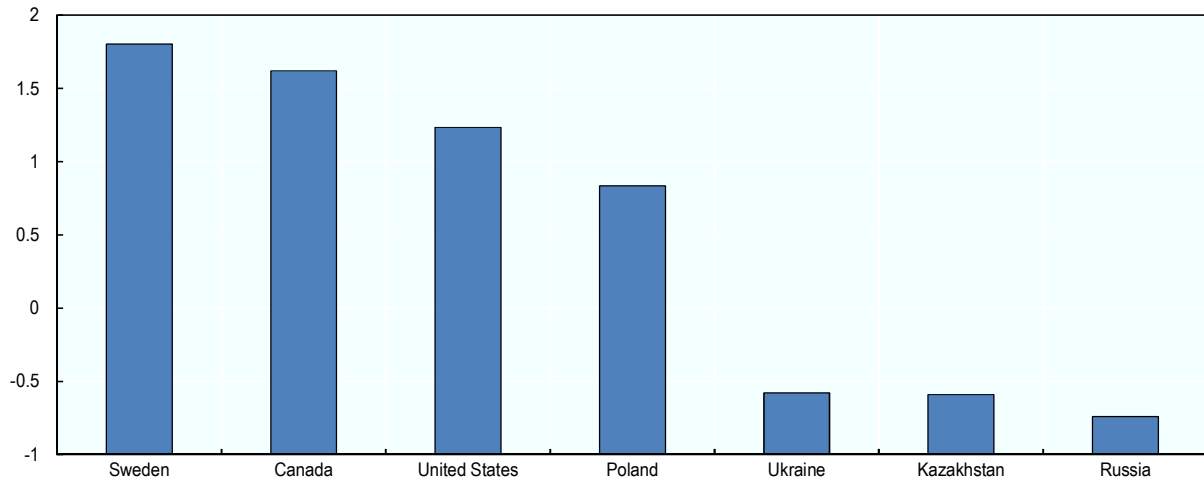
Note: The index is an average of indicators of the effectiveness of the public administration, regulatory quality, rule of law, and corruption. The indicator ranges from -2.5 to 2.5.

Source: World Bank (2017), *Worldwide Governance Indicators*, www.govindicators.org (accessed 15 January 2017).

The composite index for Kazakhstan is similar to that of the former Soviet countries, namely, Ukraine and the Russian Federation, but it is much lower than that of Poland and other Western countries. This could potentially represent a long-term obstacle for sustainable development and economic diversification in Kazakhstan.

Figure 1.17. **Comparing several indicators of institutional quality, 2011**
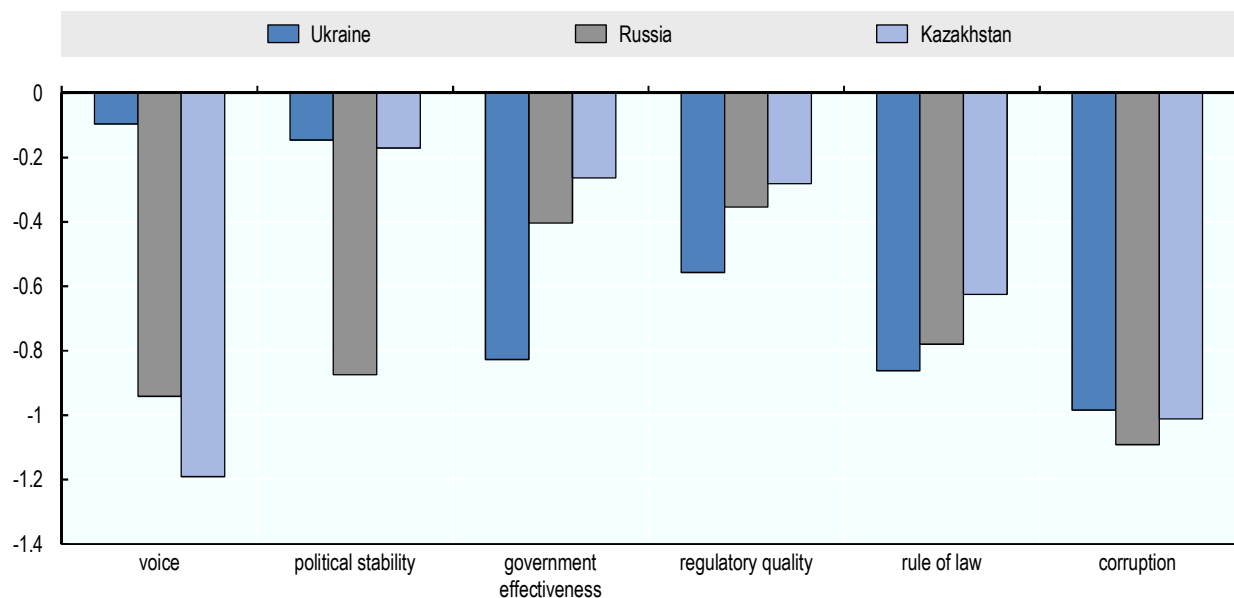
Note: Indicators range from -2.5 to 2.5, with the positive numbers representing better quality than the negative numbers.
Source: World Bank (2017), *Worldwide Governance Indicators*, www.govindicators.org (accessed 15 January 2017).

A further examination of the indicators reveals that Kazakhstan scores lower than Ukraine and Russia in terms of voice and accountability, but has higher scores than the two countries on a number of other indicators. For example, Kazakhstan scores much higher than the Russian Federation on the indicator for political stability and government effectiveness. In terms of rule of law and corruption, however, none of the three countries fare well. These last two indicators are particularly important for the diversification of Kazakhstan's economic structure; corruption and poor recourse to the law are a major impediment to business development.

Despite positive developments in many socio-economic indicators, the catching-up process is far from completed and may run into limitations in the medium and longer terms given the country's dependence on extractive activities, as shown by the substantial drop in the international price of oil in mid-2014. A key challenge facing Kazakhstan is how to diversify its economic base in order to ensure that it can sustain and prolong its catching-up process and move along the value chain into higher value-added goods and services. While no universal strategy for economic diversification can be applied, key areas for advancement include improving the framework conditions for growth, which include human capital development and sound institutional foundations. A focus on these areas will support private sector development.

Regional policies can help with these efforts. In particular, regional policies should create incentives to support the growth potential of all sectors of the economy and territory, rather than focusing on subsidies and compensatory instruments. In Kazakhstan, such an approach can help mobilise the growth potential of the entire territory and by extension, the diversification of the economy.

Regional economies

This section focuses on the sub-national dimension in Kazakhstan. First, it summarises the subnational administrative structure, taking into account geographical characteristics. It then examines demographic patterns across regions and cities, and the degree of concentration of population and economic activities. This is followed by a review of the degree of inequality at the sub-national level.

Kazakhstan's large territory has sporadic settlement patterns

The regional analysis takes as basic unit of analysis the partition of the territory into administrative or statistical entities. The choice of the territorial unit is of prime importance, given that the word "region" can mean very different things within and between countries. For instance, the smallest OECD region (Melilla, Spain) has an area of less than 15 square kilometres, whereas the largest region (Northwest Territories and Nunavut, Canada) has over 3 million square kilometres. Similarly, population in OECD regions ranges from about over 37 million inhabitants in California (United States) to less than 28 000 in Åland (Sweden)

The current analysis is based on the OECD regional typology. At the sub-national level, the OECD classifies regions within member countries based on two territorial levels: Territorial Level 2 (TL2) and Territorial Level 3 (TL3). TL2 broadly corresponds to the first tier of sub-national government, comprising 335 regions, and TL3 is composed of 1 679 micro-regions.

For comparative purposes, Kazakhstan's TL2 regions in this Territorial Review correspond to the 16 oblasts, consisting of 14 regions and the cities of Astana and Almaty

(see Box 1.2). The analysis will compare sub-national trends and benchmark the performance of these regions with respect to OECD TL2, given the availability of data. The analysis will also analyse and compare the trends of cities in Kazakhstan.

Box 1.2. **The territorial structure of Kazakhstan**

Kazakhstan's vast territory roughly corresponds to that of all former EU15 member countries, in terms of area. The territorial structure of Kazakhstan is a legacy of the Soviet Union. At the sub-national level, there are three tiers of administration, corresponding to:

1. The oblast level (which corresponds to TL2 units).

2. The rayon level (which corresponds to TL3 units).

3. Settlements (which roughly correspond to municipalities).

There are a total of 14 oblasts, plus 2 cities of national sub-ordinance and 175 rayons. The peculiarity of the system is the way in which the cities' administration fits into this scheme. According to their importance (in terms of population and political power), cities are placed within those three levels, such that there are:

*   Cities with the administrative status of oblasts, called "cities of national sub-ordinance", namely the two main cities: Astana, the capital, and Almaty, the former capital.

*   Cities with the same administrative status as the rayons, called cities of oblast sub-ordinance, which correspond to the major cities in each oblast.

*   Towns, villages and settlements.

Table 1.2. **Structure of sub-central government**

First tier			
Second tier		Cities of oblast sub-ordinance	Rayons
Third tier			Settlements

In total there are 40 cities of oblast sub-ordinance, 45 cities of rayon sub-ordinance, 34 villages and 6 904 aul (rural settlements) as summarised in the table below.

Box 1.2. **The territorial structure of Kazakhstan** *(continued)*

Table 1.3. **Territorial structure of sub-central government**

	area (km²)	rayons	cities and towns		settlements	
			total	rep and oblast sub-ordination	village	*aul* (rural)
Kazakhstan	2724.9	175	87	40	34	6904
Akmola	146.2	17	10	2	5	623
Aktobe	300.6	12	8	1	-	384
Almaty	224	16	10	3	1	759
Atyrau	118.6	7	2	1	2	173
West Kazahkstan	151.3	12	2	1	4	446
Zhambyl	144.3	10	4	1	-	373
Karaganda	428	11	11	9	10	421
Kostanay	196	16	5	4	3	631
Kyzylorda	226	7	4	2	2	263
Mangystau	165.6	5	3	2	-	58
South Kazakhstan	117.3	14	8	4	-	879
Pavlodar	124.8	10	3	3	4	405
North Kazakhstan	98	13	5	1	-	703
East Kazakhstan	283.2	15	10	6	3	786
Astana	0.7	3	1	1	-	-
Almaty	0.3	7	1	1	-	-

Source: Agency for Statistics of the Republic of Kazakhstan (2013), *Brochure: Kazakhstan in Figures*, http://www.stat.gov.kz.

The oblast administration (Akimat) is headed by a governor (Akim) directly appointed by the president of the republic. Alongside the administrative branch, there is an elected assembly (Maslikhats).

More statistical information is needed at the local level in Kazakhstan in order to better compare trends across its urban and rural regions with those of international urban and rural regions. The administrative TL3 regions in the OECD are classified as predominantly urban, intermediate and predominantly rural, according to OECD regional typology (Box 1.3) in order to facilitate international comparisons across OECD member countries. The extended OECD regional typology further classifies rural regions into rural regions that are close to cities and remote rural regions. The OECD scheme distinguishes between two levels of geography within countries: a local community level and a regional level.

- Local communities are defined as basic administrative units or small statistical areas (corresponding to aul in Kazakhstan). They are classified as either rural or urban, using a population density threshold.

- In a second step, TL3 regions, which correspond to larger administrative units or functional areas, are defined as predominantly urban, intermediate or rural, with a criterion measuring the share of population living in rural communities (see Box 1.3).

- For Kazakhstan, given the lack of comparable population and surface aerial data covering all municipalities in the country, the analysis could not apply the

regional taxonomy for TL3 regions and by extension compare socio-economic patterns in Kazakhstan to those of OECD member and non-member countries. The formulation of such data could be a first step to facilitate international benchmarking. The development of a coherent system of geospatial data infrastructure will improve the accessibility and interpretability of territorial statistics, and serve a broader set of users.

Box 1.3. **OECD regional typology**

The OECD regional typology, established in 1991, is part of a territorial scheme for collecting internationally comparable "rural" data. The OECD typology classifies TL3 regions as predominantly urban, predominantly rural and intermediate. This typology, based on the percentage of regional population living in rural or urban communities, allows for meaningful comparisons of regions of the same type and level. The OECD regional typology is based on three criteria. The first identifies rural communities by population density. A community is defined as rural if its population density is below 150 inhabitants per square kilometre (500 inhabitants for Japan, to account for the fact that its national population exceeds 300 inhabitants per square kilometre). The second criterion classifies regions according to the percentage of population living in rural communities. Thus, a TL3 region is classified as:

- Predominantly rural (rural), if more than 50% of its population lives in rural communities.

- Predominantly urban (urban), if less than 15% of the population lives in rural communities.

- Intermediate, if the share of population living in rural communities is between 15% and 50%.

The third criterion is based on the size of the urban centres. Accordingly:

- A region that would be classified as rural on the basis of the general rule is classified as intermediate if it has an urban centre of more than 200 000 inhabitants (500 000 for Japan) representing no less than 25% of the regional population.

- A region that would be classified as intermediate on the basis of the general rule is classified as predominantly urban if it has an urban centre of more than 500 000 inhabitants (1 million for Japan), representing no less than 25% of the regional population.

Source: OECD (2016b), *Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

Administrative boundaries, however, can be somewhat arbitrary and often do not correspond to patterns of life, job markets and business flows. As a response to this challenge, the OECD, in collaboration with the European Commission (EC), has developed a new approach for classifying functional urban areas, with the aim of comparing patterns and the performance among functional urban areas. These metropolitan regions are made up of both urban and rural territory. By applying a uniform definition and criteria, international comparability is ensured and monitoring and comparing urban development within and across OECD countries is enhanced (see Box 1.4). The elaboration of a definition using similar criteria in Kazakhstan would make it possible to compare the performance of its metropolitan areas with OECD member and

non-member countries. This is an objective of the forthcoming OECD National Urban Policy Review of Kazakhstan.

Box 1.4. **Methodology for defining functional urban areas in OECD countries**

The OECD and EU identify functional urban areas (FUAs) that extend beyond city boundaries, to identify accurately the economic geography where people live and work. Functional urban areas are relatively self-contained economic units, with high levels of labour linkages and other economic interactions. Cities are widely accepted as important generators of wealth, employment and productivity gains. Moreover, large agglomerations are key players of transnational flows and work as essential spatial nodes of the global economy. Thus, metropolitan areas are often essential interconnected units.

Defining urban areas as functional economic units can help guide how national and city governments plan infrastructure, transport, housing and schools, space for culture and recreation. Improved planning will make these urban areas more competitive, helping to support job creation and making them more attractive for its residents.

The methodology identifies urban areas as functional economic units, with densely inhabited "urban cores" and "hinterlands" whose labour market is highly integrated with the cores. This methodology is a clear example of how geographic/morphological information from geographic sources and census data can be used together to get a better understanding of how urbanisation develops. Information on the distribution of the population at a fine level of spatial disaggregation – 1 square kilometre – is used to identify more precisely the centres or "cores" of the urban space, defined as contiguous aggregations ("urban clusters") of highly densely inhabited areas (grid cells). The hinterlands of these internationally comparable urban cores are defined using information on commuting flows from the surrounding regions.

Such definitions are applied to 30 OECD countries and identifies 1 179 functional urban areas of at least 50 000 inhabitants. Functional urban areas have been identified beyond their administrative boundaries in 30 OECD countries. They are characterised by densely populated urban cores and hinterlands, with high levels of commuting towards the urban cores. The share of national population in FUAs ranges from 87% in Korea to less than 40% in Slovenia and the Slovak Republic.

Source: Brezzi, M., et al. (2012), "Redefining urban areas in OECD countries", in *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174 108-4-en.

Box 1.4. **Methodology for defining functional urban areas in OECD countries**
(continued)

Figure 1.18. **Percentage of national population living in functional urban areas, 2012**

Country (# of cities)	% national population
Korea (#45)	87%
Luxembourg (#1)	83%
Turkey (#144)	81%
Japan (#76)	78%
United Kingdom (#101)	74%
Netherlands (#35)	74%
Chile (#26)	73%
Canada (#34)	73%
Spain (#76)	69%
United States (#262)	69%
OECD (30) (#1323)	68%
France (#83)	65%
Mexico (#77)	65%
Germany (#109)	64%
Belgium (#11)	59%
Austria (#6)	58%
Switzerland (#10)	56%
Ireland (#5)	56%
Portugal (#13)	55%
Estonia (#3)	55%
Poland (#58)	55%
Denmark (#4)	55%
Sweden (#12)	53%
Finland (#7)	52%
Italy (#74)	51%
Hungary (#10)	50%
Greece (#9)	49%
Norway (#6)	48%
Czech Republic (#16)	47%
Slovenia (#2)	40%
Slovak Republic (#8)	38%

Source: OECD (2013a), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

Among the 1 179 OECD functional urban areas, 77 have more than 1.5 million people, 198 between 500 000 and 1.5 million people. These two groups account for almost 75% of the total urban population. Additionally, 406 were identified as having between 200 000 and 500 000 people, and 498 are small functional urban areas with a population below 200 000 and above 50 000 people (see figure below).

Box 1.4. **Methodology for defining functional urban areas in OECD countries**
(continued)

Figure 1.19. **Number of functional urban areas (FUAs) and population share by FUA size, 2012**
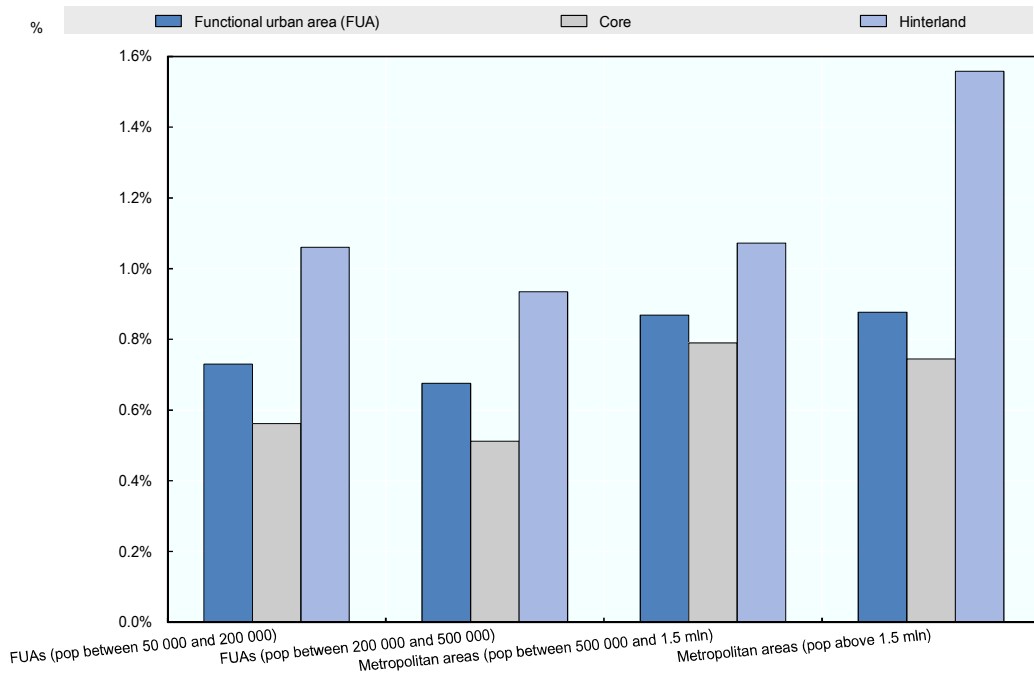
Source: OECD (2013b), "Metropolitan regions", *OECD Regional Statistics* (database), OECD Publishing, Paris, http://dx.doi.org/10.1787/data-00531-en.

Kazakhstan's geopolitical location is an important asset. The country is located in Central Asia, bordering Europe to the west, Russia to the north and northwest, and China to the east. These two countries are home to approximately 1.5 billion people and thus provide Kazakhstan with an important regional market.

Kazakhstan's sheer size has resulted in heterogeneous settlement patterns

Kazakhstan is the ninth largest country in the world (by area) and is the largest landlocked country in the world, with a surface area of 2 724 900 square kilometres. Its area corresponds roughly to that of all former EU15 member countries. Despite its large area, Kazakhstan has a relatively small population compared with OECD countries. In 2014, its population was 17.9 million, around half of the average population of OECD countries (39.4 million) and significantly below the population living in the OECD's enhanced engagement and non-member countries: China (1.35 billion), India (1.3 billion), Indonesia (253 million), Brazil (202 million) and South Africa (54 million) and Russia (144 million).

As a result of its vast area and low population, Kazakhstan's population density is very low by OECD standards standing at approximately six inhabitants per square kilometre in 2010. Kazakhstan's population density is the fourth lowest among OECD and enhanced engagement countries, exceeded only by Canada, Iceland and Australia, and lower than the Scandinavian countries of Sweden, Finland and Norway.

Figure 1.20. **Population density, 2014**
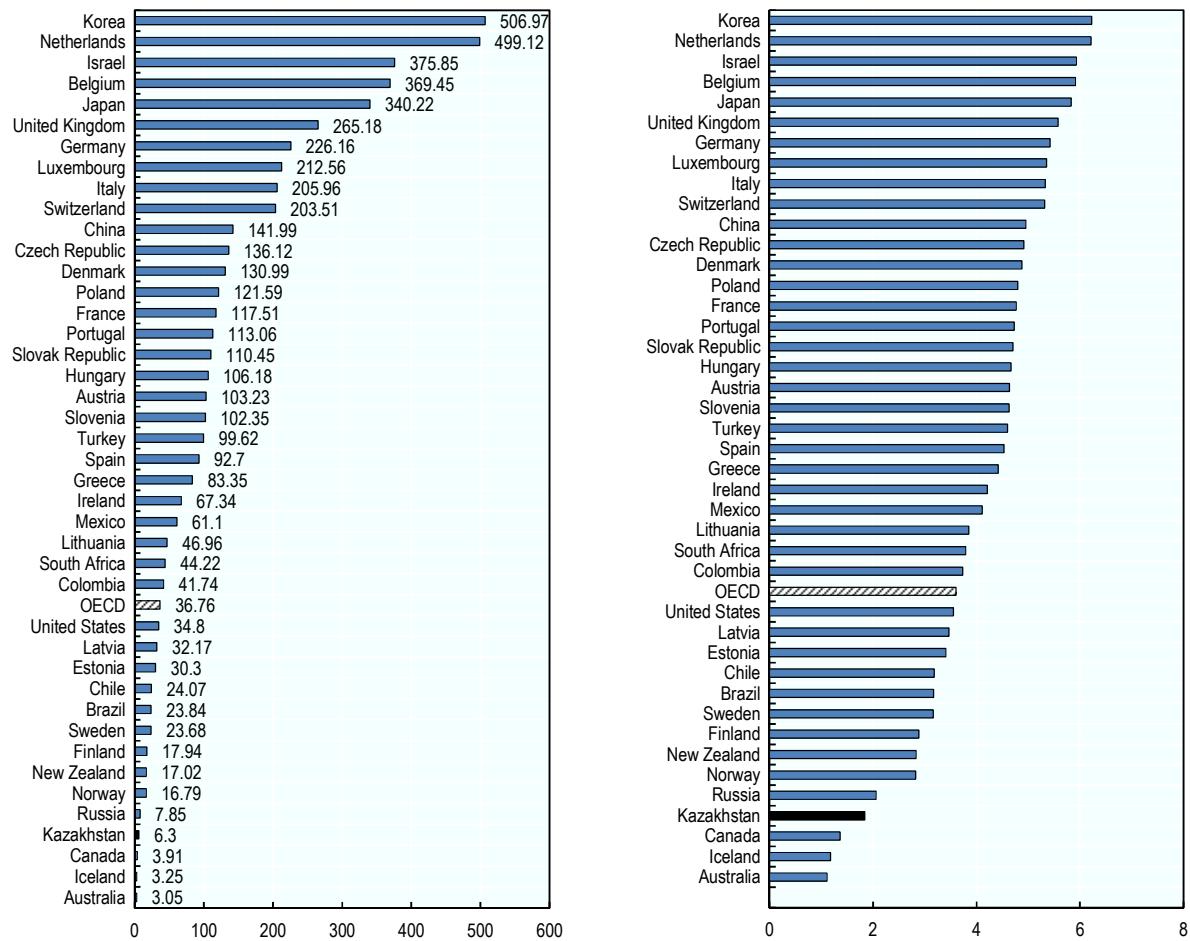
Note: Population density is calculated as the number of inhabitant per square km.

Source: Own calculation based on data on OECD (2017b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/6b288ab8-en (accessed on 15 January 2017).

Kazakhstan's administrative TL2 regions are sparsely populated on average. In terms of the number of inhabitants in TL2 regions, it is one of the least densely populated among OECD countries, with an average population size of around one million inhabitants per TL2 region. In terms of population density, the median value is the lowest among OECD countries despite the high concentration in Astana (1 128 inhabitants per square kilometre) and Almaty (2 402 per square kilometre).

Economic activities and settlement patterns have become more concentrated in recent years

Economic activity and settlement patterns in Kazakhstan are less concentrated than on average in OECD countries. By comparison with equally large countries, whether densely populated or not, such as China, Russia, Canada, Brazil and Australia, Kazakhstan's concentration of settlement patterns and economic activity is significantly lower. This lower level of concentration may in part be driven by past efforts and policies to populate

the entirety of the territory, including strategic bordering regions. As in most OECD countries, its concentration in GDP is higher than the concentration in population, reflecting agglomeration effects.

Figure 1.21. **Geographic concentration index of population and GDP among TL2 regions, 2010**
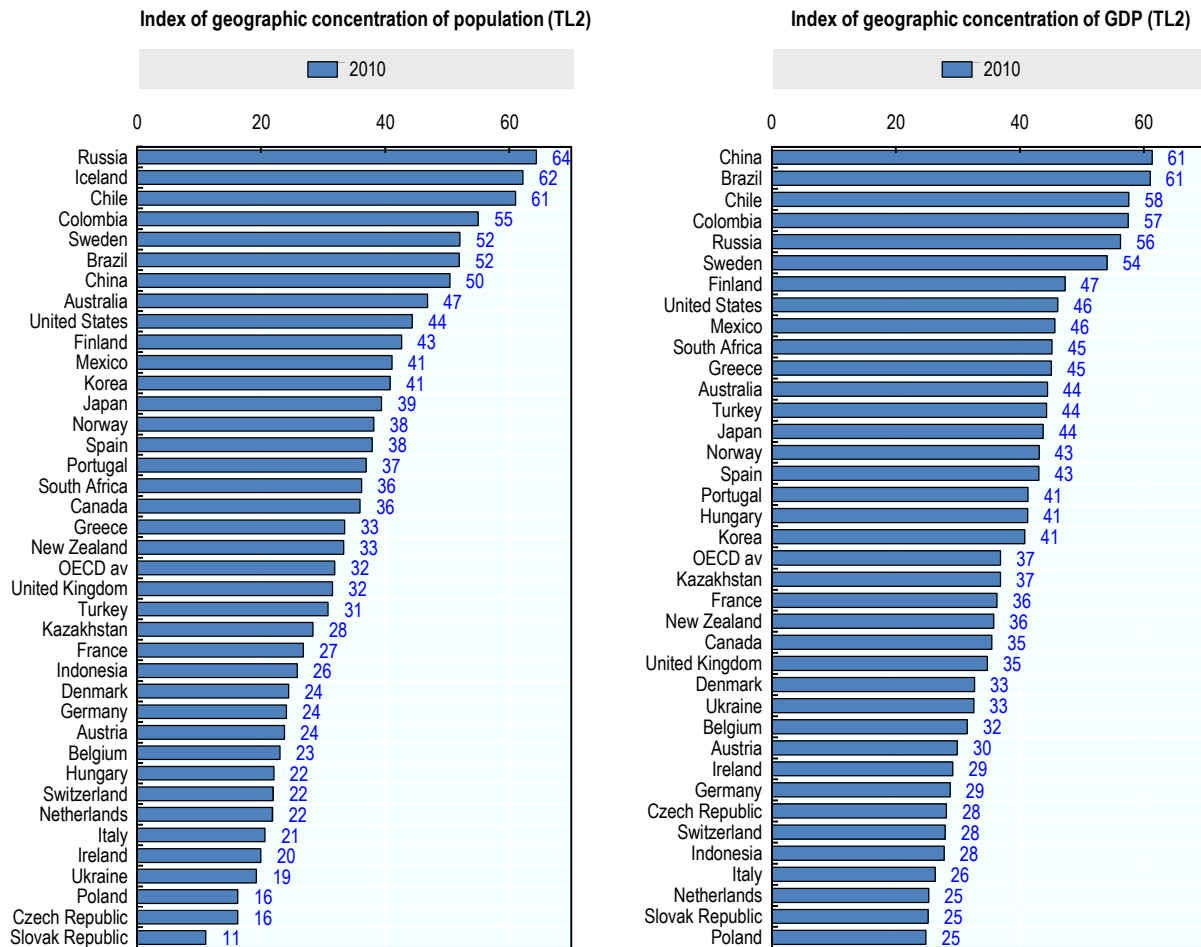
Source: OECD (2017), "Regional Demography", OECD Regional Statistics (database), http://dx.doi.org/10.1787/a8f1524 3-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

Although these levels are low, concentration of economic activity and settlement patterns has gradually increased in recent years. The increase has been more pronounced for economic activity than for settlement patterns, reflecting the strong spatial dimension associated with natural resource activities in the regions and city dynamics of Western Kazakhstan.

Figure 1.22. **Geographic concentration index of population and GDP for Kazakhstan, 1998-2010**
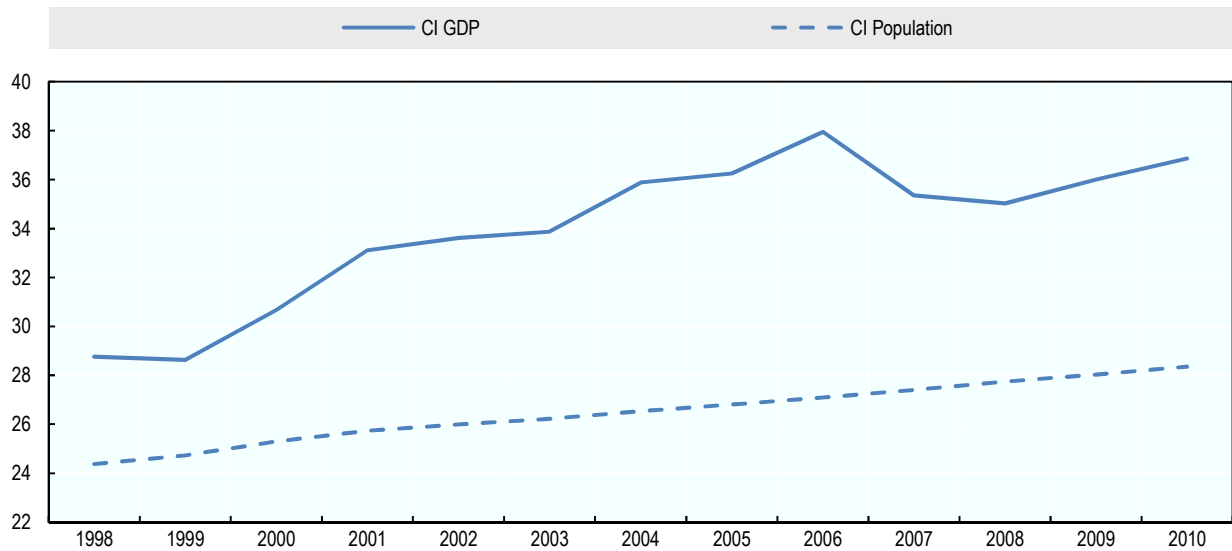
Note: Score between 0 and 100; the higher the score, the more concentrated.

Source: Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

The increase in concentration has been pronounced in comparison to that observed in OECD countries and in enhanced engagement countries, recording the second-highest increase in population concentration and the third-highest increase in GDP for the period 1998-2010, behind Turkey in population increase and China and Greece in GDP.

Figure 1.23. **Geographic concentration index of population in OECD and enhanced engagement countries (TL2), 1998-2010**
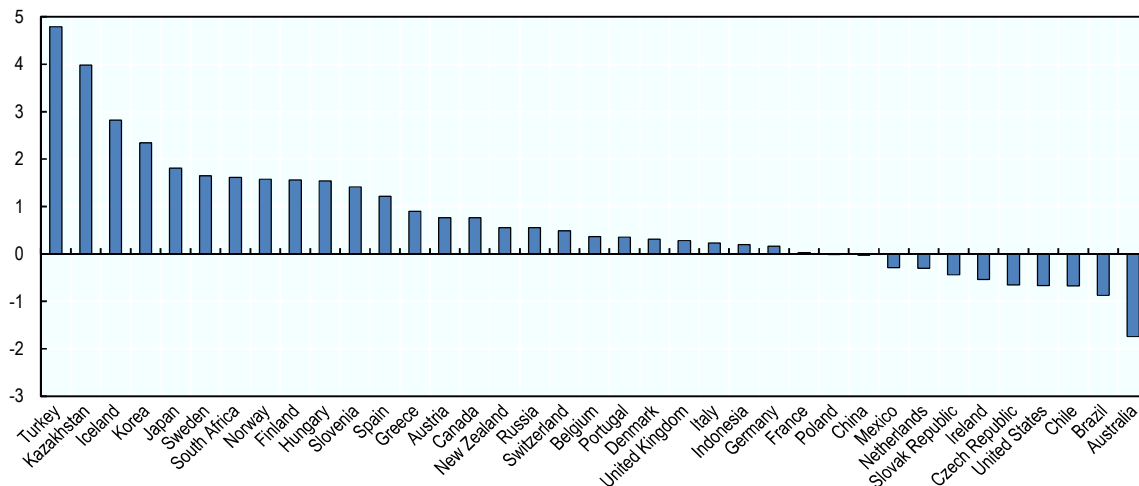
Source: OECD (2017),"Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/6b288ab8-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

Figure 1.24. **Geographic concentration index of GDP in OECD and select non-OECD member countries (TL2), 1998-2010**
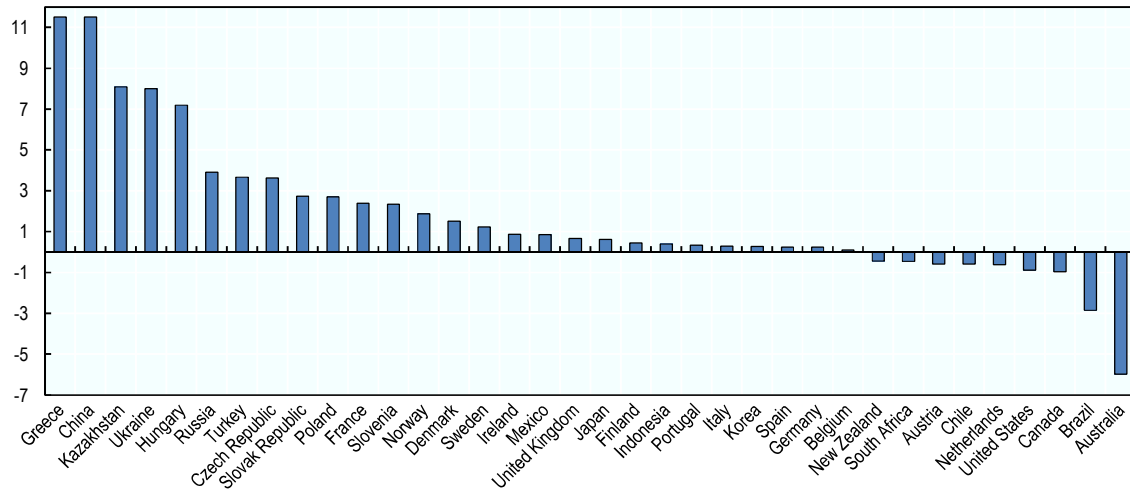
Source: OECD (2017),"Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/6b288ab8-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

A key factor increasing economic concentration in Kazakhstan is the benefits associated with economies of agglomeration in cities (Rykov & Zehong, 2015). Firms generally prefer to locate in places where consumers and other firms are already present, thus reducing their transportation and transaction costs. Workers in turn prefer to concentrate where firms and economic activity are located due to the greater variety of benefits available to them (see Box 1.5). Such benefits are not unlimited, and costs arising from concentration include higher transport costs (i.e. congested streets), the potential loss of productivity due to longer commuting times, higher housing costs, higher healthcare costs and environmental degradation. The dynamics between the costs and benefits will ultimately determine city structure.

Box 1.5. **Agglomeration dynamics are increasing concentration**

A country's productivity is largely determined by the productivity of its cities. On average, people working in cities are more productive than those in other parts of the country. Similarly, firms in cities create more value-added per worker than those outside of cities. Further, workers in larger cities are more productive than those in smaller ones on average. Given this, policies that foster robust urban growth are important for a country's economic development. Such agglomeration benefits are attributable in large part to thicker labour markets, specialised inputs and knowledge spill overs.

There is a large literature that explores the magnitude of agglomeration benefits and shows great variations for different countries (Ahrend et al., 2014). Typical estimates of the total magnitude of agglomeration economies imply that a doubling in city size increases productivity by 2% - 5% (OECD, 2015). However, the exact magnitude of agglomeration depends on many factors such as the type of economic activity within a particular place. Thus, when it comes to the question of the geographical scope and the underlying causes of agglomeration economies, only suggestive evidence but no definite answers exists (Combes & Gobillon, 2014). In essence, different forms of agglomeration economies exist. In many cases it is not only the total number of firms or people in an economic cluster that matters, but also their density.

Box 1.5. **Agglomeration dynamics are increasing concentration** *(continued)*

What explains agglomeration economies?

Three explanations for agglomeration economies are most often forwarded (Puga, 2010). First, that larger cities have larger labour markets and as a result, employees and employers may be better matched such that workers are more specialised and there is a greater division of labour, which raises productivity. Second, that firms may benefit from sharing various inputs in the production process such as shared infrastructure or common suppliers; as larger suppliers produce more efficiently, this can lower input costs and increase the availability of specialised inputs. And finally, that people can benefit from living and working close to one another—such proximity facilitates the sharing of ideas and sparks innovation.

What about the costs associated with agglomeration?

Agglomeration benefits create a strong logic for bigger cities, but there are also costs association with such density. Increased pollution, higher housing prices and longer commuting times are also associated with bigger cities. Such factors negatively impact health, life satisfaction and economic productivity. The task for policy makers then is to try and reduce the costs associated with agglomeration as much as possible in order to ensure that cities remain affordable, accessible and healthy places to live. This includes providing good sustainable and multimodal transportation options, creating green spaces and protecting the environment and supporting affordable housing. Such policies bring with them not only economic benefits—they also lead to better quality of life for citizens.

Sources: Ahrend, R., et al. (2014), working paper "What Makes Cities More Productive? Evidence on the Role of Urban Governance from Five OECD Countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jz432cf2d8p-en; Combes, P.P. and L. Gobillon (2014), "The empirics of agglomeration economies", *The Empirics of Agglomeration Economies,* IZA Discussion Paper No. 8508, https://ssrn.com/abstract=2505370; Puga, D. (2010), "The Magnitude and Causes of Agglomeration Economies", *Journal of Regional Science*, Vol. 50(1), pp. 203-219; OECD (2015b), *The Metropolitan Century: Understanding Urbanisation and its Consequences*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264228733-en.

A broad mapping of Kazakhstan's administrative city structure to the OECD definition of functional urban areas (FUA) shows three metropolitan areas: the cities of Almaty, Astana and Shymkent, and nine medium-size metropolitan areas: Karagandy, Aktobe, Taraz, Pavlodar, Oskemen (Ust-Kamerogorsk), Semey, Uralsk and Petropavlovsk. The remaining cities of oblast sub-ordinance and rayon sub-ordinance can be considered small metropolitan areas.

The city structure appears to follows a Zipf's Law distribution, particularly among large cities - i.e., an inverse rank frequency distribution. The biggest city, Almaty, on the southern border of Kazakhstan, has 1.6 million inhabitants (in 2015), twice as many as the second-largest city, Astana, with 0.84 million inhabitants (in 2015). Zipf's Law seems to be satisfied for these two cases, since the second-largest city is half the size of the biggest (Figure 1.25). However, the relationship appears to break down for the remaining cities - a phenomenon that is common for small cities (Ioannides & Overman, 2003). In 1999 and 2009, the relationship is similar, though there is a small difference for the largest cities, which seem to have increased their population.

Figure 1.25. **Zipf's Law in Kazakhstan**
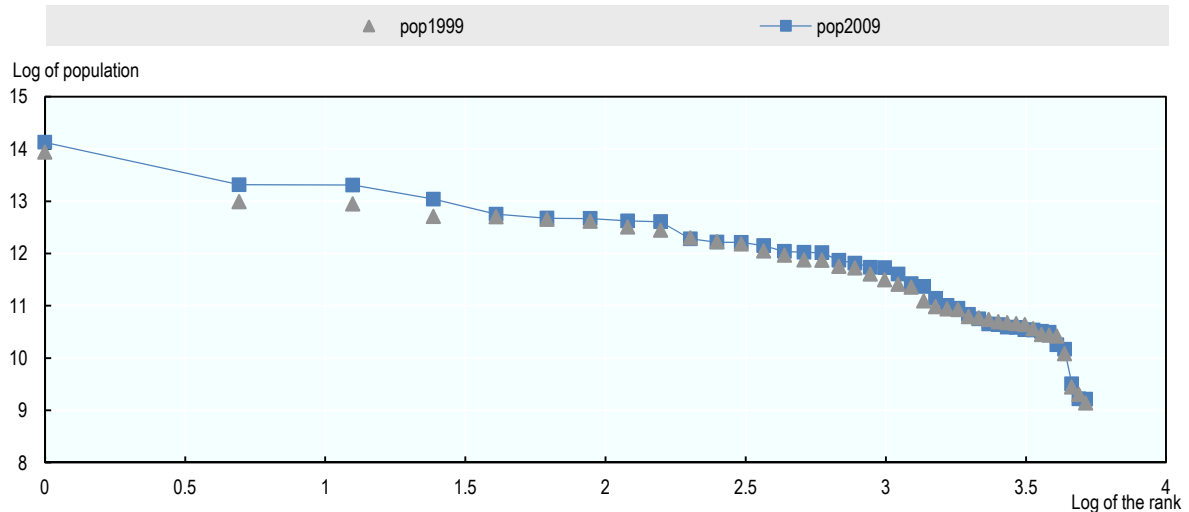
Note: Cities are ranked according to their population, from the most populated (Almaty) to the less populated. The graph shows the relationship between rank and population in logarithmic terms.

Source: Own calculations based on data provided by Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

The demographic dynamics in cities shows a significant increase in population in large cities. For purpose of comparison, a sample of 85 cities and towns has been classified into four categories according to their population size in 2011. The three largest cities in Kazakhstan – Almaty city, Astana, and Shymkent – account for most of the population growth (62.79%), while the population in the smallest cities (tiny) substantially unchanged (0.48%) over the period (Table 1.4). Interestingly the group of cities classified as small (50 000 to 200 000) inhabitants, displayed a better performance (23%) than medium size cities (200 000 to 1.5 million).

Table 1.4. **Population dynamics in cities (1999-2011)**

Category	Population growth
Large (500 000-1.5 million)	62.79%
Medium (200 000-1.5 million)	8.29%
Small (50 000-200 000)	22.99%
Tiny (less than 50 000)	0.48%

Note: This category measures cities according to the population in 2011; the sample contains 85 cities, which represent the largest cities in Kazakhstan.

Source: OECD elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017). The change in population is the average of the variation in cities inside each category.

Agglomeration effects and forces of concentration also play a role in shaping inter-regional inequalities. For example, when a leading region benefitting from economies of agglomeration or from natural resource activities pulls further ahead, inequality will

inevitably increase. This increase is not necessarily bad for the economy and overall growth, given that no region is worse off and that the leading region is better off. Inequality, however, can also rise when lagging regions fall farther behind over time. This is clearly undesirable. The next section explores Kazakhstan's degree of inequality and trends over time.

Inequality in Kazakhstan is greater than in OECD countries

Territorial inequality among Kazakhstan's regions (oblasts) is very high by the standards of OECD TL2 regions. In 2010, GDP per capita in Atyrau (USD 43 954) was almost four times the national average (USD 11 447), and in Almaty city (USD 23 372), it was twice the national average. At the bottom end of the scale, South Kazakhstan's GDP per capita (USD 3 980) was one-third of the national average. These marked variations yield a Gini coefficient of 0.41 among Kazakhstan's regions, twice the national average value (Figure 1.26). Even when comparing inequality to Chile, Mexico and the Slovak Republic, the most unequal countries in the OECD, inequality is higher. When compared to other large OECD countries, such as Canada and the United States, regional inequality is twice as high. Only in China and Russia is inequality greater than in Kazakhstan. This is hardly a surprise, given that inter-regional inequality tends, other things being equal, to be lower in high-income countries.

Figure 1.26. **Gini index of inequality of GDP per capita in OECD TL2 regions, 2010**
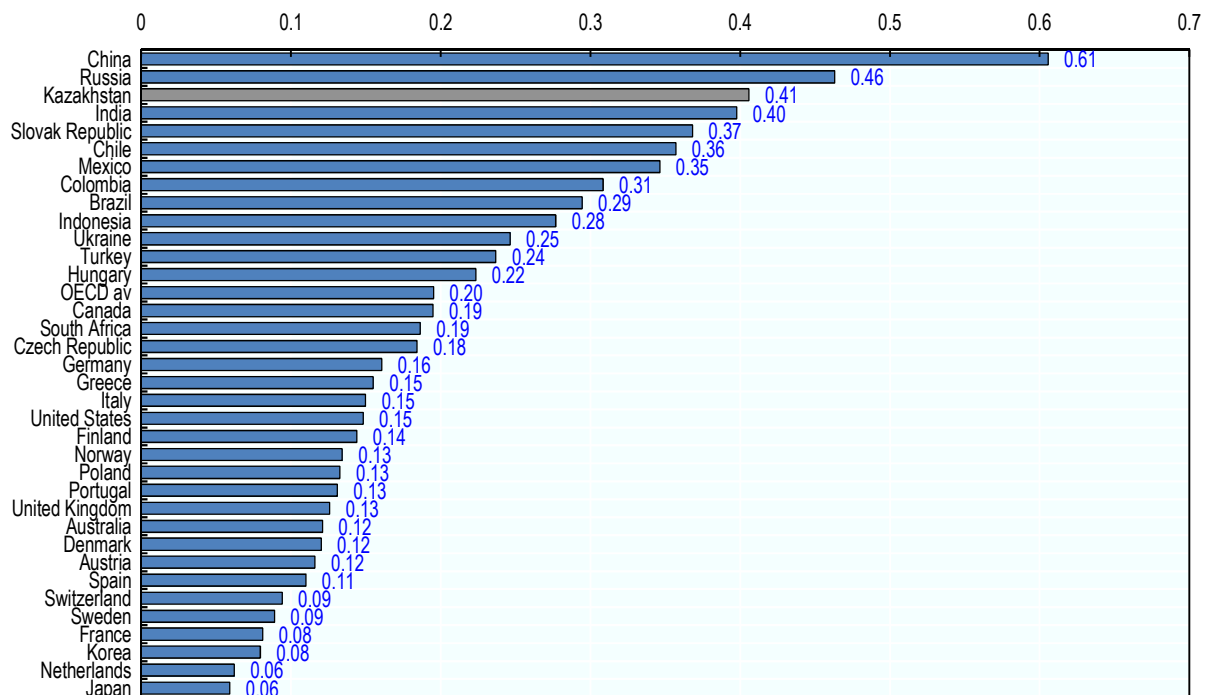
Source: OECD (2017),"Regional economy", OECD Regional Statistics (database), http://dx.doi.org/10.1787/6b288ab8-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

Inequality in Kazakhstan has increased over a 15-year period, with a pronounced increase in the period 1998-2006, and a reversal in the trend from 2007 to the recent available data. The increase during 1998-2006 was driven by two factors:

- The dynamic performance of Astana and Mangystau, improving their lead relative to the other regions.

- The less dynamic performance of the Zhambyl, Almaty, South and North Kazakhstan regions, which fell farther behind in this period relative to the other regions.

In the years from 2007-2011, the decline of inequality was mainly driven by an economic slowdown in Kazakhstan's three high-income regions, Almaty city, Mangystau and Astana city, because of the global financial crisis. As for low-income regions, some catching up has occurred in the regions of Kostanay, Akmola and North Kazakhstan, that has helped to reduce inequality, if less than in the leading regions.

Figure 1.27. **Increasing trend in regional disparity of GDP per capita, 1998-2014**
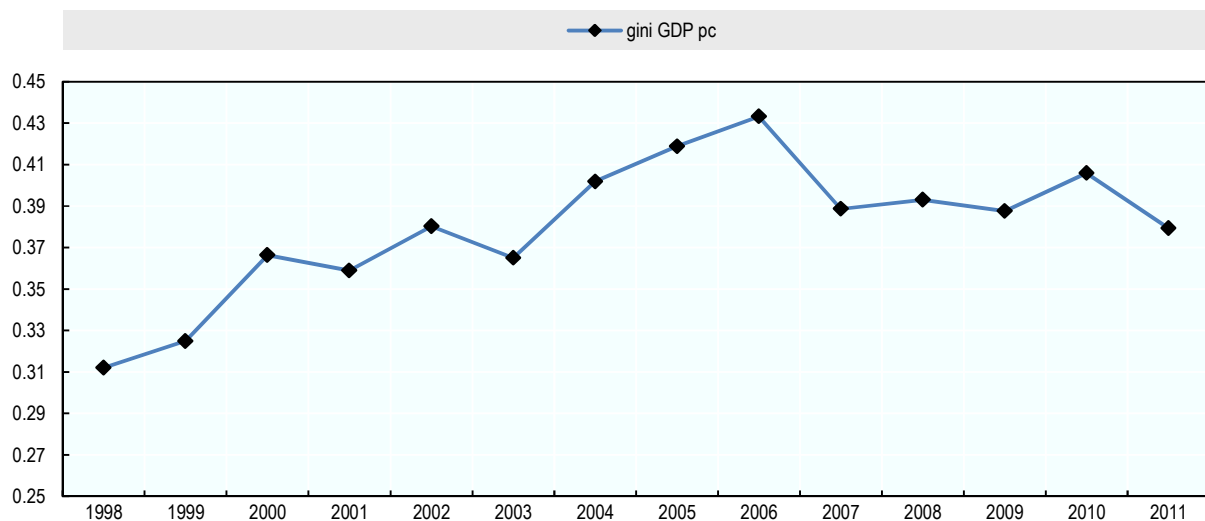

Note: regional disparity is calculated as the coefficient of variation of the regional GDP per capita (evaluated at current prices) in each year; the coefficient of variation is the ratio between the standard deviation and the mean of the distribution (multiplied by 100).

Source: Own elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Despite the decline in inequality over the past five years, the overall rise in inequality during 1998-2010 has been substantial by comparison with OECD member countries. Only Greece and Ukraine have recorded gains in equality greater than Kazakhstan's. In low-income OECD countries, including Hungary, the Slovak Republic, the Czech Republic, Poland and Chile, inequality has risen during the catch-up phase. High national growth rates have been accompanied by rising concentrations of population and GDP and rising inequality, thanks primarily to the dynamic regions that have benefited from agglomeration effects.

Figure 1.28. **Change in inequality of GDP per capita across OECD TL2 regions**

(Difference in the GINI between 1998 and 2010)
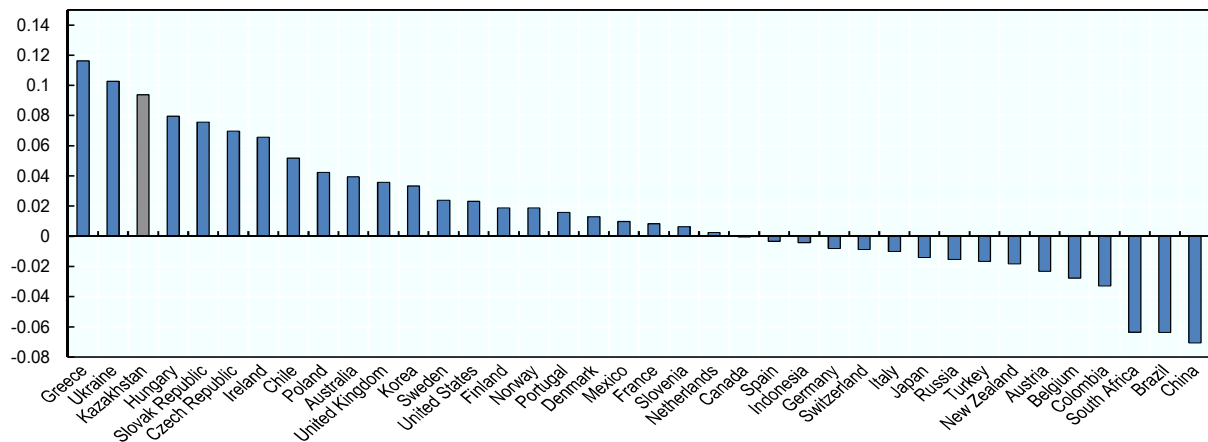
Note: Regional inequality is measured using the GINI coefficient of the level of regional GDP per capita within each country.

Source: own analysis based on data from OECD (2017b), "Regional economy", OECD Regional Statistics (database), http://dx.doi.org/10.1787/6b288ab8-en (accessed on 15 January 2017).

The reduction in poverty is well distributed throughout the country. All regions have managed to bring poverty rates below 10%. In the region of Almaty, it has dropped to the same level as that of the city of Almaty, closing the gap that existed at the beginning of the century. It is worth noting that while at the beginning of the decade huge differences in poverty distinguished the two main cities and many other regions, by 2011, they had converged towards a similar poverty rate, around 5%. Only Mangystau and South Kazakhstan had a poverty rate above 10% in 2011.

Assessing the performance of Kazakhstan's regions and links to national growth

Regional dynamics are closely connected to the overall processes of development and to national growth (OECD, 2011). This section assesses the performance of Kazakhstan's TL2 regions. Performance is benchmarked nationally, but also against other OECD TL2 regions. Special attention is placed on trends in GDP, GDP per capita, productivity and labour market outcomes. Finally, the section examines the links between regional and aggregated performance.

Regional growth is closely linked to natural resource activities

Smaller regions in Kazakhstan appear to grow more rapidly than larger ones in terms of GDP. Astana City, Atyrau, Kyzylorda, Mangystau and West Kazakhstan, all regions with a lower-than-average economic base, recorded annual average growth rates in GDP above 10% between 1998 and 2011. Nevertheless, not all of Kazakhstan's smaller regions were as dynamic as this group, and three regions, Zhambyl, Almaty and North Kazakhstan, had growth rates of below 8% between 1998 and 2011. By contrast, all regions with a larger economic base (in terms of GDP) expanded at a slower pace than the national average.

Figure 1.29. **Regional growth rate of real GDP, 2000-14**
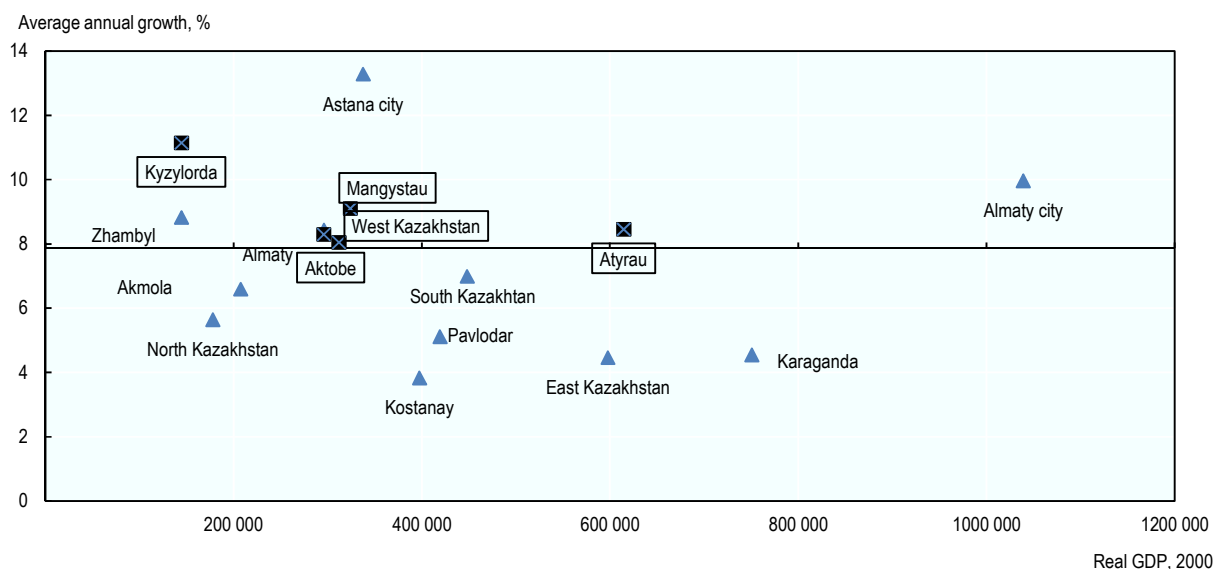
Note: The dotted horizontal and vertical lines correspond to the national average annual growth and national level of GDP in 2000, respectively. Real GDP is calculated using IMF deflator (World Economic Outlook, 2016). The regions, Aktobe, Atyrau, West Kazakhstan, Kyzylorda, and Mangystau, are specialised in the extractive industry.

Source: OECD (2017), "Regional economy", OECD Regional Statistics (database), http://dx.doi.org/10.1787/6b288ab8-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

In terms of GDP per capita, Figures 1.30 and 1.31 reveal a common trend, identifying four groups of regions in terms of performance, especially before the global financial crisis. Broadly speaking, there are two groups of dynamic regions with above-average growth rates in GDP per capita, and a third and fourth less dynamic group with below average growth rates. Amongst the two dynamic groups, almost all regions are specialised in natural resource activities or benefit from economies of agglomeration. The other regions are less dynamic.

- The first dynamic group, composed of Kyzylorda, West Kazakhstan and Akmola, all have below-average income levels in GDP per capita and above-average growth rates in GDP per capita (see quadrant one in Figure 1.30), consistent with the catching-up theory. All of these regions specialise in resource-intensive activities except Akmola.

- The second dynamic group of regions include Atyrau, Astana city and Mangystau, all have higher initial levels of GDP per capita and also higher growth rates in GDP per capita (see quadrant two in Figure 1.30). The economic bases of Atyrau and Mangystau are closely linked to the development of the oil industry along the shores of the Caspian Sea, and Astana enjoys the benefits of the capital city, including agglomeration effects. Of the three, the performance of Astana city and Mangystau suffered most from the effects of the global financial crisis.

- In the third group of less dynamic regions, growth rates fall below the national average, and initial levels of GDP are both below and above the national average. Many of these regions are adjacent and located in the southeast of the country:

South Kazakhstan, Zhambyl, Almaty and East Kazakhstan. The other two regions in this group are in the north of the country: North Kazakhstan and Kostanay.

- The fourth group of regions are characterised with high initial levels of GDP per capita and lower average growth. These include Karaganda, Pavlodar and Almaty city.

Figure 1.30. **Regional growth of real GDP per capita, 2000-14**
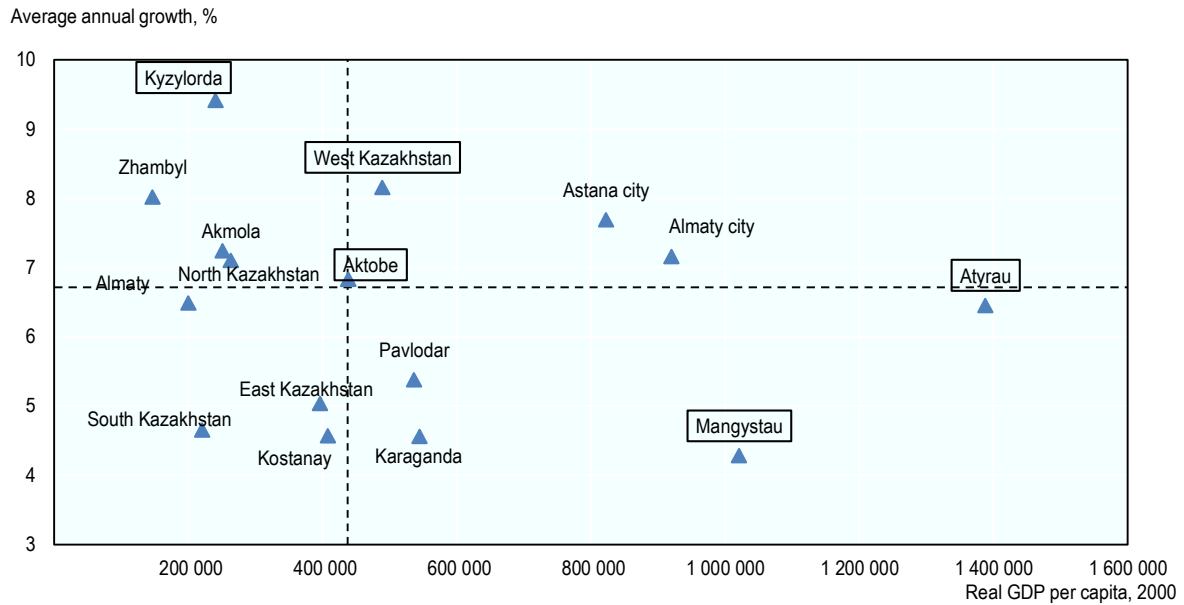
Average annual growth, %

Note: The dotted horizontal and vertical lines correspond to the national average annual growth and national level of GDP in 2000, respectively. The regions framed by a black line are specialised in extractive industries.

Source: OECD (2017),"Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/6b288ab8-en and data provided by Agency for Statistics of the Republic of Kazakhstan, Agency website, www.stat.gov.kz (accessed 15 January 2017).

Figure 1.31. **Average annual growth of GDP before the financial crisis**

(Period 1998-2007)
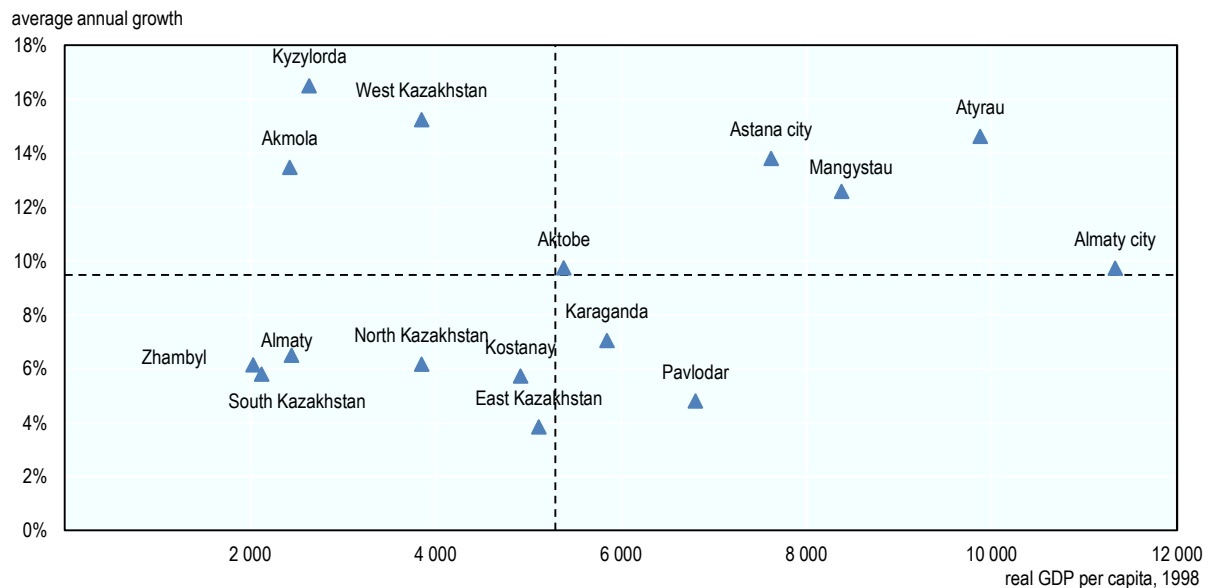
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Natural resource-intensive regions and cities are performing well. From a geographical perspective, it appears that the regions performing less well are located on the periphery of the country, along the south, east and northern border of the republic. At the same time, with the exception of the two cities of major importance (Almaty and Astana), the best-performing regions are located on the western border. A pattern of development appears in the analysis from the oil-rich regions in the Caspian Sea (Atyrau and Mangystau), and then gradually decreases, moving to the east of the country. The cities of Almaty and Astana present an exception to this pattern. Astana benefits from its status as capital city, and has benefitted from significant public investments and construction, transfers from the central budget and growth in central administration offices in recent years. In contrast, the former capital, Almaty, is the site of the bulk of commercial and financial services.

There is room to improve the linkages of Almaty with its surrounding territory. It is interesting to note the better performance of Akmola region, where the city of Astana is located, by comparison with the region surrounding Almaty. The difference in performance of the territories with respect to their main city reflects the economic linkages between the cities and the surrounding territory. Despite the recent creation of the city of Astana, its surrounding region, Akmola, appears to benefit from the development in the city of Astana, unlike the surrounding territory of the city of Almaty.

Economies of agglomeration have not exhausted their potential. As noted, the Republic of Kazakhstan is a sparsely populated country. Figure 1.32 does not reveal benefits associated with economies of agglomeration at the TL2 level. There is no positive correlation between population density and GDP growth. In fact, the relationship appears to be reversed: the lower the population density, the higher GDP growth. This can be interpreted as evidence that the economic performance of the country is mainly

based on natural resources (gas and oil *in primis*), and sectors where there are no agglomeration economies, such as agriculture.

Figure 1.32. **Population density is not associated with higher growth rate of GDP per capita**
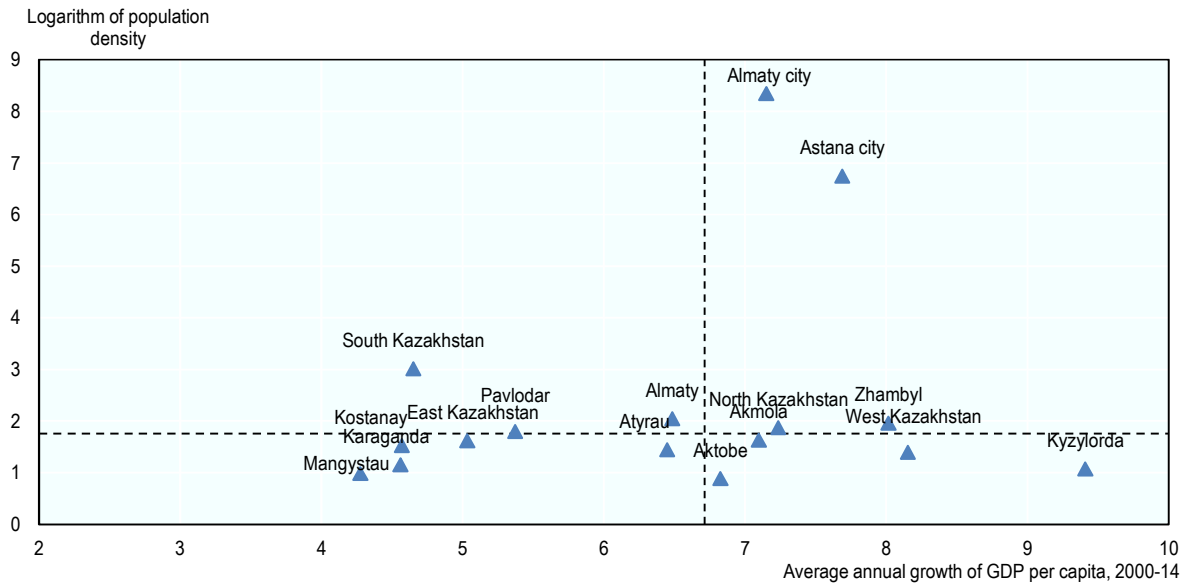
Note: Population density is measured as the number of people per square Km, the chart presents the average value for each region over the period 2000-2014.

Source: Own elaboration based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Kazakhstan's national growth depends on the performance of many regions

A region's contribution to aggregate growth depends on two factors: its dynamism, measured by the rate of GDP growth over a given period, and the size of its economy relative to the whole. Contributions to aggregate growth by region reveal the importance of particular regions for aggregate growth. In Kazakhstan, just four regions, Almaty city, Atyrau, Astana City and Mangystau contributed more than half of national growth over 1998-2011.

The regions specialised in mining activities, including Mangystau, Kyzylorda, West Kazakhstan, Atyrau and Aktobe, accounted for 43% of national growth for the period 1998-2011. In turn, the two regions specialised in financial and insurance services, Astana city and Almaty city, contributed 30%, while the remaining nine regions contributed only 28%.

Figure 1.33. **Contribution to national GDP growth by TL2 regions in Kazakhstan, 1998-2011**

(Contribution share of each region, %)

Note: The black bars represent regions specialised in extractive industries.

Source: Own elaboration on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

The regions with the largest growth have room to contribute further. In many OECD countries, contributions to national growth follow a power-law distribution, meaning that a number of regions ("hubs") have a disproportionate contribution to aggregate growth. In the OECD as a whole, TL2 hub regions contributed around one-third of aggregate growth (OECD, 2011) over the period 1995-2007, although they represented only 4% of regions. Within countries, the proportion tends to vary, depending on the number of regions in each country. All things being equal, the fewer the regions, the greater the contribution of the main hub region relative to the others, by the law of proportionality. In the case of Kazakhstan, which includes 16 TL2 regions, the contribution of its main hub, Almaty city (17%), falls significantly below the contribution of OECD countries with a similar number of regions (Figure 1.34). This suggests that there is room to expand the importance and contribution of Almaty city.

Figure 1.34. **Contribution to national growth by the main hub region in OECD countries, 1995-2011**
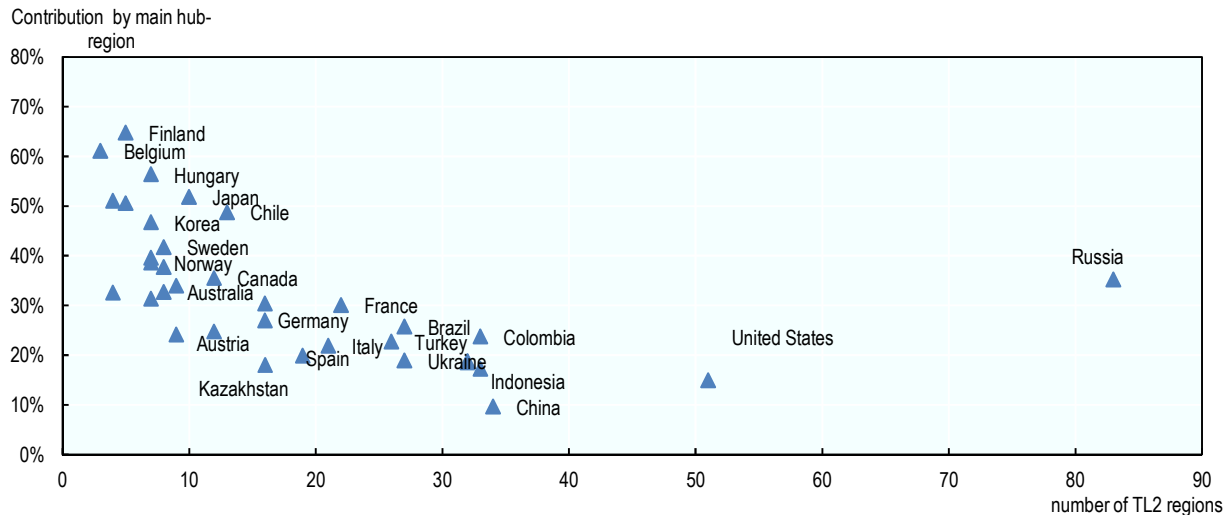
Source: Own analysis based on OECD (2017b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/6b288ab8-en (accessed 15 January 2017).

In conclusion, this section, in measuring economic performance in Kazakhstan, broadly identifies two dynamic groups of regions and a third less dynamic group in terms of GDP per capita and labour productivity performance. Of the two dynamic groups, almost all regions are specialised in natural resource activities or benefit from economies of agglomeration, and the rest are less dynamic. The share of growth generated by regions specialised in extractive activities and financial and insurance services contribute 72% of the total, while the remaining regions contribute 28%. Meanwhile, agglomeration benefits could be enhanced, particularly in second-tier cities, where population growth is slower. In addition, regions that do not specialise in resource extraction could profit by focusing on the enabling factors for development.

Main drivers of regional growth

This section examines the main drivers of growth at the regional level in Kazakhstan, taking stock of recent thematic analysis among OECD regions (OECD, 2012a). This can help to identify several key drivers of regional growth and productivity, including productivity and industry specialisation, infrastructure, human capital and innovation intensity.

Patterns of growth in OECD regions are quite diverse. There is no unique path of growth, even within similar types of region. Regional performance can be influenced by many interconnected factors, such as amenities, geographic location, size, demographics, industry specialisation and agglomeration effects, to name just a few. OECD analysis in this area finds the endogenous factors in regions (Box 1.6) to be critical drivers of productivity and regional growth in the medium and long term. In other words, the performance of regions will largely depend on how well each manages to exploit and mobilise its assets and resources. Differences in the growth rate result from the differences in assets within regions, but also in their capacity to mobilise these assets. OECD research has shown that while sustainable medium- and long-term growth rates can occur in different ways, they are only possible when regions mobilise their

endogenous assets and resources, and are not dependent on short-term transfers and subsidies.

Box 1.6. **Why an integrated approach is essential for regional growth**

OECD analysis of the determinants of growth at the regional level identifies a number of critical drivers, including infrastructure, human capital, innovation and agglomeration (OECD, 2009). Perhaps the most important findings are 1) that the key factors are largely endogenous, i.e. they can be addressed by policy, rather than being determined by natural endowments or physical geography); and 2) that that these endogenous factors complement each other, suggesting the need for an integrated approach:

- Improvements in infrastructure at the regional level do not automatically lead to higher growth. Such investments need to be combined with improvements in education and innovation. This suggests that it could be useful to co-ordinate policies for building human capital, enhancing innovation and providing physical infrastructure. The effects of infrastructure investment appear to last three to five years.

- Human capital – both the presence of high-skilled workers in the regional workforce and the absence of low-skilled workers – appears to be the most robust determinant of growth in all types of regions. The effects of improvements in human capital also appear to last around five years.

- The third critical element is innovation (measured in terms of its science and technology components). Innovation appears to produce positive effects over a longer time span of approximately ten years.

- Economies of agglomeration also have a positive impact on growth, although they are neither necessary nor sufficient to ensure sustained growth rates.

What is clear in these studies is the importance of endogenous elements for growth at regional level, instead of depending on transfers and subsidies. A follow-up study (OECD, 2012) combining quantitative analysis and qualitative case studies reinforces these results and highlights the importance of policy and institutional factors:

- Investing in less-developed regions makes good economic sense, given their growth potential. Policies targeted at less-developed regions should not merely be advocated for social reasons; these regions have much to contribute to national growth, as long as their own assets are nurtured.

- A pro-growth rather than a subsidy-based policy strategy is the most beneficial and sustainable approach. In the long run, it also helps build a fairer society, avoiding dependency, rent-seeking behaviour and high remedial costs in the future.

The combined analysis points to a number of policy levers that can enhance the effectiveness of regional policy:

- Policies that increase the skills of low-skilled workers may be as important for growth as policies aimed at expanding higher education. The "drag" effect of a large low-skilled population appears to be one of the most critical factors holding back growth in less developed regions.

Box 1.6. **Why an integrated approach is essential for regional growth** *(continued)*

- Infrastructure does not appear to be the binding constraint for the great majority of regions. Policies targeting infrastructure are not usually the most effective tools for strengthening growth in less-developed regions. However, since the gains from improvements in infrastructure are higher at the margin, they can be important instruments if they are co-ordinated with other policies.

- Innovation is not a bottleneck for growth, but it does appear to be a critical asset for advanced regions.

- How policy makers frame the challenges they face does matter. A self-conscious shift towards a growth-oriented policy framework is often a part of the recipe for success. As long as policy makers focus on exogenous sources of support for a region ("levelling-up" policies), growth is unlikely to take off, and actors are likely to focus on the appropriation of rents from external sources.

- Institutional factors are also critical. Formal and informal institutions that facilitate negotiation and dialogue among key actors are vital to mobilise and integrate them into the development process. So are institutions that enhance policy continuity. At times, the challenge is to create institutions that strengthen the region's "voice" in dealing with other regions and countries and those that foster linkages among the private, public and education sectors.

In sum, the OECD research calls for including geography and place-based factors in the structural policy agenda to increase the potential for growth. In addition, place-based policies can create a more inclusive and fairer society, in their capacity to mobilise local actors and ensure that they are involved and engaged in the development process.

Source: OECD (2009), *How Regions Grow: Trends and Analysis*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264039469-en; OECD (2012a), *Promoting Growth in All Regions*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174634-en.

Productivity and industry specialisation

Productivity, sometimes used as a proxy for efficiency, is the key factor driving the performance of regions in the medium and long term. Although productivity depends on a myriad of factors, including innovation intensity, skills and human capital, connectivity and institutions, among other elements, industrial activities are also critically important, especially those yielding high-productivity growth.

The region of Kyzylorda more than doubled its level of productivity in the ten years from 2001-10. Meanwhile, the productivity of West Kazakhstan, Mangystau, Atyrau and Aktobe increased about 50%. Underperforming regions include East Kazakhstan, Pavlodar and South Kazakhstan. South Kazakhstan's productivity has fallen below 2001 levels. The cities of Almaty and Astana do not show great performance in terms of productivity, although their productivity ranked above the average in 2001.

Figure 1.35. **Change in labour productivity, 2001-10**
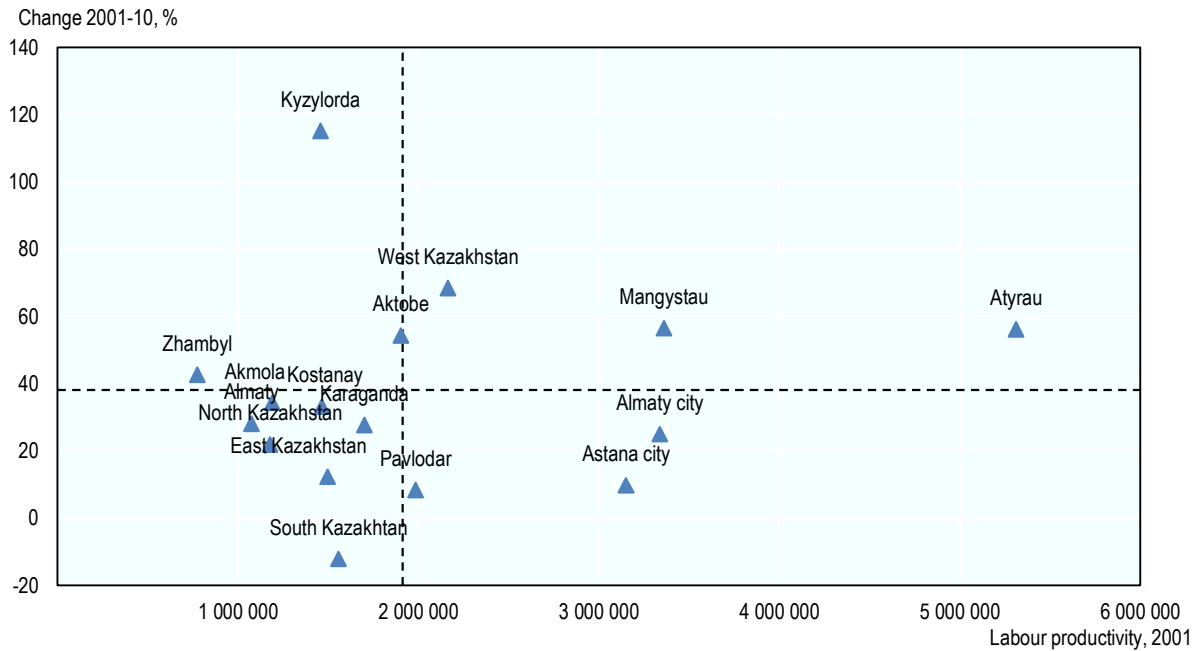
Note: Labour productivity is calculated as real GDP per worker.

Source: own elaboration based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Table 1.5 plots the industry specialisation in each region according to the Herfindahl-Hirschman Index. According to this index, Aktobe, Atyrau, West Kazakhstan, Kyzylorda and Magistau are specialised in the extractive industry, their performance closely linked to natural resource activities. Oil and gas, and mining extraction, are the main factors contributing to their development. In terms of agriculture, the most specialised regions include the border regions of Kostanay, North Kazakhstan, East Kazakhstan, South Kazakhstan, Almaty, Zhambyl and Akmola. Finally, the cities of Astana and Almaty are most concentrated in services, particularly in financial and insurance activity.

Table 1.5. **GVA sectorial specialisation index, 2011**

	Akmola	Aktobe	Almaty	Atyrau	West Kazakhstan	Zhambyl	Karagandy	Kostanay	Kyzylorda	Mangystau	South Kazakhstan	Pavlodar	North Kazakhstan	East Kazakhstan	Astana city	Almaty city
Agriculture, forestry and fishery	4.1	0.8	2.7	0.1	0.7	1.9	0.5	4.2	0.5	0.0	1.7	0.8	6.3	1.5	0.0	0.0
Industry	0.6	1.3	0.6	1.9	1.7	0.6	1.6	0.8	1.5	1.7	0.6	1.3	0.3	0.9	0.1	0.2
Mining and quarrying	0.1	1.8	0.0	3.1	2.6	0.1	0.6	0.8	2.4	2.8	0.1	0.2	0.0	0.3	0.0	0.0
Manufacturing	1.2	0.7	1.5	0.4	0.4	1.3	3.1	0.8	0.2	0.3	1.4	2.7	0.7	1.8	0.3	0.4
Electricity, gas, steam supply and air conditioning	1.2	1.0	1.7	0.2	0.5	1.3	2.0	0.7	0.6	0.7	0.7	4.6	1.0	1.0	0.4	0.5
Water supply; sewerage, waste collection and distribution	0.8	1.3	0.4	0.4	0.5	0.4	2.5	0.7	0.4	1.1	0.5	4.0	0.6	1.1	0.4	0.7
Construction	1.1	0.9	1.8	1.5	0.6	1.3	0.6	0.7	1.4	1.2	1.1	0.6	0.5	0.8	1.9	0.6
Total Services	0.9	0.8	0.9	0.4	0.7	1.1	0.7	0.8	0.7	0.6	1.2	0.9	1.0	1.0	1.5	1.7
Financial and insurance activity	0.4	0.4	0.4	0.2	0.3	0.6	0.5	0.5	0.3	0.3	0.5	0.4	0.6	0.6	2	3.1

Note: The specialisation index is calculated as the ratio between the share of GVA of the sector with respect to all sectors at the regional level, and the same share at the national level. If the indicator is higher than 1, it signals that the regional economy is more specialised than the national economy in the selected sector. A value of 1 indicates that the regional economy and the national economy have the same specialisation in the given sector. Therefore, regions are specialised in the sectors with a value of the indicator higher than 1.
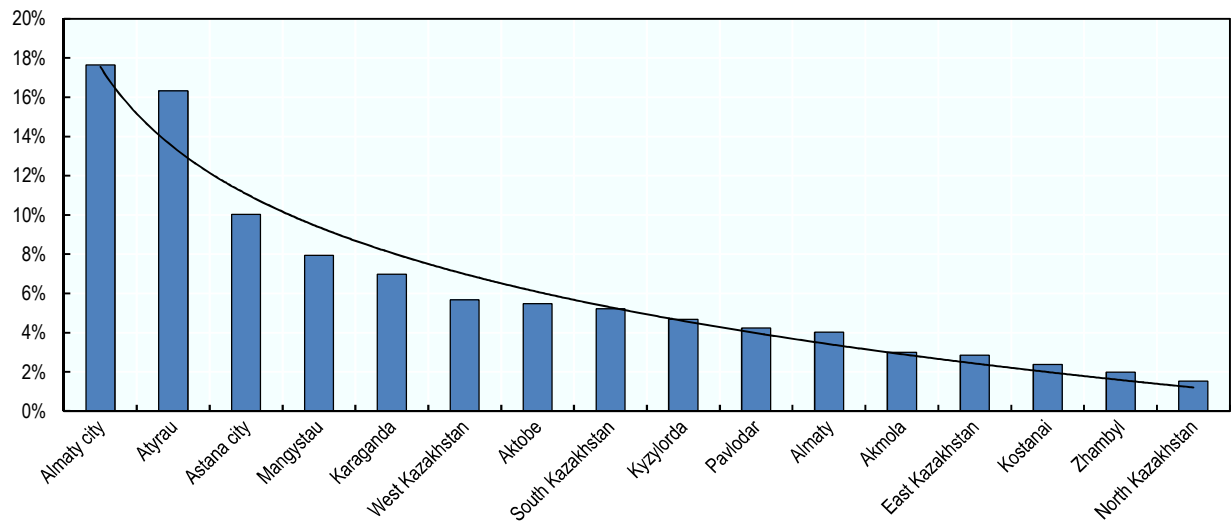
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Regions specialised in primary activities have the lowest level of productivity, as is the case in most OECD countries. Although the general trends show that OECD regions specialised in agricultural activities tend to have lower levels of overall productivity, a number of OECD regions specialised in agriculture have high levels of productivity (Figure 1.36). This trend reflects the gradual decline of the agricultural sector in OECD economies and ongoing modernisation process. Kazakhstan needs to advance in the modernisation process (see Box 1.7).

Figure 1.36. **Productivity in Kazakhstan and OECD countries in regions specialised in primary industry**
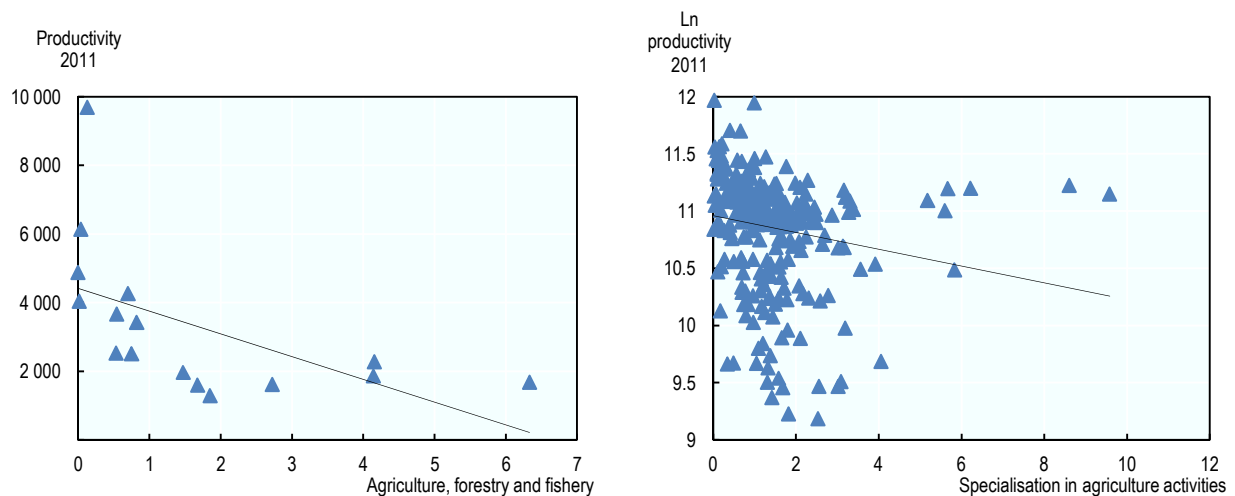
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Box 1.7. **The agricultural sector in Kazakhstan**

The agricultural sector in Kazakhstan experienced a difficult transition from a planned to a market economy, with a considerable deterioration of terms of trade in agriculture and the collapse of the agricultural support system. The agricultural sector went into profound debt crisis in the second half of the 1990s, and considerable resources were withdrawn from production. The transition also involved reforms in land and farm ownership, which led to significant transformation of the farm structure. Large-scale agricultural enterprises, producing almost two-thirds of total agricultural output in 1990, accounted for less than one-third in 2011, while the share of the small-scale sector reversed accordingly. Private ownership of agricultural land was introduced, but 49-year leases from the state remain the dominant form of land use. The sector began its gradual recovery in the early 2000s, but the decline has still not been fully reversed. With the rapid growth of the energy sector, agriculture's share of GDP fell from 34% in 1990 to 5% in 2011. Kazakhstan's total trade in agro-food products began to rise in the second half of the 2000s. Imports increased more rapidly than exports, meaning that Kazakhstan has been a net importer of agro-food products since the mid-2000s. Kazakhstan's Producer Support Estimate (PSE) averaged USD 1.36 billion in 2009-11. Agriculture support policies generate slightly more than one-tenth of the gross receipts of agricultural producers. Market price support, payments based on output and payments based on variable input use account for 82% of total PSE, indicating that producer support in Kazakhstan is predominantly based on instruments that most distort production and trade and are least efficient in increasing producer incomes.

The principal objective of Kazakhstan's government is to boost the agricultural sector as part of the strategy for economic diversification. However, this will be difficult to achieve while tackling important factor and structural constraints without exhausting natural resources. The country is well endowed with land, but it suffers environmental handicaps. The availability of water and the harsh climate are inherent constraints. There are also structural challenges, such as the dominance of subsistence-oriented producers in key product sectors, the weak integration of domestic food chains and difficult access to external markets. Qualified labour is scarce, commercial credit markets are narrow, and much of the credit resources, especially for long-term investment, depend on state provision.

To achieve its agricultural growth objective and overcome resource and structural constraints, Kazakhstan needs to strengthen policies that support the long-term competitiveness of the agricultural sector. Public resources should be shifted to remove significant deficiencies in transport infrastructure, water and land management, plant and animal health and food safety systems, information, research, education, and knowledge dissemination. Policy reform should not only include a stronger emphasis on the provision of public goods, but would also require developing new policies to manage risks in agriculture and promoting sustainable use of agricultural resources. The government's efforts to develop modern large-scale production should be complemented by efforts to integrate small-scale producers into agricultural markets, as well as to diversify rural incomes.

Reforming the system of state agencies in agriculture is also a challenge. Large state agencies operate on the grain, machinery leasing and agricultural credit markets. Their primary function is to implement support programmes, but they are also empowered to undertake commercial operations, and as such, enjoy substantial market power. The domination of state agencies crowds out private business and inhibits the development of competitive markets. Their operation will need to be assessed with a view to streamlining their functions and increasing reliance on private provision of services to agriculture. Governance of agricultural policy could be improved by strengthening the evaluation and monitoring of policies, increasing stakeholder involvement in policy review and monitoring, and cultivating better communication with stakeholders about government's intentions to reform policies.

Source: OECD (2013c), *OECD Review of Agricultural Policies: Kazakhstan 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264191761-en.

Kazakhstan's regions specialising in service-related activities display the lowest level of productivity, with the exception of Astana city and Almaty city. Service-related activities in OECD countries have expanded in recent years, and currently represent around 70% of total output, employing about the same proportion of workers. Activities in these sector-related sectors tend to be more productive in metropolitan cities, including second-tier metropolitan cities. Indeed, productivity in cities tends to be higher than the national average (OECD, 2015b). This pattern, which is evident in Astana city and in Almaty city, could be expanded to second-tier cities.

Figure 1.37. **Productivity in Kazakhstan's regions specialised in services**
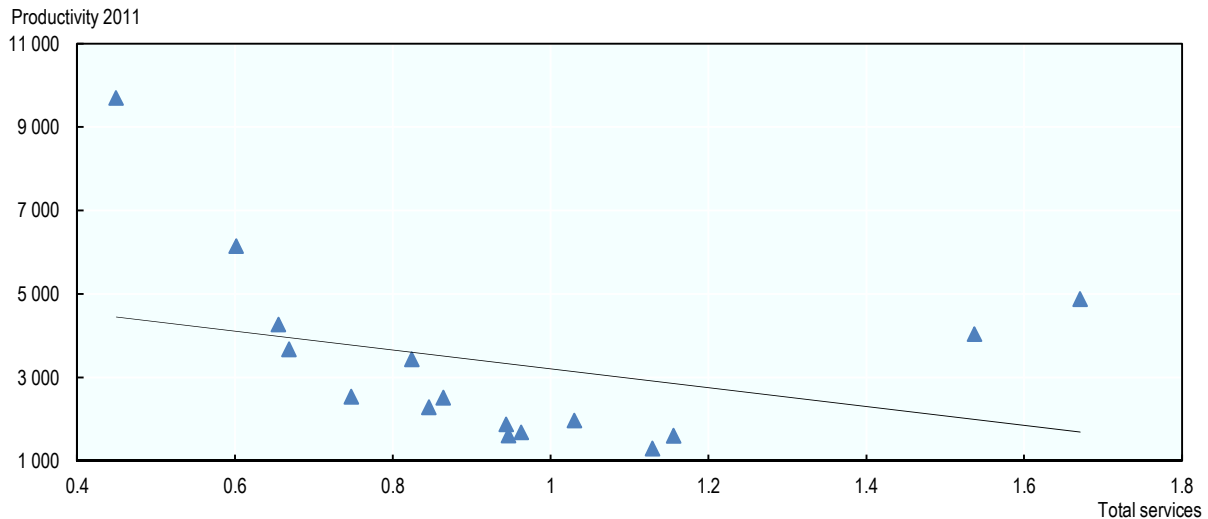
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Higher productivity and higher productivity growth in Kazakhstan is driven by regions specialised in extractive industries. Aktobe, Atyrau, West Kazakhstan, Kyzylorda and Magistau enjoy the highest level of productivity and productivity growth. This group of regions is mainly specialised in the extractive sector or mining activities. In total, their contribution to national growth for 1998-2010 was 43%. Coincidentally, none of the five regions is specialised in manufacturing activities. A key factor in Kazakhstan's diversification efforts will be ensuring that extractive activities are complemented by manufacturing and higher value-added activities, in addition to ensuring that all regions can participate in the development effort, by mobilising areas of comparative advantage.

Figure 1.38. **Productivity in Kazakhstan's regions specialised in mining and quarrying**
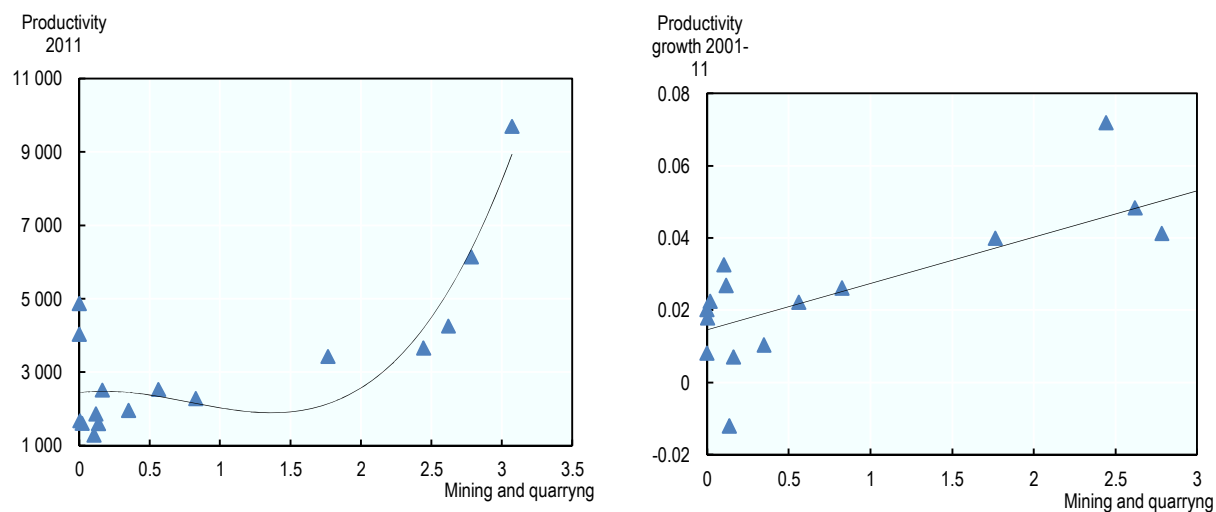
Regions in Kazakhstan specialising in manufacturing tend to have lower productivity and lower productivity growth. This pattern is at variance with the typical pattern in OECD countries, which tend to show a positive relationship between manufacturing activities and levels of productivity. Although a number of manufacturing regions exhibit declining productivity, especially if they specialise in declining or outsourced manufacturing activities, manufacturing activities tend to be associated with either value-added or innovation-intensive activities. This potential has not been realised in Kazakhstan.

Figure 1.39. **Productivity in Kazakhstan's regions specialised in manufacturing**
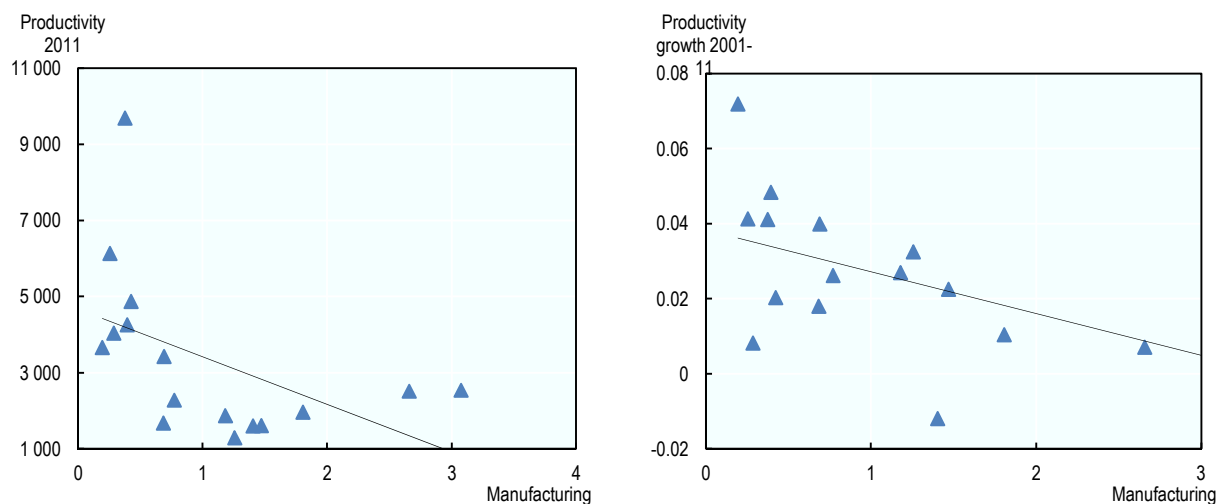
Infrastructure

Infrastructure is an important component of the capital available for production, and one of the main factors of production, alongside human capital and technological development. There are differences at the regional level in terms of the amount of roads per capita and per surface. The North Kazakhstan oblast is the region with the densest network of roads, both in terms of per capita and with respect to the territory. The oblasts of Kyzylorda and Mangystau have the lowest density in this respect.

These figures reflect the territorial distribution of the population. Some regions have huge areas of uninhabited land.

Table 1.6. **Roads (data from 2011)**

	Motorway (KM)	Motorway per capita (in metres)	Motorway area (in square metres)
Republic of Kazakhstan	97 155	5.8	35.7
Akmola	7 886	10.8	53.9
Aktobe	6 091	7.7	20.3
Almaty	9 472	5.0	42.3
Atyrau	3 915	7.2	33.0
West Kazakhstan	6 531	10.7	43.2
Zhambyl	5 280	5.0	36.6
Karaganda	8 844	6.5	20.7
Kostanay	9 515	10.8	48.5
Kyzylorda	3 338	4.7	14.8
Mangystau	2 489	4.6	15.0
South Kazakhstan	7 289	2.8	62.1
Pavlodar	5 665	7.6	45.4
North Kazakhstan	8 998	15.4	91.8
East Kazakhstan	11 842	8.5	41.8

Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Education

In terms of human capital, it is possible to measure the skill of the population in terms of years of schooling and degree obtained. Figure 1.40 presents the indicator obtained from the share of students that graduated in 2011 in each of Kazakhstan's regions.

Figure 1.40. **Percentage of high school graduates in Kazakhstan's regions in 2011**
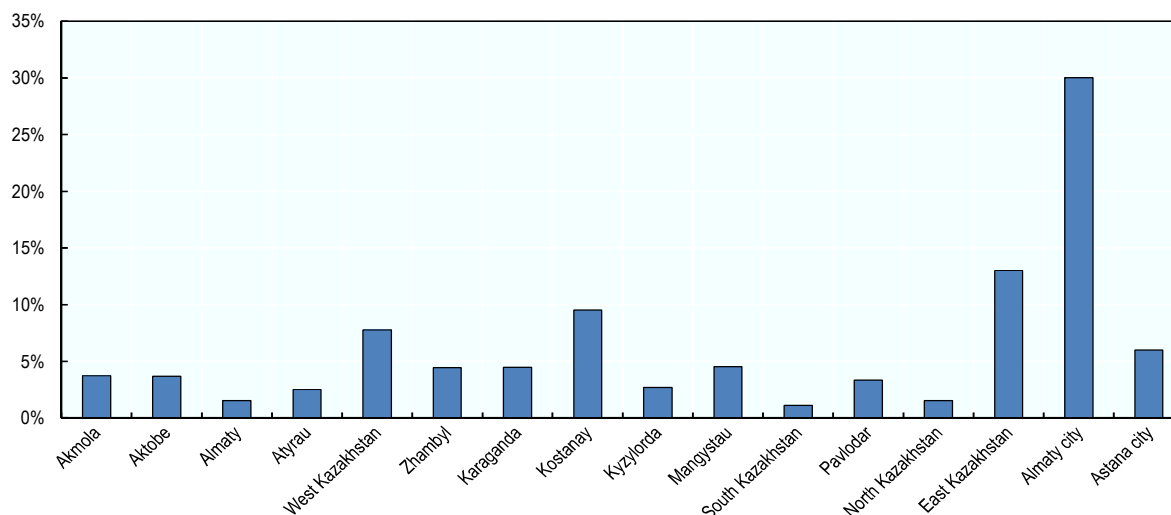
Source: OECD research based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Most of the secondary graduates are from the city of Almaty, followed in descending order by East Kazakhstan, Kostanay and West Kazakhstan. By contrast, the oil-rich regions of Atyrau and Mangystau have a low number of graduates, despite their contribution to economic growth.

Benchmarking Kazakhstan's regions

This section benchmarks regions in Kazakhstan against each other in six key areas of economic development and social well-being. These include: infrastructure, human capital, social, demography, labour market and economy. For each of these areas, the analysis utilises 20 indicators that measure outcomes in these categories in each region. The indicators for each area include:

1. For **infrastructure**, indicators on motorways, railways and telephone lines: 1) total motorway kilometres in a region per capita; 2) total motorway kilometres in a region per square kilometre; 3) total railways per capita; and 4) telephone lines per capita.

2. For **human capital**, indicators for tertiary and secondary levels of human capital, these include: 1) number of universities per capita; 2) percentage of a region's population with tertiary education; and 3) percentage of regional population with secondary education.

3. For **social indicators**, the analysis includes 1) medical doctors per capita; 2) nurses per capita; 3) hospital beds per capita; 4) inequality within the region; and 5) poverty, measured by the share of population in the region with available income below subsistence level.

4. For **demography**, two indicators are considered 1) youth dependency ratios measured by the share of regional population below 15 years of ago against the working age population; and 2) elderly dependency ratios through the share of people of over 65 years of age to the working age population.

5. For the **labour market**, two indicators are considered: 1) unemployment rate in the region; and 2) youth unemployment rate.

6. Finally, for the **economy**, the analysis includes: 1) productivity; 2) productivity growth over 2001-2011; 3) specialisation in agriculture, forestry and fishery; and 4) specialisation in mining and quarrying.

The method for benchmarking all regions across these categories applies the following methodology:

- First, the analysis normalises each indicator across its distribution.

- Second, the analysis builds a composite indicator for each of the six areas by 1) assigning positive values to good outcomes for each indicator (i.e. higher productivity, lower unemployment rates); and 2) assigning equal weights to each indicator.

- Third, the composite outcome is ranked into four rankings: top, medium, low and very low, on an equal basis, meaning there are four regions in each category.

The outcome of this analysis is depicted in Figure 1.41, which provides the composite value for each of the six categories and ranks regions according to the value of the economic outcome.

Figure 1.41. **Benchmarking Kazakhstan's regions in six areas of economic development and social well-being**

	All	Infrastructure	Human capital	Social	Demography	Labour Mk	Economy
Atirau	0.61	0.64	-0.39	-0.21	0.86	1.27	1.49
Kyzylorda	0.35	-0.31	-0.48	0.37	1.16	0.32	1.01
Mangistau	0.53	0.02	0.63	-0.35	1.40	0.49	0.96
West Kazakhstan	0.21	0.56	0.68	0.19	-0.44	-0.42	0.68
Almati city	-0.12	-0.51	0.03	0.77	-0.65	-0.79	0.42
Aktobe	0.30	0.70	-0.47	-0.05	0.20	1.01	0.39
Astana city	0.33	-0.85	1.99	0.81	0.36	-0.41	0.08
Karaganda	-0.04	0.49	-0.06	0.47	-0.72	-0.44	0.00
Jambul	0.14	-0.02	0.32	-0.24	0.82	0.20	-0.25
Pavlodar	-0.11	0.88	-0.25	0.21	-0.85	-0.35	-0.30
East Kazakhstan	-0.27	0.55	0.01	0.13	-1.00	-0.87	-0.46
Almati	-0.28	-0.23	-0.96	-0.72	0.30	0.44	-0.53
Kostanai	-0.18	1.13	0.10	-0.12	-1.16	-0.43	-0.63
Akmola	0.05	1.56	0.21	-0.07	-0.62	-0.11	-0.68
South Kazakhstan	0.00	-0.46	-0.80	-0.61	1.57	1.25	-0.93
North Kazakhstan	-0.34	2.06	-0.41	-0.30	-1.27	-0.88	-1.25

top ranking

medium ranking

low ranking

very low ranking

Source: own analysis based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Correlating each of the dimensions against each other reveals interesting patterns that are summarised as follows and depicted in Figure 1.42.

- Social outcomes are positively correlated with the economic performance of regions, implying that economic benefits may be driving improvements in social outcomes. This positive trend is partly driven by the availability of better services in urban centres, which tend to have better economic outcomes, thanks to benefits of agglomeration. Two outlier regions specialised in extractive activities, Atyrau and Mangystau, show strong economic outcomes and weak social outcomes. This trend also suggests that lagging regions can improve their social outcomes by enhancing their economic performance.

- Human capital outcomes are also positively correlated with economic outcomes, even if the correlation is relatively weak. Again, two outlier regions, Atyrau and Mangystau, show strong economic performance and weak human capital outcomes. Nonetheless, it is clear from the graph that lagging regions, North and South Kazakhstan, are also lagging in human capital outcomes.

- Labour market outcomes are positively correlated with economic outcomes, as might be expected, so that when economic activities are more dynamic, more job opportunities and better labour market outcomes result.

- Finally, in Kazakhstan, infrastructure is negatively correlated with economic outcomes, suggesting that the potential benefits of infrastructure for economic development have not been fully exploited at the regional level. Indeed, a number of regions, including North Kazakhstan, Akmola, Kostanai and Pavlodar, show the best outcomes in infrastructure and the lowest economic outcomes. This pattern is atypical when compared to OECD regions, where infrastructure tends to be a necessary but not a sufficient condition for growth.

Figure 1.42. **Correlating dimensions of economic development and social well-being in Kazakhstan's regions**
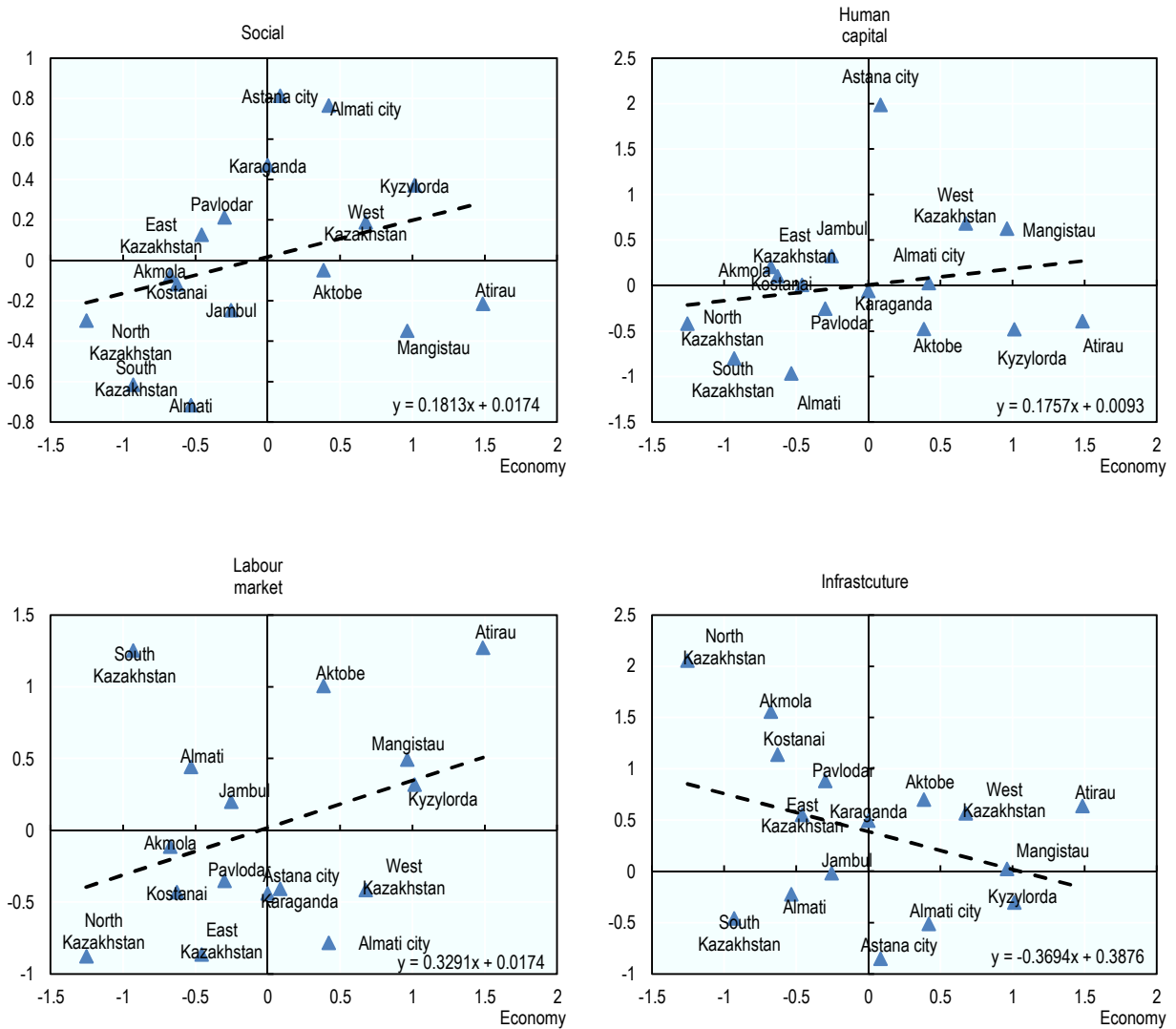
Source: OECD analysis based on data from the Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Notes

1. The term "Dutch disease" originated in connection with the Netherlands' development of natural gas deposits in the 1970s. It usually refers to a situation in which a country suddenly discovers large natural resources. The extraction of these resources increases the equilibrium exchange rate and thereby puts pressure on the competitiveness of the other tradables sectors in the economy. In the Russian context, the discovery of natural resources as such is not the source of the problem. Rather, it is the fact that their full weight in the economy made itself felt only at the start of the transition, when the relative prices of primary raw materials, which had been held at artificially low levels under central planning, soared, as did resource exports. The subsequent boom in commodity prices in the early 2000s reinforced the problem. This exposed large differences in productivity between sectors in Russia. (The name "Dutch disease" is unfortunate, given that the Netherlands ultimately handled this situation comparatively well.)

2. As part of the OECD Ministerial Council resolution on enlargement and enhanced engagement, certain countries are invited into a process of 'enhanced engagement' with a view to possible membership. At present, these are Brazil, China, India, Indonesia and South Africa.

Appendix 1

Geographic concentration index

The geographic concentration index of population is defined as:

$$\left(\sum_{i=1}^{N} |p_i - a_i| \Big/ 2 \right) * 100$$

where p_i is the population share of region i, a_i is the area of region i as a percentage of the country area, N stands for the number of regions and $| \; |$ indicates the absolute value.

The index lies between 0 (no concentration) and 1 (maximum concentration) in all countries and is suitable for international comparisons of geographic concentration.

Likewise, the geographic concentration index of GDP is defined as:

$$\left(\sum_{i=1}^{N} |y_i - a_i| \Big/ 2 \right) * 100$$

where y_i is the GDP share of region i, a_i is the area of region i as a percentage of the country area, N stands for the number of regions and $| \; |$ indicates the absolute value.

The index lies between 0 (no concentration) and 1 (maximum concentration) in all countries and is suitable for international comparisons of geographic concentration.

Appendix 2

Defining OECD functional urban areas

Figure 1.A1.1. **Procedure for defining functional urban areas in OECD countries**

STEP 1: Identification of urban cores

1. Apply a threshold to identify densely populated grid cells

| Europe Japan Korea Chile Mexico | **≥1 500 inhabitants per km²** | **≥ 1 000 inhabitants per km²** | Canada United States |

2. Identify contiguous high-density urban clusters

| Europe United States Chile Canada | **≥50 000 inhabitants** | **≥ 100 000 inhabitants** | Japan Korea Mexico |

3. Identify core municipalities

If 50% of the population of the municipality lives within the high-density urban cluster

STEP 2: Connecting non-contiguous cores belonging to the same functional area

Two or more urban cores will belong to the same functional urban area

If more than 15% of the population of one urban core commutes to work to another urban core

STEP 3: Identifying the urban hinterlands

Individual municipalities will be part of the "working catchment area"

If more than 15% of its population commutes to work in the urban core area

RESULTS

Monocentric functional urban areas

Polycentric functional urban areas

Source: Based on OECD (2012b), *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174108-en.

References

Agency for Statistics of the Republic of Kazakhstan (2017), Agency website, www.stat.gov.kz (accessed 15 January 2017).

Agency for Statistics of the Republic of Kazakhstan (2013), *Brochure: Kazakhstan in Figures*, http://www.stat.gov.kz.

Ahrend, R., et al. (2014), working paper "What Makes Cities More Productive? Evidence on the Role of Urban Governance from Five OECD Countries", *OECD Regional Development Working Papers*, No. 2014/05, OECD Publishing, Paris, http://dx.doi.org/10.1787/5jz432cf2d8p-en.

Boschini, A.D., J. Pettersson and J. Roine (2007), "Resource Curse or Not: A Question of Appropriability", *The Scandinavian Journal of Economics*, Vol. 109/3, pp. 593-617.

Brezzi, M., et al. (2012), "Redefining urban areas in OECD countries", in *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174108-4-en.

Combes, P.P. and L. Gobillon (2014), "The empirics of agglomeration economies", *The Empirics of Agglomeration Economies,* IZA Discussion Paper No. 8508, https://ssrn.com/abstract=2505370.

Corden, W. and J. Neary (1982), "Booming sector and de-industrialisation in a small open economy", *Economic Journal*, Vol. 92, No. 368, pp. 825-848, December, Royal Economic Society.

González, A., L. Iacovone and H. Subhash (2013), "Russian volatility: Obstacle to firm survival and diversification", *World Bank Policy Research Working Papers*, No. 6 605, September.

Government of Kazakhstan (2015), Official statistical information, operational data, post graduate education, www.stat.gov.kz/faces/wcnav_externalId/homeNumbersEducation?_afrLoop=19819045620208416#%40%3F_afrLoop%3D19819045620208416%26_adf.ctrl-state%3Dixk8zurcj_158 (accessed July 2014).

Hausmann, R., C. Hidalgo, S. Bustos, M. Coscia, S. Chung, J. Jimenez, A. Simoes and M. Yıldırım (2011), *The Atlas of Economic Complexity: Mapping Paths to Prosperity*, The Observatory of Economic Complexity, Cambridge.

Ioannides, Y.M. and H.G. Overman (2003), "Zipf's law for cities: an empirical examination", *Regional science and urban* economics, Vol. 33/2, pp. 127-137.

IMF (2016), *World Economic Outlook database*, www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx.

Mehlum, H., K. Moene and R. Torvik (2006), "Institutions and the resource curse", *The economic* journal, Vol. 116(508), pp. 1-20.

OECD (2017a), "Regional demography", *OECD Regional Statistics (database)*, http://dx.doi.org/10.1787/a8f15243-en (accessed 15 January 2017).

OECD (2017b), "Regional economy", OECD Regional Statistics (database), http://dx.doi.org/10.1787/6b288ab8-en (accessed 15 January 2017).

OECD (2016a), "Aggregate National Accounts, SNA 2008 (or SNA 1993): Gross domestic product", *OECD National Accounts Statistics* (database), OECD, Paris, http://dx.doi.org/10.1787/data-00001-en.

OECD (2016b), *Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

OECD (2015a), *OECD Territorial Reviews: The Krasnoyarsk Agglomeration, Russian Federation*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264229372-en.

OECD (2015b), *The Metropolitan Century: Understanding Urbanisation and its Consequences*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264228733-en.

OECD (2013a), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

OECD (2013b), "Metropolitan regions", *OECD Regional Statistics* (database), OECD Publishing, Paris, http://dx.doi.org/10.1787/data-00531-en.

OECD (2013c), *OECD Review of Agricultural Policies: Kazakhstan 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264191761-en.

OECD (2013d), Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels 2013, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264187610-en.

OECD (2012a), *Promoting Growth in All Regions*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174634-en.

OECD (2012b), *Redefining "Urban": A New Way to Measure Metropolitan Areas*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174108-en.

OECD (2011), *OECD Regional Outlook 2011: Building resilient regions for stronger economies*, OECD Publishing. http://dx.doi.org/10.1787/9789264120983-en.

OECD (2009), *How Regions Grow: Trends and Analysis*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264039469-en.

Oomes, N. and K. Kalcheva (2007), "Diagnosing Dutch-disease: Does Russia have the symptoms?", *IMF Working Paper*, Vol. 07/102, www.imf.org/external/pubs/ft/wp/2007/wp07102.pdf.

Paldam, M. (1997), "Dutch disease and rent seeking: The Greenland model", *European Journal of Political Economy*, Vol. 13, No. 3, September.

Puga, D. (2010), "The Magnitude and Causes of Agglomeration Economies", *Journal of Regional Science*, Vol. 50(1), pp. 203-219.

Robinson, J.A., R. Torvik and T. Verdier (2006), "Political foundations of the resource curse", *Journal of development* Economics, Vol. 79/2, pp. 447-468.

Rykov, P.V. and L. Zehong (2015), "Development of Urban Agglomerations of the Republic of Kazakhstan in Conditions of the Formation of the New Silk Road", *Journal of Resources* and Ecology, Vol. 6/2, pp. 101-105.

Sachs, J.D. and A.M. Warner (2001), "The curse of natural resources", *European economic review*, Vol. 45/4, pp. 827-838.

United Nations (2015), "World Population Prospects: The 2015 Revision, Key Findings and Advance Tables", Working Paper No. ESA/P/WP.241.

World Bank (2017), *Worldwide Governance Indicators*, www.govindicators.org (accessed 15 January 2017).

World Bank (2015a), Adjusting to Lower Oil Prices; Challenging Times Ahead, *Kazakhstan Economic Update No. 2,* Fall 2015, World Bank Group, Washington D.C.

World Bank (2015b), World Bank Indicators, Washington, World Bank, http://datacatalog.worldbank.org (accessed August 2014).

World Bank (2014), "Diversified Development: Making the Most of Natural Resources in Eurasia", The World Bank, Washington, DC.

World Factbook (2015), Central Intelligence Agency, URL: www.cia.gov/library/publications/the-world-factbook/geos/kz.html (accessed August 2014).

Chapter 2

Regional development policy in Kazakhstan

This chapter examines Kazakhstan's regional policies. First, it gives an overview of Kazakhstan's regional development approach in the context of its broader economic strategy, as exemplified by several guiding documents adopted in the past 15 years. Next, it describes the evolution of Kazakhstan's regional development strategy, highlighting the major continuities and changes in its approach. It also compares this approach to recent practice in the OECD, which could provide some valuable lessons for Kazakhstan. Finally, the chapter examines several regional development programmes and policies that were recently adopted. Particular attention is paid to the "State Programme for Accelerated Industrial and Innovative Development," Kazakhstan's core regional development strategy.

Introduction

At the end of 2012, President Nursultan Nazarbayev's address to the nation introduced a comprehensive road map for development: Strategy 2050. The Strategy succinctly recognised the country's need to devote more attention to regional development and aimed to bring Kazakhstan into the ranks of the world's thirty leading economies by 2050.

The president declares in his speech: "we need new, effective mechanisms of levelling of social and economic conditions in the regions".[1] This emphasis on regional development built on previous approaches - the president's 2010 annual address also made a clear association between regional development and one of the country's major economic priorities, economic diversification, which has been a focus for the country for many years. What is new in the current approach is an emphasis on regional development policies in achieving this objective.[2]

Kazakhstan's growing appreciation of regional development was displayed in the government's restructuring in early 2013, which included the creation of the Ministry of Regional Development. Since this time a further restructuring has occurred; the Ministry of Regional Development was merged into the Ministry of National Economy in August 2014.

Kazakhstan's focus on regional development is an important step toward building an economy with more diverse sources of growth across the country's regions and sectors. This chapter analyses the major policies adopted by the Kazakh government to reduce the development gap across its regions and surveys the various programmes intended to promote regional development.

The chapter starts by reviewing Kazakhstan's broader economic strategy. Several official strategies have been formulated over the past two decades and they are best identified by the target year for their implementation: Kazakhstan 2020, Kazakhstan 2030 and Kazakhstan 2050. Their analysis helps situate regional development policies within the overall economic context. These successive strategies confirm the high priority given to the development of the non-oil sector. Over time, strategies have become more sophisticated and oriented towards the identification of policy instruments to attain policy goals and objectives. A number of strategic gaps nevertheless hamper the development of regional policies such as the absence of intermediary objectives and the lack of regional targets. Also, strategic exercises need to be updated. Strategy 2050 strives to take into account the impact of the 2008/2009 global financial crisis. However, it was designed before the recent oil price drop. Conditions have since changed. It is important that the strategies that guide regional policy are reactive to changing conditions.

The second section of the chapter examines the evolution of Kazakhstan's regional development policies since the end of the 1990s. This section demonstrates that a succession of regional programmes have been implemented over the past two decades. A large portfolio of programmes have, to a certain extent, been tested, including regional policy concepts based on developmental gaps, approaches focussing on growth poles, urban development and innovation clusters, schemes based on priority areas, development programmes with specific action plans and monotown development programmes. New programmes have tended to replace former ones, often before they have been completed. Due to the lack of built-in assessment procedures, achievements have in many cases remained unknown, thus leading to inefficiencies and a lack of policy learning over time.

Most recent programmes have improved in this regard. For example, the Forecast Scheme for Spatial Territorial Development and the Programmes on the Development of Regions have set clearer targets and have introduced some metrics to evaluate progress over time. In this manner, Kazakhstan's approach is moving closer to the OECD's paradigm for regional development. There nevertheless remain many opportunities to optimise regional programmes. It will be important for Kazakhstan to remove obstacles in various domains; this includes decentralising the management of policies, and mobilizing bottom-up development processes with stakeholders and institutions at the regional and local levels.

The third section of this chapter confirms the trend towards a greater articulation of regional policies. The State Programme for Accelerated Industrial and Innovative Development (SPAIID) is particularly important to such an approach; it forms the core of Kazakhstan's new development strategy. SPAIID has been implemented through various sub-programmes that target key elements for regional growth such as productivity, innovation, employment, foreign investment and exports. The programme's grounding in a multi-thematic approach is a positive direction. However, SPAIID's ambitions remain too limited on two fronts: 1) evaluation; and 2) governance:

- The metrics for evaluation are not regional, and as such progress achieved at the subnational level is not adequately captured.

- Vertical and top-down governance continues to dominate regional policy design and implementation.

Regional development policy and Kazakhstan's economic strategies

In the past 15 years, Kazakhstan has made several attempts to establish a long-term strategy for the country's development. These strategies, particularly those adopted in the past three years, define broad economic goals for Kazakhstan and include guidelines for regional development policies.

The first strategic initiative (Strategy 2030) did not prioritise regional development. Instead it focussed on the decentralised governance of development policies and on the creation of new agencies to strengthen policy co-ordination. It also placed the diversification of the economy as a key objective. Midway through this strategy it is difficult to assess its results and much work remains to get governance frameworks right. Critically, there has been limited progress in monitoring and evaluating economic objectives. Both efforts to improve governance at the local and regional levels and to develop the non-oil sector (thus diversifying the economy) remain poorly linked.

Strategy 2020, which was initiated at the end of the last decade, does little to improve on these issues. In a similar vein, the latest guiding document - Strategy 2050 launched in 2012 - is superimposed upon the previous ones. Though more concerned with regional policies, it does not target measurable objectives in the foreseeable future. Rather, it extends the implementation period as opposed to focussing on accelerating changes. On the whole, the strategic efforts deployed over the last two decades lack coherence.

Strategy Kazakhstan 2030

Towards stable economic growth in a post-Soviet environment

In 1997, Kazakhstan adopted its first ever long-term development strategy, titled "Kazakhstan 2030: Prosperity, Security and Ever-Growing Welfare of All the Kazakhstanis" (Nazarbaev, 1997). It was largely a reflection of the thinking in the mid-1990s, when experts at the Supreme Economic Council started working on the draft. The priority at the time was to overcome the post-Soviet economic collapse and to move towards stable economic growth. Its underlying principle reflected the view that Kazakhstan's economic development should take precedence over political and democratic development (Utegenova, 2010).

The strategy document contained broad objectives, rather than specific guidelines for achieving them. It defined seven long-term priorities, most related to economic development:

- To ensure the development of Kazakhstan as an independent sovereign state, preserving its territorial integrity.

- To safeguard domestic political stability and national unity.

- To promote stable economic growth based on a market economy with a high level of foreign investment.

- To improve standards of living, health, education and opportunities for citizens.

- To use Kazakhstan's rich oil and gas resources effectively to enhance economic growth.

- To develop infrastructure, particularly in transport and communications.

- To establish an effective and modern corps of civil servants and state institutions.

Strategy 2030 devoted little attention to regional development since it was not a priority area at the time. However, it did mention regional development, and it assessed the challenges to be addressed. It stressed that "the work of each ministry, institution, akimat as well as regional development itself, should be in conformity with the state strategy" (Nazarbaev, 1997). Strategy 2030 provided a candid critique of the lack of co-ordination across ministries, government institutions and regions.

In particular, Strategy 2030 argued for a degree of ministerial decentralisation, allowing for a more pronounced role for regional authorities.[3] It also highlighted the importance of regional autonomy, particularly in the budgetary sphere, for the successful implementation of the strategy.

Both improving co-ordination across different levels of government and the decentralisation of regional policy remain central to the national discourse, and the assessments in Strategy 2030 are indicative of the difficulty of overcoming such challenges.

Strategy 2030 also highlighted concerns about urgent rural problems, and proposed various solutions such as further privatisation, credit subsidies to farmers, microcredits, assistance in resolving issues related to water supply and irrigation, and the development of small and medium enterprises in the countryside through loans from various donor agencies, such as the European Bank for Reconstruction and Development (EBRD).

Strategy 2030 remains in force, and has continued to provide guidance for Kazakhstan's long-term economic development. However, given the announcement of Strategy 2050, its implementation will need to be adjusted to conform with this newer policy document (Nazarbaev, 2012).

The first major document setting out a detailed economic strategy was the Strategic Development Plan Till 2010, adopted in December 2001. It set the goals of building a competitive and diversified economy and increasing the availability of social welfare. One important task it outlined was defining the functions and powers at all levels of government, to enhance the effectiveness of public administration. The government undertook major steps toward administrative reform for Strategy 2010, but the task had not been completed by 2010, and new reforms to streamline public administration have remained high on the policy agenda (Utegenova, 2010).

Throughout the 2000s, Kazakhstan continued to refine Strategy 2030. One such measure was the State Programme for Development of Rural Territories for 2004-2010. Another, Innovative Industrial Development Strategy for 2003-2015, signalled a commitment to economic diversification and provided a comprehensive plan, with detailed targets for industrial development. It also established several development agencies to finance the country's development strategy. Box 2.1 briefly examines these agencies. Most of the agencies were established in 2003.

The formulation of these additional strategic documents was a positive step in that they clarified major economic objectives, such as diversification. However, they did not clearly outline how to execute and monitor the implementation of the strategy. Even with these refinements in 2003, the Kazakh government made overly optimistic assumptions about the private sector and how much it would participate in financing Kazakhstan's economic diversification (Esanov, 2011). The relatively poor business environment in non-resource sectors hampered investment by the private sector, inhibiting progress in economic diversification.

Box 2.1. **Kazakhstan's development agencies**

In order to promote economic development policies and implement the country's broader economic strategy, Kazakhstan has established a number of development institutions. Their overall mission is to enhance the capacity of domestic businesses (and foreign partners) and to implement economic tasks outlined in national strategy documents.

Investment Fund of Kazakhstan (IFK). This was established in 2003 to implement the newly adopted Innovative Industrial Development Strategy for 2003-2015. IFK is tasked with implementing the country's industrial and innovative policy by attracting investment and facilitating (equity) financing in projects by the private sector in non-primary sectors of the economy. More recently, IFK has also focused on restructuring and administering stressed assets. IFK's single shareholder is the state-owned Samruk-Kazyna. Since 2011, it has been under the direct supervision of the Ministry of Industry and New Technologies. As of 2013, its portfolio included 28 projects in 15 sectors of the economy in 9 regions of Kazakhstan, with a total value of KAZ 29.2 billion (www.ifk.kz).

National Agency for Technology Development. Also established in 2003, and formerly known as the National Innovation Fund, this is a 100% state-owned joint-stock company controlled by the Ministry of Industry and New Technologies. It was created to facilitate the co-ordination of innovation development and the provision of government support. It was assigned several tasks: informational and analytical support for innovation, development of commercialisation for innovation, development of effective innovation infrastructure, administration of service tools designed to support innovation, investment support for innovation projects and overall promotion of innovation.

Box 2.1. **Kazakhstan's development agencies** *(continued)*

Its instruments include innovation grants, project financing, financing through venture capital funds, providing technology business incubators and providing design offices and international technology transfer centres. The percentage of companies active in innovation has grown from 2.4% of all companies in 2003 to 7.1% in 2011; the agency views this as a signal that the supports it provides are having a positive impact (www.nif.kz).

Development Bank of Kazakhstan. Established in 2001, the DBK is one of the main facilitators of state investment policy in Kazakhstan. The Bank assists the state in the development of competitive non-primary sectors of the economy in order to supports the country's long-term economic diversification. Its goals include attracting direct investment and financing projects in priority sectors. It focuses on projects of sizeable economic impact and funds projects approved by the government within the State Programme of Accelerated Industrial and Innovative Development. It uses instruments such as loans to investment projects to a minimum of USD 30 million, finance leasing of a minimum amount of USD 1 million, loans for export transactions of a minimum amount of USD 1 million, and servicing state projects as an agent. As of 2013, since its establishment, it has approved projects of a total value of USD 11.6 billion (www.kdb.kz).

National Agency for Development and Promotion of Exports and Investments – KAZNEX Invest. In 2003, the Centre for Market and Analytical Research under the Ministry of Economic and Budget Planning was created, which, in 2007, became the Corporation for Export Development and Promotion under the Sustainable Development Fund "Kazyna". In 2009, its shares were transferred to the Ministry of Industry and New Technologies and in 2010 it acquired its current name. Its main mission is to help diversify Kazakhstan's economy by promoting exports outside the natural resources sectors, and to attract foreign investment to priority sectors. It has also been assigned a major role in implementing the State Programme of Accelerated Industrial and Innovative Development (www.kaznexinvest.kz).

Entrepreneurship Development Fund (DAMU). This was established in 1997 to support small business development in Kazakhstan and to enhance the effectiveness of government funds in targeting small business. In 2006, the Sustainable Development Fund "Kazyna" became its shareholder and the Fund subsequently became a wholly-owned subsidiary of Samruk-Kazyna National Welfare Fund. As a result, its mission was expanded to cover medium-sized businesses. Microcredit organisations have been set up with DAMU's equity stake and the organisation lends to microcredit organisations, guarantees loans from second-tier banks to small and medium size enterprises (SMEs), and provides consulting services to SMEs. DAMU has a presence in every oblast and has been instrumental in promoting SME development throughout the country. Its assets totalled KAZ 180 billion at the end of 2012 (www.fund-damu.kz).

Although there has been some division of labour across these institutions, co-ordinating their activities to enhance the government's broader economic strategy has presented a challenge. Initially, this was addressed by putting many of the agencies under the administration of the Sustainable Development Fund "Kazyna" (and subsequently the Samruk-Kazyna National Welfare Fund). In 2011, the Ministry of Industry and New Technologies was allocated a major role in co-ordinating them. However, a further reorganisation is planned, creating a new agency, the National Agency for Development, to ensure that all development institutions effectively reach national strategic objectives. It remains to be seen how effective such an agency can be, given the number of development institutions and the proliferation of regional and sectoral development programmes.

Source: Author's own elaboration.

Strategic Development Plan Till 2020

Economic diversification, improved services, stability and future planning

In 2010, in line with Strategy 2030, Kazakhstan introduced a strategy for the new decade, entitled Strategic Development Plan Till 2020. Unlike Strategy 2010, which was prepared at the onset of the country's economic boom, which lasted throughout the 2000s, Strategy 2020 was drawn up after the global economic crisis, whose effects had begun to be felt in Kazakhstan. Strategy 2020 represented the next stage in realising Strategy 2030.

The Strategic Development Plan of Kazakhstan Till 2020 is arguably one of the most important strategy documents affecting a range of economic policies, including those related to regional development. It was adopted in February 2010[4] as the second stage of Strategy 2030, and remains in force today, providing guidelines for many policies at the top of Kazakhstan's agenda. A number of economic programmes adopted soon after Strategy 2020 was introduced have specifically referred to this strategy document and continue to serve its goals. This includes policy strategy documents such as the Programme for Regional Development (PRD) (see Figure 2.1 below).

Figure 2.1. **Strategy 2020: Major state programmes**

Source: National Analytical Center of Kazakhstan (2014), www.nac.gov.kz/ (accessed July 2014).

As a strategy document, Strategy 2020 is substantially more elaborate than Strategy 2030, as it sets clearer targets for various economic sectors and critical areas such as education and health. However, it does not set targets at the oblast level, a task developed in detail in the follow-up documents, the Forecast Scheme and the PRD.

Strategy 2020 defines five key directions and strategic goals for the social and economic development of Kazakhstan:

1. **Post-crisis development**: The key goal is to enhance the resilience of the Kazakh economy to external shocks and build the foundations for post-crisis (post-recession) development. It sets several targets:

- Kazakhstan should emerge among the 50 largest economies in the world by 2020.

- Kazakhstan's real GDP should grow by at least a third in 2020 compared to 2009.

- Domestic and foreign investment in the non-oil sectors should increase by at least 30% by 2020.

- Measures will be adopted to raise transparency, so that Kazakhstan can rank among the top third of the countries rated by Transparency International.

- The percentage of SMEs in the national economy should reach 7%-10%.

- Kazakhstan should be in the list of top 50 performers under the World Bank's "Doing Business Indicators".

2. **Economic diversification**: The main goal is to ensure sustainable economic growth based on diversification of Kazakhstan's resource-based economy, by developing non-resource sectors, including agriculture, and infrastructure. Some of the key targets are:

- Labour productivity in processing sectors should double by 2020, and in agriculture, increased fourfold over the same period.

- The share of the manufacturing sector in GDP should reach at least 13% by 2015; share of non-raw materials exports to reach 45% by 2020.

- The share of enterprises active in innovation should increase to at least 20% (from 7.1% in 2011).

- In the defence sector, 80% of its needs must be supplied internally.

- Electricity usage in the economy should be reduced 10% by 2015 and 25% by 2020 (compared to 2009); the percentage of renewable energy in the energy balance should increase to 3% by 2020.

3. **Investing in the future**: Kazakhstan will need to enhance its human capital to ensure international competitiveness and prosperity of its people. Several key targets are:

- Children both from urban and rural areas should be fully provided with preschool education.

- By 2015, 12-year compulsory education should be in place.

- Vocational technical education should be based on occupational standards in line with employers' needs, while the quality of higher education should be raised to world standards.

- Life expectancy of the population should increase from 68 to 72 years, while maternal and infant mortality rates should be reduced by half.

- Emigration of highly qualified labour should be reduced.

- Significant investment in infrastructure should be made (1 400 kilometres of new railways, 16 000 kilometres of new or repaired roads).

- Information-communication systems should reach 100% of the population.

4. **Improving communal services and welfare**: The quality of various communal services and access to welfare should be improved. Main objectives include:

- A fair level of pensions should be provided.

- Infrastructure investment should ensure more effective provision of various services, such as heat and water.

- The percentage of the population living below subsistence level should be reduced to less than 8% by 2020.

- New government standards should be developed to provide public services.

- Half of rural settlements and 100% of towns should have secure access to centralised water services by 2020.

- Investment in modernisation of housing infrastructure should be increased.

5. **Domestic stability and international peace**: Kazakhstan should strive to promote ethnic and inter-religious stability at home and international peace abroad. Objectives include:

- Modernising the political system through: promoting self-government in regions; establishing a modern, transparent party system; promoting dialogue between the state, civil society and businesses.

- Ensuring a favourable environment for freedom of choice for religion and other ethnic/cultural freedoms.

- Promoting gender equality.

- Ensuring that public administration attracts the best talent.

- Ensuring Kazakhstan's capability to defend itself against foreign threats.

Strategy 2020's implications for regional development are generally implicit in its various priorities. For instance, economic diversification is a comprehensive objective covering various industrial sectors as well as agriculture. Agricultural development is perceived as a means for developing primarily rural regions. Strategy 2020 acknowledges that about 50% of the population still lives in rural areas and that further development of agriculture will have a central role in raising living standards. By setting targets on access to communal infrastructure and services (such as education) in rural areas, Strategy 2020 aims to ensure higher living standards.

Additionally, the document states that the objective for economic diversification should be accomplished in conjunction with the establishment of regional "centres of growth". For instance, it puts particular emphasis on the development of Astana, with a focus on creating a business environment to help ensure the city emerges as one of the world's 30 most economically competitive cities by 2030. This reflects Kazakhstan's new regional development approach, focusing on select regions as drivers for growth. This approach, assessed below, is somewhat at variance with the new paradigm in regional policies in OECD countries.

Strategy 2050

A growing focus on regional development to support economic diversification

Strategy Kazakhstan 2050 was introduced as a new guiding document for Kazakhstan at the end of 2012. It does not invalidate previous strategy documents, such as Strategy 2020. Instead, it aims to provide long-term guidelines and updates on Strategy 2030.

Strategy 2050 is a comprehensive document with ambitious new goals. It aims to bring Kazakhstan within the rank of the 30 largest economies (in GDP) by 2050, given that the goal of attaining the top 50 economies has already been reached. It touches on many areas related to the country's future development: improving governance, infrastructure development, support for SMEs, creating a favourable climate for investors (domestic and foreign), promoting technological innovation, fighting corruption, improving the permit process for businesses, facilitating trade across borders and restructuring the legal system (Shibutov, 2013). It stresses the need to focus on economic diversification, on the basis that "the era of the hydrocarbon economy is coming to an end".

In comparison to the previous long-term strategies, Strategy 2050 puts a more pronounced emphasis on regional development. This is possibly a reflection of the leadership's increased attention to regional issues in the aftermath of the Zhanaozen events, the worker demonstrations that culminated into a deadly riot in the oblast of Mangystau in 2011. Kazakhstan had already started putting greater emphasis on regional development programmes, but the demonstrations helped accelerate the process.

In particular, Strategy 2050 recommends a focus on a number of issues of regional importance including. This includes the creation of "infrastructure centres" to ensure that remote localities with low population density have access to economically necessary facilities and the promotion of small and medium agri-business companies to expand exports of agricultural goods. It also involved the termination of the moratorium on subsurface use permits to promote new investments and the adoption of new measures to resolve water shortages in rural regions.

Furthermore, the emphasis on regional development is evident in the fact that Strategy 2050 devotes considerable attention to two themes critical for regional development. First, it stresses the need to develop effective mechanisms to level social imbalances across regions. It notes that the "poor economic performance of a number of regions impedes employment and widens the gap between rich and poor". To address this problem, it proposes several items for action.

- Enhanced co-ordination among government agencies on regional development "to synchronise the implementation of all government and industry programmes by addressing priority issues of regional development."

- Further supports for the development of monotowns and small towns. Strategy 2050 notes that the recently adopted programme on monotowns has helped allocate resources to create jobs, solve social problems and improve the work of local enterprises. It instructs the government to adopt another programme for developing small towns, to help build a regional system of sectoral specialisation.

- The adoption of measures to resolve complex migration problems. Migration affects regional labour markets, necessitating stricter control on migration flows from neighbouring countries. On the other hand, Kazakhstan must create favourable conditions for qualified labour at home, to curb emigration.

- Greater attention to border territories in order to make them more appealing for potential residents.

Second, Strategy 2050 makes specific proposals to decentralise power. It states that more resources should be delegated from the centre to the regions, and that regional powers should be enhanced. It is noted that such decentralisation would need to proceed

2. REGIONAL DEVELOPMENT POLICY IN KAZAKHSTAN – **97**

in tandem with the appropriate financial supports and alongside human resources development. Meanwhile, to enhance economic decentralisation, Strategy 2050 recognises that some degree of political decentralisation must follow. It proposes a plan to elect, rather than appoint, 2 533 governors of rural districts, villages and 50 towns of regional significance. This does not apply to regional governors at significant levels, but it is a positive, albeit limited, step towards political decentralisation.

A month after the announcement of Strategy 2050, Kazakhstan underwent a major government reorganisation, resulting in the creation of the new Ministry of Regional Development. This reflects a growing emphasis on regions in Kazakhstan's economic development strategy. Kazakh officials and experts have described this reorganisation as the implementation of Strategy 2050. Since this time a further restructuring has occurred; the Ministry of Regional Development was merged into the Ministry of National Economy in August 2014.

Regional development in the context of an oil-rich country

There is a vast literature on the impact of abundant natural resources, especially oil, on a country's economic development. The literature rarely focuses on regional development, but it does include useful lessons for Kazakhstan's attempt to promote regional development.

Kazakhstan's top priority, economic diversification, can be one of the principal channels for promoting regional development. This is partly because oil, its largest source of revenues and a major driver of economic growth, is concentrated in a few regions only. Spreading development to other regions will occur mainly by ensuring the successful rise of non-oil sectors. Additionally, how Kazakhstan uses its oil revenues to boost the development of other sectors will also largely determine the success of regional policies.

Success in economic diversification hinges on policies ranging from measures to promote a favourable business climate for investment (especially outside the oil sector, which typically operates in a different business environment from the rest of the economy) to fiscal policy that balances the country's need to support diversification and maintain a cushion to withstand fluctuations in global commodity prices. Kazakhstan has adopted a number of measures to substantially improve its business climate (see Chapter 1).

In fiscal policy, one important indicator is the presence of policies that could directly or indirectly contribute to the growth of non-resource sectors. A major critique of Kazakhstan's economic diversification policy has been that until the recession, oil revenues were generally accumulated in the form of public assets and channelled to an Oil Fund, which invested the money overseas. Only a fraction of the oil windfall was ploughed back into the non-oil economy, primarily through state development institutions. It is important nevertheless to bear in mind that this fraction needs to be limited to avoid "Dutch disease" issues and consequences. Another issue is on what to spend this money.

This policy underwent a major transformation after the recession, when substantial resources were channelled into the non-oil economy. Annual transfers of USD 8 billion have been transferred from the National Fund to the budget, allowing more spending in areas including infrastructure and human capital (IMF, 2012). This has provided a more favourable context for the regional development programmes initiated by Kazakhstan in the past few years (see next section). However, the IMF has called for even greater

flexibility in the size of transfers from the National Fund to the budget, especially when oil revenues fluctuate. It argues there is room to increase well-targeted government spending in priority areas such as health, education and infrastructure (IMF, 2011: 27-40).

Allocating more funds for economic diversification and long-term investment in areas such as infrastructure will not in itself guarantee successful economic policy. In fact, it significantly increases the potential for making major and costly mistakes in the country's economic policies, including regional development. Many oil-rich countries have engaged in fiscal expansionary policy in the name of economic diversification or improved infrastructure, without the hoped-for results. It remains to be seen how effective Kazakhstan's new fiscal approach will be in promoting long-term and sustainable economic development. The strategy for supporting regional and sectoral projects will need to be handled with caution and precision. The growing role of the sovereign wealth fund Samruk-Kazyna in the economy deserves attention. Given its extensive share in the economy, its policies will be consequential for regional development (see Box 2.2).

Box 2.2. **Samruk-Kazyna**

The Sovereign Wealth Fund Samruk-Kazyna (SK) was created in 2008 by merging two joint stock companies, Kazakhstan Holding for the Management of State Assets (SAMRUK) and the Kazyna Sustainable Development Fund. It was assigned to manage state assets and help implement major economic objectives, such as economic stabilisation and diversification. Among its many mandates, it supports regional development and social projects, as well as implementation of regional, national and international investment projects. As of 2012, the entity included 587 subsidiary companies.

Kazakhstan's experience with SK is an important area to watch. The success of Kazakhstan's key economic policies for diversification and regional development will depend on engaging SK effectively. SK's vast role in the Kazakh economy, accounting for 55% of GDP in 2010 (IMF, 2011: 18), signifies that its decisions and its ability to implement them will shape Kazakhstan's success on a broader scale. SK plans to invest over USD 40 billion in the next few years in strategic projects in transport, construction, pharmaceutical, energy, refining, chemicals and related industries, potentially shaping regional economies (IMF, 2011).

It has yet to be seen whether SK can overcome some major challenges. These include managing to juggle its many different missions, and operating in the Kazakh economy without crowding out the private sector and causing unhealthy competition. Some of the key determinants of its success will be: ensuring financial autonomy of SK's constituent companies in deciding where to allocate their resources; limiting the level of cross-subsidisation across branches within SK; enhancing the transparency of Kazakhstan's quasi-fiscal operations implemented through SK (such as social spending by SK in lieu of government funds), and monitoring the fiscal position of state-owned enterprises under SK. SK will need to overcome some potentially contradictory tasks, such as promoting economic diversification by investments in non-resource sectors, on the one hand, and ensuring growth in the oil and gas sectors through its major holdings. SK's own vision till 2022[5] indicates some additional challenges that need to be overcome: lack of transparency in personnel appointments, frequent rotation of management, and the need to optimise the debt structure and interest rate costs of subsidiary companies.

Source: IMF (2011), "Republic of Kazakhstan: Selected Issues", IMF Staff Country Reports, No. 11/151, Washington DC, June.

Conclusions

Kazakhstan's regional development policies are part of its broader economic development strategy, which is reflected in several policy documents adopted in the past 15 years. Three strategy documents examined here continue to provide guidance for regional development. Among them, the strategy document till 2050 has emerged as the one that sets the guiding principles for policy. While many of the objectives in these strategies contain implicit instructions on regional policy, they also set particular targets that will be instrumental in successful regional development. For instance, a transition to 12 years of compulsory education, universal access to preschool education and expanded access to water and communal services in rural areas need to be rolled out in Kazakhstan's regions in the next few years. In the meantime, more specific regional targets, as well as guidelines for execution and monitoring of regional policies, are determined by the policy documents dedicated to regional development (see below).

It is understandable that Kazakhstan's regional development policies have been conducted within the framework of its broader development strategy. Ambitious economic and social development priorities have been set, and achieving them will demand effective regional policies in line with national priorities. However, they also reflect a top-down approach in designing and implementing regional development policy, which could potentially hamper its effectiveness.

Meanwhile, as indicated in Strategy 2050, there has been growing appreciation of the need to delegate more authority to lower levels of government to implement regional development and overall economic policy. The Strategy calls for channelling more resources and responsibilities to regional and local governments, along with an increased degree of political decentralisation. Progress in this area will be important in achieving the goals in the governing strategy documents.

Regional development policies over the 2000s: diversity of initiatives and discontinuities

This section explores key elements of Kazakhstan's regional development strategy. It examines its evolution, providing a detailed assessment of several major strategic documents, their direction over time and their implementation.

In the last 15 years the trajectory of regional policy has been rather complicated and relatively discontinuous. Many impulses have been given to change regional policy design but the government had difficulties in building up an approach based on past developments. In 2006 the focus was put on growth poles and leading cities. This represented a dramatic shift from the 2001 regional policy concept that emphasised regional disparities and categorised regions. Inter-territorial links were also stressed with the priority given to cities with a supporting role or clusters. The proliferation of programmes at the end of the 2000's attracted attention to the pressing needs to increase co-ordination. In 2011, the evolving strategy was reflected in the adoption of two new documents, the Forecast Scheme for Spatial-Territorial Development of Kazakhstan Till 2020 (FSSTD) and the Programme on Development of Regions (PDR). PDR has been conceived as an application plan of the Forecast scheme but it remained prescriptive in a number of domains. Both programmes superseded the 2006 Strategy but also reiterated initiatives to develop rural areas that were initiated by the 2001 concept. Other programmes such as the Programme for the development of monotowns were also launched at that time but without being clearly articulated with the Forecast scheme or the

PDR. During all these years the top down approach has remained predominant and little attention has been given to multilevel governance of regional policy. The evolving regional development strategy is summarised in Table 2.1.

Table 2.1. **Evolution of Kazakhstan's regional development strategy**

Key strategy milestones	Main policy approach and priorities	Shortcomings and challenges
1990s (1996 Concept for Regional Development)	• First post-Soviet attempt to enact a strategic document directed at regional development. • Allocation of funds from donor to recipient regions to reduce regional differences, a legacy of the Soviet regional approach.	• Policy document of a mainly declarative nature. • Lack of clear goals and guidelines for implementing regional policy. • Dependence of less- developed regions on transfers that are perpetuated without success in achieving development. • Continuing severe economic contraction in most sectors of the economy.
Concept for Regional Policy for 2002-2006 (adopted in 2001)	• The main priorities identified were reducing the development gap among regions by reducing poverty and unemployment; maintenance and further development of infrastructure; promotion of entrepreneurship, and structural changes in regional economies. • Policy approach based on categorisation of oblasts into six groups, with proposals for a common strategy for developing each group. • Administrative-legal mechanisms (e.g. new legislation) and economic mechanisms (sectoral and region-based programmes) as part of the regional strategy.	• Continuous emphasis on prescriptive measures, lacking a well-defined action plan to implement policy. • Artificial categorisation of oblasts, lacking developmental criteria. • Lack of indicators to track progress in regional policy. • Regions' failure to comply with the strategy outlined. • Failure to reduce developmental gaps across regions, despite objectives of regional strategy.
Strategy for Development of Kazakhstan Till 2015 (adopted in 2006)	• Categorisation of oblasts was dropped as a means for developing a regional strategy. • Reducing development gaps across regions was abandoned as an objective. • Preference for a focus on promoting several economically advanced regions/areas as "engines of growth". • Distinction between "leader cities" and "cities with a supporting role" based on certain criteria. • New mechanisms were proposed, such as development of clusters, self-management, mobilisation of internal resources. • Market analysis for optimal specialisation of various regions • Promotion of SMEs. • Establishment of social-entrepreneurial corporations. • Infrastructure development in six specific areas. • Promoting development of advanced technologies was introduced as a new priority.	• Continued problems with co-ordinating regional policy within and across government levels. • Too little attention to decentralisation as a means to promote effective regional policy implementation. • Economic slowdown after the 2008-2009 recession.

Table 2.1. **Evolution of Kazakhstan's regional development strategy** *(continued)*

Key strategy milestones	Main policy approach and priorities	Shortcomings and challenges
Forecast Scheme for Spatial-Territorial Development of Kazakhstan Till 2020 (adopted in 2011)	• Continued several aspects of the 2006 Strategy, with a more comprehensive approach. • New categorisation of oblasts into five groups based on their share in national GDP, but emphasising "growth centres" and "axes of growth". • Introduced new mechanisms, such as promotion of agglomerations, fostering innovation-based industrialisation. • Further emphasis on regional specialisation; public-private partnerships; resettlement of rural population; new infrastructure investments. • Included two scenarios for development, an inertia scenario and directed scenario. • Key targets defined for oblasts and sectors, aiming to build a diversified and innovation-based economy. • Metrics established to monitor progress in meeting targets.	• Continued difficulties with co-ordination of state agencies. • A top-down approach in attempts to determine regional specialisations. • Slow progress in promoting agglomerations and new challenges in meeting needs for urban infrastructure development and social services.
Programme on Development of Regions (adopted in 2011)	• More detailed targets and metrics for performance, including on an annual basis. • An agenda for action developed for Kazakh institutions at national and regional levels. • Ministry of Development and Trade given authority to co-ordinate implementation. • Further emphasis on agglomerations as a means for developing centres for regional growth. • New financial arrangements proposed to promote regional policy: structural funds (as in the case of EU), programmes for infrastructure development and funds for regional/municipal development. • Increased emphasis on self-government, particularly at the lowest regional level.	• Need to enhance co-ordination, especially with lower-level governments. • Funding for implementing strategy set at relatively modest levels. • Need for further improvement in inter-budgetary relations. • Lack of clear criteria and priorities in targeted transfers to lower-level budgets. • Economic/budgetary decentralisation more likely to succeed if accompanied by more political decentralisation.

Source: OECD elaboration.

The Concept for Regional Policy for 2002-2006

Kazakhstan's first notable effort to formulate a regional development strategy was made in 2001, when the Concept for Regional Policy for 2002-2006 was adopted. This recognised that previous efforts had been ineffective in reducing substantial gaps in regional social-economic development. In the 1990s, turbulent economic times for the post-Soviet republic, regional differences had intensified.

The Concept provided a critical assessment of earlier regional development efforts, including those of the Soviet period. Soviet regional development policies helped ameliorate regional differences by reallocating funds from richer to poorer regions. This perpetuated the dependence of poorer regions on state subsidies, without putting them on an economically sustainable path.

In the 1990s, the Concept noted, Kazakhstan lacked a policy specifically designed to promote regional development. Instead, in continuation of Soviet practice, significant changes in Kazakhstan's regions, as well as in interregional economic relations, were

considered the outcome of "regional policy". Any undertakings affecting regions were considered regional development policies, whether they were adopted by central or by lower-level authorities.

The Concept noted that earlier attempts to establish a regional development strategy had failed. For instance, it referred to a previous attempt to establish a regional development strategy, the so-called Concept for Regional Development, adopted 9 September 1996. This was primarily of a declarative nature and lacked clear goals and guidelines for implementing a regional policy. The continuing economic difficulties in the context of Kazakhstan's post-Soviet transition also hampered the implementation of the Concept.[6] This paved the way for the new Concept in 2001.

The 2001 Concept defined several priorities for dealing with the development gap among regions: reducing poverty and unemployment, maintenance and development of infrastructure, promotion of entrepreneurship, and structural changes in regional economies in line with national and regional objectives.

In an attempt to design more effective policies based on the developmental level of each region, the 2001 Concept classified Kazakhstan's regions into six groups. These were based on indicators of the level of social-economic development, objective factors such as natural resources and climate, geographic location, demographics and subjective factors with potential implications for development.

The six groups were as follows:

- Group 1: **the cities of Astana and Almaty**. The two cities had a comparatively high level of per capita income in the republic. They had a diversified industrial sector (especially machine-building), a relatively well-developed financial sector and advanced scientific-technical potential. An ageing industrial base and infrastructure inadequate to local needs were among this group's key challenges. The Concept called for rapid development of infrastructure and industry in the capital, Astana, and the development of a regional financial centre and tourism infrastructure in the city of Almaty.

- Group 2: **Mangystau and Atyrau oblasts**. The two oblasts are known for their rich hydrocarbons. In 2001, they accounted for a third (33.4%) of Kazakhstan's industrial output (chiefly oil), although their population accounted for only 5.2% of the national total. Key challenges for this group were a lack of economic diversification and a weak agricultural sector, resulting in high unemployment and poverty in rural areas. The Concept set several goals: enhancing economic diversification in this region through investment in refining and chemical industries, investment in transport and communication infrastructure, and promoting small business in the agricultural sector.

- Group 3: **East Kazakhstan, Pavlodar and Karaganda oblasts**. Accounting for about a quarter of Kazakhstan's population in 2001 (24.2%) and with a higher than average per capita income, these three oblasts had developed extraction and processing sectors, given their rich natural resources. The level of development of industrial sectors not associated with natural resources was also comparatively high. In total, the three oblasts accounted for nearly another third (31.2%) of Kazakhstan's industrial output. However, this group suffered from excessive dependence on natural resources, some of which were in decline, presenting bleak prospects for the future. The Concept set the goal of diversifying industrial production, particularly in the oblasts' smaller towns.

- Group 4: **Aktobe, Zhambyl, Kostanay and South Kazakhstan oblasts**. The four oblasts were grouped together given their similar economic structure – largely agricultural with some level of industrial development. However, their level of development varied substantially. Overall, this group had the largest population, 31.2% of Kazakhstan's total. It had the highest share of the national agricultural output (35.2%), while its share of industrial output was modest (15.5%). Undeveloped infrastructure and a prolonged crisis affecting major industrial establishments were among the main problems faced by this group. Strengthening links between agriculture and manufacturing was identified as a key objective for this group.

- Group 5: **West Kazakhstan and North Kazakhstan oblasts**. These two oblasts were a focus for the machine-building sector (including military industry) and for agriculture. Curiously, they also had significant differences in economic structure. West Kazakhstan was primarily industrial, with a substantial hydrocarbon development, while North Kazakhstan was overwhelmingly agricultural. While West Kazakhstan had a comparatively high per capita income, North Kazakhstan's income levels fell well below the national average. Challenges for the two oblasts included the ongoing predicament in the military-industrial sector and water access. Modernising the machine-building sector, particularly in the military-industrial complex, was considered a key goal for this group.

- Group 6: **Almaty, Akmola and Kyzylorda oblasts**. With their overwhelmingly agricultural economy, the three oblasts had some of the lowest per capita income in the country in 2001. Key challenges included undeveloped infrastructure, an excessively high share of population employed in agriculture, ecological problems (around the Aral Sea), access to water and low life expectancy. The Concept advocated supporting small and medium enterprises in the agricultural sector, and identified industrialisation as a key prerequisite for raising living standards in these oblasts.

The Concept for Regional Policy for 2002-2006 proposed two routes for achieving its objectives. As a start, it recommended administrative-legal mechanisms to enact and implement new legislation, establishing a clearer division of responsibilities across different levels of governments, and securing stable and fair inter-budgetary relations.

Second, the Concept recognised that administrative-legal mechanisms should be accompanied by economic measures to promote regional development. These consisted of promoting investment projects and developing sectoral and regional programmes in several priority areas, such as transport infrastructure; electricity supply, heat and water; education and health services; access to research and development, and innovation technologies. Labour-intensive projects were also considered a priority, given their potential to curb unemployment.

No progress report tracked compliance of the six groups of regions with the goals of the 2001 Concept. What is clear, however, is that the government decided to abandon the Concept, recognising that its implementation was far from satisfactory. As a result, in 2006, it was replaced with the Strategy for Territorial Development of Kazakhstan till 2015 (see below).

The 2001 Concept suffered from several shortcomings. The mechanisms for achieving its goals lacked clarity on specific measures to address regional issues. It did not include a clear action plan for individual regions or ministries to guide its

implementation. The measures it proposed were merely prescriptive, indicating the intentions of the government rather than offering clear policy solutions (Moroy, 2011). Furthermore, the value of categorising Kazakhstan's oblasts into six groups was questionable, given the broad differences within many groups.

The Concept and its goals were largely ignored in the regional development programmes and plans enacted in subsequent years. Various regions adopted programmes, but they remained disconnected from the 2001 Concept. They failed to take into consideration problems specific to their respective region, some of which were outlined in the Concept. Notably, these programmes overwhelmingly lacked indicators to track progress in achieving key objectives (Moroy, 2011).

Strategy for Territorial Development of Kazakhstan Till 2015

A new regional development strategy was formulated in 2006, when Kazakhstan's president announced that completing a new concept for regional development was a major priority. That year, the Strategy for Territorial Development of Kazakhstan Till 2015 was adopted.[7]

The 2006 Strategy departed from the 2001 Concept in several ways. It was more comprehensive, covering more issues of potential importance for regional development. Unlike the 2001 Concept, it did not categorise oblasts and proposed a common strategy for their development.

The main departure of the new Strategy lay in abandoning the idea of removing regional developmental differences as an explicit objective. It did not include the goal of focusing attention on areas with the most severe developmental problems. Critically assessing past regional development efforts, it noted that the existing approach had failed to eradicate severe economic difficulties in a number of areas, while regional development gaps had only expanded.

The 2006 Strategy was based on the premise that the focus must shift to economically advanced regions that would serve as "engines of growth" for the rest of the country. The underlying assumption, based on best practice, was that resources must be channelled not on the basis of artificial geographic divisions (such as oblasts) or traditional industrial centres, but on a locality's prospects of emerging as a major economic centre, regionally and internationally.

The new Strategy officially defined several priorities:

- Integrating Kazakhstan's economy with the international economy by becoming Central Asia's economic, commercial, service and technological centre.

- Establishing "growth poles" in select localities that would perform as "engines" for economic development for the rest of Kazakhstan.

- Concentrating economic and labour resources in localities with good economic prospects.

- Boosting the economic competitiveness of regions with mechanisms such as development of clusters, self-management and mobilisation of internal resources.

The new Strategy stressed the importance of developing natural resources. Hydrocarbon revenues in particular were considered a key factor for promoting development in other sectors.

The ultimate goal of the country and its new regional development strategy was to shift towards a more economically diversified and sustainable model. Kazakhstan must become a major exporter of technologically advanced, higher-value-added commodities, and a major centre for services and innovation in Central Asia. This ambitious goal was to be accomplished by 2015.

The strategy for establishing "poles of growth" would consist of prioritising the development of "leader cities" and "cities with a supporting role". Almaty and Astana, potential "leader cities", were assigned a major role in this process. One of the goals of the 2006 Strategy was to secure the transition of these two cities towards becoming innovation-based centres for the country and Central Asia. Several specific objectives were defined for the two cities: promoting their development as educational, health and technology centres; securing the presence of multinational major companies in the cities, and adopting measures to improve their investment climate. Two additional goals were set for Almaty: transforming it into an international financial centre, and exploring its potential as an international centre for winter sports tourism. To achieve these objectives, the Strategy advocated investing substantial government funds in infrastructure.

As a follow-up, in 2008, the government adopted the Concept for the Economic Positioning of the City of Almaty and the Almaty Oblast Till 2015. The concept designated Almaty's niche areas as transport, logistics, international trade, services, tourism, high technology, education and health. Of these areas, tourism was noted the most promising (Faizova, 2009).

As well as "leader cities", the 2006 Strategy designated "cities with a supporting role", whose task was to optimise their resources (natural and financial resources, human capital) and to emerge as internationally competitive centres. Several criteria put a city in this category: a city with a well-developed economy and significant role in administration; well-developed transport infrastructure close to domestic and international transport corridors; a favourable location for domestic and international markets; the potential to compete with major cities in neighbouring countries.

The document defined several "cities with a supporting role": the administrative centres for each oblast, the city of Semipalatinsk (given its central location in East Kazakhstan's transport network), and centres of Kazakhstan's economic macro-regions, such as Kostanay (North), Karaganda (Saryarkinsk region), Aktobe (Uralsk region), Atyrau (Caspian region), Shymkent (South), Ust-Kamenogorsk (Irtysh region). Additional cities of regional importance would be determined subsequently.

"Cities with a supporting role" would have the opportunity to be upgraded to "leader cities" after thorough assessment of their development strategies and the rate of success in their implementation. The document stressed that this would be a competitive process, but did not define the timeline and the specific tasks to be accomplished.

To increase the "specialisation" of regions/cities that would help make them internationally competitive, the Strategy listed two immediate measures: conducting a market analysis of the potential areas of specialisation for regions and cities; and formulating a comprehensive strategy for development by regions and cities on the basis of the market analysis. For the market analysis, the document suggested establishing "councils of competitiveness" to serve in an advisory role at the level of oblast akimats. The Council would include regional government officials, representatives of the private sector, business associations and research institutions.

Another measure that aimed to help Kazakh regions/cities specialise in potentially competitive sectors was the development of clusters.[8] On the basis of preliminary research, the Strategy document listed several sectors as promising for regional clusters: tourism, freight transport, machine-building for oil and gas, textile, food processing, metallurgy and construction materials.

The document noted that the private sector must have the driving role in forming clusters, although the central level could also initiate their formation if the private sector failed to step up. The government's task, both at the central and regional level, was determined as: facilitating co-ordination between various stakeholders (such as producers, suppliers, service companies, research institutes and regulatory bodies); securing the development of the infrastructure needed for the success of clusters (such as securing manufacturing capacity and warehouses, provision of land and access to roads) and; assisting them in providing up-to-date information (by developing information technologies, organising specialised seminars and exhibitions and so on).

The drafters of the Strategy believed that promoting clusters would not only help different regions specialise in potentially viable sectors, but it would also promote the growth of smaller and medium-size companies, especially in non-hydrocarbon sectors, eventually contributing to economic diversification.

To mobilise economic resources more effectively, the Strategy called for the creation of so-called Social-Entrepreneurial Corporations (SEC), particularly in economically advanced regions. These were designated a significant tool for regional development policy and assigned the task of consolidating government resources (and assets) and entrepreneurship, to resolve economic and social problems. Management of state-owned assets, promoting social responsibility in their respective regions, attracting new investment, developing competitive and export-oriented manufacturing, and generating demand for the products of small- and medium-sized enterprises were additional tasks for these SECs.

Additionally, the SECs were given a central role in promoting regional clusters (Akishev, 2007). Finally, they were given the role of liaison between the public and private sectors to promote public-private partnerships, especially in major infrastructure projects.[9]

By 2008, 7 SECs were already operating in Kazakhstan (increasing to 16 by 2012, one in each oblast and the two cities of national significance). Their websites provided a detailed list of projects under development (Turgunbayeva, 2008). By late 2008, all SECs were incorporated under the state-owned Samruk-Kazyna (KazInform, 2009). The SECs have been criticised for not showing interest in responding to priority social needs.[10] Instead, they emerged mainly as entities that capitalised on state property and fulfilled certain financial obligations of the state.

In 2012, the Ministry of Economic Development presented a new concept for the development of SECs, highlighting existing "areas of difficulty" such as: presence of sub-optimal projects, insufficient capitalisation of SECs, lack of active interaction with akimats and development institutions. The concept was developed jointly with the oblast akimats and was approved in October 2012.[11] It emphasised the potential role of SECs in regional development.[12]

An additional area of focus of the Strategy document was developing infrastructure. It provided a detailed assessment of six types of infrastructure investments needed for regional development:

- Infrastructure to support innovation (including research, consulting and informational facilities).

- Transport and communication infrastructure (with an emphasis on three "trade corridors", the North Kazakhstan corridor, the Central Kazakhstan corridor and revival of the Great Silk Road through the South Kazakhstan corridor).

- Infrastructure essential for living standards (such as ensuring access to electricity, heat, sewage, gas, petroleum products and coal).

- Water and irrigational infrastructure (including metering of water use).

- Social infrastructure (related to health, education and other social facilities).

- Tourism infrastructure.

The national holding company, Samruk, with its massive ownership of state assets, was assigned the task of co-ordinating its investment strategy to accommodate these priority areas in infrastructure development.

Finally, the Strategy for Territorial Development of Kazakhstan till 2015 attempted to provide a road map for more effective regional development. It unequivocally recognised the lack of co-ordination among many of the institutions in charge of regional development. This lack of co-ordination weakens the credibility of the proposed regional development strategy, weakening the incentive for local administrators to implement it. To remedy this, the Strategy document suggested establishing an overarching institution to oversee and co-ordinate the regional and sectoral programmes, to increase their effectiveness.

The proliferation of regional programmes had made improvement a necessity for success in regional development. A 2007 study noted that Kazakhstan had 370 regional development programmes (mostly drafted by various localities). Overlap was frequent among programmes, which were quite often redundant, resulting in a waste of government funds (Moroy, 2011). The abundance of programmes and the decision to periodically enact new ones has weakened the incentive for stakeholders to commit to and implement them.

In effect, the co-ordination problem continued after this strategy was adopted (Chetobarev, 2010). As explained below, the new Ministry of Regional Development was not established until after the major government reorganisation in 2013. Even after this, room to enhance co-ordination remains, as multiple institutions are responsible for regional development programmes.

Several positive steps were taken after the 2006 Strategy was adopted. These were primarily in the area of developing methodology and legislative acts to implement the Strategy. For instance, the government developed a methodology for assessing priority areas in education, health and social protection, and for determining priority investment projects. The government also completed a market analysis on potential areas of specialisation for select regions and cities. Additionally, all oblast centres, Almaty and two additional cities of regional importance (Semey and Zhezkazgan) adopted their own regional/city development Strategies Till 2015. These were drafted along the lines of the 2006 Strategy (Moroy, 2011).

Progress in implementing the 2006 Strategy was lackluster, though the government has not provided an account of the extent of its implementation. Its potential to contribute to regional development was accentuated by major gaps in the strategy documents. The

document did not refer to decentralisation, a significant element in best practice for regional development. Its implementation was compromised by the global recession and the economic slowdown of 2008 and 2009. It also attracted criticism for increasing developmental discrepancies among Kazakhstan's regions by draining valuable resources from depressed localities (Akishev, 2007).

In 2011, a presidential decree annulled the 2006 Strategy and replaced it with the Forecast Scheme for Spatial-Territorial Development of Kazakhstan Till 2020.[13]

Forecast Scheme for Spatial-Territorial Development of Kazakhstan

Kazakhstan's endeavour for improving its regional development strategy is an ongoing process, and the discourse on elaborating more effective means for regional growth is under way. The latest major attempt to elaborate a new strategy resulted in two new strategy documents adopted in July 2011: the Forecast Scheme for Spatial-Territorial development of Kazakhstan Till 2020 and a new Programme for Regional Development (PRD).[14]

Rather than a departure, these two documents could be regarded as an iteration of the 2006 Strategy, though they clearly provided a more comprehensive picture of the goals and means of regional development and revised some previously set objectives. While the Forecast provided an extensive account of the country's objectives and strategy for fostering regional growth, the PRD elaborated in detail regional indicators for some of the key objectives of the Forecast Scheme.

Following the 2001 Concept, the Forecast Scheme attempted to classify Kazakhstan's regions. However, the regions were grouped in five categories based principally on their share in the country's GDP (see Table 2.2). A region's share in the national economy was also considered a factor that essentially determined its prospects in the next decade. The regions were identified as leaders, regions with high dynamics for development, regions with average dynamics for development, regions with a below-average level of dynamics for development, and regions with low dynamics for development. Almaty city and Atyrau oblast were categorised as leaders, while Astana city was in the second category.

This categorisation, while possibly helpful for thinking of the relative economic importance of oblasts, could be somewhat counterproductive on two levels. It adopts a static view of a region, categorising it based on its current economic output, instead of its future potential. As described below, it contrasts with the more recent approach in OECD countries that recognises even less-developed regions as potential sources of growth, requiring well-targeted policies.

Table 2.2. **A typology of Kazakh Regions**

No. group	Region	Share of GDP, %	Rating	Classification	Interval, %
1	Almaty city Atyrau oblast	18.7 11.6	1 2	Leaders	11-20
2	Karaganda oblast Astana city	8.9 8.1	3 4	High dynamics of development	7-11
3	Mangistau oblast Eastern-Kazakhstan oblast South-Kazakhstan oblast Pavlodar oblast Aktubinsk oblast	6.5 5.8 5.4 5.1 5.0	5 6 7 8 9	Middle dynamics of development	5-7
4	Western-Kazakhstan Almaty oblast Kostanay oblast	4.8 4.5 4.3	10 11 12	Under middle level dynamics of development	4.5
5	Kysylorda oblast Akmolinsk oblast North-Kazakhstan oblast Zhambyl oblast	3.8 3.1 2.4 2.1	13 14 15 16	Low dynamics of development	Up to 4

Source: Forecast Scheme for Spatial-Territorial Development of Kazakhstan Till 2020, Presidential Decree of the Republic of Kazakhstan No. 118 dated 21 July 2011, http://online.zakon.kz/Document/?doc_id=31039616 (accessed July 2014).

The Scheme defined several areas as priorities for regional development through 2020. These are a mix of targets to different sectors and support for business development along with place-based targets to develop urban infrastructure. A major priority area of the strategy is to secure economic growth in the country by mobilising capital and labour resources in "growth poles" and regions with robust economic development prospects. Related to this, it recommended further urbanisation and the formation of agglomerations, to develop the foundation for innovation-based growth in major cities. The strategy further mentioned targeting priority sectors and clusters, supporting small and medium-sized enterprises in every region; establishing public-private partnerships in all economic sectors and regions.

The Scheme reiterated the need to mobilise resources in a few localities that could serve as "engines" of growth for the rest of the country. To accomplish this, the Scheme proposed further measures to enhance urbanisation, projecting the urban population to make up about 70% of the total in 15 to 20 years. Given Kazakhstan's vast territory and the relatively small size of its population, the document considered concentration of human resources a necessary condition for a regional development model, emphasising the role of a select number of cities. It is noteworthy that the new strategy acknowledges the importance of human capital as a driver of developmental objectives, but is less clear about the role of capital formation. The strategy also recommends preventing ecological damage and integrating border regions with the national economy and with the Eurasian Customs Union economies.[15]

In conjunction with the growing concentration of population through urbanisation, the Scheme set the goal of focusing on so-called agglomerations, a few urban localities that would become the centre of various initiatives (such as formation of clusters) and the mobilisation of financial, innovation-related, natural, cultural and human resources. These agglomerations would be the drivers for an innovation-based and diversified economy. The Forecast Scheme set the goal of establishing agglomerations around three cities,

Astana, Almaty and Shymkent, with the city of Aktobe as a fourth potential centre. The Programme for Regional Development (see below) further elaborated Kazakhstan's strategy on agglomerations (see Box 2.3).

Another component of the Forecast Scheme was the emphasis on promoting territorial development through three strategic "axes of growth". Unlike "growth centres", this concept refers to broader geography where "growth poles" are strongly linked with other regions with relatively good prospects for growth (listed in Figure 2.2 below).

Figure 2.2. **Growth poles**

Northern axis	• Connecting Ust-Kamenogorsk-Semipalatinsk-Pavlodar-Astana-Kostanay-Aktobe-Uralsk with the Caspian and Almaty territorial-economic systems
Central axis	• Connecting Astana-Karaganda-Almaty with Balkhash and Dostyk and the border with China on one hand, and the seaports of West Kazakhstan on the other
Southern axis	• Connecting Taldyrkorgan-Almaty-Taraz-Shymkent-Kyzylorda-Atyrau-Aktau with the Chinese border and the other Central Asian republics in the south.

Source: Author's own elaboration.

The Forecast Scheme acknowledged that only the southern axis had the necessary conditions in place, given the density of the population in the respective regions, which were relatively well integrated. The other two axes faced the challenge of low population density and would need to be better integrated, especially with investment in transport and communications.

The scheme also drew attention to the need for major infrastructure investments, considering them a prerequisite for success in promoting an innovation-based industrial economy. Transport infrastructure that would connect Kazakhstan's regions with each other and with foreign markets was deemed a crucial element of the Forecast Scheme. Other areas of investment to be prioritised included telecommunications and energy infrastructure. Under a special section titled "forecast schemes",[16] the document listed a detailed set of targets for infrastructure development in areas such as transport, energy, communications and social services (and access to water in particular).

As regards regional specialisation, the Scheme planned a comprehensive survey of the comparative advantages of different regions. This would serve as the basis for developing distinct regional strategies. In agricultural regions, for instance, one goal would be to enhance grain production.

The Forecast Scheme envisaged two scenarios for development until 2020. The "inertia" scenario, based on maintaining the status quo in Kazakhstan's territorial development policy, envisaged the continuation of the existing discrepancies in development between regions, and a further increase in regional differences in terms of access to government social services. It predicted that under this scenario, the economic

situation in "depressed" localities would further deteriorate, making it necessary for the central government to keep providing them with substantial subsidies. Low urbanisation and ineffective co-ordination on combating unemployment were the other potential outcomes.

Under the "directed scenario", the government would undertake a pro-active policy based on contemporary means for promoting regional development. It envisaged a more successful use of the regions' resources, and consequently, their potential for development. It would result in the concentration of resources (especially human resources) in larger cities, accelerating urbanisation and helping resettle people from localities with weak economic prospects. Additionally, under this scenario, Kazakhstan would make progress towards minimising the gaps between regions and their people, in terms of their access to social services.

Another area of focus for the Forecast Scheme was establishing a general strategy and setting key targets for each oblast. It set specific targets for a number of sectors in every oblast by 2020. Many of the proposed targets aimed to serve the long-term goal of establishing an innovation-based and diversified economy. Likewise, the document contained forecast schemes for a select number of economic sectors: mining and hydrocarbons, machine building, chemicals and petrochemicals, pharmaceuticals, light industry and agriculture. For each sector, it defined targets to be achieved through 2020, indicating the oblasts and specific cities expected to help meet these targets.

Finally, the Forecast Scheme established the metrics for monitoring performance in each oblast in terms of its success in meeting a number of targets. Table 2.3 illustrates the diverse rate of growth expected across Kazakhstan's regions through 2020, indicating the targets under the Forecast Scheme. The highest growth rate was expected in the city of Astana and South Kazakhstan oblast, while the lowest was envisaged for the Almaty oblast.

Table 2.3. **Real GDP in 2020 in comparison to base year 2009 (base year = 100)**

Oblast	GDP comparison
Akmola oblast	156.6
Aktobe oblast	161.0
Almaty oblast	130.5
Atyrau oblast	169.0
West Kazakhstan oblast	178.4
Zhambyl oblast	150.9
Karaganda oblast	152.1
Kostanay oblast	142.6
Kyzylorda oblast	177.8
Mangystau oblast	141.7
South Kazakhstan oblast	237.9
Pavlodar oblast	153.9
North Kazakhstan oblast	208.3
East Kazakhstan oblast	158.9
City of Astana	246
City of Almaty	145.5

Source: Forecast Scheme for Spatial-Territorial development of Kazakhstan to 2020.

To accomplish economic diversification, the government aimed to shift towards a greater share of processing in Kazakhstan's industry. Table 2.4 illustrates the targets set for each region.

Table 2.4. **Percentage of processing industry in overall industry in 2020 (%)**

Oblast	Percentage processing industry
Akmola oblast	79%
Aktobe oblast	45%
Almaty oblast	90%
Atyrau oblast	30%
West Kazakhstan oblast	30%
Zhambyl oblast	85%
Karaganda oblast	90%
Kostanay oblast	60%
Kyzylorda oblast	35%
Mangystau oblast	30%
South Kazakhstan oblast	75%
Pavlodar oblast	75%
North Kazakhstan oblast	80%
East Kazakhstan oblast	90%
City of Astana	85%
City of Almaty	95%

Source: Forecast Scheme for Spatial-Territorial development of Kazakhstan Till 2020.

Another important metric in the Forecast Scheme is regarding the goal of resettling Kazakhstan's population in regions with better economic prospects. Table 2.5 demonstrates that the government envisages a significant drop in the population of five regions (mainly agricultural) in favour of a substantial growth in a few oblasts (the oil-rich Mangystau and Atyrau oblasts leading the pack) and particularly in the city of Astana.

Table 2.5. **Size of population in 2020 in comparison to base year 2009 (base year = 100)**

Oblast	Size of population 2009
Akmola oblast	96.6
Aktobe oblast	113.9
Almaty oblast	116.6
Atyrau oblast	125.3
West Kazakhstan oblast	106.7
Zhambyl oblast	112.2
Karaganda oblast	103.4
Kostanay oblast	92.7
Kyzylorda oblast	114.1
Mangystau oblast	151.5
South Kazakhstan oblast	126.2
Pavlodar oblast	98.8
North Kazakhstan oblast	86.4
East Kazakhstan oblast	95.7
City of Astana	166.9
City of Almaty	135.0

Source: Forecast Scheme for Spatial-Territorial development of Kazakhstan Till 2020.

The Programme on Development of Regions

The Programme on Development of Regions (PRD), adopted only five days after the Forecast Scheme, provided a more detailed account of the targets by 2020 and elaborated on various strategies to help meet these targets. It set annual metrics to track progress in regional GDP growth for 2011-2015. The document was written on the basis of the Forecast Scheme. It explicitly mentions that it will serve the function of implementing the country's recently adopted Strategic Plan for the Development of Kazakhstan till 2020 (see above).

Perhaps most importantly, it set an agenda for action for a number of Kazakh institutions (both at national level and akimats). It aimed to determine their functions in reaching the PRD targets. Much of the proposed action dealt with legislative changes to be finalised by various ministries, but it also discussed creating the conditions necessary to establish regional agglomerations and clusters.[17]

The PRD designated the Ministry of Economic Development and Trade as the institution in charge of implementation of the document, including administering the national budget dedicated to the programme. On a regional level, the department of economic and budgetary affairs in akimats would have the role of programme co-ordinators.

The PRD set two tasks to be implemented through 2020. The first was to identify systematic problems and factors impeding the social-economic development of regions in order to identify an effective mechanism at the local level to address these systemic problems. The second task was directing financial assistance to regions to improve their

competitiveness and help mobilise their economic potential, including by resettlement of the population.[18]

The document set two stages to accomplish these tasks. The first stage (2011-2012) was a pilot phase in which much of the work focussed on developing a comprehensive analysis of the economic potential (especially in terms of unutilised resources) in Kazakhstan's regions. This was also determined as the period to develop specific plans of action for oblast akimats (and the cities of Astana and Almaty) on their regional development. At the second stage (2013-202), the PRD was expected to be fully implemented and various investment projects executed. During this second phase, successful co-ordination between sectoral programmes and strategic development plans of state-owned companies was to be accomplished to promote regional development.

The PRD declared that financing the programme would be executed with funds from the national and regional budgets as well as additional sources that would be in compliance with Kazakh laws. It set the annual amount of financing to be provided from the national budget through 2014 (see Table 2.6).[19] The amounts for the years after 2014 left to be determined during the budgetary process in the future.

Table 2.6. **Budget funding for implementing the Programme for Regional Development**

2011	KAZ 0.176 billion
2012	KAZ 1.05 billion
2013	KAZ 14 billion
2014	KAZ 15 billion

Source: Amendments to the Programme for Regional Development, 7 December 2011.

Aiming to clarify the country's new territorial development strategy, the PRD recommended a distinct set of actions on the basis of four types of settlements: agglomerations, cities of secondary importance (centres of oblasts), cities and rural areas with higher potential for development and border territories.

Most of the emphasis in the document was placed on a detailed strategy for the development of agglomerations, considered Kazakhstan's potential "growth poles". Box 2.3 provides a more detailed analysis of agglomerations, as the PRD elaborated the idea under the Forecast Scheme.

> ### Box 2.3. **Agglomerations as a strategy for regional development**
>
> The Programme for Regional Development, adopted in 2011, provided the following definition for an agglomeration: "a group of urbanised localities formed around one (monocentric) or several (polycentric) core cities, brought together by industrial, cultural, communal and other ties and exhibiting a tendency towards integration". Agglomerations need to meet several criteria: high population density and a strong resource base (water, land, etc.), a favourable geographic location with a developed transport infrastructure, strong economic potential in the core city (in the form of developed industrial, service-related, labour, financial and scientific potential), and a significant administrative role, such as being the centre of an oblast (because these centres control the flow of budgetary resources in their respective region).
>
> The PRD document added one more potential agglomeration, Aktobe, to the four agglomerations listed in the Forecast Scheme. However, it distinguished between agglomerations of the first order (Astana, Almaty and Shymkent) and agglomerations of the second order (Aktobe and Aktau). The PRD detailed a comprehensive strategy for each of these agglomerations, recommending the areas where resources must be channelled.
>
> In practice, Kazakhstan has run into major challenges in transforming the agglomerations into engines for growth. Overall, the agglomerations' central and suburban zones are not well balanced. Development in suburban areas needs to be handled with caution to ensure that they are integrated with the city centre. For instance, ensuring labour mobility within an agglomeration will depend upon sufficient investment in high-speed transport. Also, uncontrolled population growth in city centres, in Almaty in particular, but also in Astana, has made it difficult to meet demand for new urban infrastructure development and social services.
>
> *Source*: Author's own elaboration.

The heavy emphasis on agglomerations comes in stark contrast to the PRD's approach to the economically most challenging localities, the monotowns. As described below, Kazakhstan has developed a separate programme for these entities, but neither the PRD nor the Forecast Scheme has assigned them a significant role. On the other hand, both documents aim to develop a new strategy for promoting development in the country's rural areas (see below).

The PRD drew particular attention to the need to improve both the budgetary process overall and inter-budgetary relations with regions, to successfully implement Kazakhstan's new regional development policy. Currently, regions are funded through the existing system of inter-budgetary relations, which is based on redistribution of funds from donor regions to recipient regions. Such a policy does not encourage local governments to accelerate economic growth in their respective regions. This situation is largely an outcome of the lack of a uniform system for calculating transfers (except general transfers) and the absence of clear priorities in the formulation of targeted transfers.

Drawing on best practice, the PRD described several key instruments for effective regional development: structural funds (used commonly in the EU), programmes for infrastructure development (used in Canada), and funds for regional/municipal development (common in over 50 countries, including the Russian Federation, Brazil and India). Such funds, especially structural funds in the EU, have been successfully used in enhancing the competitiveness and the productivity of regional economies. Countries have adopted various mechanisms to disburse these funds, such as contractual agreements

between the central and regional governments (France, Germany), grants and co-financing by the EU, and PPPs in Russia. The PRD emphasised that similar financial arrangements would benefit Kazakhstan's new regional development policy. It directed the government to adopt a special financial instrument known as Programme for Regional Development, and incorporate it into the budgetary process.

Finally, the PRD drew attention to "self-government" as another area that has been widely considered an important condition for effective regional development. At a government meeting on 17 April 2011, President Nazarbayev asked the government to draw up a set of measures to establish the basis for successful self-government. While the legal basis for this step is now in place, accomplishing this goal may yet present some challenges, since it may require a series of political reforms involving decentralisation.

Discovering the importance of small towns and rural settlements in regional development

A key feature of the 2001 Concept was its emphasis on the need to promote development in "small towns, depressed rural areas and border regions". It identified 7 mid-size and 58 small towns,[20] virtually all of which shared several major problems: a high unemployment rate associated with the economic collapse of the 1990s, large-scale migration to larger cities, leading to a lack of qualified personnel, undeveloped transport and insufficient budgetary funds to invest in and maintain social infrastructure.

On the basis of a government resolution (Resolution No. 561 of 11 May 1999), the Concept identified 27 rural rayons (of 159 rural rayons) as "depressed" areas. They were described as suffering from weak infrastructure, an unfavourable climate and ecology, and from their substantial distance from markets for their goods.

Kazakhstan's border regions, on the other hand, have had substantial losses of population due to migration, which has weakened their potential for economic development. The 2001 Concept considered the development of border regions, particularly in the South, as significant for national security.

After the adoption of the 2001 Concept, one programme was adopted specifically to promote development in small towns, and another targeting rural areas. The Government Programme for Development of Small Towns for 2004-2006,[21] adopted in 2003, set several tasks: economic diversification through structural changes in the economy of Kazakh towns; promotion of smaller and medium-size enterprises; progress towards functional specialisation of towns; development of natural resources located near small towns and; improvement of public investments and development of social infrastructure.

The Programme differentiated by territory by classifying towns into five functional categories: 1) industrial centres (subdivided into towns with extractive industries, manufacturing industries, agriculture and energy production); 2) industrial-transport towns; 3) scientific-research centres; 4) recreational health centres and; 5) towns gradually losing industrial and non-industrial functions.

One significant contribution of the Programme in establishing a strategy for Kazakhstan's regional development was to establish the criteria defining a "depressed" small town. The following features were specified:

- A volume of production of industrial goods per capita less than 20% of the national average.
- A lack or virtual depletion of natural resources.

- A location on the periphery, and remoteness from major centres of economic activity and urban markets.

- An average unemployment rate for the previous three years exceeding the national average by more than 50%.

- An average monthly salary of industrial workers more than 50% lower than the national average.

- Less-developed industrial infrastructure.

- Poor environmental conditions.

Since it did not have specific implementation targets, this programme remained largely on paper. For the rest of the first decade of the century, these locations continued to face high unemployment, heavy dependence on a small number of enterprises or industries, excessive depreciation of industrial facilities and infrastructure, shortages of skilled labour, environmental problems, and a pronounced lack of funds for effective development projects.

The Kazakh government shifted its attention back to smaller towns in the aftermath of Zhanaozen events in December 2011. A major indicator of the growing recognition of the economic and social problems in smaller urban areas was the adoption of the Programme for Development of Monotowns for 2012-2020 (see below).

The State Programme for Development of Rural Territories for 2004-2010 was adopted in 2003 in line with the 2001 Concept for Regional Development, as well as the government's overarching Strategy 2030 (see below). Financed by the national and regional budgets, the programme envisaged several objectives such as analysing socio-economic development indicators for rural areas and determining criteria for their classification. It further recommended formulating priority measures for development of economic activities, investment, and reconstruction of social and physical infrastructure and developing norms and standards for rural services related to social infrastructure. It also sought to monitor the social-economic development of rural settlements (including their environmental safety and land evaluation) and to develop and implement programmes to resettle rural residents.

The Ministry of Economic Development considers the State Programme for Development of Rural Territories for 2004-2010 quite successful. Several indicators improved substantially between 2004 and 2010, but how much this was due to the contribution of this State Programme (as opposed to broader economic trends that affected Kazakhstan positively during this period) remains unclear.

The average real income per capita among the rural population increased 3.5 times between 2004 and 2010. The percentage of the population with income below the subsistence level was reduced by a factor of 4.5 in the period, falling to 10.5%. The unemployment rate declined from 7.1% to 5%.

Significant progress was made in developing infrastructure in rural areas. Access to centralised water supply for the rural population improved from 29% to 42%. The percentage of rural settlements without paved roads decreased from 15.7% to 11.1%. Between 2004 and 2010, 188 rural settlements had acquired access to electricity, and 1 642 had acquired telephone services (dropping from 22.4% without telephones to 0.6%). Meanwhile, over the same period, 409 rural settlements gained access to natural gas, and by the end of the period, the coverage of national TV channels (such as Khabar and Kazakhstan) reached 98% of rural settlements.[22]

One area that fell short of the desired level was rural resettlement, according to the Accounting Committee. In 2011, during his address to the nation, President Nazarbayev underlined that further development programmes for rural areas should be implemented within the framework of the Forecast Scheme for Spatial-Territorial development of Kazakhstan Till 2020. Key elements of the strategy for rural development under the Forecast Scheme are examined in Box 2.4.

Box 2.4. **A new strategy for development of rural areas**

Both the Forecast Scheme and the PRD formulated a strategy to promote the development of Kazakhstan's rural areas. It acknowledged that economic developments in the preceding two decades had led to the emergence of many depressed areas, entailing severe social challenges (such as migration, degradation of infrastructure, unemployment, social exclusion and marginalisation). The Forecast Scheme listed several urgent infrastructural problems in Kazakhstan's rural settlements as of 2010:

- 80 rural settlements had no access to electricity.

- In 1 673 rural settlements, the percentage of electricity infrastructure in poor repair was over 85%.

- In 3 098 rural settlements (about 44% of the total), telephone density was lower than the existing targets, and access to broadband Internet was very low.

- Only 48.6% of rural settlements had access to a library.

- 199 rural settlements had no direct access to clean water, while 24% of all rural settlements had only limited access.

The strategy for improving infrastructure in rural settlements involved enhancing Kazakhstan's resettlement policy, increasing the accessibility of social services provided to such settlements, and adopting additional measures to raise living standards. It also envisaged merging rural administrative districts (e.g. those of less than 20 000 people should merge or join larger ones).

While the strategy called for investing in infrastructure for rural settlements, it emphasised the need for mobilising resources by targeting settlements with better prospects for economic development. It tentatively identified that as of 1 January 2010, of the total of 7 002 rural settlements, 2 610 were considered as having high potential for development, 4 258 medium potential and 102 low potential (in 32, the population had already left). The main challenge was to identify rural settlements that could become "support centres" for a regional development strategy. This would hinge on the successful assessment of their economic potential. A concept prepared jointly by the Ministry of Agriculture and the Ministry of Economic Development and adopted on 28 July 2011, laid out a methodology for this purpose. It identified four blocks of criteria for assessing the economic capacity of rural settlements: economic factors (soil fertility, remoteness from markets, entrepreneurial activity, provision of agricultural equipment), availability of engineering infrastructure (water supply, roads, gas supply, electricity supply and access to telephone communications), social factors (education standards, health care standards, employment and poverty), and environmental considerations (extent of radiation, water quality and soil salinity). Each rural settlement was assigned a cumulative grade determining its economic potential status. See the Joint Order of the Ministry of Agriculture (No. 28-2/430) and the Ministry for Economic Development and Trade (No. 225) dated 28 July 2011, "On Approval of a Set of Criteria for Determining the Rural Areas with Low and High Economic Capacity" for a detailed account of the criteria used in the methodology.

Source: Author's own elaboration.

Programme on the Development of Single-Industry Towns (Monotowns) for 2012-2020

The Programme on the Development of Monotowns for 2012-2020 was adopted in May 2012.[23] Monotowns are defined as those where a single business or industry accounts for the majority of employment and economic activity in an area. This makes monotowns economically vulnerable in times of crisis and economic decline and increases social vulnerability. In recognition of this, Kazakhstan has embarked on a programme to increase economic diversification.

The programme lists 27 monotowns with a total population of 1.5 million (almost 10% of Kazakhstan's population). The monotowns are categorised into those with high, medium and low economic capacity, based on several parameters: the presence of local industry and availability of raw materials in the future; budgetary self-sufficiency; the location of monotowns at the intersection of major transport corridors; the location of monotowns near a large city or as a part of metropolitan area; the capacity for economic diversification; the potential to provide a wide range of services to neighbouring settlements; positive conditions for the development of small and medium enterprises; migration dynamics over the past 10 years; social infrastructure conditions; environmental indicators, and demographic status.

The Programme on the Development of Monotowns has four major objectives:[24] 1) optimising monotowns, depending on the production capacity of stable working enterprises; 2) economic diversification and small and medium business enterprise development to increase employment; 3) increasing labour mobility to stimulate voluntary movement to built-up areas with high social and economic development potential that can act as centres of economic growth and; 4) developing and improving transport, energy, communications and housing (and other social) infrastructure. The programme's action plan includes provisions for the implementation of 35 activities, of which 6 have been completed to date and 27 are presently being undertaken. Examples include the development of master plans for social and economic development in the medium and long term; the implementation of "anchor" investment projects to promote job creation across a number of sectors (e.g. the chemicals industry, oil and gas, mining and metallurgy); transport and transit infrastructure and housing development; and job training and placement programmes.

The programme has set target indicators for 2015 and 2020. The national budget allocated the following funds for implementing the programme: KAZ 38.2 billion for 2013, KAZ 43.2 billion for 2014 and KAZ 53.9 billion for 2015. In 2012, Entrepreneurship Support Centers were opened in all 27 monotowns to support and develop small businesses (MRD, 2013).

Since 2011, all targeted monotowns have experienced declines in unemployment; several single-industry towns (e.g., Stepnogorsk and Tekeli) have seen increases in industrial production; and the participating cities have seen an increase in the number of small and medium-sized enterprises. Since 2015, the Programme on the Development of Monotowns has been centralised under a single regional development programme.

A major critique of monotowns concerns the programme's methodology. Many towns in Kazakhstan suffer from problems like the monotowns', but only 27 made the programme's list. A possible expansion in their number, accompanied by support under existing development programmes, could improve the fortunes of a number of other economically depressed towns. An alternative approach is under consideration,

potentially establishing a single programme to target all Kazakh towns. Such an approach, however, will benefit from a differentiated policy corresponding to each town's needs and potential.

Box 2.5. **Rural development in the OECD, and key lessons for Kazakhstan**

In the OECD countries, rural areas account for about three-quarters of land and one quarter of the total population. For decades, promoting rural development has been considered an important element of regional development. Rural areas have often presented some of the biggest developmental challenges. In this respect, OECD countries are no different from developing nations such as Kazakhstan.

As developments at the international level (such as the increasing role of communication technologies) and at the domestic level have affected rural regions, a key question for OECD countries has been how to adapt and elaborate new approaches, following the broader paradigm shifts in regional development policy (see section below).

One transformation has occurred in the way policy makers think about rural economies. The traditional emphasis on the role of agriculture in developing rural areas has been superseded by an appreciation of the broader potential for contribution by such areas. Rural landscape and wildlife preservation are among the amenities that have increasingly been recognised as having the potential for further development and contribution to the economy.

Concurrently, agricultural policies in many OECD countries have gone through increased pressure for new approaches. The concern has been that agricultural subsidies in rural regions do not often contribute to rural development. Since they target only farmers, rather than the rural population overall, the impact of public subsidies has been uneven. Increased budgetary pressure in many OECD countries (particularly in the context of economic difficulties) have also led to a re-evaluation of agricultural policies.

The result has been a "new paradigm" for rural development: attempts to develop a multisectoral, place-based approach intended to exploit the distinct development potential of specific rural areas. While the old paradigm for rural development was to raise income through supporting agriculture, under the new paradigm, the emphasis is on promoting the competitiveness of rural areas by exploiting their potential areas of growth. This has resulted in supporting economic areas other than agriculture, such as rural tourism, manufacturing, etc. The focus is no longer sectors, but places that can be targeted in terms of their potential. As a policy instrument, the new paradigm emphasises investments rather than subsidies.

Another key tendency under the new paradigm has been growing decentralisation. The top-down, subsidy-based strategy aimed at eradicating economic difficulties in rural regions has now shifted towards policies involving much broader input from stakeholders interested in improving the competitiveness of specific rural areas. A successful approach requires pooling the knowledge from a wide range of public and private actors. This often means that traditional administrative hierarchies are no longer inadequate to administer new policies effectively. In the process, the role of the central government has gradually faded by comparison with stakeholders at the local level.

The OECD's experience presents valuable lessons for Kazakhstan, particularly with regard to the need to develop rural policies cognizant of local constraints and opportunities, which represent a bottom-up approach within the country's overall regional development strategy.

Source: OECD (2006), "Reinventing Rural Policy", *OECD Policy Brief*, OECD, Paris, https://www.oecd.org/gov/regional-policy/37556607.pdf.

Kazakhstan and the OECD approach to regional policy

Regional development in OECD countries has undergone a paradigm shift in recent decades. Its origins go back to the 1970s and 1980s, when the overall tendency among OECD's leading economies involved limiting state intervention. As a result, regional and local governments acquired an increasingly active role on issues pertaining to regional development.

The paradigm shift has occurred in six different aspects affecting regional policy (see Table 2.7): objectives, unit of intervention, strategies, tools, actors and targeted areas. The traditional approach prevalent in Europe was to attempt to reduce various disparities (such as income and infrastructure stock) across a country's regions. The underlying assumption was that lagging regions must be compensated for their disadvantages. The new paradigm presumes that the focus should be on enhancing endogenous growth. Regions are now considered key agents for growth, presenting untapped opportunities that should be utilised.

The paradigm shift has introduced a new focus on functional economic zones as units of intervention. This new geographic scope contrasts with traditional regional policy designed on the basis of administrative units, which do not adequately recognise interdependencies across administrative units. The new scope is broader geographically, but it also aims to adapt to the peculiarities of individual regions.

Earlier policies targeting specific sectors in regions have given way to integrated, cross-sectoral projects. Beyond this strategic shift, there has also been a tendency to employ new tools targeting regional development objectives. New regional development policies have put less emphasis on subsidies given to various regions, a key tool of the old paradigm. Instead, investment projects now take into account the business environment, while building on regional capabilities and promoting innovation-oriented projects.

Another important aspect of the new paradigm has been the shift from a top-down approach to decentralisation of regional policies. Programmes are now more often the outcome of local and regional bottom-up initiatives. Lower levels of government have been granted more authority to shape the design and the implementation of regional development policy. This is presumed to encourage lower levels of government to build on their locality's unique strengths. Multilevel governance approaches that involve national, regional and local governments, along with third-party stakeholders such as NGOs and the private sector, have become more important in delivering positive outcomes.

Finally, the new paradigm has brought recognition that limiting regional development to select localities, often considered "centres of growth", often fails to meet expectations. Instead, there has been a growing appreciation that all regions of a country, including the less-developed ones, are essential for economic growth. The new paradigm considers less-developed regions a national asset, rather than a drag on economic performance. This is because focusing on a select number of centres of growth leaves significant potential for growth untapped.

This conclusion has been corroborated by a statistical study by the OECD examining 23 case studies across member states (OECD, 2012). From 1995-2007 it was found that less-developed regions contributed to 43% of aggregate economic growth. Overall, rural regions on average have enjoyed faster growth than intermediate and predominantly urban regions. Leaving such regions aside in regional development policies will leave substantial economic potential untapped. It was further found that policies that target

infrastructure development are not typically the most effective in less-developed regions, as such policies can lead to distortions in the local economy. Such regions need a whole set of policies and public goods, which also should vary across localities. Policy packages are typically more effective than individual policies, due to their potential for tapping into synergies. Also, infrastructure policies need to be co-ordinated with other policies. Further, programmes that aim to reduce the proportion of low-skilled workers can be highly significant for promoting growth. And finally, institutional factors are highly important. Institutions, both formal and informal, that facilitate the dialogue among key actors and engage them in the regional development policy process are crucial. Institutions are key for strengthening a region's voice and fostering linkages with various stakeholders. The table below summarises the difference between the new and old regional policy paradigms.

Table 2.7. **Old and new regional policy paradigms**

Components	Old paradigm	New paradigm
Objectives	Compensating temporarily for locational disadvantages	Tapping under-utilised potential for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional areas
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aids	Mix of soft and hard capital investment
Actors	Central government	Different levels of government; private sector and civil society
Targeted areas	Lagging regions	All regions

Source: OECD (2009), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264076525-en.

In Kazakhstan, regional development strategy has partly evolved along the lines of the new paradigm. For instance, the strategy adopted in 2006 differed significantly from the previous strategy in terms of its emphasis on promoting "centres of growth", instead of channelling resources into reducing developmental gaps across oblasts. Also, multiple projects aim to foster development across sectors and oblasts. Likewise, the central government has been more active in engaging lower levels of government along with non-governmental actors, such as development agencies and Samruk-Kazyna.

However, a top-down approach in planning, designing and implementing regional development policies remains, despite recognition for the need to delegate more authority to lower levels of government. Rarely, if ever, are major development programmes the outcome of a bottom-up initiative from the regions. The government's emphasis on determining the potential areas for specialisation for each region needs to be based on a bottom-up approach that allows more stakeholders to provide their input.

Another area where Kazakhstan can benefit from recent OECD research concerns the geographic scope of areas targeted for development. As OECD experience shows, channelling most of the resources to a select number of potential "growth centres" may not be the optimal choice. Untapped opportunities in less-developed localities could be explored.

Finally, while Kazakhstan needs to invest in its infrastructure, as set out in its regional development and broader economic strategy, investment in infrastructure alone may deliver only limited results. Regional infrastructure projects are more likely to promote long-term development if they tap into the synergies of broader policy packages.

Conclusions

Kazakhstan's regional development strategy has shifted in the past two decades towards a more comprehensive approach. Earlier efforts that resulted mainly in policy documents of a declarative nature have been replaced with more structured, detailed guidelines for promoting development in Kazakhstan's regions. Two documents, the Forecast Scheme and the Programme for Development of Regions, adopted in the aftermath of the global recession, have set clearer targets, and established metrics to measure progress (including on an annual basis).

Diversification of the Kazakh economy has become a particularly relevant theme in regional development. Policies promoting growth in regions are increasingly considered to be a prerequisite in the shift to an economy that relies less on natural resources.

As Kazakhstan's regional development strategy has evolved, the government has also become cognizant of the importance of new mechanisms promoting regional development. These include various policies such as the establishment of agglomerations, public-private partnerships and new financial arrangements for local development.

While some elements of Kazakhstan's approach align with the new paradigm of regional development in the OECD member states, aspects remain that have been tried and have delivered less results. Kazakhstan is more likely to implement its regional development targets successfully if bottom-up initiatives from regions and other stakeholders become more common. Meanwhile, the top-down approach has not substantially helped with the perennial challenge of co-ordination of various stakeholders, indicating how a greater degree of decentralisation can benefit regional development policies.

New policies with implications for regional development

To implement its economic and regional development strategy, Kazakhstan has adopted a series of policies and measures. Some measures target regional development directly, while for others, the impact is implicit, if not less important. The key policy mechanism developed to achieve the major targets of Kazakhstan's regional development strategy is the State Programme of Accelerated Industrial and Innovative Development (SPAIID). This is a comprehensive programme using various mechanisms to promote regional development: support for SMEs, innovation grants, help with technology transfer and the introduction of new products, job creation projects through job training and micro-credits, support for non-resource export activities, boosting productivity gains, etc.

Kazakhstan has also adopted a series of policies to create a more favourable business environment, with potential implications for territorial development. The report briefly examines policies such as support for innovation, promoting a better business environment and investment in human capital and infrastructure. It shows that, though targeting the right goals, those policies do not sufficiently emphasise the regional dimension thus reducing their efficiency. For example progress has been rather limited on the innovation and research and development (R&D) front in most regions. This could be attributed to a weak focus on Regional Innovation System (RIS) and is highly likely a

result of the low capacity of regions to design and support those RIS policies. Efforts to upgrade the level of human capital have been energetically pursued in the last decade but they are not really concerned by the need to better balance regional supply and demand of skills. In the same vein, the role of universities has been clearly downplayed at regional level and the autonomy of HEI has remained a target without concrete achievements. Finally, while many infrastructure projects have been successfully conducted, they have been conceived at the national level, without paying enough attention to local impacts

The State Programme of Accelerated Industrial and Innovative Development

The State Programme of Accelerated Industrial and Innovative Development (SPAIID) plays a critical role in Kazakhstan's regional development. Adopted shortly after the announcement of Strategy 2020 in March 2010,[25] it serves as the medium-term programme for reaching targets defined in Strategy 2020. It builds on and partly replaces Kazakhstan's Innovative Industrial Development Strategy 2003-2015. SPAIID's main targets were set for 2010-2014, and it was due to be re-evaluated for its implementation and impact. A new version of the programme is under discussion and targets regional development through 2020. Meanwhile, additional state programmes under SPAIID, such as the Business Road Map, target more specific areas of development till 2020.

SPAIID reiterates many of the major objectives of Strategy 2020, such as improving the business climate, investment in infrastructure and human capital, supporting the diversification of the economy, raising productivity and competitiveness, promoting innovation and new technologies, etc. Key targets are summarised in Figure 2.3 below and provide mid-term metrics for evaluating progress towards implementing SPAIID and Strategy 2020.

Figure 2.3. **Main targets of the State Programme for Accelerated Industrial and Innovative Development**

Real GDP growth of 15% by 2015 compared to 2008

Share of manufacturing in GDP to exceed 12.5% by 2015

Share of non-primary exports in total exports exceed 40% by 2015

Share of agricultural exports in total exports to reach at least 8% by 2015

Labour productivity in manufacturing industry to increase by at least 50% by 2015

Labour productivity in agriculture increase by 100% by 2015

Share of local content procurement by government entities and state-owned companies to exceed 60% for goods and 90%for services by 2015.

Share of enterprises involved in innovation to reach 10%of all enterprises by 2015

Energy intensity to be reduced by 10% by 2015

Source: Author's own elaboration.

SPAIID demonstrates that Kazakhstan's past record in achieving major economic objectives has been mixed and includes some major areas of difficulty. The path towards economic diversification has run into serious challenges, and the economy has become

further oriented towards mining. As the programme document notes, the processing industry's percentage of GDP declined from 16.5% to 11.8% between 2000 and 2008, while the mining industry's share increased from 13% to 18.7%.[26] Likewise, labour productivity has remained low. For instance, in 2008, it was almost 30% lower than in Russia.

SPAIID exemplifies Kazakhstan's strategy for state-led industrialisation, reflecting an underlying assumption about the limitations of market forces in bringing the country to the desired economic level.[27] Thus it bears some significant risks peculiar to state-led policy, namely in the form of inefficient public spending and the emergence of industries that depend on state support in the longer run.

For 2010-2014, SPAIID sets detailed targets for economic diversification, identifying priority sectors and their main areas of growth, including names of major investment projects in specific oblasts. It also specifies major infrastructure projects, and their duration and regions of concentration.

SPAIID sets out an elaborate strategy for regional development. Building on the 2006 Regional Development Strategy, it creates the foundation for the main elements of the Forecast Scheme and the PRD, adopted in 2011 (see above).

Mobilisation of economic resources in a few "centres of growth" is anticipated, given their competitive advantage in industrial development. It also puts emphasis on localities with denser population, such as Almaty and Astana, and plans major new sectors, especially in the area of technological innovation. Its concept of state-led industrialisation is most obvious in SPAIID's attempt to define in detail various sectors and the oblasts where they should be concentrated. Not surprisingly, it entrusts the responsibility for reaching the main targets on state-owned entities, such as Samruk-Kazyna.

SPAIID clarified the governance structure for its implementation, defining the duties of responsible bodies both at the national and regional level (see Table 2.8).

Table 2.8. **Key programmes and their administration/co-ordination**

Major programmes	Programme administrators/co-ordinators
State Programme of Accelerated Industrial and Innovative Development	Co-ordination Council for Accelerated Industrial Development Ministry of Economic Development and Trade Ministry of Industry and New Technologies
Business Road Map 2020	Ministry of Industry and New Technologies Kazakhstan's Institute for Industrial Development DAMU Fund
Productivity 2020	Ministry of Industry and New Technologies Kazakhstan's Institute for Industrial Development
Employment 2020	Ministry of Labour and Social Protection
Export 2020	Ministry of Industry and New Technologies
Investor 2020	Investment Committee of the Ministry of Industry and New Technologies

Source: Author's own elaboration.

SPAIID has also defined a number of additional state programmes to help reach the main targets of Strategy 2020. These include: Business Road Map 2020, Productivity 2020, Employment 2020, Export 2020 and Investor 2020.

Business Road Map 2020 is SPAIID's main instrument for implementation. It was launched to support four areas: new business initiatives, export-oriented business, the business sector and entrepreneurial capacity.[28] It is directed towards supporting small and medium-sized businesses, especially in the non-oil sector. Business Road Map 2020 (BRM) uses several instruments: subsidising interest rates on loans for new projects, providing partial loan guarantees, and providing service support for businesses (such as training and educational workshops). Companies included in the BRM get additional benefits, such as a requirement for the local akim to assist in various ways (e.g. provision of land, help with infrastructure). The government allocated KAZ 97.7 billion for this programme in 2014.[29]

Companies interested in being included in the BRM apply to the Ministry of Industry and New Technologies via the akimat of their respective region. As a result, they get access to BRM's instruments. Kazakhstan's Institute for Industrial Development helps evaluate an applicant's projects. The Entrepreneurship Development Fund (DAMU) plays a leading role in providing loan subsidies for SME applicants. It has established Service Centers for Entrepreneurs in most oblasts of Kazakhstan (including in 17 monotowns),[30] providing them with access to information on development programmes and their benefits. DAMU[31] only provides support to companies with less than 50% state ownership. This has resulted in a high share of private sector-led projects under the BRM. According to Deputy Prime Minister Aset Isekeshev, 95% of projects within the industrialisation map have been underwritten by the private sector. However, the total value of these projects is relatively small, since the larger ones are primarily state-supported, often by Samruk-Kazyna.[32]

Interviews with local officials suggest that many companies have abstained from joining the BRM, as they weighed the benefits and risks of the need to disclose company information, for example, in providing periodic reports about their capacity utilisation.

Productivity 2020 is another instrument under SPAIID intended to help companies become more competitive by cutting their costs and raising their productivity. It provides grants for innovation, help with technology transfer, introducing new products through design offices and introducing management technologies for optimisation of production processes. The programme is particularly important in the context of Kazakhstan's ageing infrastructure.[33] It is co-ordinated by Kazakhstan's Institute for Industrial Development, under the Ministry of Industry and New Technologies.

Employment 2020 aims to meet Kazakhstan's targets to reduce unemployment. It supports the creation of permanent jobs through such means as job training and promotion of micro-credits. It targets self-employed, unemployed and poorly educated citizens and helps them find jobs, especially among the rural population. It is administered by the Ministry of Labour and Social Protection and operates through a number of regional employment centres that share information in areas such as job training and micro-loans.

Export 2020 focuses on promoting companies in the non-raw materials sector that are oriented towards external markets. Its instruments include grants for exporters (in the form of reimbursement of some expenses related to brand building, advertising, etc.), trade financing and insurance, and service support for exports (in the form of

informational services such as export market studies, promotion of trademarks and organising overseas trade missions). In a landlocked country, access to measures that help exporters cut their costs is a valuable instrument.

Investor 2020 is a programme aiming to attract foreign direct investments in the non-raw materials and export-oriented sectors and to promote high-tech industries. It uses various instruments, such as investment agreements, service support for investors and promoting special economic and industrial zones.

SPAIID also emphasises the need to further promote the role of free economic zones (FEZs) and industrial zones (IZs) in Kazakhstan's economic development. Additionally, SPAIID has instructed the government to draft sectoral programmes charting a detailed strategy for various economic sectors and setting the foundations for further economic development. The government rapidly adopted 13 sectoral programmes (see Figure 2.4 below for a summary).

Figure 2.4. **List of sector programmes**

Attracting investment, developing special economic zones, and promoting exports

Developing mining and metallurgy

Developing innovation and promotion of technological modernisation

Promoting local content

Developing light industry

Developing machine building

Developing mineral resources

Developing the construction sector and construction materials

Developing pharmaceuticals

Developing the chemicals sector

Developing the power industry

Technical regulations and establishing quality control

Developing tourism

Source: Author's own elaboration.

Progress on implementing SPAIID and its supporting programmes

The Ministry of Industry and New Technologies, which is responsible for implementing SPAIID, provides periodic updates on the progress of SPAIID and its constituent programmes.

Overall, the government has promptly responded to the instructions of SPAIID in developing supporting laws and regulations. This included adopting various sectoral programmes, as well as the Forecast Scheme and the PRD in 2011. More than 50 laws were amended in the first two years of SPAIID's implementation. Additionally, the government, under the initiative of the Ministry of Industry and New Technologies,

adopted several new laws to facilitate SPAIID's implementation: the Law on Government Support for Industrial Innovation, the Law on Special Economic Zones and the Law on Energy Efficiency and Energy Savings.

Data provided by the Ministry of Industry and New Technologies through the end of 2013 indicates progress in a number of areas, despite some challenges.[34]

- The ministry estimated that SPAIID contained 106 indicators, of which 12 were "general", 33 "sectoral" and 61 with "support functions". At the end of 2012, in terms of general indicators, Kazakhstan lagged in two areas: increasing the percentage of non-primary exports to 40% of total exports (it had dropped from 27.8% to 27.3% between 2009 and 2012), and doubling productivity in the agricultural sector. The rate of implementation in the area of supporting indicators was estimated at 78.5%. Meanwhile, sectoral indicators are undergoing a process of revision, in response to evolving priorities in Kazkahstan's industrial policy.

- In mid-2013, 872 projects, with a total value of KAZ 11.5 trillion, had been initiated under the country's industrialisation map. The government estimates that these projects will create 228 000 jobs during the construction phase and 192 000 jobs in the operational phase. Financing of KAZ 1.47 trillion was secured as of early 2013. Of all projects, 38 are of national importance and account for 70% of all expected investments. They represent large projects, many to be undertaken and financed by Samruk-Kazyna. The rest are projects of regional importance, most realised by the private sector.

- Projects included under the industrialisation map have continued to contribute to the national economy. They accounted for 0.5% of Kazakhstan's total GDP increase in 2010 (of 7.3% total growth), 1.7% growth in 2011 (of 7.5% total growth), 1.3% growth in 2012 (of 5% total growth), and 0.5% growth in the first half of 2013 (of 5.1% growth in total). About 6.3% of total industrial output came from projects under the industrialisation map (MINT, 2014).

- As a broad measure of diversification in the shift from natural resources, the percentage of manufacturing in total GDP increased from 10.5% in 2009 to 11.4% in 2012. While cumulative growth in real GDP stood at 22.6% in 2012 compared to 2008, growth in manufacturing was 19.9%. In terms of growth in manufacturing in 2008-2012 on an oblast basis, East Kazakhstan oblast (64.4%) and the city of Astana (62.2%) recorded the most rapid growth. Meanwhile, several oblasts experienced a decline in manufacturing.

- The output of projects under the "industrialisation map" accounted for 8% of the country's total manufacturing output in 2012. The contribution of such projects varied widely across regions: 32.7% in Akmola oblast, 26.6% in Zhambyl oblast, 16.7% in Kostanay oblast and 12.3% in Pavlodar oblast.

- Productivity of labour in manufacturing was 37% higher in 2012 compared to 2008. Increase in productivity differed across manufacturing sectors (80% in chemicals, 30% in machine-building, pharmaceuticals and light industry, and 20% in non-metal mineral products). In terms of regional breakdowns, the highest growth rates (in 2008-2012) in productivity in manufacturing occurred in South Kazakhstan oblast (187.1%), East Kazakhstan oblast (76.7%) and Pavlodar oblast (74.2%). By contrast:

- The number of investment projects under Productivity 2020 was 53 in 2013 (of which 25 were initiated in 2012) with a total value of KAZ 154.3 billion, most in machine building and construction (MINT, 2014).

- Under the programme Exporter 2020, government assistance between 2010 and September 2013 was KAZ 2.8 billion (KAZ 844 million in 2010, KAZ 740 million in 2011, KAZ 853 million in 2012 and KAZ 341 million in the first nine months of 2013). The government, principally through KAZNEX INVEST, provided service and financial support, boosting the export of processed goods (USD 21.4 billion in 2012) (MINT, 2014).

- The number of employed increased by 693 000 between 2008 and 2012 (reaching 8.6 million), while unemployment was cut by 83 000 in the period (from 558 000 to 475 000) and the unemployment rate dropped from 6.6% to 5.3%. The number of people employed in industry increased by 85 000 (reaching 1.004 million in 2012), and 48% (40 900) of these jobs were created under the framework of the "industrialisation map".

- Nearly 500 education centres were created under Employment 2020 by the end of 2012, providing 63 000 Kazakh citizens with job training. Micro-loans were awarded to 6 200 small business proprietors, resulting in 4 600 jobs.[35]

- The percentage of foreign investment in manufacturing in total foreign investments increased from 10% of to 11% in 2010-2012.

Promoting a business-friendly environment

Kazakhstan has made substantial efforts to improve its business climate. Under the World Bank's Doing Business indicators, this has translated into an improved ranking, largely due to efforts to cut bureaucratic procedures. In 2013, it ranked 50th of 183 countries (compared to 60th in 2010), and it appears as a leading performer in the Commonwealth of Independent States. Major improvements have been recorded in areas such as starting a new business, dealing with construction permits, paying taxes and protecting investors. On the regulatory front, its multiple layers of regulatory legislation continue to lead to a duplication of permit requirements, presenting a challenge for businesses. To simplify the regulatory process, the Kazakh government adopted the Concept of State Regulation of Entrepreneurial Activity 2020 in June 2013.

While Doing Business rankings are a helpful indicator for the country's overall progress, further steps need to be taken to link them to the government's regional development policies. Kazakhstan could benefit by facilitating the development of Doing Business indicators at the subnational level, as a number of countries have done, including those whose area is relatively small (such as Macedonia).

Meanwhile, the country still ranks low in international economic competitiveness. Improving this will be crucial for non-resource sectors in Kazakh regions aiming to export their products. The World Economic Forum, which ranks economic competitiveness, puts Kazakhstan at 50th place out of 148 countries in 2013. This represents a major improvement compared to 2011, when the country was ranked 72nd out of 142 countries. Some important challenges remain and will need to be overcome to promote the competitiveness of the Kazakh economy, and by implication, of its regions. These include poor institutional quality, corruption, ageing infrastructure, inefficiencies

of the financial market, an inadequately educated workforce, and weak business sophistication and readiness for innovation.

Innovation-based growth

Political support for innovation remains strong at the highest level. Innovation-based growth has become increasingly recognised as a means to diversify the economy and shift from natural resource exports. Innovation is also crucial for promoting regional growth, particularly in regions without natural resources, whose companies are having difficulty competing internationally. Innovation is also important, however, for resource-rich regions, where developing processing industries can help raise the value added of products typically exported from Kazakhstan.

While programmes such as SPAIID have created a comprehensive framework for innovation, Kazakhstan's regional development strategy also identifies innovation as an essential element for future growth. Efforts have been made to create a policy and institutional environment aimed at fostering innovation. The National Innovation Fund, created in 2003, supports the growth of innovation-based enterprises, while development programmes set various innovation targets in areas such as raising the number of international patents originating in Kazakhstan. More recently, in June 2013, in line with the objectives set by SPAIID, the president approved the Concept for Innovation-based Development Through 2020.[36]

Building technology parks has been a significant tool for promoting innovation in Kazakhstan and its regions. They aim to offer an environment conducive to promoting innovation-based businesses and the commercialisation of scientific research. A range of national and regional technological parks has been established. National parks aim to generate new industries, including the Information Technology Park in the rural district of Alatau; the National Industrial Petrochemical Park in Atyrau city; the Technopark for Space Monitoring in Almaty, Astana and Priozersk, and the Industrial Park for Nuclear Technology in Kurchatov. Regional parks have the specific task of identifying and developing regions' innovative capacity, and cultivating demand for innovative products. Regional technoparks include the Almaty Technological Park, Technopark Algorytm in Uralsk and the Karaganda Business-City Technopark.

Support for innovation has had notable success. The number of innovation-based companies increased from 447 to 1 215 between 2008 and 2012. The percentage of companies actively involved in innovation reached 7.6% of the total in 2012 (up from 4% in 2008), exceeding the nationally set target for the year (6.8%). Output related to innovation also increased significantly, from KAZ 111 billion in 2008 to KAZ 379 billion in 2012. Notably, the percentage of companies involved in innovation (of the total number of companies) was highest in regions with less exposure to oil, and lowest in some of the oil-rich oblasts.[37] Meanwhile, investment in R&D expanded from KAZ 34.8 billion in 2008 to KAZ 51.3 billion in 2012. However, the percentage of R&D spending in GDP declined from 0.2% to 0.17% in the same period (MINT, 2014).

Kazakhstan continues to face obstacles in its quest to become an innovation-based economy. Demand for innovation-based goods remains low, relying primarily on government-led efforts through state-owned enterprises. More decentralised and market-based mechanisms will need to be employed to foster demand for such products. Successful innovation requires a set of skills that are often lacking, despite major efforts at improving educational standards and programmes, such as the Bolashak Programme, which aims to raise experts in a variety of fields. Closer participation with the private

sector will be needed to nurture such skills. Low research and development spending by the private sector is an ongoing problem. For many innovation projects, access to finance remains difficult.

Kazakhstan will need to raise the capacity of knowledge institutions to deal with intellectual property rights, which could help boost innovation projects. While policy co-ordination is still a major problem in government institutions, policy efforts require greater emphasis on improving co-operation between the private sector and research centres.

Skills and human capital

In a number of areas relating to human capital, such as adult literacy, universal primary education and gender equality, Kazakhstan ranks at the top of the UNESCO Education for All Development Index. Public spending on education remains below OECD levels, though it has risen, reaching about 4% of GDP in 2012-2013 (World Bank, 2014).

With further reforms, the government plans to improve its human capital through the end of the decade. The State Programme for Education for 2011-2020 calls for a transition to a 12-year compulsory education, universal preschool education and the introduction of a per capita financing scheme in secondary education. Implementing such objectives will be crucial for enhancing human capital in the regions.

The government has also introduced the so-called Technical and Vocational Education Modernisation Programme, aiming to improve the technical skills needed in Kazakhstan's economy. This has led to the institution of occupational standards and a national qualification system that link the needs of industries with educational programmes (World Bank, 2014). Further efforts and co-ordination between the different levels of government are needed to prioritise education programmes with respect to potential demand for skills at the sub-national level.

Infrastructure development

Investment in infrastructure has been widely recognised as a key component in Kazakhstan's national regional development strategy. It has consistently been considered central in the strategy documents developed for over a decade. For instance, the Forecast Scheme (see above) outlined transport, communications and energy as priority areas for infrastructure development. The state of the infrastructure generally is a major criterion for categorising Kazakhstan's regions and establishing development targets. Likewise, the country's rural development strategy underlines the importance of projects in transport, irrigation and access to public services (see above). Significant evidence for progress exists in many of the areas, but further investments are needed to meet development objectives.

International practice suggests that infrastructure investments could benefit if they were aligned with the country's other regional development policies. Mutually reinforcing policies can help achieve certain objectives simultaneously. It is important for Kazakhstan's policy makers to consider how to synchronise regional and infrastructure development policies.

Conclusions

Translating legislation into actionable policy for regional development has been a significant challenge for Kazakhstan. For over a decade, it has launched a number of strategies to develop its regions, but they have quite often been weakly implemented.

Recent programmes, such as the SPAIID, exemplify the government's attempt to enhance its regional development strategy. The programme has been supported by substantial government funds. Detailed metrics could enhance Kazakhstan's ability to assess progress in executing regional development policies. Further clarity could help to implement these policies. Periodic progress reports are helpful, but where progress is falling short, expectations could be specified more clearly.

To a large extent, the success of Kazakhstan's regional development policies will also depend on broader measures to improve the business climate, innovation, human and physical capital. Major steps in this direction have been made, but it will be important to build synergies and complementarities with a vast set of policy areas involving regional development.

Notes

1. Strategy 2050 is available at www.kazakhembus.com/document/address-by-the-president-of-the-republic-of-kazakhstan-strategy-kazakhstan-2050 (accessed 19 June 2013).

2. This can be found in President Nursultan Nazarbayev's address to the nation on 29 January 2010: www.akorda.kz/ru/page/poslanie-prezidenta-respubliki-kazakh stan-n-a-nazarbaeva-narodu-kazakhstana-29-yanvarya-2010-goda_1340624693.

3. The Strategy document stated: "Each ministry and institution should be released from functions not characteristic of them, trying to maximally transfer them from the federal centre to regions and from the state to private sector."

4. It was approved by Presidential Decree No. 922, dated 1 February 2010, www.akorda.kz/en/category/gos_programmi_razvitiya (accessed on 15 July 2013).

5. *Development Strategy of Samruk-Kazyna for 2012-2022*, http://sk.kz/event/view /127?lang=en (accessed October 2013).

6. The Concept was adopted under Government Resolution No. 1097 on 9 September 1996. http://adilet.zan.kz/rus/docs/P960001097_ (accessed 23 June 2013). The resolution remained valid until 2001, when it was replaced by the new *Concept for Regional Policy for 2002-2006*.

7. The Strategy was adopted via Presidential Decree No. 167 on 28 August 2006 http://adilet.zan.kz/rus/docs/U060000167 (accessed on 23 June 2013).

8. The idea of forming clusters in Kazakhstan was noted in the president's annual address to the nation in 2004. It resulted in Kazakhstan's "Clusters Initiative", which involved international consultants, including leading Harvard economist Michael Porter. The 2006 Strategy re-emphasised the idea of using clusters to promote regional development.

9. The Kazakh Government adopted the *Concept for the Creation of Social-Entrepreneurial Corporations* on 31 May 2006, via decree No. 483, shortly before the announcement of the 2006 Strategy.

10. http://globalvoicesonline.org/2006/10/30/kazakhstan-social-business-corporations/ (accessed July 2013).

11. The Concept on the Development of SECs was approved via Government Resolution No. 1 382 on 31 October 2012, (http://online.zakon.kz/Document/?doc_id=313 90115 (accessed on 10 July 2013).

12. The tasks of SECs were redefined as: "creation of new and modernisation of existing competitive enterprises in the priority sectors of the regional economy, ensuring the involvement of state-owned assets in the business turnover, improvement and development of distressed assets on the basis of their competitive industries, introduction of advanced production technology and management and standards to attract extra investment, promoting the growth of the economic activity of business, innovation and technology upgrading (technology parks, FEZs, business incubators, investors, service centres, etc.), including implementation of the operator functions, to facilitate clustering of medium and small businesses, also around the large business, the provision of non-financial business support as part of the company activity, expansion of co-operation with the state institutions for the implementation of business projects, the development of communication and exchange of skills between portfolio companies, the promotion branding products for the active promotion of products in the domestic and foreign markets". For more information, see: "Kazakhstan Developed a New Concept of Socio-Entrepreneurial
Corporations", *Kazakhstan Today,* 16 October 2012, http://kt.kz/eng/government/kazakhst an_developed_a_new_concept_of_socioentrepreneurial_corporations_1153562462.html (accessed on 30 June 2013).

13. The new document was adopted under Presidential Decree No. 118 on 21 July 2011.

14. The Forecast Scheme was adopted under Presidential Decree No. 118 on 21 July 2011. The PRD was adopted under Government Decree No. 862 on 26 July 2011.

15. The Eurasian Customs Union was formed in 2010 between the states of Belarus, Russia and Kazakhstan. Its membership has since expanded to Armenia and Kyrgyzstan as well. The Union seeks to increase economic integration and facilitate trade by removing customs borders.

16. Section III.

17. For instance, the Ministry of Finance and the Ministry of Economic Development and Trade were asked to revise existing legislation about forming an intergovernmental commission to discuss territorial development issues. The Ministry of Economic Development of Trade was also given the task of forming a working group to help select investment projects under the PRD. Oblast *akimats* were given specific tasks to facilitate meeting the goals established in the Forecast Scheme, such as promoting the formation of agglomerations and clusters, and ensuring necessary infrastructure investments.

18. The tasks are based on the PRD, following its revision on 7 December 2011.

19. These amounts represented a downward revision from the original PRD document adopted on 26 July 2011. For instance, financing from the national budget would increase to KAZ 15 billion as early as 2012. But, this did not happen, possibly due to delays in implementing the programme.

20. Article 53 of Kazakh Law "On Architectural, Building and Construction Activity in the Republic of Kazakhstan" defines four categories for towns and cities based on the size of their population: small towns (less than 50 000), mid-size towns (between 50 000 and 100 000), large cities (between 100 000 and 500 000) and big cities (over 500 000).

21. The *Government Programme for Development of Small Towns for 2004-2006* was adopted under Government Resolution No. 1 389 on 31 December 2003, http://adilet.zan.kz/rus/docs/P030001389 (accessed on 23 June 2013).

22. Data reported in Forecast Scheme for Spatial-Territorial Development of Kazakhstan Till 2020.

23. The programme was adopted on 25 May 2012, under Government Resolution No. 683.

24. Ministry of Regional Development, http://minregion.gov.kz/eng/programmes-and-concepts (accessed on 30 June 2013).

25. SPAIID was adopted on 19 March 2010 under Presidential Decree No. 958. The full text is available at www.akorda.kz/en/category/gos_programmi_razvitiya.

26. Higher prices of oil and other mineral resources have partly helped to expand the share of mining in Kazakhstan's economy.

27. Some of the criticisms include: Large Kazakh businesses were oriented towards quick profit rather than towards higher-value-added goods. State initiatives have not received adequate support from the private sector. The priorities of the business sector have not correlated with state priorities for developing manufacturing. Further critique is provided at: "Enhancing competitiveness and diversification of the Kazakhstan economy", *Islamic Development Bank Country Economic Work,* December 2011, pp. 63-70.

28. http://kazworld.info/?p=25401.

29. http://kt.kz/rus/economy/v_tekushtem_godu_dlja_podderzhki_ekonomiki_budet_videleno_500_mlrd_tenge_1153587304.html.

30. Reportedly, as of 1 March 2014, these centres provided advisory services to 15 940 entrepreneurs in Kazakhstan's monotowns (see interview with Arkad Dosanov, head of Department at the Ministry of Regional Development: http://inform.kz/rus/article/2649066.

31. To facilitate monitoring of implementation of BRM, DAMU Fund provides a weekly update on the projects supported through this initiative (see www.damu.kz/15711).

32. The interview cited in the source is from 13 June 2013, www.bnews.kz/en/news/post/143928/.

33. The programme is available at www.mint.gov.kz/index.php?id=414&lang=ru.

34. www.mint.gov.kz/index.php?page=performances&id=67&lang=ru.

35. "New employment 2020 Initiative off to great start", brief by Kazakh Embassy, 19 April 2013, www.kazakhembus.com/article/new-employment-2020-initiative-off-to-great-start, (accessed July 2013).

36. Presidential Decree No. 579.

37. The share of innovation-based companies was 14.1% in Kostanay oblast, 12.8% in Kyzylorda oblast, and 11% in South Kazakhstan oblast. By contrast, their share stood at 1.6% in Mangystau oblast and 4.8% in Atyrau oblast. "SPAIID Programme results for 2010-2013**"**, brief by the Ministry of Industry and New Technologies, www.mint.gov.kz/?id=199, (accessed 11 April 2014).

References

Akishev, A. (2007), *"Regional'naia Politika v Usloviakh Politicheskoi Modernizatsii v Respublike Kazakhstan*", research paper at Analytical Center for Prudent Solutions, 28 May.

Chetobarev, A. (2010), "Kazakhstan 2010: Pochemu Tak Aktual'no Tema Regional'noi Politiki?", op-ed by International Expert Center for Electoral Systems, 16 February 2010, www.elections-ices.org/russian/publications/textid:3376/ (accessed 24 June 2013).

Esanov, A. (2011), *Economic Diversification: the Case of Kazakhstan,* Revenue Watch Institute, London, UK.

Faizova, E.R. (2009), "Novye Podkhody Strategii Teritorial'nogo Razvitiia Respubliki Kazakhstan", Zhambyl Humanitarian-Technical University Working Paper, www.aef.kz/upload/iblock/b9b/_aw.ff.%20r1s.doc (accessed on 23 June 2013).

IMF (2012), "Republic of Kazakhstan: 2012 Article IV Consultation"*, IMF Country Report*, No. 12/164, International Monetary Fund, Washington DC.

IMF (2011), "Republic of Kazakhstan: Selected Issues", *IMF Staff Country Reports,* No. 11/151, International Monetary Fund, Washington DC.

KazInform (2009), "Kazakhstan government discusses development of social economic corporations", 22 January, www.inform.kz/eng/article/2175232 (accessed 28 June 2013).

MINT (2014), "SPAIID Programme results for 2010-2013", brief by the Ministry of Industry and New Technologies, Astana, Kazakhstan, www.mint.gov.kz/?id=199 (accessed 11 April 2014).

MRD (2013), "Progress of development of Single-Industry Towns Programme", brief by Ministry of Regional Development, www.minregion.gov.kz/eng/progress-of-development-of-single-industry-towns-program (accessed 28 July 2013).

Moroy, A. (2011), "*Opyt Regulirovaniia Regional'nogo Razvitiia Respubliki Kazakhstan*", *Voprosy Upravleniia*", Vol. 15/2, June.

Nazarbaev, N. (2012), "Strategy Kazakhstan 2050: New Political Course of the Established State", http://www.kazakhembus.com/content/kazakhstan-2050-strategy (accessed 10 July 2013).

Nazarbaev, N. (1997), "Kazakhstan-2030: Prosperity, security and ever growing welfare of all the Kazakhstanis", "Білім", http://www.akorda.kz/en/official_documents/strategies_and_programs (accessed 10 July 2013).

OECD (2012), *Promoting Growth in All Regions,* OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264174634-en.

OECD (2009), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264076525-en.

OECD (2006), "Reinventing Rural Policy", *OECD Policy Brief*, OECD, Paris, www.oecd.org/gov/regional-policy/37556607.pdf.

Shibutov, Marat (2013), "Kazakhstan 2050 i Novaya Regional'naya Politika", Vlast, 5 March.

Turgunbayeva, A.N. (2008), "Klasterny Analiz Innovatsionnoi Deatel'nosti Respubliki Kazakhstan", Uspekhi Sovremennogo Estestvoznaniia, No. 7, pp. 80-83 www.rae.ru/use/?section=content&op=show_article&article_id=7783152 (accessed 26 June 2013).

Utegenova, A. (2010), "Kazakhstan's 2030 Development Strategy: Significance and Results", *OSCE Yearbook 2010*, www.core-hamburg.de/documents/yearbook/english /10/Utegenova-en.pdf.

World Bank (2014a), *World Bank Group Kazakhstan Program Snapshot*, World Bank, Washington DC.

World Bank (2014b), "Facilitating regulatory reform for a better investment climate in Kazakhstan", 16 April, www.worldbank.org/en/results/2014/04/16/facilitating-regul atory-reforms-for-a-better-investment-climate-in-kazakhstan (accessed 7 May 2014).

Chapter 3

Territorial governance in Kazakhstan

This chapter examines territorial governance in Kazakhstan, including its administrative structures and the relations between national, regional and local governments. The chapter describes the current government structure followed by intergovernmental relations and fiscal imbalances. Following this, the chapter examines multilevel governance gaps and the role and capacities of local governments, including their fiscal relations and budgets. The chapter ends by describing the provision of public goods by different levels of government and finally, outlines the path towards decentralisation.

Introduction

This chapter addresses territorial governance in Kazakhstan, examining its administrative structures and the relations between them at the national, regional and local levels. In particular, this chapter describes the highly centralised management of public administration, policy making and finance that prevails in the country. The efforts to improve this organisational framework aim not only to build a more efficient government, but also to support Kazakhstan's strategy of diversification, which is intended to reduce the dependency of the country on the oil, gas and extracting industries. A big challenge for the future is to set up a multilevel governance system capable of tapping into the potential for innovation and entrepreneurship of lower tiers of government.

Some elements of decentralisation have already been introduced in the executive branch of the administration. Recent legislation has provided for the indirect election of akims in a number of cities and rural districts, and has expanded their financial and economic independence. Nevertheless, many governance gaps remain, exacerbated by a rigid fiscal structure and uncertainty about funding. Local and regional budgets do not have stable sources of income and are largely dependent on transfers from the central government. Government still operates from the top down, and regional executives, of oblasts and rayons, are accountable only to the central level (i.e. the presidential administration). As a consequence, local governments are not particularly focused on the specific needs of the population within their jurisdiction, to the detriment of the quality of local public services. This has led to sub-optimal use of public resources.

The sub-national government tiers have no fiscal incentives to act in the interest of their own territories. Any effort to spend resources more efficiently or to attract more resources to a territory is ruled out by the law under the budgetary code, which establishes the resources for each region. A tax reform that leaves some degree of freedom to the regional administration could thus provide the necessary incentive for local administrative bodies to actively pursue the economic development of their territories, rather than acting merely as agents of implementation.

A crucial element in local administration is to expand the capacity of public workers. Sub-national officials and civil servants, who have traditionally confined themselves to executing functions that have been assigned to them, will now be required to take the initiative and assume new responsibilities. It will be necessary to upgrade their capabilities, so that they can deal with public policies as efficiently as their national counterparts. Technical assistance will also be welcome, to help local executives set up regional strategic programmes. Finally, to make this transition cost efficient, a system for monitoring the results will need to be established, to evaluate the effects of any reform policy.

The current government structure in Kazakhstan

A highly centralised organisation

Centralisation in Kazakhstan dates back to the Soviet period, when the republic was divided into 19 regions (oblasts) and the city of Almaty. Almost all decisions that mattered were made centrally by the central soviet authorities, which had structured the economies of individual republics according to the principle of an inter-regional division of labour and industrial specialisation.[1] Local authorities were given virtually no powers

or major responsibilities in the implementation of the policy. No incentives for efficient governance were in place, and the abiding concern was with punishment for noncompliance with the formal rules set at the central level.

After independence in 1991, decision-making was transferred from Moscow to Almaty, which was then the capital. "Economy first, politics next" was, and remains, the guiding principle of the central administration. While the country started to initiate a transition from a centralised state-controlled economy to a free-market economy, the Soviet-era model of governance remained in place. As a consequence the president continues to preside over a highly centralised hierarchical system with still very limited decision-making authority for local administrators (see Box 3.1). Kazakhstan´s public administration system is thus frequently described as "executive vertical," with a rigid top-to-bottom hierarchy.

Box 3.1. **The government of Kazakhstan**

Kazakhstan is governed under the constitution adopted on 30 August 1995, which established a unitary state with a presidential form of government. The president, the head of state, determines the main directions of domestic and foreign policy and represents the country domestically and internationally. He is elected by popular vote to a five-year term (prior to constitutional amendments in 2007, this was a seven-year term). The head of state is subject to a two-term limit, except in the case of President Nazarbayev, in his role as the first president of the country.

The government is headed by the prime minister, who is appointed by the president and presides over the Cabinet of Ministers. The Cabinet implements executive orders, heads the system of executive bodies and supervises their activity.

Kazakhstan has a bicameral parliament, the Senate (upper house) and the Majilis (lower house), the highest representative body that performs legislative functions. Since amendments to the constitution were passed in 2007, the Senate has been composed of 47 members, who serve six-year terms. Fifteen senators are appointed by the president. The other senators are selected by the local assemblies (oblast maslikhats) of Kazakhstan´s administrative divisions. Of the 107 members of the Majilis, 98 are elected on the basis of party lists. Nine are chosen by the Assembly of the People of Kazakhstan, representing the country's ethnic minorities. They serve five-year terms.

Source: Author's own elaboration.

The constitution also recognises the systems of local state government (Article 85) and local self-government (Article 89). But it took over five years to harmonise the legislation in force at the time with the new constitution. This process was completed in January 2001, when parliament passed the Law on Local Public Administration and Self-Government.

The president and central executive branches hold most of the power in the country. The government is a collegial body accountable to the president and in few cases, as explicitly indicated in the Constitution Law, to the Majilis (the lower chamber of parliament). Sub-national executive bodies (akimats) are headed by an akim, who is the representative of the president and of the government of the Republic of Kazakhstan in the region. The akims of the oblasts and the majors of the two cities of national significance (Almaty and Astana) have until recently been appointed by the president on the prime minister's recommendation. The president has the right to remove akims from

office at his discretion. The heads of the sub-national executive branches are thus only accountable to the top, i.e. to the president.

In the recent past, steps have been taken towards local decentralisation and representative democracy. In 2013, a new law was adopted introducing indirect local elections for akims (majors, heads) for towns with district (rayon) status, rural districts, settlements and villages that are not part of a rural district. The new system of akim elections was first described in Kazakhstan's Strategy 2050, announced in December 2012 and signed into law on 14 June 2013 (under the bill "Introduction of revisions and additions in legal acts in the Republic of Kazakhstan regarding the demarcation of authority between bodies of state governance").

The first local elections took place in August 2013 by indirect suffrage; the elections were held by secret ballot at the meeting of district deputies of the corresponding region's Maslikhat (local representative body). A total of 6 738 candidates registered for the post of akim, resulting in an overall average of more than two candidates for each position. In 37 administrative regions, the winning candidates were elected with a margin of just one vote. Of those elected, 280 (or 11.4%) were women. The elections took place in all 14 regions of the country; around 90% of all local governors have now been elected through the new system.

Along with electoral reform, the new legislation has introduced measures to increase the control of locally elected akims and local communities over their local budgets. In particular, rural akims will be given additional powers to strengthen their influence in auls (villages) enabling them to engage more directly in community development, including infrastructure development (e.g. roads, houses) and the delivery of local services. The act has expanded the rights of governors to determine their own revenue sources and hold meetings and consult with citizens. The law also outlines provisions to create public consultation bodies at the local level and has introduced rules governing citizen consultation, including the rights of citizens to participate in the monitoring of local budgetary funds.

Kazakhstan is divided into 14 regional (oblast) governments, plus the akimat of Astana city and the akimat of Almaty city. Akimats of oblasts and the cities of national significance (Astana and Almaty) co-ordinate and manage akimats of rayons of the relevant oblasts (See Table 3.1 and Box 3.2 below).

Table 3.1. **Territorial structure of subnational authorities**

First tier	Cities of national sub-ordinance	Oblast	
Second tier		Cities of oblast sub-ordinance	Rayons
Third tier			Settlements

Source: World Bank (2012), "Eurasian cities: New realities along the Silk Road", *Eastern Europe and Central Asia Report*, World Bank, Washington DC.

Socio-economic challenges

Good governance is important in achieving the country's regional development and diversification objectives. Kazakhstan's recent robust macroeconomic performance is mainly due to the favourable conditions in the oil and gas markets, given the high demand worldwide and the high prevailing prices. The sector mainly requires central government

guidance in forming joint ventures with foreign companies and the centralisation of all revenues from the exploitation of natural resources. Moving to a diversified economy, however, will require creating an environment conducive to entrepreneurship and innovation.

Improving the governance system is a necessity recognised by the State Programme of Accelerated Industrial and Innovative Development (SPAIID), which sets the main targets for the period 2010-2014. SPAIID mobilises resources for the development of a few centres of growth and emphasises the development of the main cities. It defines an elaborate strategy for regional development. An efficient governmental organisation and the quality of the public sector are central to its success.

There is a rich and established economic literature on the interaction between institutions and economic development. Douglass North's seminal contribution presented the first systematic analysis of the impact of institutions and institutional change on economic performance. Institutions (formal and informal are the "rules of the game" (North, 1990). Of particular interest in the present study is the idea that history matters: "It matters not just because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions" (North, 1990: 107). Kazakhstan's current situation, as far as its governance and the quality of institutions are concerned, must be analysed in the context of the transition from a socialist economy to a market economy, where the institutions governing public administration, and in particular sub-national levels of government, are still burdened by the legacy of Soviet state administration (see Box 3.2).

Box 3.2. **The Communist Party and the Soviet political structure**

The Soviet political structure had some of the trappings of Western democracies. At the level of the republics, legislative bodies (congresses of people's deputies) were elected by universal adult suffrage. As these congresses met infrequently, each republic also had a smaller standing legislature, whose chairman functioned as head of state and oversaw the council of ministers, which acted as the government's executive branch. A parallel structure existed at each sub-national level. Each unit had its own council, elected by universal suffrage. Like their counterparts at the national level, these councils met infrequently. Between sessions, each council delegated its authority to an executive committee, whose chair acted as chief executive and oversaw the functioning of the various administrative departments.

Actual political power, however, was concentrated in the hands of the Communist Party, which had branches at each level of sub-national administration. In theory, the leadership of a local branch of the party was chosen by local party members. In practice, the party leadership designated the people who would be put on the ballot to elect it. In the classic characterisation, the party set policy and the state administration implemented it. The relationship between the party and the government was, in practice, more intimate. The party determined which candidates would be on the ballot for local councils and appointed the key officials of the administration. Management controls reflected the spirit of democratic centralism, with sector managers at the local level subordinate to both their local executive and their sector counterpart at the central level. This remains a relevant concern today, precisely because, despite the undemocratic nature of these arrangements, they vested a good deal of responsibility for intergovernmental co-ordination in party structures; with the end of one-party rule, the full complexity of the territorial administration created before 1991 became apparent.

Source: World Bank (2012), "Eurasian Cities: New Realities along the Silk Road", Eastern Europe and Central Asia Report, Washington DC.

In Kazakhstan, the initial state of development of the country and the building of statehood in the previous decades required a top-down approach to reform, combined with strong control and oversight across the government. Maintaining central political control over decisions and monitoring appears to have been fundamental in the progress that has been achieved by the country, given the scope of the challenges it was facing. It has, however, also resulted in reduced responsibility and accountability of ministerial management (OECD, 2014b). Engagement with society in general has also been overlooked, and the role of institutions such as the police force and courts of law has not been a priority. Nevertheless, they are instrumental in the protection of property rights and the enforcement of contracts, the structure of public administration and the social norms that determine expectations of citizens' behaviour. These are an essential part of the governance system, since they influence the environment in which firms and entrepreneurs can flourish.

Kazakhstan is making improvements in its system of public governance. The new model, outlined in the Strategy 2050 document, is based on the principles of corporate management, transparency, an orientation towards results, and accountability to citizens. Some of the main reforms undertaken at the central level include introducing systematic functional reviews of public organisations, strengthening the Civil Service Agency (CSA),[2] introducing standard setting and process improvement in public services, establishing a centre to assess effectiveness of public organisations and defining a new concept of the state audit.

Box 3.3. **Regional and sub-regional administrative structure**

Kazakhstan's regions are subdivided into districts (*awdandar*). Almaty and Astana cities have the status of state importance and are self-governing. The city of Baikonur has a special status, because it is currently being leased to Russia until 2050. Each region is headed by a regional governor (akim) appointed by the president. Municipal akims are appointed by regional akims. Kazakhstan's government transferred its capital from Almaty to Astana on 10 December 1997.

Kazakhstan is divided into the following tiers of local government 1) the regional (oblast) administration, including the executive and representative bodies of the 14 regions and the two cities of Almaty and Astana; 2) the district (rayon) administration, including the executive and representative bodies of the 160 rayons; and 3) the 79 cities of oblast sub-ordination (which have the status of rayons), and local administration (the rural tier), including the executive bodies of towns, villages (auls) and rural counties.

Under the constitution (Article 86), local representative bodies (maslikhats) are elected by the population on the basis of universal suffrage by secret ballot, for a four-year term. They approve plans and programmes for the development of the territory, as well as the local budget. They exercise other authorities to ensure the rights and legitimate interests of citizens, in accordance with the legislation of the republic.

Source: Author's own elaboration.

Horizontal co-ordination is underemphasised

Internal governance gaps are a main weakness of the central government. Centres of government have not adequately promoted an integrated approach to policy making, enabling ministerial collaboration and generating interdependencies across the administration. Ministries have a natural tendency to work in silos, competing against each other for authority and funding. Few inter-ministerial committees have been set up to establish some form of co-ordination, and their stability over time is in question.

The relations between ministries are constrained by their strategic plans, yet many other issues require cross-ministry co-operation, and co-ordination mechanisms for them have not yet been sufficiently developed. Inter-ministerial and central agency co-ordination and collaboration could be strengthened by promoting informal and working level co-ordination, as well as by introducing horizontal accountability frameworks and the development of rotational programmes for civil servants.

More efforts are needed in Kazakhstan to strengthen the territorial orientation of central government programmes. At least three key conditions for promoting integrated territorial approaches to regional policy at the central government level should be considered:

- A territorial development approach promoting place-based rather than "one size fits all" policies at the central level should have high visibility on the political agenda and be a priority.

- Efficient administrative and fiscal mechanisms for inter-ministerial co-ordination require procedures for financing multisectoral investments, and further encouragement of collaborative mechanisms among different ministries and public agencies is needed.

- Involving local actors in the design and co-ordination of national initiatives for the regions would improve information on local requirements and potential synergies. It would also help examine how the initiative fits in with other projects being carried out in the region.

Co-ordination and arbitration of regional development policy at the central level is a challenge throughout OECD countries, but some options have emerged. The spectrum of instruments commonly used ranges from bodies charged with co-ordinating the activities of sectoral ministries to ministries with broad responsibilities and powers that encompass sectors that are traditionally separate (see Box 3.4). Co-ordinating structures such as inter-ministerial committees and commissions are one of the simplest systems for horizontal governance, since they are based on existing government structures. Examples include the Ministerial Committee for Regional Policy in Denmark, the Presidential Committee on Regional Development in Korea and the Cabinet Sub-Committee on Rural and Regional Policy in Norway.

Box 3.4. **Co-ordination of regional policy in OECD countries: Various models**

OECD countries have several different models for improving the co-ordination of territorial policies at the national level. They usually involve inter-ministerial committees and commissions. Some co-ordinating structures are relatively informal, others are more structured. Austria, for example, has developed an informal approach that emphasises consensus building among ministries, while Switzerland uses a more formal approach, in which ministries dealing with territorial development issues convene regularly in an inter-ministerial body.

Several countries augment cross-sectoral co-ordination mechanisms with special units or agencies that provide planning and advisory support. This helps to ensure policy coherence across sectors. In Norway, the Regional Development Unit of the Ministry of Local Government and Regional Development is responsible for co-ordinating the regional dimension of policies of other government departments, principally through inter-ministerial groups. In the United Kingdom, the Regional Co-ordination Unit – currently in the Office of the Deputy Prime Minister – was set up to implement crosscutting initiatives and to advise departments. In Japan, the National and Regional Planning Bureau in the Ministry of Land Infrastructure and Transport has developed a new view of territorial/regional policy and provided a network for local authorities as well as other local actors. In France, the DATAR (*Délégation à l'amenagement du Territoire et à l'Action Régionale - Delegation for regional territorial planning and action*) is an inter-ministerial body directly linked to the Office of the Prime Minister. It co-ordinates national territorial policy, handles planning contracts and European structural funds, and receives information from the different ministries about their regional priorities and about strategic objectives identified by regional prefects.

These co-ordination bodies also function as an interface with regional governments in the area of economic development: allocating funding, setting guidelines for drawing up regional strategies, advising on and authorising the strategies, and ensuring value for money.

Source: OECD (2005), *Building Competitive Regions: Strategies and Governance,* OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264009479-en.

Kazakhstan's present political-administrative structure is highly centralised. There have been some attempts to reform the system, such as the recent enabling of non-direct elections at the akimat level and some increased capacity to undertake local infrastructure projects and engage with citizens. These are important first steps, but much more can be done to strengthen sub-national capacity. Sub-national governments are constrained by a legal framework that limits their roles, responsibilities and functions, and by the top-down political-administrative system. Horizontal co-ordination between ministries is weak.

Intergovernmental relations and fiscal imbalances

In Kazakhstan, the fiscal structure parallels the vertical architecture of administrative relations with lower tiers of government. The country has is a one-level governance and rather rigid system, operated centrally. The budget code establishes the spending powers of budgets of all levels of government. The code governs inter-government fiscal relations and sets key provisions, principles and arrangements for budget system operation and use of budget funds. On the resource side, the tax code provides little room to manoeuvre. As a consequence, local and regional governments are not in a position to manage their budget, neither are they encouraged to conduct policies in a pro-active, innovative way.

Centrally controlled revenues

A large part of the sub-national budget revenues consists of transfers from the national budget. These revenues represent around one third of the total revenues of the central government. This is far more than in such countries as the United Kingdom, France, Italy, Sweden or Denmark, and is exceeded only by federal countries (e.g. the United States, Canada or Switzerland).

Allocation of transfers is vulnerable to manipulation and opacity. This lack of predictability generates uncertainty, which is not conducive to long-term planning and investment. Levels of transfer are determined on an annual basis, exacerbating the uncertainty for local administrations.

Local budgets revenues have fallen relative to GDP in recent years. A steep drop between 2005 and 2007 was followed by stabilisation of sub-national revenues at around 10% of GDP (Figure 3.1).

Figure 3.1. **Percentage of subnational revenues of Kazakhstan's GDP**
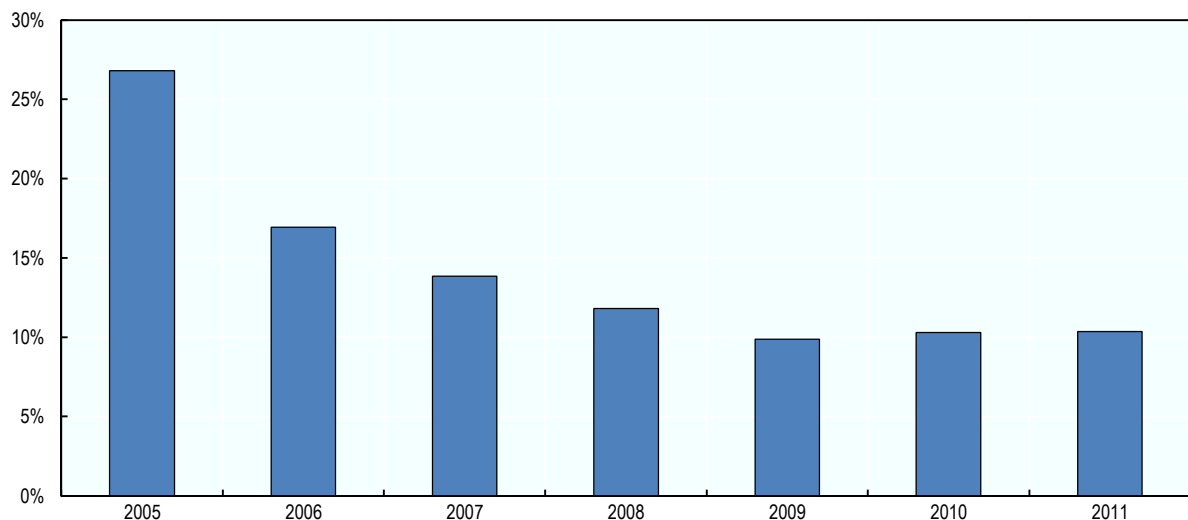
Source: Ministry of Finance of Kazakhstan.

Part of the royalties and taxes derived from the exploitation of oil and gas now goes into the national budget (see Box 3.5). Since 2010, the budget code has stipulated that USD 8 billion (+/-15%) is to be transferred annually from the National Oil Fund to the national budget, but it is difficult to track how this money is spent by sub-national governments.

Box 3.5. **National oil fund**

This fund, which is managed by the Bank of Kazakhstan, was established in 2000 as a stabilisation fund that accumulates windfall revenues. It consists of direct tax revenues on companies in the oil and gas sector, revenues from the privatisation of state property and the sale of agricultural land, and investment income from the management of the fund.

The size of the national fund is not restricted. In 2013, it amounted to about USD 64 billion, one third of which was invested in foreign currencies, one third in US bonds, one third in shares of AAA companies. The government indicated last year that it would start to reinvest oil savings in the economy, notably in infrastructure projects. The assets of the National Oil Fund were expected to rise to USD 122 billion in 2016.

Source: Government of Kazakhstan (2015), Национального фонда Республики Казахстан, http://economy.gov.kz/economyabout/9426/56123/ (accessed 23 November 2015).

Another characteristic of Kazakhstan's public finances is the significant disparity between regional revenues, and their relative increase over the 2005-2011 period (Figure 3.2). The city of Almaty, which in terms of population and economic activities outperforms all other regions, takes in the most revenue. The regions of Atyrau, Karaganda, Mangystau, East Kazakhstan, Aktobe, Pavlodar, West Kazakhstan, South Kazakhstan, Almaty and the city of Astana, whose revenues are roughly equivalent, take in just under half of the revenues of the city of Almaty. The budget revenues of the regions of Kyzylorda, Kostanay, Akmola, Zhambyl and North Kazakhstan are even lower.

Figure 3.2. **Local budget revenues in Kazakhstan regions, in thousands of KAZ**
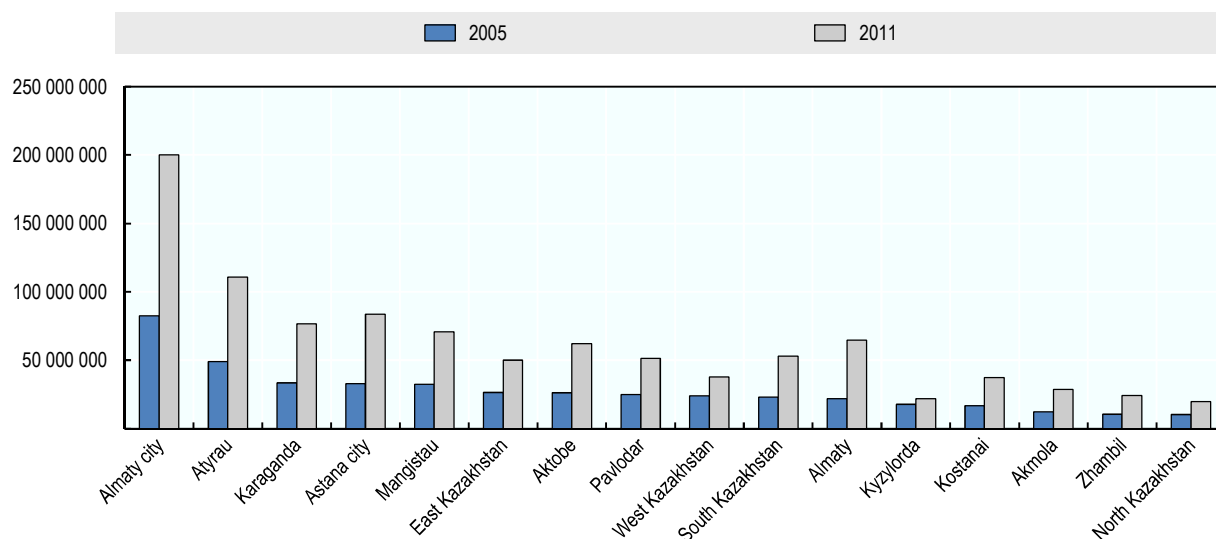
Source: Ministry of Finance of Kazakhstan.

In terms of local revenues per capita, inter-regional disparities remain high (Figure 3.3). The oil-rich regions of Atyrau and Mangystau take in the most revenue, followed by the city of Almaty and the city of Astana. The rest of the regions have lower per capita revenue, with South Kazakhstan being the lowest. Comparing revenues for 2011 and 2005, not much has changed in the general overview, with the two oil-rich regions and the two cities of national significance outperforming the other regions.

Figure 3.3. **Per capita local budget revenues**
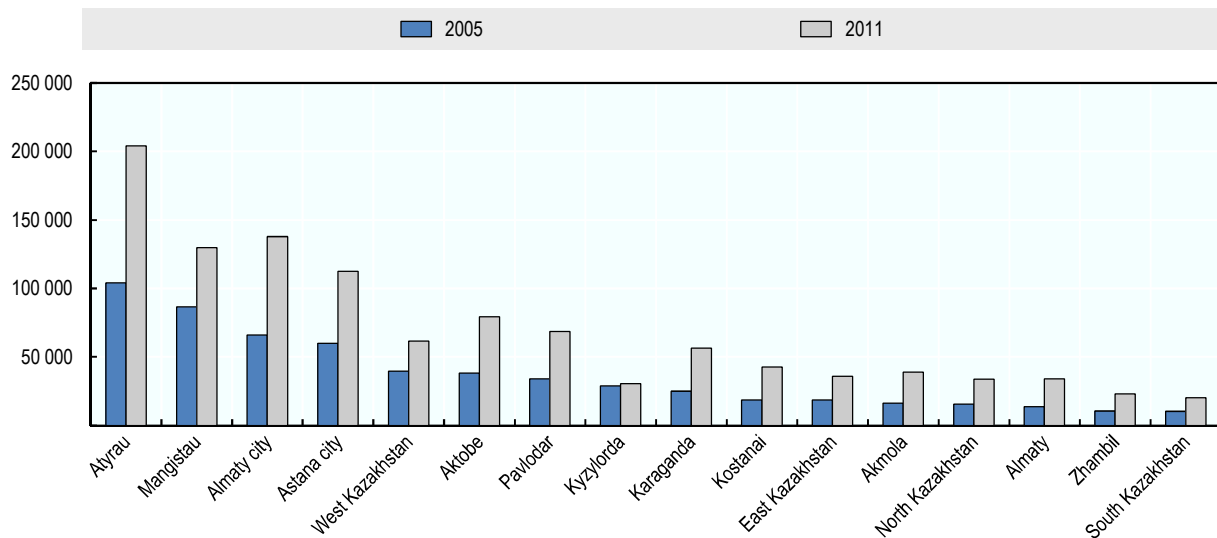
Source: Ministry of Finance of Kazakhstan.

Local budget expenditures

The top-down approach helps to secure equal access and similar standards across the population, in particular for functions that are delegated to lower tiers of government, such as education, health and social welfare. It is therefore not surprising that per capita budget expenditures show a uniform pattern across Kazakhstan's regions. The capital, Astana, outperforms other regions, with a budget double that of the rest of the country (Figure 3.4). Every region has seen an increase in the nominal value of expenditures per capita between 2005 and 2011, reflecting the increase in the national GDP per capita over the period and the increase in price (inflation).[3]

The picture is slightly different when local budget expenditures are weighted by the regional GDP (Figure 3.5 and 3.6). The regions of South Kazakhstan and Zhambyl account for a larger share of expenditures. The regions with the lowest share of expenditures with respect to regional GDP are the best-performing regions, Mangystau and Atyrau and the city of Almaty.

Figure 3.4. **Per capita local budget expenditures, by region**
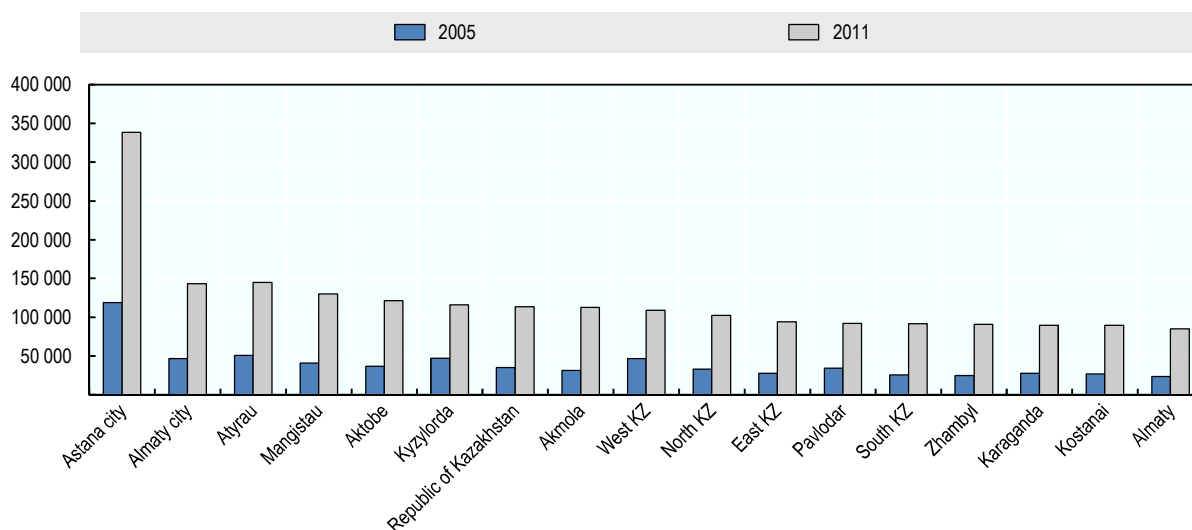
Source: Ministry of Finance of Kazakhstan.

The comparison of Figure 3.4 and 3.5 shows that in most regions, expenditures exceed revenues. The gap is particularly high in 2011 in Astana City where the demand for capital investment is particularly important. Only oil rich regions such as Atyrau or Mangistau have budgetary resources in excess. This point is further developed in the next section on transfers and equalisation.

Figure 3.5. **Local budget expenditures as a percentage of regional GDP, by region**
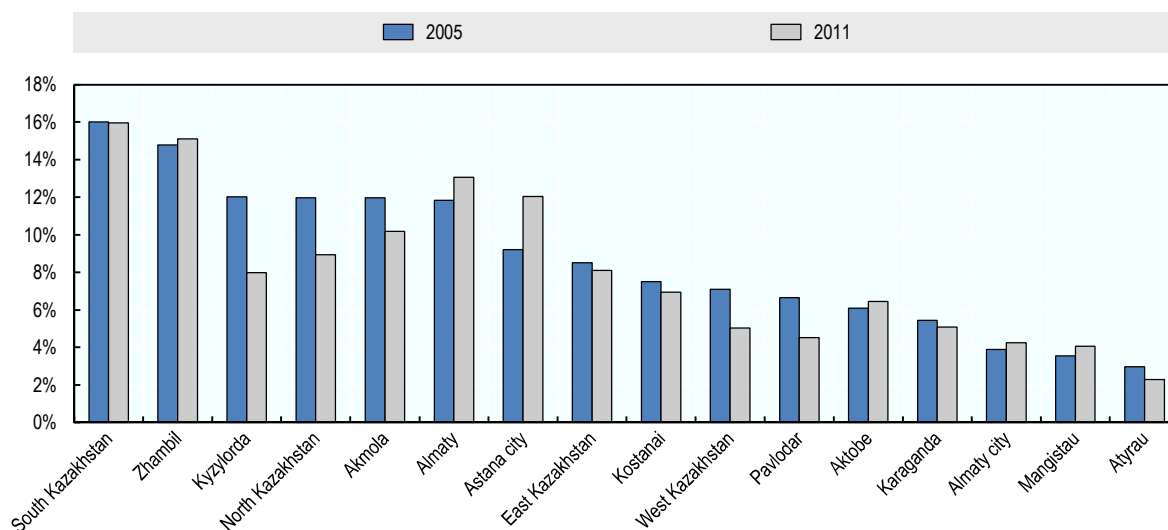
Source: Ministry of Finance of Kazakhstan.

Transfers and equalisation

Fiscal relations between levels of government are based on transfers and occasional loans. The level of expenditure for each territory is calculated on an historical basis. The

regions whose revenue is higher than the amount they need to finance the prescribed expenditure make contributions to the national budget. The regions with lower revenues receive additional funds to finance the prescribed functions from the national budget.

The fiscal imbalance in Kazakhstan's regions, that is, the difference between local expenditures and local budget revenues, is quite large and diversified. Figure 3.6 shows that the regional budget is based on a few "donor" regions. Between 2005 and 2011, the situation has changed dramatically. By 2011, only the region of Atyrau had a positive fiscal balance, and the positive values for the region of Mangystau and the city of Almaty recorded in 2005 had disappeared. The negative fiscal imbalance of the other regions worsened, probably as a result of the global financial crisis.

Figure 3.6. **Fiscal imbalance, by region**
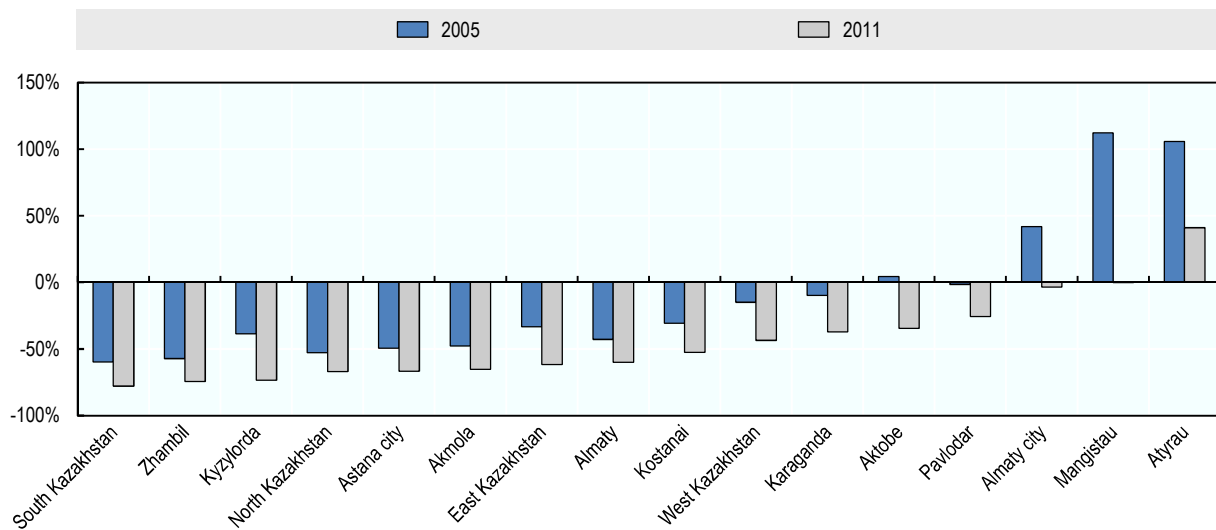
Source: OECD research based on data from the Ministry of Finance of Kazakhstan.

Given the negative fiscal imbalance in most regions, the cost of providing services is covered by transfers from the central government budget. Transfers fall mainly into two categories: targeted transfers and subsidies. The former is a type of transfer devoted to finance a specific service; these are commonly known as "earmarked" transfers in the economic literature. The local government has no discretion in the allocation of the funds, which are determined by the central government, based on past levels of expenditure and some supply-type variables (such as the number of students, the number of hospitals, etc.). The second type of transfer is not earmarked for a specific service, and serves to balance the difference in revenues generated in each region.

Such transfers do manage to smooth the budget across regions whose economic performance differs, but they have an inherent drawback: they provide no incentive for regions to improve their economic performance. The mechanism works in a static context, in which being a donor or receiving funds does not depend on a region's own actions. Over time, it provides a disincentive for using resources efficiently: for example, a virtuous region is punished by the removal of any funds it may save.

The methodology for calculating common transfers treats all regions equally. The overall amount of regions' forecast expenditures is distributed between the regions' local

budgets based on the number of budgeted services' customers in the region, as well as adjusted coefficients that reflect objective factors accounting for the regions' varying differences in the cost of service delivery. Negotiations between regions and the central level might also play a role.

Figure 3.7. **Per capita targeted transfers, by region**
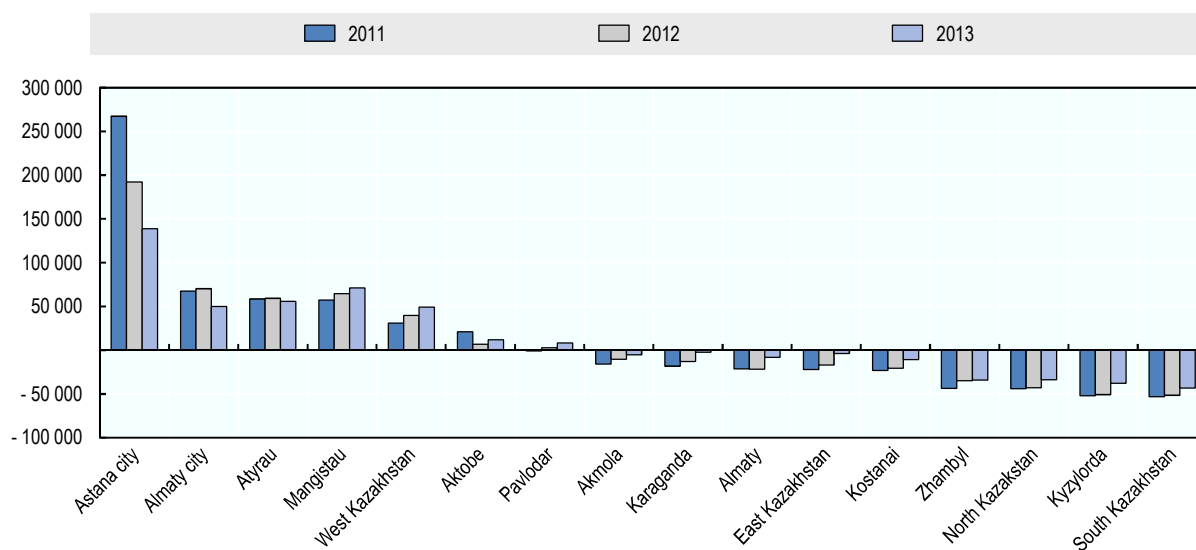
Source: OECD research based on data from the Ministry of Finance of Kazakhstan.

Earmarked or targeted transfers are closely correlated with the population of a region. The capital city is an exception, given its needs for infrastructure and public services (Figure 3.7). Its relative gap with other regions is nevertheless declining.

Figure 3.8. **Per capita subsidies, by region**

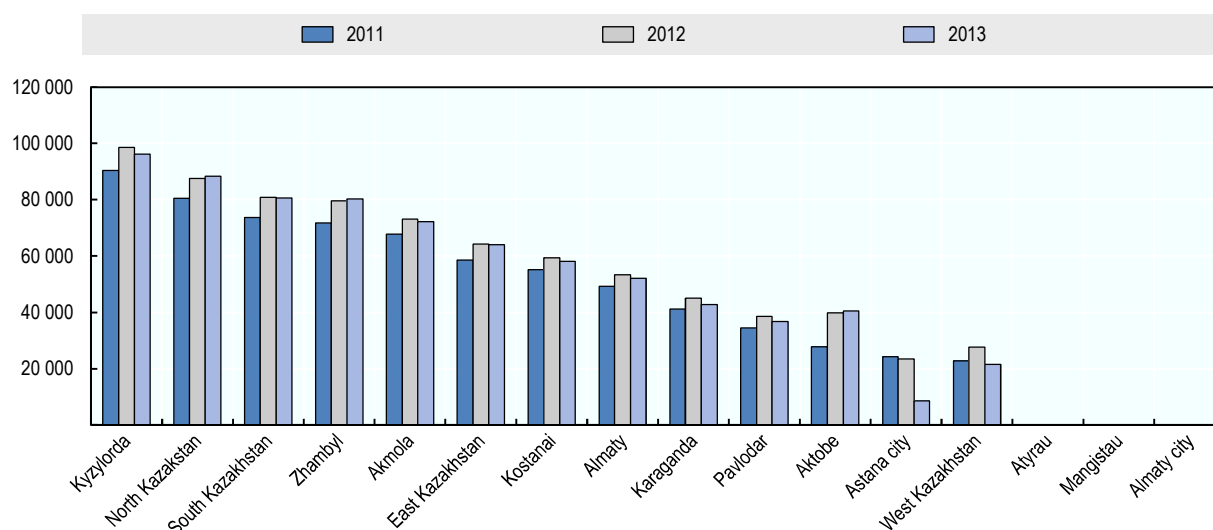*Source*: OECD research based on data from the Ministry of Finance of Kazakhstan.

Figure 3.8 clearly highlights the "donors" as being the regions of Atyrau, Mangistau and the city of Almaty. The other regions (including the city of Astana) receive subsidies. Those that receive most on a per capita basis are agricultural regions and those that do not have extractive industries.

The law establishes three-year general-purpose transfers in absolute terms broken down by year between the national budget and that of the oblast, city of national subordination and the capital city. The amount of general-purpose transfers is subject to change every three years. Directed current transfers and directed development transfers are also provided to regions from the national budget. Directed current transfers are provided to compensate for budget losses for a local budget resulting from a regulation, presidential or government act that entails an increase in expenditure and/or a decrease in revenue. Directed development transfers are provided for implementation of local budget development programmes.

In 2009, Kazakhstan introduced a new budget code that introduced new reporting, monitoring and evaluation measures, which were intended to create a results-oriented framework (Kadyrova, 2013). However, in practice, the implementation of performance budgeting is weak, and the budgeting process lacks transparency and accountability (Dulatbekov and Assylbayeva, 2013; Junusbekova, 2013). For example, an analysis of budgetary transparency by the International Budget Partnership assigns Kazakhstan the rank of 51/100 in 2015, noting that Kazakhstan provides the public with limited budgetary information (International Budget Partnership, 2015).[4] While the legislative framework for budgetary oversight is described as adequate, oversight mechanisms are found to be limited. It should be noted that Kazakhstan's budgetary transparency scores have increased over the years (e.g. in 2006, its ranking was 43/100).

Kazakhstan's fiscal architecture parallels its political-administrative centralisation. Sub-national revenues are centrally controlled and vulnerable to manipulation, which generates uncertainty about the viability of public investments. Centrally planned budgets restrict the ability of the sub-national level to implement independent policy decisions (Ibrayeva and Negina, 2013). The law on local government broadly defines the responsibilities between sub-national levels of government, but these responsibilities overlap, and jurisdiction is blurred. The present system of informal fiscal relations between oblasts and rayons "are ripe for possibilities for favouritism and untargeted funds transfers" (Ibrayeva and Negina, 2013).

Multi-level governance gaps

The previous sections have indicated the tight budgetary framework within which local and regional governments operate. They have also shown that large differences remain in local resources and capacities. Though the funding system of sub-national levels provides for these gaps, it stifles the dynamics of local and regional governments and discourages them from embarking on pro-active policies and innovative investment initiatives.

Shifting from this situation and decentralising part of the budget and competencies to lower tiers of government presents a number of challenges. For both regions and local authorities, meeting the targets of new responsibilities and a better match between citizens' preferences and the resulting policies is an ambitious goal in the short term. Citizens and civil servants alike may wish to maintain the status quo, and support for reform may be lacking. Furthermore, under certain circumstances, decentralisation might not deliver on the promise of efficiency and administrative and political gains.

Box 3.6. **The OECD approach to multi-level governance**

The relationship among levels of government resulting from decentralisation is characterised by mutual dependence, since it is impossible to have a complete separation of policy responsibilities and outcomes among levels of government. It is a complex relationship, simultaneously vertical (across different levels of government), horizontal (among the same level of government) and networked. Governments must therefore bridge a series of challenges or "gaps" between levels, both vertically and horizontally.

These gaps include: the fiscal capacity of governments to meet obligations; information asymmetries between levels of government; gaps in administrative responsibility where administrative borders do not correspond to functional economic and social areas at the sub-national level; gaps in policy design when line ministries take purely vertical approaches to cross-sectoral regulation that can require co-design of implementation at the local level; and often a lack of human or infrastructure resources to deliver services and design strategies. Countries may experience these gaps to a greater or lesser degree, but given the mutual dependence that arises from decentralisation and the network-like dynamics of multilevel governance, countries are likely to face them simultaneously.

Table 3.2. **Mutual dependence across levels of government: Multi-level governance challenges/gaps in OECD member countries**

Types of challenges/gaps	Co-ordination challenges/gaps
Funding	Unstable or insufficient revenues undermining effective implementation of responsibilities at the sub-national level or for shared competences **=> Need for shared financing mechanisms**.
Administrative	Occurs when the administrative scale for investment does not correspond with functional relevance, as in the case of municipal fragmentation **=> Need for instruments for reaching "effective size" (co-ordination tools among sub-national units; mergers).**
Policy	Results when line ministries take purely vertical approaches to cross-sectoral policies to be territorially implemented **=> Need for mechanisms to create multidimensional/systemic approaches and to exercise political leadership and commitment.**
Information	Asymmetries of information (quantity, quality, type) between different stakeholders, either voluntary or not **=> Need for instruments for revealing and sharing information.**
Capacity	Arises when there is a lack of human, knowledge or infrastructural resources available to carry out tasks and to design relevant strategies for local development **=> Need for instruments to build local capacity**.
Objective	Exists when different rationales among national and sub-national policy makers create obstacles for adopting convergent targets. Can lead to policy coherence problems and contradictory objectives across investment strategies **=> Need for instruments to align objectives**.
Accountability	Reflects difficulties in ensuring the transparency of practices across different constituencies and levels of government. Also concerns possible integrity challenges for policy makers involved in the management of investments **=> Need for institutional quality instruments => Need for instruments to strengthen the integrity framework at the local level (focus on public procurement) => Need for instruments to enhance citizens' involvement.**

OECD member and non-member countries are increasingly developing a wide variety of mechanisms to help bridge these gaps and improve the coherence of multilevel policy making. These mechanisms may be "binding", such as legal mechanisms, or "soft", such as platforms for discussion, and they must be sufficiently flexible to allow for territorially specific policies. Involvement of sub-national governments in policy making takes time, but medium- to long-term benefits should outweigh the costs of co-ordination.

Source: Charbit, C. and M. Michalun (2009), "Mind the gaps: Managing mutual dependence in relations among levels of government", *OECD Working Papers on Public Governance*, No. 14, OECD Publishing, Paris, http://dx.doi.org/10.1787/221253707200; Charbit, C. (2011), "Governance of public policies in decentralised contexts: The multi-level approach", *OECD Regional Development Working Papers*, No. 2011/04, OECD Publishing, Paris, http://dx.doi.org/10.1787/5kg883pkxkhc-en.

The capacity challenge

One of the challenges of decentralising responsibilities to lower levels of government is whether the local government has the capacity to manage the new functions. Local governments may lack the human resources to manage complex tasks that were previously managed at the central level. Sub-national authorities may be unable to manage their budgetary and fiscal affairs and efficiently deliver public services (see Box 3.7 for a gap analysis). The degree of vertical and horizontal co-ordination among subnational tiers of government is key.

Given Kazakhstan's history of centralised government, sub-national officials tend to have less formal education and training than their national counterparts. Meanwhile, regional and municipal governments are likely to lack the institutional capacity to deal with public policies as efficiently as their national counterparts (Lin, 2014: 291). Sub-national units may thus need to strengthen their capabilities before assuming further responsibilities. Capacity building requires "learning by doing," and it may be that sub-national governments need to have responsibilities transferred to them to undergo this learning process.

Decentralisation of tasks to provinces and municipalities is also a cultural issue. Sub-national tiers of government need time to build capacity and learn how to provide services and implement policies efficiently. Care services demand a learning curve for public administrators to acquire information on the best mix of services to meet citizens' needs. It is unlikely that reforms will increase the quality of services and reduce costs in the short term.

Funding challenges for regional and local governments

In Kazakhstan, regional and local governments depend on the central government for their resources. This may inhibit their capacity to react to external shocks and other unexpected events appropriately. This may be felt in different ways: for example, a sudden drop in labour supply because of a crisis in a sector in which a region is highly specialised.

Box 3.7. **Moral hazard**

Moral hazard is an economic-related problem that arises when economic agents do not pay for the consequences of their action or inaction. In this circumstance, an incentive scheme that transfers part of the risk to the agent can overcome the economic problem. The terminology originates in the insurance sector, and it is used to define a lack of incentives to take care of objects that have been insured. In this case the consequences of any accident are passed on to the insurance company. For this reason, insurance contracts are structured to reduce the risks of encountering the moral hazard problem. Most recently, the debate on the global financial crisis and the role of central government in "saving" financial institutions from bankruptcy has focused on the moral hazard incentive that may arise from those policies. The administrators of financial institutions have a strong incentive to finance risky projects if the associated risk of failure is covered by the government (or other institutions).

In the same vein, sub-national governments may undertake expensive and risky projects without taking account of the efficient use of resources, because if they fail, the central government will intervene, saving the local government from a default. The moral hazard incentive is based on the acknowledgement that the costs of risky projects that are conducted at the local level will be borne by the entire country. Sub-national tiers of government may thus tend to accumulate debt because they anticipate that the burden will be shared with the rest of the country. By contrast, whenever the government (central or local) finances projects through taxes, there is an implicit incentive to use them in the most efficient manner, at the risk of encountering problems in the next electoral race.

Source: Mas-Colell, A., M.D. Whinston and J.R. Green (1995), *Microeconomic Theory*, Oxford University Press, New York.

Large fiscal imbalances may lead to situations in which the local administration has no incentive to use resources in efficiently, because it relies on external transfers from the central government. The way in which resources are provided is also critical, to reduce the exposure to moral hazard and to provide incentives for the efficient use of resources. This also reduces accountability to citizens, because delivering services of poor quality can be attributed to external conditions, such as a lack of resources.

Building sub-national government investment capacities

Public investment (e.g. capital expenditure on physical or soft infrastructure) is one of the most potentially growth-enhancing forms of public expenditure and may serve as a catalyst for private-sector investment. Effective public investment has a critical role to play in addressing inequalities, building trust between the government and citizens and enhancing well-being.

In OECD countries, more than two-thirds of public investment is conducted at the sub-national government level, i.e. by states, regions, provinces and municipalities. Sub-national governments in federal countries undertake a higher proportion of public investment than more centralised states. Regardless, such investments typically involve multiple levels of government at some stage in the process.

In Kazakhstan, making sub-national governments partners with the central government on public investment projects could help make the most of public investment opportunities. Territories, municipalities and oblasts can be empowered to act as meaningful partners in the investment process. It is particularly important that information about investment projects be largely disseminated to the concerned subnational levels and that they be actively involved in the planning process.

Local administrators will need the skills required to manage such projects. Central levels of government can support capacity building directly through activities such as technical assistance, training and provision of guidance documents to enhance technical capacities of local tiers of government. Complementary support can come from a number of places including universities, expert organisations and consultants. Other practices such as merit based promotion as well as targeted workforce training can enhance local workforce quality

An effective public investment capacity at the sub-national level requires an appropriate fiscal framework to support governance arrangements. Strategic plans should be linked to multiannual budgets and there should be budget transparency at all levels of government.

In addition to more engagement with sub-national governments, effective public investment (in hard and soft infrastructure) requires an understanding of local conditions. Good data at the local level will help partnering governments understand, monitor and evaluate ongoing conditions and link public investment to the desired outcomes. This will include data to help understand the long-term social, environmental and economic implications of a project, whether it delivers value for money and what the associated risks are. Information sharing between the partners engaged in the public investment process is critical so that priorities can be aligned, for instance between sub-national and national governments.

Local socio-economic data is often organised, and by extension, analysed, according to existing administrative boundaries. Work by the OECD on functional urban regions has foregrounded the importance of understanding the functional dynamics of

communities (e.g. commuting patterns and labour market flows), which may or may not align with existing administrative boundaries. Analysis of this kind can help optimise public investment, by accounting for real spatial characteristics in the design of infrastructure and the delivery of services.

Sub-national governments, particularly at the municipal and community level, are best placed to engage with citizens on issues that matter to them. They can play an important role in creating meaningful public engagement, which includes citizens and key stakeholders in making decisions about public investment. The involvement of stakeholders early in the process can help communicate expectations, manage risks and result in better infrastructure and service delivery. Effective public engagement requires that information be shared with participants in an accessible and timely manner.

The OECD has identified 12 principles to help governments at all levels assess the strengths and weaknesses of their public investment capacity, using a whole-of-government approach, and to set priorities for improvement (see Box 3.8).

Box 3.8. **OECD Principles on Effective Public Investment across Levels of Government**

OECD member countries should take steps to ensure that national and sub-national levels of government effectively use resources dedicated to public investment for territorial development, in accordance with the Principles set out below:

Pillar I: Co-ordinate across governments and policy areas.

- Invest using an integrated strategy tailored to different places.
- Adopt effective co-ordination instruments across national and sub-national governments.
- Co-ordinate among sub-national governments to invest at the relevant scale.

Pillar II: Strengthen capacities for public investment and promote policy learning across levels of   government.

- Assess upfront long-term impacts and risks of public investment.
- Encourage stakeholder involvement throughout the investment cycle.
- Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities.
- Reinforce the expertise of public officials and institutions throughout the investment cycle.
- Focus on results, and promote learning from experience.

Pillar III: Ensure sound framework conditions at all levels of government.

- Develop a fiscal framework adapted to the investment objectives pursued.
- Require sound, transparent financial management at all levels of government.
- Promote transparency and strategic use of public procurement at all levels of government.
- Strive for quality and consistency in regulatory systems across levels of government.
- For further information on the OECD's Effective Public Investment Toolkit and Principles for Action, see www.oecd.org/effective-public-investment-toolkit.

Kazakhstan's present state strategy, Strategy 2050, recognises a need for governmental reform. It proposes an improved system of state planning and forecasting, as well as decentralisation initiatives. This includes a clearer division of responsibility between the central government and the regions, the development of local self-government and the election of rural governors. These are important steps towards more effective multilevel governance. Administrative reforms regarding the division of responsibility between different levels of government would benefit from greater clarity. Further, sub-national bodies, and not merely central government, should be engaged in planning and forecasting initiatives. The overall effectiveness of the proposed reforms will require a reorientation of power dynamics between levels of government, administrative professionalisation and capacity building at the local level, and critically, respect for some degree of local autonomy.

Local government and budget

Sub-central governments in Kazakhstan have little funding autonomy, which undermines the implementation of their responsibilities. The central government has expressed its intention to enhance the fiscal capacity of lower tiers of government, but it has not clarified the types of tasks that should be assigned to sub-national levels. A clear enabling framework needs to be established to help local executives play a greater role in formulating policy and strategic decision making.

Constrained financial resources

Local executive bodies finance a number of activities. These include pre-school, primary, basic and secondary education, vocational training and additional education, health care services and local health care programmes, local social security and targeted social assistance and local employment programmes. Local budgets also fund activities in the areas of culture, sports and information, transport and construction projects, environmental protection activities, construction and maintenance of local roads, and water treatment and distribution activities.

Local budgets can finance these activities because they receive transfers. Their own resources are marginal, and their scope for fiscal initiatives is extremely limited. Local governments have jurisdiction over the rate of the land tax, which can be revised within a margin of 20%, depending on the characteristics of the land (which principally concerns its access to water), and also over the collection of local fees (Box 3.9). Lower levels of government are also authorised to raise rates of environmental emission charges according to a prescribed scale. Rates for the use of water resources from surface sources are also determined by sub-national representative bodies, as are forest-use charge rates.

<div style="border: 1px solid black; padding: 10px;">

Box 3.9. **National and local taxes**

Various types of taxes and payments are laid out in the tax code, and other revenues to be paid into the national and local budget are described in the budget code. The budget code also describes local budget revenues (tax and non-tax). The main source of revenue is social and personal income taxation. Since 2003, transfers have become the dominant element of local budgets. According to the budget code, taxes are divided into national and local taxes. The law classifies the following taxes.

National taxes	Local taxes
Income tax on firms and corporations	Land tax
VAT	Property tax on legal and physical entities
Excise taxes	Tax on means of transport
Fees for registering securities	Fees for registering private companies
Special fees and taxes for the use of mineral resources	Fees for engaging in certain types of business
	Fees from auction sales
	Personal income tax
	Social tax

For oblasts, budget revenues include the social tax, personal income tax and excise tax. Pollution charges, groundwater resources and fees related to the natural landscape are an additional source of revenue.

The responsibility for tax collection continues to lie with the Ministry of Finance and its local branches. This public administration collects taxes and allocates them to the respective local budget. Tax collection is complex and varies according to regions. In the case of the Atyrau region, 8%-9% of all the taxes collected are spent in the oblast, with the remainder going to the national budget. In total, 73% of the local budget comes from local taxes, 22% entails transfers received from the national budget, and 5% is non-tax payments. In turn, 30% of Kazakhstan's national budget comes from the Atyrau oblast. On the World Bank's 2014 Doing Business Index, Kazakhstan ranks 17th in ease of paying taxes. Atyrau oblast officials say their tax collection rate could be at least 10% higher if it were not for widespread corruption.

Source: World Bank, *Doing Business, Measuring Business Regulations*, www.doingbusiness.org (accessed July 2014).

</div>

Local executive bodies of an oblast or from a similar tier of government can borrow money by obtaining loans from the central government. Alternatively, they can issue securities to finance a budget deficit of the city of national subordination or of the capital city. Lower levels of government can also obtain loans from the oblast local executive body to finance their expenditures. Public borrowing is nevertheless limited. The central government determines the debt limit for local executive bodies. For example, debt repayment and servicing must not exceed 10% of the local budget's revenue in the respective fiscal year.

Although the local administration akimat cannot modify the tax rate or the tax base, it can in theory increase the amount of its tax revenues by attracting firms and people. This, however, would mean a reduction in the amount of transfers from which it benefits. Central transfers are based on the gaps between sub-national budgets' income and the Ministry of Finance's evaluation of the spending obligations linked to their delegated tasks. The gain might then be partially or totally offset by reduced transfers (OECD, 2014).

First steps towards fiscal decentralisation

Akimats do not yet have financial autonomy, but the Kazakh government has made some steps in this direction. In April 2014, the Minister of Economy announced a series of proposals to enhance the financial autonomy of lower-level governments. Some of the taxes that could be transferred to local governments include: taxes on small businesses (individual entrepreneurs operating in the special tax regimes); personal property tax; transport tax on individuals; and land tax on individuals (Novosti Kazakhstana, 2014).

Several tasks have been devolved to sub-national governments. For example, oblasts are in charge of land use planning, the management of socio-economic development programmes, the construction of hard infrastructure such as water equipment, waste disposal plants and electric power facilities and their exploitation, the maintenance of roads, the management of inter-rayon transport systems and the preservation of the region's cultural heritage. The law (Law No. 148 on Local Government and Self Government in the Republic of Kazakhstan, dated 23 January 2001) lacks clarity about a number of tasks that are assigned to oblasts and rayons. For example, oblasts are responsible for ensuring adherence to state standards, and to citizens' rights to medical treatment and to free education. Rayons are competent to ensure the rational and efficient functioning of the agricultural sector and to resolve social protection issues, but the law says nothing about the ways and means of reaching these goals.

The process of decentralisation has been asymmetrical. Some functions have been delegated to sub-national tiers of government without giving them fiscal autonomy. To reduce these imbalances, it may be useful to draw on lessons from Italy. In Italy, efforts have been made to resolve a problem linked to fiscal resources and the consolidation of government budgets, to respond to requests from citizens (see Box 3.10). In the Italian administrative hierarchy, the role of provinces, one of the two intermediate levels of government, has been revisited, sandwiched as it is between the municipal and regional layers of government. The regional governments' role as the provider of such basic services as health care (including hospitals) has recently been expanded, and they are now the main local counterpart for the central government.

Box 3.10. **Fiscal federalism reform in Italy**

The Italian multilevel governance system consists of three sub-national government tiers: regions, provinces and municipalities. The Italian state is unitary but recognises the autonomy of these sub-national bodies, and since the 1990s, a process of decentralisation has affected their fiscal, administrative and political structure. This process culminated in 2001 with a constitutional amendment that explicitly set up a multi-layered governance system identifying a role for regions, provinces, municipalities and metropolitan cities. The regions and municipalities, however, have occupied a more prominent position in terms of their functions and decision-making authority.

The Law No. 42 of 2009 set up the legal framework to increase the fiscal autonomy of sub-central tiers of government. One of the law's main achievements is to substitute the principle of "historical spending assessment" with the "standard cost assessment" method.

Box 3.10. Fiscal federalism reform in Italy *(continued)*

Its intent is to construct a system for the provision of basic services to the population based, on:

- Definition of essential levels of service provision (LEPs in Italian), which represent a standard level of the services to be assured throughout Italy.

- Definition of the standard cost for the provision of each service.

- Aggregating the costs for all services provided by a given sub-national tier of government.

- Calculating own revenue of each sub-national tier of government.

- Determining the net transfer as the difference between these two preceding budget items.

The law, however, is restricted to setting out the principles, postponing the definition of standard costs to subsequent laws and decrees, which have still not been issued by the government. While all sub-national tiers of government favour the decentralisation process, strong differences have been expressed about their implementation. In particular, the definition of equalisation funds and the standard costs definition have created tension between richer and poorer sub-national tiers of government.

The government appears to have been adopting a strategy of gradually introducing changes, to avoid any disruption of services in the sub-national governments that are not providing the service efficiently.

Source: Piperno, S. (2012), "Implementing fiscal decentralization in Italy between crisis and austerity: Challenges ahead", *Europe Is at a Watershed*, p.98.

The need for reform

Most of Kazakhstan's strategic documents, and notably Strategy 2050, call for a more prominent role for regional authorities in economic and regional development. These documents stress the need for sub-central tiers of government to become more involved in managing policies and in providing input to the central level, for a number of reasons:

1. Local executives have a sense of the strength and weaknesses of their territory.

2. They are better informed as to what citizens have called for and are better able to provide appropriate responses in the local context.

3. They are a source of innovation in policy making and in the design of programmes.

Sub-national authorities at oblast, rayon and local levels could take a more active role if a more favourable environment were in place. This would give lower levels of government the capacity not only to execute instructions from the capital but also to set up and manage programmes. This would mean:

- Granting some autonomy and financial discretion to regional and sub-regional authorities. A **tax reform** could be undertaken that would consist of reviewing local taxes, creating a few own-source taxes or introducing shared taxes (divided between the central and sub-national governments). This would create incentives

for sub-national governments to become more active in economic development. The reform would give local governments the opportunity to manage a portion of the local taxes, and grant them some freedom to fix rates and bases, as well as some discretion in the allocation of their own tax revenues. A cadastre would need to be created to provide a basis for the land tax. In addition, it might also be worth considering granting some leeway to sub-national governments to manage tariffs and fees associated with the provision of local public services.

- **Transferring new funding capacities to sub-national levels**, in line with an extension of their competencies in the fields of infrastructure, innovation investment and business environment (see Chapter 2). One way to secure this additional supply of funds would be to tap the national oil fund, whose funds are regularly increasing. The new royalties system in Colombia illustrates what can be done to support investment in regions and territories, while strengthening the capacity of sub-national governments (see Box 3.11).

Box 3.11. **Colombia's general royalty system (SGR)**

Colombia has reformed the way it handles the royalties derived from the exploitation of its natural resources, with a view to promoting regional equity. The previous system, in which royalties benefited resource-rich departments, has been replaced by one in which the allocation of royalties is distributed more equitably. Multilevel governance is central in the new system.

The new *Sistema General de Regalías (*SGR) provides all departments in Colombia, and most of its municipalities, with additional revenue to be used for regional development. The allocation of the Regional Compensation Fund (RCF) is transparent and based on a formula that measures regional poverty rates and population (the RCF invests in local infrastructure and economic development projects in Colombia's less developed regions). The aim is to concentrate additional investment in territories that suffer from poverty and poor access to basic public services, most of which are rural and remote. The SGR is also designed to empower multilevel governance. The investment connected with royalty payments requires co-ordination both at the central level (horizontal co-ordination) and between the central government and sub-national entities (vertical co-ordination). At the central level, the SGR is managed by an executive commission (*Comisión Rectora*) that involves the three levels of government.

Another key component of the multilevel governance framework of the SGR is the *Órgano Colegiado de Administración y Decisión* (OCAD). OCADs are responsible for assessing, evaluating, prioritising and approving investment projects submitted by sub-national governments. The planning secretariats of departments and municipalities act as secretariats for the OCAD, organising meetings and providing logistics and technical organisation. Sub-national governments are also represented on the national royalties' executive commission.

However, the SGR, through the OCAD framework, has instituted a system in which sub-national entities must obtain approval from these bodies to invest the additional revenue received from royalties. The SGR has introduced a governance framework that requires departments and municipalities to play a pro-active role in their development.

The SGR allocates 1% of overall royalty payments to the supervision, monitoring and evaluation of the system. The monitoring and evaluation system acts selectively and uses a preventive approach. The monitoring process consists of collecting, consolidating and providing analysis and verification of information about the management and execution of the investment projects. Sub-national authorities have to provide accurate, timely and appropriate information to the National Planning Department (*Departamento Nacional de Planeficación*, or DNP). Based on this information, they may subsequently ask them to modify the project and, if necessary, impose disciplinary procedures.

Box 3.11. **Colombia's general royalty system (SGR)** *(continued)*

Another advantage of the SGR is that it facilitates project planning and quality control. Investment projects must comply with quality guidelines and undergo different stages of assessment. The SGR also promotes innovation in all regions, since Colombia's innovation system is highly concentrated in a few urban poles. The focus on regional innovation could help reduce regional disparities and promote a more even distribution of regional research systems across Colombia.

The SGR puts particular emphasis on capacity building at the sub-national level. One of the challenges of the previous royalties system was that sub-national governments often lacked the capacity to manage additional funds. This, in turn, led to misuse of public funds. The new system specifically allocates 2% of total funds to capacity building. Part of this is directly allocated to reinforcing the capacity of OCADs and planning units in departments and municipalities.

Source: OECD (2014), *OECD Territorial Reviews: Colombia 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264224551-en.

- **Informing policy making** at national and local levels. Technical assistance is needed for the transition from national to regional-level planning, and to help regions set up their strategic regional development programme. A series of regional observatories could be instituted to collect territorial data (c.f. the initiatives Colombia has taken in that context). The central government could allocate technical skills to them to transfer planning capacities to sub-national authorities.

- Devoting efforts to **performance measurement**. A system for evaluating the long-term impact of planning, linked to the policy cycle, could improve the performance of the system on a continuous basis. Evaluation would be even more important in a regionalised planning system, with an increased number of policy measures and learning opportunities for policy makers. Regional observatories could also help evaluate the long-term impact of plans. An example of a performance indicator system in Chile is given below (see Box 3.12).

Box 3.12. **Main performance indicator initiatives in Chile**

Chile's Management Improvement Programme (PMG) is a system for ensuring the efficient allocation and use of public resources. Chile has adopted the concept of results-based budgeting, which awards performance bonuses to public institutions if they reach certain performance standards. A horizontal area under the PMG is the Electronic Government System, which aims to encourage the use of information and communication technologies by improving and simplifying the information and services offered to the public by the state; improving and simplifying institutional support processes; and promoting the creation of technological channels that enhance transparency and community participation.

The Subsecretariat of Regional and Administrative Development (*Subsecretaría de Desarollo Regional y Administrativo*, or SUBDERE) developed the Municipal Services Accreditation System with the Chilean Association of Municipalities and the National Centre for Productivity and Quality (*Chile-Calidad*).

Box 3.12. **Main performance indicator initiatives in Chile** *(continued)*

The system consists of a set of processes and methods that support, guide and encourage municipalities to initiate and remain on a continuous course of performance improvement. The certification process is a multistep process that starts when a municipality enrolls voluntarily in the programme. While the main goal of this voluntary monitoring and evaluation is to certify governance processes that meet high standards of quality control, it also provides essential decision-making support to municipal actors in charge of public service provision.

The National System of Municipal Indicators (SINIM) provides over 150 standardised indicators for each of Chile's municipalities. This initiative of SUBDERE provides information that is easily accessible to the general public on its website (www.sinim.cl/). The data make it possible to compare the characteristics and performance of all Chilean municipalities, and allow the different stakeholders to make informed decisions. The system offers information collected from 2001 onward.

Source: SUBDERE, www.subdere.gov.cl (accessed June 2014).

Provision of public goods

Local public goods and services are a key component of the public budget and enhance citizens' quality of life. Efficient provision of local public services can, moreover, enhance economic competitiveness. Infrastructure and education, for example, influence regions' productivity and reliable access to electricity is essential to commercial and industrial activity. An important aspect of the local provision of public goods is a municipality's capacity to provide the service, both in expertise and skills, and in its scale of production.

In Kazakhstan, the responsibility for most services is shared between the central government and the governments of oblasts/rayons. The central government is charged with the budgeting and design of services, and the lower tiers are responsible for their implementation on a sub-national level. Such services include public order and security, social insurance, health protection, education, parks and recreational and cultural activities. Housing, street cleaning and water sewage are of the sole responsibility of oblast/rayons. Fuel and power services are the responsibility of the central government.

Kazakhstan's law governing the amounts of common transfers (i.e. maslikhats' decisions) can stipulate the minimum amount of funds to be allocated in local budgets for socially significant areas: education, health care and social protection.

In terms of services provided to citizens, analysis of the local budgets of sub-national governments shows that the main functions are: education, health, housing and utilities, energy, industry, and transport and communication. Figure 3.9 indicates the amount of resources devoted to the main three functions, in terms of KAZ per capita. From Figure 3.9, it emerges that the expenditure on education in per capita terms has a higher variability between regions than the expenditure in health and transport functions. Secondly, the city of Almaty has the largest budget for education, transport and health. Thirdly, the amount spent on education is generally much higher than the budget for the other two functions, with the exception of the cities of Almaty and Astana, where the figures are more homogeneous.

One of the main problems in multilevel governance is the distribution of functions between the different levels of government, namely between the oblast and rayon levels, which are similar. The 2005 budget code introduced fixed expenditure levels for both oblasts and rayons but did not resolve the issue. Furthermore, there is some asymmetry with the cities of Astana and Almaty (oblast level), whose expenditures are greater than a standard oblast's.

Figure 3.9. **Level of per capita expenditure on selected services in 2011**
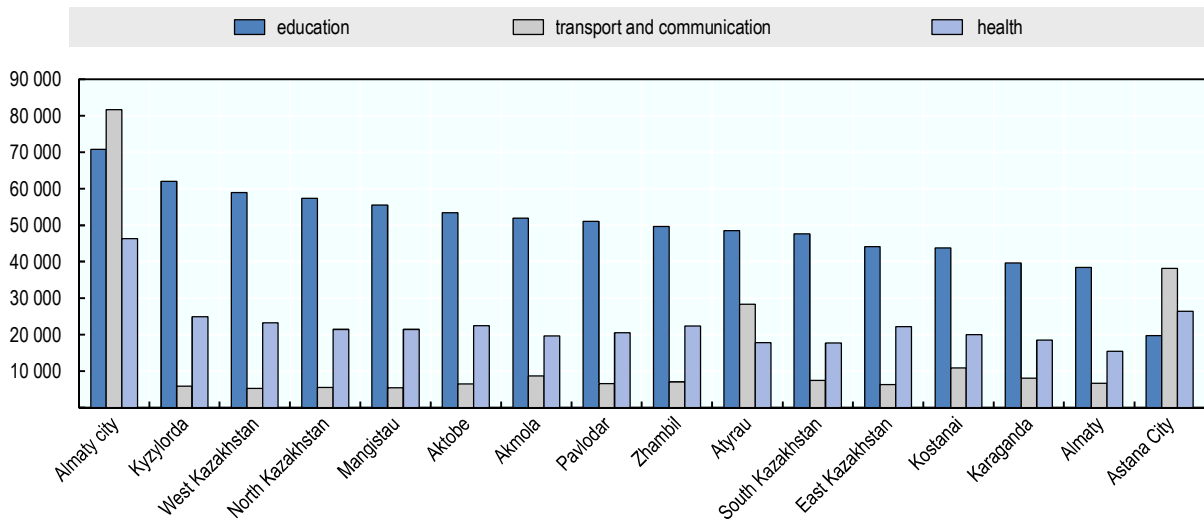
Source: Research based on data from the Ministry of Finance.

In most regions, the bulk of the budget covers education expenditures. Only in the cities of Almaty and Astana are the percentages of the budget devoted to education, transport and health roughly equivalent. Figure 3.10 shows that most local expenditure is devoted to education and health and not much to transport and other kinds of support for business activities.

Figure 3.10. **Percentage of per capita expenditure on selected services in 2011**
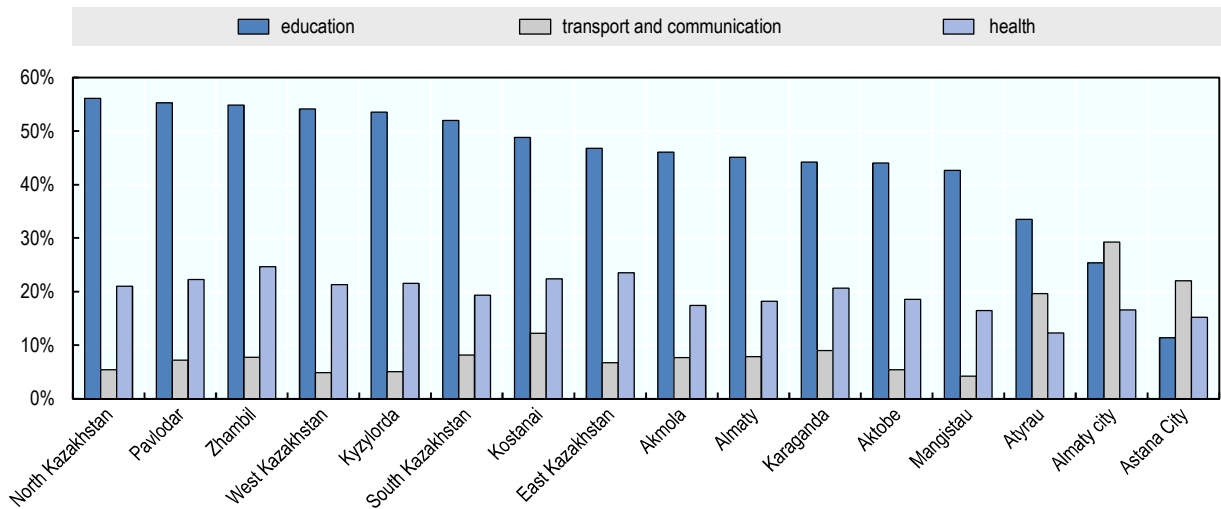
Source: Elaboration on data from the Ministry of Finance.

In the organisation of health care and of education, structural problems become apparent. Both sectors are in important respects over-subscribed. Maintaining an inefficient network size and staffing leaves too little resources for the training and retraining of teachers and medical personnel, the provision of adequate educational and treatment materials and medicines, the renovation of equipment and laboratories, and other infrastructure needs. This situation may lead to segregation of the population by level of income and place of residence, undermining the constitutional guarantee of universal health care. As a result, the current education and health care systems deliver poor results and lack equity. Furthermore, the service does not appear to be managed in a way that can promptly satisfy the needs of the population; and few resources or incentives exist for personnel to improve the quality of the service.

There is indirect evidence of increasing deterioration in the quality of schooling as a result of increased reliance on non-budget financing (UNICEF, 2010). This is consistent with widespread reports that education is suffering, according to interviews with academic and business experts. Many quality-enhancing educational inputs, such as teacher training (and retraining), educational equipment and materials, programmes for poor students and at-risk students, and school maintenance, are usually underfunded.

Service delivery

Public services have been at the centre of important reforms in the last decade. New concepts have been introduced, such as single access points for multiple services. Despite positive achievements in making services more transparent and accessible, the alternative access-service model adopted was nevertheless not able to implement in-depth changes (Janenova, 2009).

In 2012, a new law set up a government-wide framework for the reform of service delivery, with two core principles: 1) the definition of service quality criteria; and 2) a reorganisation based on the increased use of information technology.

- The instrument for standardisation and evaluation of service delivery is a registry of public service created by the government in 2007. The registry listed 566 activities carried out both at the central and the local level in June 2013. The Ministry of Economy is now engaged in completing the registry, with 160 additional services, and developing a long-term plan that will provide a legal framework for further action (OECD, 2013).

- E-government and information and communications technology have become major instruments to help OECD public administrations improve both their relations with stakeholders and their effectiveness. E-government provides online access to information and gives citizens access to government services. It allows the sharing of information and creates new channels for citizen engagement in the policy process. Several initiatives to develop e-government have been undertaken in Kazakhstan (see Box 3.13). However, their effectiveness and reach (in terms of citizen access) have been limited (Bhuiyan, 2010).

Box 3.13. **Introduction of e-government and services**

The idea of creating e-government in Kazakhstan was announced by President Nazarbayev in his annual address to the people on 19 March 2004. Developing an information society was declared one of the country´s key priorities. Three months later, the government approved a programme to set up e-government. It outlined an action plan in three phases: 1) Phase I – development of e-government infrastructure (2005-2007); 2) Phase II – development of e-government services to satisfy the needs of citizens and businesses (2008-2010); and 3) Phase III – emergence of an information society in Kazakhstan (2010-beyond) that would transform all facets of public activities.

Kazakhstan has since invested considerable resources in e-government and has made significant progress. On 12 April 2006, the e-government website www.egov.kz was launched, to provide citizens with fast and reliable access to public services online. It was also aimed at reducing corruption, by reducing contact between officials and citizens. Information services were made available in areas such as health, education, transport, agriculture, land management and land cadastre. Over time, more were added. By early 2012, the e-government website provided 2 000 information services and 219 interactive and transaction services online.

The website is trilingual, in Kazakh, Russian and English. It contains links to the websites of other government bodies, ministries and regional akimats, which these bodies were required to set up. However, some of the websites of the regional akimats are no longer up to date or have neglected to maintain their English-language section. All government ministers are required to maintain a blog where people can post their complaints and concerns (www.blogs.e.gov.kz).

The current state programme governing the transition to an information society and to e-government is Information Kazakhstan – 2020. Its goals are to ensure the effectiveness of public administration and availability of information and communication infrastructure for the country's population, the creation of an information environment for the socio-economic and cultural development of society, and development of Kazakhstan's information space.

Based on this state programme, certain target indicators have been set. For example, by 2017, Kazakhstan aims to rank among the top 30 countries in the world on the United Nations' index of e-government, and by 2020, among the top 25 countries. In its latest ranking, the UN Department of Economics and Social Affairs (UNDESA) placed Kazakhstan 38th out of 190 countries in e-government development, in its UN Global E-Government Survey 2012. The survey highlighted the improvements in information and communication technologies in several emerging countries. In the case of Kazakhstan, it examined its progress in educating the population.

The development of e-government has progressively improved. The infrastructure of e-government has been implemented, such as issuing electronic licenses, e-payment of taxes and penalties.

One of the biggest challenges in developing e-government in Kazakhstan has been to raise the level of computer literacy, which was limited until a few years ago. Great strides have been made in giving wide access to computers and teaching citizens how to use the Internet. Estimates of the number of Internet users vary, but a steep rise has occurred. According to Kazakhstan´s Statistics Agency, only 15.1 inhabitants out of 100 used the Internet in 2008, rising to 31.6% in 2010 and 61.5% in 2012.

Source: Ministry of national economy of the Republic of Kazakhstan, Committee on statistics, stat.gov.kz/kyzylorda (accessed July 2014).

Service delivery is an area where user feedback is crucial, both when it comes to defining quality standards and monitoring the quality of services. Regular opinion surveys could remedy this, and measurement issues could be addressed.

At the local level, benchmarking is a difficult task. Progress can nevertheless be achieved if local governments develop a collective approach and set up associations to pool information and the data accumulated by each member and to establish indicators and identify optimal procedures. Norway's efficiency network of municipalities could serve as a useful example (see Box 3.14).

Box 3.14. **Efficiency network in service delivery**

The Norwegian-Ukrainian co-operation project on local development provides a useful example of how service delivery can be managed at the local level. The project was based on two pilot regions in southern Ukraine (Mykolaiv and Odessa), focusing on 11 cities in the two regions over the period 2009-11.

The project is based on the concept of *efficiency networks* of municipalities, originally developed in Norway at the beginning of 2002. The objective is to collect indicators of the efficiency and effectiveness of public service provision at the municipal level. Indicators on effectiveness are based on citizens' satisfaction. This information is then used to compare the performance of municipalities in the network and to learn from each other. The project was very successful in Norway and was also replicated in Poland, where it benefited from a grant from the European Union.

The project also included training for researchers and local council members. This has helped to implement the benchmarking strategy successfully and the policies that stem from the debate in the network. This results in an increased institutional capacity of local authorities, as well as a closer relationship with the electorate. Project participants have generally evaluated the project very favourably.

Source: Aasland I. and A. Shevliakov (2012), The Norwegian-Ukrainian Co-operation Project on Local Development: Efficiency Networks in Service Delivery, ICPS, Kiev.

Kazakhstan's Strategy 2050 places an emphasis on the more efficient and effective delivery of public services to citizens based on the principles of corporate governance, effectiveness, transparency and accountability.

The path towards decentralisation

The analysis conducted so far shows that while the highly centralised fiscal structure in Kazakhstan has the merit of making local finance consistent with central planning, it also has a number of drawbacks. First, it is a top-down, monolithic system, in which lower tiers of governments play the role of mere executors, with no strategic and planning responsibilities. Second, inter-budgetary relations, the mechanisms of deduction from local budgets and the subsidies from the central budget are derived from a methodology that is not based on economic considerations. Third, it is recognised that Kazakhstan's over-centralised approach suffers from a number of deficiencies, including excessive vertical hierarchy, the executive power's domination of other branches, bureaucratisation and corruption.

Decentralising government by delegating tasks to lower levels of government has typically been recommended as a way to counter these negative trends. Decentralisation is conventionally associated with efficient public service delivery, a better quality of

government, improved local democracy and greater accountability. One of the main arguments used to support decentralisation reforms is that devolving competences in public policy to authorities at a lower level ensures that resources are used more efficiently. The argument is that in this way, the policies, services and investment can be tailored to the local context. Such customisation, in turn, makes it possible to respond more closely to local needs, ensuring better results. For instance, it can allow for more effective provision of public services in remote areas, whose interests could be neglected in a centralised system.

Nevertheless, decentralisation also raises concerns. For example, it can involve a range of implementation challenges, sometimes failing to satisfy expectations of improved efficiency and administrative and political gains (see Box 3.15). As regards the type of decentralisation, it seems that political decentralisation is important for the success of a reform. In the case of Kazakhstan, reaching the stage of multilevel governance will in any case require a further process of administrative and fiscal decentralisation that has only been sketched out very recently.

Box 3.15. Decentralisation controversies

One of the main problems governments face when deciding to decentralise is whether the local government has the capacity to manage the new functions it will assume. Local governments may lack the necessary human resources to manage complex task that were previously managed at the central level. Decentralisation may, for instance, not bring the expected efficiency gains in cases where the sub-national authorities lack the capacity to responsibly manage their budgetary and fiscal affairs and efficiently deliver public services (see Box 3.6 for gap analysis). One of the most important is the vertical and horizontal co-ordination among sub-national tiers of government. To deliver on their promises, decentralisation reforms need to be accompanied by efforts to build administrative capacity and a robust network of institutions at all levels of government (Dabla-Norris, 2006). This can be costly and time-consuming.

Decentralisation and co-ordination of policies across levels of government generally tend to involve higher transaction costs and a more complex governance structure. Thus, decentralisation can also increase the risk of falling into "joint decision traps" (Scharpf, 1988), due to the increased number of veto players. Reaching decisions acceptable to all the actors involved is not always easy. Taking advantage of the economic benefits of decentralisation may not be possible in cases where decentralisation involves significant institutional burdens that hamper efficiency (Rodriguez-Pose and Gill, 2005).

The economic dividend of decentralisation may also not materialise in cases where the central government continues to dominate and "manually steer" the policies at the sub-national level, or vice versa, where it is dominated by strong sub-national actors (Rodriguez-Pose and Gill, 2005). In the former scenario, the central government's dominance may also involve a reluctance to grant more fiscal autonomy to the sub-national units, limiting their scope for effective interventions. It may also thwart the policy innovation associated with decentralisation by imposing unified procedures and preventing experimentation. In such cases, the sub-national governments may be reduced to little more than bureaucratic layers. As a result, sub-national governments may be subject to soft budget constraints, which encourage overspending and can result in spiralling debts both at central and sub-central levels.

Additionally, for want of effective vertical co-ordination, decentralisation may entail diseconomies of scale in the provision of public services, a risk of duplication or sub-national and national policies at cross-purposes. Decentralisation may also reinforce inequalities across the country, and increase disparities in regional development.

Box 3.15. **Decentralisation controversies** *(continued)*

This is particularly likely to be the case when the reforms are not accompanied by transfers of additional funds, as well as the provision of institutional and technical support, for the sub-national governments in carrying out their new tasks (Rodriguez-Pose and Gill, 2003).

Last but not least, the expected efficiency gains from decentralisation may not materialise because often such reforms are politically driven, which prevents an in-depth reflection on their rationale and effects. Decentralisation reforms seldom result from rational debates on the efficiency, representation and accountability benefits that they can bring. Often, such reforms are put on the agenda when they reflect the predominant values in the political culture at a given time and policy makers' perceptions of how they can advance their own interests (De Vries, 2000). This aspect should also be considered when addressing the question of the failure of decentralisation reforms to bring the expected benefits. Whether these problems occur depends not only on the ways in which reforms are designed, but also, to a large extent, on the national, historical, cultural and political context. That said, many of the risks associated with decentralisation can be limited by careful planning of the reform and effective cross-level co-ordination mechanisms.

Source: Dabla-Norris (2006), The challenge of fiscal decentralisation in transition countries. Comparative Economic Studies, 48(1), 100-131; Scharpf, F.W. (1988), "The joint-decision trap: Lessons from German federalism and European integration". Public Administration, Vol. 66/2, pp. 239-78; Rodríguez-Pose, A. and Gill, N., 2003. The global trend towards devolution and its implications. Environment and planning C: Government and Policy, 21(3), pp.333-351; De Vries, M.S., (2000), The rise and fall of decentralization: A comparative analysis of arguments and practices in European countries. European journal of political research, 38(2), pp.193-224.

The challenges for political decentralisation in Kazakhstan

Decentralisation has long been part of Kazakhstan's political discourse. The leadership, however, has adopted a cautious approach, involving gradual measures to establish and implement self-governance.

Issues pertaining to local government found a legislative basis in the Law on State Government and Self-Government in the Republic of Kazakhstan dated 23 January 2001. The law recognised the role of lower levels of government in resolving issues of significance for the local population.

Strengthening the legal foundations for local government and decentralisation of power received an impetus after an amendment of the Constitution was passed in 2007. The amendment emphasised that self-governance at local levels was to be implemented by the local population and through the maslikhats in the respective localities (Diachek, 2013).

The most significant steps in decentralisation of power, however, were taken more recently. Two particular legislative steps stand out, and deserve closer attention. The first is the Concept for the Development of Local Self-Government in Kazakhstan, adopted via presidential decree at the end of November 2012 (see Box 3.16).

Box 3.16. **The Concept for the Development of Local Self-Government**

The Concept identified two phases for reinforcing self-government. The first phase was to cover 2013-2015, which has apparently been extended to 2016 after recent political debate, and the second phase will cover the remainder of the decade. Several objectives are defined for the first phase. Primarily, the goal is to expand the potential of existing administrative structures through a clearer division of functions between the different levels of government. It also calls for adopting measures to increase the financial autonomy of local governments. The second phase of the Concept sets the goal of further enhancing the autonomy and effectiveness of local governments, but leaves the formulation of specific measures to be determined later.

The Concept recognises the need to engage the public in deciding key matters of importance for their localities. Maslikhats are urged to establish "social entities" in Kazakhstan's regions so that local residents have the opportunity to discuss local matters with the akimats. Tasks that might be undertaken by social entities, as determined by akimats and funded by the local budget, include social-communal services, sanitary services and public safety.

As a follow-up to the Concept, a working group was set up to continue to pursue legislative reform on self-government and decentralisation of power. The working group was organised within the Ministry of Economic Development and Trade, and was actively involved in drafting a new piece of legislation, approved in mid-2013.

Source: Gabdualiyev (2013), "*O Kontseptsii Razvitia Mestnogo Samoupravlenia v Respubliki Kazakhstan*", www.group-global.org/ru/publication/view/3162 (accessed 13 April 2013). The author is a member of a working group dedicated to reforming self-government in Kazakhstan. Established on 14 December 2012 via Ministerial Decree No. 338.

After the establishment of the Ministry of Regional Development in 2013, decentralisation of power was declared one of the key areas of the ministry's responsibility. To develop and implement further reforms, the ministry created a special department for self-government. The department has had an important role in co-ordinating activities related to reforming self-government. It has been particularly active in co-ordinating local-level executive bodies on issues concerning the decentralisation of power. It has also actively studied international experience in local government, and provided an advisory role for continuing reforms in this area.[5] The Ministry of Regional Development has since been merged into the Ministry of National Economy in August 2014.

As a follow-up to the Concept, the second key legislative step for Kazakhstan was taken in mid-2013, when legislation titled "Introduction of Revisions and Additions in Legal Acts in Demarcation of Authority between Bodies of State Governance" was adopted. Overall, with this new piece of legislation, Kazakh officials have declared their hope to eliminate areas of overlap and potential conflicts between different levels of government, as well as to enhance the effectiveness of lower levels of government. The law was accompanied by additional legislative changes with impact on local government, such as the budget code, the tax code, the law governing administrative crimes and the law on state property.

The former Ministry of Regional Development has specified several goals for this new legislation:

- Ensure the constitutional right of citizens to local self-government and secure their input in resolving local problems through meetings and gatherings with local officials.

- Encourage local residents of small villages, rural districts and towns of regional status to take administrative decisions in areas such as housing and communal services, improvement of sanitation and public order.

- Secure local residents' ability to monitor the use of budgetary resources earmarked for local expenditure.

- Enhance the financial and economic independence of akims of lower levels of government, by granting them the right to establish own sources of revenues, open special accounts in the Treasury, and transfer regional communal property to lower-level akimats.

- Enhance the role of maslikhats in the election of akims in small villages (auls that are not included in rural districts), rural districts and towns of regional status.

Recent trends

A significant breakthrough in the new law was achieved in 2013 with the indirect election of akims, who had previously been appointed by the central government. Under the new legislation, akims at the rayon levels, towns and villages (auls) are now elected by members of the maslikhats. As a major development in decentralisation, the idea was first presented in Strategy 2050, and the legislative act of 2013 was the first tangible step towards its implementation.

The election of akims took place in August 2013. According to the Central Election Commission of Kazakhstan, 6 738 registered candidates competed for 2 454 akim seats. This made up over 90% of all akim positions in the country.[6]

While the election of akims was a significant step, which should be viewed in the context of Kazakhstan's previously unsuccessful attempts to decentralise power, its effectiveness has been widely debated. As a start, the elections were conducted via indirect suffrage, rather than in direct elections by local citizens. The degree of control exercised by the central government has remained substantial. The candidates, for instance, needed to be approved by the rayon akims (who are still appointed and represent the central government), after consultations with members of civil society. Thus, the central government has maintained its veto power (Ruiz Ramas, 2014).

Importantly, the akim election did not include akims at the oblast and rayon levels, who continue to be appointed by the central government and are tasked to implement its policies. In particular, the president can appoint akims of oblasts, who in turn appoint the akims of rayons. Maslikhats vote merely to confirm the president's choice in the case of oblast akims.

Furthermore, political competition at akim elections has been limited. Given the predominance of a single party, Nur Otan, both among the candidates as well as among the members of the local maslikhats that elect them, the possibility of diversity in the electoral outcome is limited (Baytuova, 2013). For example, in Zhambyl oblast, 436 out of 468 candidates belonged to Nur Otan (Ruiz Ramas, 2014).

The political independence of maslikhat members and their ability to influence decision-making has also been questioned. While members of the maslikhats have the

right to approve or reject a budget, they rarely opt for the latter. Budgets are often unanimously approved. Critics have noted that it is more common for maslikhats to rubber-stamp most decisions coming from akimats, in exchange for various favours they receive as a result of access to the local executive. It is worth noting that with the recent legislative changes, maslikhats may elect akims, but cannot dismiss them, which also limits their power.

To a large extent, successful self-government hinges on the active participation of local residents in resolving the problems in their locality. If recent reforms do not generate enough interest among local residents, their effectiveness may be compromised. If locals perceive the reforms as mere half-measures, this could dampen their interest in being engaged in the process.

The local akimats will also need more financial autonomy. Lack of budgetary autonomy is a key source both of weaker accountability and of less transparency in the finances of lower-level governments. It has also been an obstacle for regional development, because local administrators have targeted various businesses for funding, potentially discouraging investments. Foreign-owned businesses have complained about being subject to the "whims of local tax authorities" (Gurtovnik, 2006).

The decentralisation agenda in Kazakhstan has been spurred on by an interest in improving public-sector service delivery. Self-government reform was included as part of the country's 2007 constitutional amendments. However, in practice, reforms have been slow to materialise. Local governments have a limited degree of fiscal autonomy, are accountable to the national government more so than local communities and citizens, and public policy is largely dictated by the national government. Local governments also face an issue of social legitimacy; social accountability is weak, and public participation in decision making is lacking (Bhuiyan, 2010).

It will be important for Kazakhstan to carefully assess its past experience with decentralisation efforts. Several earlier experimental measures in the 2000s were ended without sufficient evaluation of the causes of failure. Some of the challenges faced earlier may offer valuable lessons for the next steps in Kazakhstan's path towards more effective self-government.

Notes

1. Moscow (i.e. the central government) set strict production targets aimed at the maximum exploitation of above-ground and underground natural resources. Kazakhstan's rich endowment of minerals, oil and fertile land made it an important supplier of agrarian and raw materials for the Soviet economy. Its economic development was geared to heavy industry and agricultural production, particularly wheat. Its industrial economy was concentrated on nonferrous metals, electricity generation, fuels, metallurgy and machine building. The regions with abundant natural resources were made investment priorities, which resulted in uneven social and economic development.

2. The CSA and the Accounts Committees serve as oversight bodies over the executive branch, reporting directly to the president.

3. The major part of the increase in expenditures per capita is due to the GDP per capita.

4. For additional information on this tool, see P. De Renzio and H. Masud (2011), "Measuring and promoting budget transparency: The open budget index as a research and advocacy tool", *Governance*, Vol. 24/3, pp. 607-616.

5. The department consists of two units: one dealing with self-government and another responsible for villages and border territories.

6. The Central Election Commission reported that 280 (11.4%) of the elected *akims* were women. The average age of an *akim* fell to 47. About 29% of the elected *akims* were new to the post. See www.kazakhstanembassy.be/en/press-a-information/111-new-mayoral-elections-successfully-conclude-across-kazakhstan (accessed 1 June 2014).

References

Aasland, I. and A. Shevliakov (2012), The Norwegian-Ukrainian Co-operation Project on Local Development: Efficiency Networks in Service Delivery, ICPS, Kiev, Ukraine.

Baytuova, Gaziza (2013), "Zakon o mestnom samoupravlenii v Kazakhstane: Ne vybor a otbor", 18 July, www.centrasia.ru/newsA.php?st=1374127380 (accessed 1 June 2014).

Bhuiyan, S.H. (2010a), "Decentralization and local governance in Kazakhstan", *International Journal of Public Administration*, Vol. 33/12-13, pp. 658-672.

Bhuiyan, S.H. (2010b), "E-government in Kazakhstan: Challenges and its role to development", *Public Organization Review*, Vol. 10/1, pp. 31-47.

Charbit, C. (2011), "Governance of public policies in decentralised contexts: The multi-level approach", *OECD Regional Development Working Papers*, No. 2011/04, OECD Publishing, Paris, http://dx.doi.org/10.1787/5kg883pkxkhc-en.

Charbit, C. and M. Michalun (2009), "Mind the gaps: Managing mutual dependence in relations among levels of government", *OECD Working Papers on Public Governance*, No. 14, OECD Publishing, Paris, http://dx.doi.org/10.1787/221253707200.

Dabla-Norris, E. (2006), "The challenge of fiscal decentralisation in transition countries", *Comparative Economic Studies*, Vol. 48(1), pp. 100-131.

De Renzio, P. and H. Masud (2011), "Measuring and promoting budget transparency: The open budget index as a research and advocacy tool", *Governance*, Vol. 24/3, pp. 607-616.

De Vries, M.S., (2000), "The rise and fall of decentralization: A comparative analysis of arguments and practices in European countries", *European journal of political research*, Vol. 38(2), pp.193-224.

Diachek, Nina (2013), "Mestnoe samoupravlenie. Etapy realizatsii kontseptsii", Akmolinskaia Pravda, 18 April, http://apgazeta.kz/2013/04/18/mestnoe-samoupravlenie-etapy-realizacii-koncepcii/ (accessed 1 June 2014).

Dulatbekov, A.N. and A.S. Assylbayeva (2013), "Processes and problems of introducing performance budgeting on state administration level in Kazakhstan", *World Applied Sciences Journal*, Vol. 26/1, pp. 97-102.

Gabdualiyev, M. (2013), "O Kontseptsii Razvitia Mestnogo Samoupravlenia v Respubliki Kazakhstan", www.group-global.org/ru/publication/view/3162, April (accessed 1 June 2014).

Government of Kazakhstan (2015), Национального фонда Республики Казахстан, http://economy.gov.kz/economyabout/9426/56123/ (accessed 23 November 2015).

Gurtovnik, M. (2006), "Decentralization reforms in Kazakhstan and Kyrgyzstan: Slowly and unsteadily", *Papers and Studies*, 24 July, International Assessment and Strategy Center.

Ibrayeva, A.R. and T. Nezhina (2013), *Public Sector Reforms in Kazakhstan. Public Administration in Post-Communist Countries: Former Soviet Union, Central and Eastern Europe, and Mongolia*, CRC Press, Taylor and Francisc Group, p. 1 043.

International Budget Partnership (2015), "Kazakhstan", http://internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/country-info/?country=kz (accessed June 2014).

Janenova, S. (2009), "Public service integration in Kazakhstan: Why alternative-access rather than single-access?", paper presented at the 17th NISPAcee Annual Conference, Montenegro, www.rcpar.org/mediaupload/publications/2009/200906171138550.Janenova_NISPA_June09_N.pdf (accessed 14 July 2013).

Junusbekova, G. (2013), "Issues of improving the system of public planning in the Republic of Kazakhstan", *Viešoji politika ir administravimas*, Vol. 12/2, pp. 190-196.

Kadyrova, M. (2013), "Topical issues of the budgeting process improvement in the public administration of the Republic of Kazakhstan", *Public Policy and Administration*, Vol. 12/3, pp. 375-388.

Mas-Colell, A., M.D. Whinston and J.R. Green (1995), *Microeconomic Theory*, Oxford University Press, New York.

Ministry of national economy of the Republic of Kazakhstan, Committee on statistics, stat.gov.kz/kyzylorda (accessed July 2014).

North, D.C. (1990), *Institutions, institutional change and economic performance*, Cambridge University Press.

Novosti Kazakhstana (2014), "Riad nalogov peredadut v regiony Kazakhstana dlia mestnogo samoupravlenia: Dosaev", 17 April, http://newskaz.ru/economy/20140417/6382912.html (accessed 7 June 2014).

OECD (2014), *OECD Territorial Reviews: Colombia 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264224551-en.

OECD (2005), *Building Competitive Regions: Strategies and Governance*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264009479-en.

Piperno, S. (2012), "Implementing fiscal decentralization in Italy between crisis and austerity: Challenges ahead", *Europe Is at a Watershed*, p.98.

Rodríguez-Pose, A. and N. Gill (2005), "On the 'economic dividend' of devolution", *Regional Studies*, Vol. 39(4), pp. 405-420.

Ruiz Ramas, R. (2014), "Are the local elections really a step forward to decentralization in Kazakhstan?", 15 January, http://eurasianet.es/2014/01/are-local-elections-a-step-forward-to-decentralization-kazakhstan/ (accessed 1 June 2014).

Scharpf, F.W. (1988), "The joint-decision trap: Lessons from German federalism and European integration", *Public Administration*, Vol. 66/2, pp. 239-78.

UNICEF (2010), *Education in Kazakhstan: Country profile*, www.unicef.org/ceecis/Kazakhstan_2010.pdf (accessed June 2014).

World Bank (2012), "Eurasian cities: New realities along the Silk Road", *Eastern Europe and Central Asia Report*, World Bank, Washington DC.

World Bank (n.d.), *Doing Business, Measuring Business Regulations*, www.doingbusiness.org (accessed July 2014).

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where governments work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The European Union takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

OECD Territorial Reviews

KAZAKHSTAN

This series offers analysis and policy guidance to national and subnational governments seeking to strengthen territorial development policies and governance. These reviews are part of a larger body of OECD work on regional development that addresses the territorial dimension of a range of policy challenges, including governance, innovation, urban development and rural policy. This work includes both thematic reports and reports on specific countries or regions.

Kazakhstan has experienced a long period of high and sustained economic growth, largely driven by oil and gas exports. However, the drop in 2014 of the international price of oil highlighted the risks of dependence on natural resource activities. Kazakhstan must diversify its economic base to ensure that it can continue to "catch up" and move into higher value-added goods and services. This review looks at how a modern approach to regional development can help Kazakhstan by mobilising the growth potential of different parts of the economy and territory, supporting economic diversification and reducing regional inequalities.