

December 2013

Kazakhstan's 2030 Strategy: Goals, Instruments and Performance

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ABSTRACT: In 1997 at the nadir of the transitional recession President Nazarbayev set out his vision of Kazakhstan's future to 2030. This document has remained the guiding document for subsequent short- and medium-term policy planning. What was the vision and to what extent has it been respected over the subsequent sixteen years? The answer is important in understanding the type of market-based economy that is being established, and in particular the role of the state in the economy. It is also important as the background for the Kazakhstan 2050 strategy announced by the President in December 2012 as the successor to Kazakhstan 2030.

Paper to be presented at the American Economic Association annual conference in Philadelphia on 4 January 2014 in an Association for Comparative Economic Studies panel on **Kazakhstan's Economic Strategy: Halfway to 2030**. The Appendix and Annexes are based on material from the National Analytical Center in Astana.

KAZAKHSTAN'S 2030 STRATEGY: Goals, Instruments and Performance

In 1997 President Nazarbayev set out his vision of Kazakhstan's future in the document *Kazakhstan 2030*. The strategy was explicitly intended to provide a long-term vision within which annual and medium-term plans must be placed. The President explained the timing by a Kazakh folk proverb: it was too early yesterday, but might be too late tomorrow. More concretely, establishing a sovereign independent state and implementing broad-scale social, political and economic transformations had dominated the years 1991-7, but in 1997 "Today we are on the threshold of great opportunities".¹

The 2030 strategy highlighted seven long-term priorities: (1) national security, (2) political stability, (3) economic growth based on an open market economy with high levels of foreign investment and domestic savings, (4) health, education and well-being of Kazakhstani citizens, (5) oil and gas exports, (6) transport and communications infrastructure, and (7) a professional state. On the third priority, the "strategy of healthy economic growth rests on a strong market economy [and . . .] limited interference of the state in the economy", although there is some ambivalence in the emphasis on the need for the state to be strong in support of the market economy.

Roughly halfway to its terminal date, the 2030 strategy is being superseded by a Kazakhstan 2050 strategy. The aim of this paper is to assess the impact of *Kazakhstan 2030* on actual policymaking. Although the strategy envisaged a leading role for oil and gas exports, the boom in export earnings over the next decade exceeded any expectations, and provided a far more favorable financial environment than could have been hoped for in 1997. The first section of the paper reviews Kazakhstan's economic development since independence. Section 2 analyses the evolution of trade and industrial policies. The third section examines in greater depth developments since a banking crisis struck in 2007. Section 4 assesses the role of *Kazakhstan 2030* in providing a framework for consistent long-term economic policymaking.² The final section draws conclusions.

¹ Quotations of the *Kazakhstan 2030* strategy are from an unofficial English translation that circulated within the UNDP.

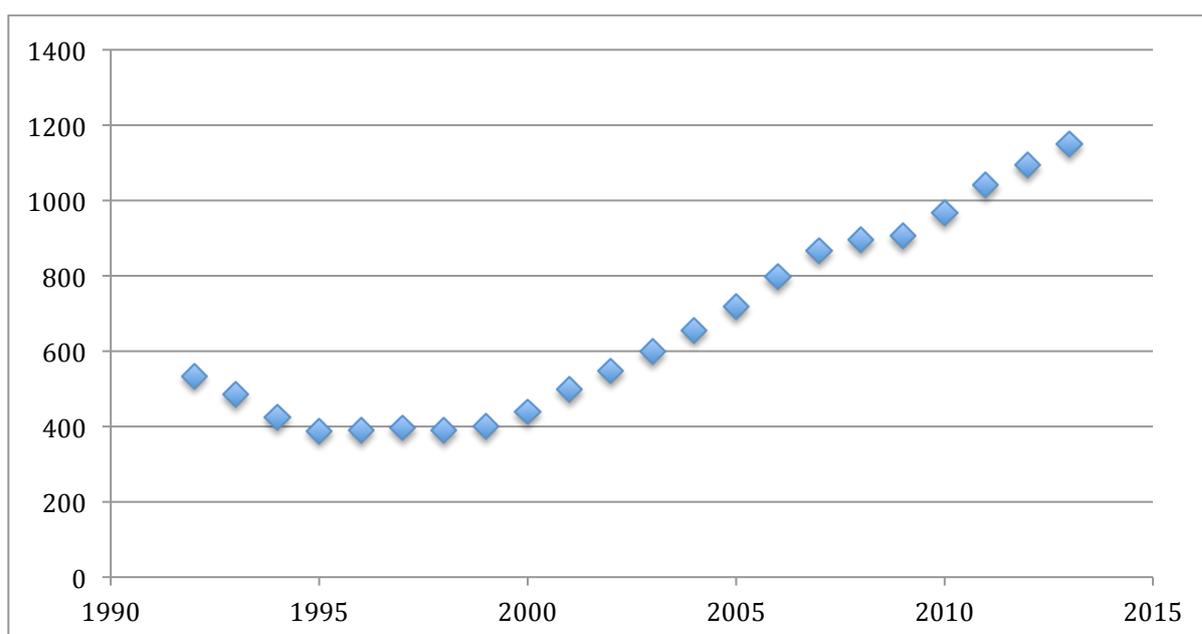
² I do not address political issues although they were the first two priorities in the strategy. Nation-building, national security and political stability have been achieved by President Nazarbayev despite some inauspicious initial conditions. A major step undertaken in 1997 was the relocation of the capital from Almaty to the center-north of the country, adjacent to the main regions of ethnic Russians.

Kazakhstan's Economic History in Three Acts

The years after 1991 were ones of severe and unforeseen hardship as Kazakhstan's economy was hit by three shocks - the end of central planning, the dissolution of the Soviet Union, and hyperinflation - causing massive economic disruption that lasted until 1996-7. During this period the policy focus was on nation-building, the transition from central planning, and securing foreign participation in developing the country's rich energy reserves (Cohen, 2008, 17-63). Just as the economy began to recover from the transitional recession, it was struck by contagion from the 1998 Russian Crisis. Real GDP in 1999 was more than a third lower than its 1989 level. The optimistic long-term development strategy in *Kazakhstan 2030* was in striking contrast to the dismal economic conditions in 1997.

In 1999 economic recovery began. In the short-term the economy was kick-started by policy reform centred on currency depreciation. In the medium-term the boom, which saw the economy growing at double-digit rates until 2008, was driven by the energy sector as oil exports soared. As the economy recovered and oil revenues surged, the government became more actively involved in achieving the 2030 goals, as well as interim targets. The government used oil revenues to save for the future, invest in human capital, and diversify the structure of production. A more proactive development strategy was accompanied by a steady increase in state involvement in the productive economy, highlighted by the creation in 2008 of the Samruk-Kazyna state holding company whose component businesses account for about half of GDP.

Figure 1: Kazakhstan Gross Domestic Product 1992-2013 (billion tenge, 1994 prices)



Source: IMF World Economic Outlook database (accessed 13 November 2013) at <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>

In 2007 Kazakhstan faced a home-grown banking crisis. The impact was perhaps exacerbated by the global economic crisis between late 2008 and late 2009 when external capital was repatriated and world trade dipped sharply. However, Kazakhstan was well-placed to address its crisis, drawing on the National Fund which had been set up in the early 2000s and which by 2007 contained over \$27 billion. The 2009 stimulus package, which involved bailing out banks and providing substantial public support for the construction sectors, contributed to a quick rebound in GDP growth in 2010 (Figure 1), but also challenged the government's vision of the role of the market and of industrial policy.

Evolution of Trade and Industrial Policy

In January 1992 Kazakhstan followed Russia's radical price reforms more closely than any other Central Asian successor state (Pomfret, 1995), and the May 1992 *Strategy for Formation and Development of Kazakhstan as a Sovereign Nation* declared a policy of openness to foreign trade and favorable environment for external investments (Khakimzhanov and Seitenova, 2013, 10). In 1993 Kazakhstan drew on the first tranche of \$83.5 million under the IMF Systemic Transformation Facility, whose conditions included strong provisions on a liberal trade policy.

The liberalization process slowed, however, during 1993. Kazakhstan was one of the most reluctant Soviet successor states to abandon the ruble. When the national currency was eventually introduced in November 1993, the monetary authorities were slow to use monetary policy to control inflation; annual inflation remained above fifty per cent until 1996. This macroeconomic policy failure undermined support for other reform efforts as the market economy could scarcely perform well when relative price changes were masked by high inflation.

Trade policy implementation became less liberal. In January 1994 a system of export quotas and licensing requirements was introduced with the aim of appropriating a large share of export earnings. These revenue-raising measures were in response to state budget deficits, but they also fostered an environment prone to corruption. In 1996 Kazakhstan applied for WTO membership, but, unlike the neighboring Kyrgyz Republic whose WTO accession was completed in 1998, Kazakhstan's application languished (and still has not been concluded in 2014).³ Kazakhstan's trade policy after mid-1996, when export duties were removed and the average tariff on imports fell to twelve per cent, was liberal on paper, but *ad hoc* impositions made actual trade policy unpredictable, e.g. in response to the 1998 crisis Kazakhstan suddenly

³ Trade reform commitments included in 1998 IMF-supported programs were not implemented. Kazakhstan, however, maintained its commitment to current account convertibility, unlike Uzbekistan and Turkmenistan who responded to economic difficulties by introducing draconian exchange controls in 1996 and 1998 respectively.

raised duties on intra-Central Asian trade.⁴ In October 1999, Kazakhstan passed legislation requiring labelling of all imports in both Russian and Kazakh, which could become a significant non-tariff barrier, although its implementation was postponed.

The privatization process, on paper a radical and equitable voucher-based system, turned into a distorted distribution of public resources such that a few people gained control over the country's most valuable assets. The majority of the population received little as the early privatizations and the voucher scheme ended up distributing only small or valueless enterprises in the early 1990s. The most valuable state assets, i.e. viable large enterprises, mines and oil exploration rights, were mostly sold in 1995-7, creating a wealthy elite of the new owners and officials enriched by the sales.⁵ Powerful managers of state-owned companies resisted further privatization and the program slowed markedly after 1997.

In sum, by 1997 Kazakhstan had lost its image of a reformist economy in rapid transition from central planning. In the European Bank for Reconstruction and Development's *Transition Report 1998* (Table 2.2.1) Kazakhstan ranked below neighboring Uzbekistan, a self-styled gradual reformer, on the EBRD's transition index.

The *Strategy 2030* must be placed in this context of official liberalism tempered by a shift towards ad hoc interventionism. The *Strategy 2030* and the short-term *Strategic Development Plan for 1998-2000* emphasised macroeconomic stability and an open economy, with limited direct government intervention. However, the *Strategy* also called for development of energy and other natural resources and for diversification of the economy, without specifying modalities

In the early 2000s the Government of Kazakhstan adopted the billion-dollar *2003-5 Agriculture and Food Program* and the *Innovative Industrial Development Strategy for the years 2003-2015*, signalling a more proactive approach in using public policy to promote economic development.⁶ The government also established new institutions for development; in May 2001 the Development Bank of Kazakhstan (now owned by Samruk-Kazyna), and in May 2003 the Investment Fund of Kazakhstan (part of the ministry of Industry and New Technologies since 2012) and the National

⁴ After the August 1998 Russian crisis, Kazakhstan introduced a 20% value-added tax on all personal imports from Russia, the Kyrgyz Republic and Uzbekistan, and then in December 1998 enacted a law on "Measures to Protect the Domestic Market from Imported Goods". Under this law special tariffs as high as 200% were imposed on a number of goods imported from the Kyrgyz Republic and Uzbekistan in February 1999, when a number of other restrictions such as quotas on cement imports from the Kyrgyz Republic were also introduced. In April 1999 the 200% February tariffs were eliminated, but new licensing procedures, transit fees and mandatory deposits on imports from the Kyrgyz Republic and Uzbekistan were introduced.

⁵ Pomfret (2005) provides more details on privatization. For general assessments of Kazakhstan's post-independence economy, see Kalyuzhnova (1998) and Olcott (2002).

⁶ The earlier *Agricultural Development Program for 2000-02* was less ambitious, seeking to stabilize agricultural output by identifying and stimulating competitive sectors. OECD (2013, Chapter 2) reviews the evolution of policies towards agriculture.

Innovation Fund established (reorganized as the National Agency for Technological Development in 2012) In 2004 the *Diversification of Kazakhstan's Economy through Cluster Development in Non—Extraction Sectors* project was launched, indicating that the development strategy would be achieved by promoting clusters, based on the ideas of Michael Porter (2000).⁷

In 2006, President Nazarbayev articulated his aim of transforming Kazakhstan into one of the “50 most competitive, dynamically developing countries in the world” within a decade. Three new institutions, the “Samruk” state-holding company, the “Kazyna” sustainable development fund, and the Regional Financial Centre, Almaty, were established in 2006 to promote this goal.⁸ The creation of Kazyna was linked to the perceived need to streamline the institutions associated with industrial policy. Kazyna’s initial capital exceeded one billion dollars, and seven clusters were identified that would form the core of competitive economic strength: tourism, metallurgy, textiles, construction, agriculture and food processing, oil and gas machinery, and logistics and transportation (Zabortseva, 2009).

In February 2007 the government announced a new *Program of 30 Corporate Leaders in Kazakhstan*, intended to complement the clusters approach by identifying enterprises that will be internationally competitive drivers of development. Samruk, Kazyna and the state-owned holding company KazAgro were to be the vehicles for identifying and supporting the Leaders, supposedly on the model of Temasek in Singapore and Khazanah in Malaysia. Early projects financed by KazAgro in 2007 included large-scale dairy cattle investments and a project to promote organic fish production (Wandel, 2010, 20). Wandel argues that policymakers cannot replicate the discovery process under which clusters emerge in a market economy, and the choice of clusters in 2004-5 and of the 2007 projects reflected policymakers’ priors about the desirability of processing Kazakhstan’s primary products in activities such as agribusiness, textiles and metallurgy or about upstream and downstream investment in the energy sector rather than following any scientific approach.⁹

⁷ Porter himself gave a presentation on “Kazakhstan’s Competitiveness” in Astana in January 2005. While Marshallian external scale economies can foster clusters’ growth, Porter’s theories do not explain where or why clusters emerge (Martin and Sunley, 2003).

⁸ The Samruk holding company was established in January 2006 as an active shareholder in Kazmunaigaz, Kazakhstan Temir Zholy, KazakhTelekom, KEGOC and KazPost with the prospect of adding other large companies; Kazmunaigaz is the state oil company (Olcott, 2007; Kennedy and Nurmakov, 2010), and the other companies are the rail, telecoms, electricity and postal service. The Kazyna Fund for sustainable development was established in April 2006 to improve management in areas of industrial and innovative development.

⁹ Energy-related activities are not covered in this paper, but they were part of the increased activism based on Kazakhstan’s resource endowment. In oil and gas projects Kazmunaigas took a leading role and local content requirements were increased, while the government invested in refineries and port terminals in Romania and Georgia and created the Almaty Regional Financial Centre. Kazatomprom formed joint

The Banking Crisis and Resource Nationalism

The banking sector was considered a success of Kazakhstan's economic transition. During the 1998 Russian crisis Kazakh banks expanded into the Kyrgyz Republic, where over 70% of the assets of the banking sector were Kazakh-owned by 2007, and later they moved into Tajikistan. Kazakhstan's banks were thought to be the most efficient in the CIS, and by 2007 the government felt comfortable enough to allow foreign banks to do business. In the first substantial foreign investment in the banking sector, in November 2007 UniCredit of Italy paid \$2.1 billion for a 91.8% stake in ATF Bank, Kazakhstan's fifth largest bank.¹⁰

Signs of stress in the financial sector emerged in 2007 when banks started to compete in making deposits more attractive. At the same time they substantially increased the interest rates on loans, which by the start of 2008 had reached about 20%, double the rates of two years' earlier. In November 2007 the government provided support of around \$4 billion, targeted at construction projects in danger of being abandoned half-finished, and the central bank raised the official refinancing rate, which had been unchanged at 9% since July 2006, to 11%.

Kazakhstan's high interest rates were attractive to foreign investors. After the 1999 devaluation, the central bank reverted in May 1999 to a *de facto* exchange-rate anchor. Although there had been fluctuations, the exchange rate in February 2006 was 130 tenge/\$, the same as at the end of May 1999, despite strong pressures for currency appreciation. With the expectation that there was little exchange rate risk, banks could make profits by borrowing in international markets at lower interest rates than they could charge eager borrowers at home. By 2006 Kazakhstan's banks were raising large amounts of capital abroad, where the cost of capital was less than the double-digit interest rates that they could charge borrowers at home. In the first half of 2007 medium- and long-term debt-creating capital inflows more than doubled, largely due to external borrowing by the banking sector.¹¹ Problems arose because banks borrowed in international markets at shorter maturities to those on their loan portfolios.

In important aspects the situation resembled that underlying previous crises, such as the 1997 Thai crisis when Bangkok, like Almaty and Astana in the mid-2000s, experienced a real

ventures for uranium enrichment in 2006 and bought a stake in reactor manufacturer Westinghouse from Toshiba in 2007 (Domjan and Stone, 2010, 56-8).

¹⁰ This was followed in March 2008 by Korea's Kookmin Bank paying 400 million euros to acquire a 30% share in BCC, Kazakhstan's sixth largest bank

¹¹ The full amount owed by Kazakhstan's banks to foreign creditors was unclear. Barisitz and Lahnsteiner (2010) report that in 2006 non-residents' share in Kazakh banks' liabilities rose to over a half, and the value of the banks' external debt peaked at 31 billion euros at end-2007. According to the *Financial Times*, in October 2007 Kazakh banks' international borrowings totaled \$40 billion, and conservative estimates put the banks' foreign debt due in 2008 at around \$12 billion. International rating agencies began to reassess the banks' creditworthiness in late 2007, and Standard and Poor's downgraded Kazakhstan's sovereign debt to BBB-.

estate boom. The banks lent to borrowers eager not to miss out in the property market. The bursting of the real estate bubble, collapse of world oil prices in late 2008 and devaluation of the tenge in February 2009 cut domestic demand, liquidity and solvency, and the share of non-performing loans soared from 7% at end-2008 to 38% a year later (Barisitz and Lahnsteiner, 2010). Under any circumstances external lenders would have reacted by repatriating their funds, but in the post-Lehman context the capital outflow was exacerbated by liquidity crises in the world's major financial markets.

Kazakhstan's crisis response included nationalization (majority state ownership) of two of the country's largest banks (BTA and Alliance) and recapitalization of two others, together accounting for two-thirds of banking sector assets.¹² The two nationalized banks defaulted on their foreign liabilities and initiated debt-restructuring negotiations. The bank bail-outs were part of a broader economic stimulus package funded from the National Fund.¹³

In 2008 Samruk and Kazyna were merged into a state-holding company which became the main vehicle for the stimulus and whose component businesses accounted for almost half of GDP.¹⁴ In the agricultural sector a similar consolidation of state bodies took place with the creation of KazAgro. In sum, the domestic banking crisis, coinciding with a global economic crisis and downturn in world trade in 2008-9 was the catalyst for a stimulus package that involved bringing a large part of the economy into a single state holding company.

Samruk-Kazyna, KazAgro and the central bank were the main instruments of Kazakhstan's stimulus package. In addition to acquiring equity in the four largest banks, Samruk-Kazyna deposited cash in the banking system and provided support to construction projects, mortgages, small and medium-sized enterprises, and farm lending. In 2009 Samruk-Kazyna reported that it had received 1,087.5 billion tenge from the National Fund, of which 486 billion was used to stabilize the financial sector, 360 billion for the real estate market, 120 billion for SME development, and 121.5 billion for implementation of innovative industrial and

¹² In February 2009 Samruk-Kazyna acquired an equity stake of 75% in BTA (the largest credit institution) for 212.1 billion tenge, and in May 2009 it took a 20.9% share in Halyk (the country's second-largest bank) for 26.9 billion tenge and a 21.2% stake in Kazkommertsbank (the third-largest) for 36 billion tenge. In January 2010 the government purchased all shares in Alliance Bank (the fourth-largest) for 129 billion tenge, giving a 67% stake to Samruk-Kazyna and the remainder to the bank's creditors.

¹³ The National Fund was established in 2001 with revenues to come from the nine largest petroleum companies and the three largest mining companies (Tsalik and Ebel, 2003). The investment strategy foresaw a mix of stabilization activities (with 25% of assets in liquid short-term instruments) and saving for the future (with 75% of assets in bonds and high-rated stocks). Kalyuzhnova and Nygaard (2011) reviews the Fund's operations.

¹⁴ OECD (2013, 5) reports Samruk-Kazyna's share of GDP at 57% in 2010, and ICG (2013, 9) states that "By 2013, Samruk-Kazyna owned assets worth \$103 billion accounting for just over half of GDP".

infrastructure projects.¹⁵ At the same time, 120 billion tenge were allocated to KazAgro, all of which had been used by the end of 2009. The central bank meanwhile loosened monetary policy by cutting the refinancing rate and by easing reserve requirements. Central bank governor Marchenko estimated that the total amount spent in 2008 and 2009 to shore up the banking sector was around 13 billion euros (Barisitz and Lahnsteiner, 2010, 69n). A new tax code introduced on 1st. January 2009, which included cuts in corporate income tax from 30% to 20% and in the value-added tax from 13% to 12%, added a standard fiscal policy stimulus. Jandosov and Sabyrova (2009) calculated that the total stimulus package in 2009 amounted to 2.3 trillion tenge (about \$16 billion) or 15% of GDP, two-thirds of which went to the financial sector.

Kazakhstan's stimulus package was, relative to GDP, perhaps the world's biggest. Revenues from the post-1999 resource boom were used to increase the state's involvement in the economy, reinforcing a pattern that could be traced to the 2003-5 Agriculture and Food Program and the clusters policy of promoting industrial development. Several observers saw a pattern of rising resource nationalism, similar to that occurring in Russia (Domjan and Stone, 2010; Kennedy and Nurmakov, 2010; Kalyuzhnova and Nygaard, 2009 and 2011). Institutionally, the major change was the creation of huge state-owned entities, Samruk-Kazyna and KazAgro, whose influence rivalled that of the line ministries responsible for policy implementation.¹⁶

Kazakhstan 2030

Through the evolution of policy attitudes, the Kazakhstan 2030 strategy remained the official guidepost for government policy. However, the emphasis in the various short- and medium-term policy statements has varied. In part this was in response to pressing issues, e.g. the goals for 1998-2000 appended to the 2030 Strategy and implemented in practice largely concerned macroeconomic management as the government sought to deal with balance of payments problems related to the Russian Crisis and to tame inflation. Other shifts appear to have been driven in line with the evolution of industrial policies described above.

The Strategic Plan of Development of the Republic of Kazakhstan till 2010 approved by Presidential Decree 735 in December 2001 was a detailed document 226 pages long based on a view of the world in which states play a crucial role in economic development. The Background section states that "The major factor in development is the globalization of the world economy"

¹⁵ *IMF Staff Report*, 19 June 2009.

¹⁶ There was also an apparent change in industrial policy as the *Innovative Industrial Development Strategy for the years 2003-2015* was replaced by the State Program on the Accelerated Industrial-Innovation Development of the Republic Kazakhstan 2010-14, which highlighted seven sectors: agriculture, construction and construction materials, oil and gas, metal products, chemicals and pharmaceuticals, energy, and transport and communications infrastructure. Samruk-Kazyna and KazAgro are the main instruments for implementing the strategy.

dominated by transnational corporations which “are in fact the national companies of the developed countries.” To withstand the TNCs and the power of the handful of developed countries hosting these TNCs Kazakhstan’s domestic companies must “have a scale commensurable with the scale of the national economy ..[and] .. the state must not withdraw from controlling them and regulating their activities.”

More recently, the targets for 2015 (OECD, 2013) include 80 % of construction materials will be provided by building materials produced in Kazakhstan, domestic oil refineries will satisfy the country’s fuel requirements, export of metallurgical goods will double and production of chemical goods will triple from 2009 levels. Real gross domestic product (GDP) in 2020 will have increased by not less than a third compared to 2009, the unemployment rate will not exceed 5%, and over the decade inflation will be in the range of 5-8 %. By 2020 all children, both in urban and rural areas, will be provided with pre-school education; vocational and technical education will be based on professional standards and linked to the needs of employers; infant and maternal mortality rates will be halved, and the overall mortality rate will decrease by 30 %; tuberculosis will be cut by a fifth, and life expectancy will increase from 68 to 72 years. In sum, a mixture of indicative macro planning and uncontroversial social goals, with specific targets for key industries.¹⁷

A particular challenge is the nature of the professional state – the seventh priority in *Kazakhstan 2030*. The technical competence of the public sector, in terms of understanding and implementing policies for a market-based economy has surely increased substantially since independence and the sudden emigration of many trained administrators in the early 1990s. However, the concept of medium-term plans fitting into the long-term strategy and of annual targets driving actual policy implementation may be counter-productive. The highly centralized nature of the state means that Presidential pronouncements drive the annual plans as administrators try to divine precisely what the President intended in his annual state of the union speech. This process has often led to medium-term goals, let alone the long-term strategy, being forgotten. One manifestation in the 2000s has been the frequent shifts in industrial policy. While it is obviously desirable to identify policy errors and correct them, too frequent policy shifts do not provide a good environment in which markets can flourish.

¹⁷ A similar combination of general principles consistent with freer internal trade and quantitative targets, e.g. for Kazakhstan’s beef exports to Russia, characterize the customs union being established since 2010 between Kazakhstan, Russia and Belarus.

Conclusions: Why the Tension between General Principles and implementation?

President Nazarbayev is keen for Kazakhstan to become a modern nation, ranked among the world's leading economies. Those countries have market-based economies, with low trade barriers and limited microeconomic intervention. There may even be recognition of the superiority of liberal policies, or in the 1990s recognition that they were required for IMF and World Bank financial assistance.

Against those considerations can be set counter-arguments. Policy reform is often associated with time inconsistency because the benefits tend to be greater in the long-term and the costs higher in the short-term; in democracies this may lead to non-reform due to the shortness of the electoral cycle, and in a system such as Kazakhstan's the government may be concerned about maintaining continuous support. In the 1990s public finance considerations were important as the government faced large budget deficits during the transition from central planning and the easiest sources of funding were trade and other highly distortionary taxes. After 2000, as the oil boom removed revenue concerns, the government focused on economic diversification, and seeking quick results pursued interventionist policies. Consistent with economic theory and other countries' experiences, the outcome was "more haste less speed".

The policy documents described in this paper all have the personal imprint of the President Nazarbayev, and it is unclear exactly how he sees the desirable balance between state and market. At the next political level, the mindset of a political elite almost entirely consisting of men whose careers were already under way in the Soviet era was amenable to interventionist policies, and few policymakers had deep understanding of the benefits of the market mechanism. The role of multilateral institutions and their advisers has not been consistent. The World Bank and IMF have become more cautious about being identified as apostles of neo-liberalism, and the United Nations, Asian Development Bank and OECD all have different agencies or departments offering conflicting advice, with some advocating industrial policies even as they claim not to be picking winners.¹⁸

The way in which such advice filters through the policymaking process is illustrated by the beef and dairy sector, which always (and naturally) fits into the group of industries or clusters worth favoring. The majority of Kazakhstan's milk is produced by small producers with four or

¹⁸ See the October 2013 Report to the Government of Kazakhstan by the Asian Development Bank Chief Economist Changyong Rhee and Jesus Felipe Lead Economist with the ADB's Central and West Asia Department (ADB, 2013). The OECD's sector competitiveness strategy for Kazakhstan is described at <http://www.oecd.org/daf/psd/kazakhstan-sectorcompetitivenessstrategy.htm>. The UNDP's aid for trade needs assessment document advocates import restrictions and increased subsidies to develop competitive activities, while cautioning about WTO accession without safeguards to expand such policies.

less cows, whose major constraint is the poor rural infrastructure that hampers establishment of cold chains to dairies, which could create longer and more profitable supply chains (OECD, 2013). However, public policy has promoted the dairy sector by importing expensive purebreds and seeking economies of scale through large farms with state-of-the-art equipment. Markets for Kazakhstan's beef are sought by negotiating preferred access to Russia within the customs union. In the longer term, either organic growth of today's small cattle farms with survival of the fittest or more revolutionary change as modern techniques suited to large-scale production displaces the small farmers may be the better outcome, but the point of creating a market-based economy is that this outcome should be primarily determined by producers responding to price signals, with the state playing a facilitating role of providing public goods or correcting externalities (e.g. improving rural roads or subsidising veterinary training) rather than a directly intervening to subsidize individual producers or favour specific activities.

In December 2012 President Nazarbayev announced the *Kazakhstan 2050 Strategy*. The economic background was far more auspicious than in 1997, as Kazakhstan has already established itself as a middle-income country and officially met the 2030 goals. However, the external prospects are just as uncertain and may not turn out as well as they did in the decade after 1997, e.g. future prices of hydrocarbons are uncertain with the shale and fracking revolutions and reduced costs of transporting liquefied natural gas. Equally uncertain and perhaps more important is the evolution of policymaking in Kazakhstan as the leadership, and possibly the political system, changes over the next 36 years, and the next generation of policymakers has less strong memories of the centrally planned economy.

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APPENDIX: Kazakhstan's Development Strategies: Monitoring and Assessment

In October 1997 President Nazarbayev presented *Kazakhstan's Development Strategy until 2030* in his address to the nation. The President stated that he would report the progress of the strategy and denote the Government work plans every year in his address to the nation. Strategy 2030 declares that its goals will be decomposed in other documents for the sake of simplicity and progress measurement. To implement the Strategy, the Government comes up with ten-year strategic plans. Thus, in 2001 Government adopted *Kazakhstan 2010*, and at the end of each decade it develops ten-year plans (*Kazakhstan 2020* was adopted in February 2010).

The strategic planning system, reviewed by the Presidential Decree No. 827 of 18 June 2009, currently provides for:

1. Long-term strategy (Kazakhstan 2030);
2. Medium-term cross-sectoral national plans (currently *Kazakhstan 2020*) and forecasts of territorial-spatial development to 2020, defining main features of regional development.
3. Medium-term state programs (5 to 10 years) for the major spheres of economic and social development. There are currently five programs, each one approved by the President and with an implementation Action Plan: for education 2011-2020, healthcare 2011-2015, information technologies to 2020, languages 2011-2020, and industrial innovative development 2010-2014.
4. Medium-term sectoral programs, some approved for the period to 2020 and others to 2014 and 2015; Annex 2 below lists titles of the state and sectoral programs. The sectoral programs for the period to 2020 cover: productivity, employment, available housing, modernization of communal utilities sector, business development road-map, clean water, development of mono-towns (towns depending on one large enterprise), and export. The sectoral programs for the period to 2015 cover: development of penitentiary system, public-private partnership, physical training and sport, and corruption prevention. The sectoral programs for the period to 2014 have been developed in the framework of the State Program for Industrial and Innovative Development for 2010-2014 and cover: preschool education, green growth, development of competition, investment promotion and establishment of free economic zones, local content in production, technical regulation, innovations and quality infrastructure development, pharmaceutical industry, electric power, machine building, chemical industry, space activity, consumer goods manufacturing, transportation infrastructure, tourism, mining, construction and construction materials production, agriculture, information and communication technologies, housing, oil and gas sector development, trade development, and minerals.
5. The Annual Addresses of the President of the Republic of Kazakhstan may contain goals and targets for one or several years. In order to implement the tasks given in the Address the National Action Plan is developed and monitored.

Implementation-level documents:

6. Every three years government agencies develop a rolling five-year strategic plan, in which they put all steps they are going to take and the targets they plan to achieve during each year (broken down by quarters). For the implementation of the five-year strategic plans, one-year operational plans are approved at the start of each year. Heads of government bodies sign a Memorandum for implementation of the strategic plans, in which they confirm their commitment to achieve the targets set in the strategic plan of their organization. The text of the Memorandum is approved by the Prime Minister.
7. Three-year budget plans provide the basis for public spending and determine the priorities for each government agency.
8. Territorial development programs are developed by regional authorities on the basis of forecasts of territorial-spatial development to 2020.

Monitoring and Assessment

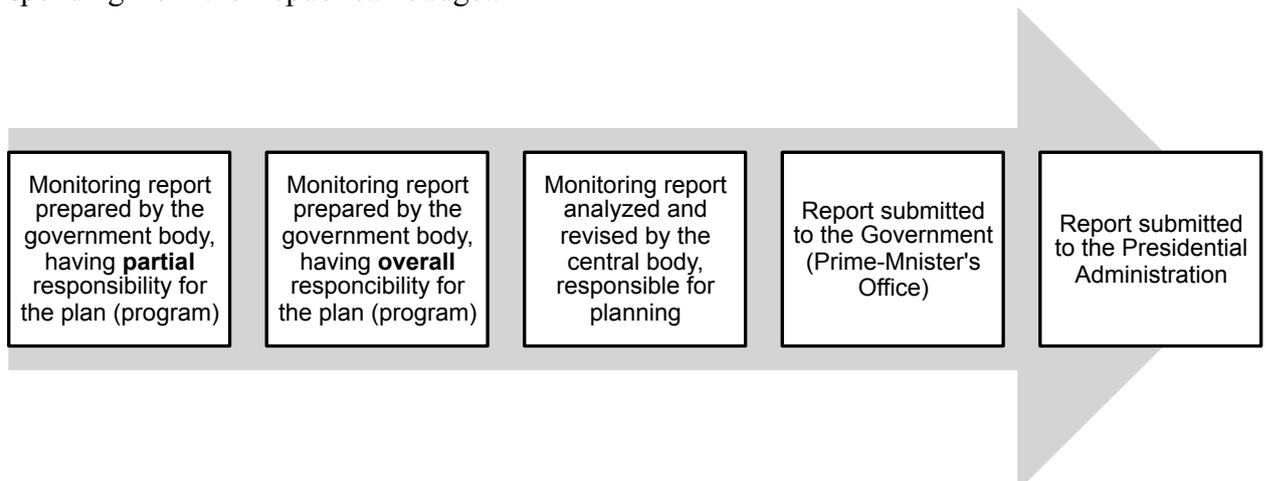
Since *Kazakhstan 2030* does not contain quantitative indicators, the monitoring and assessment is done for lower level documents, starting from the ten-years national plans.

Kazakhstan 2020 stipulates establishing a statistical database monitoring progress towards the goals of the strategy. According to the Presidential Decree No. 931 «On selected issues of further functioning of the system of public planning in the Republic of Kazakhstan» of 4 March 2010, monitoring of implementation of *Kazakhstan 2020* is in the form of annual reports prepared by the Ministry of Economy and Budget Planning on the basis of the reports of other relevant government agencies. The monitoring report is submitted to the Prime Minister's Office and then to the Presidential Administration. It is to be published on a web-portal of the Ministry of Economy and Budget Planning.

Evaluation of the ten-year strategic plan is to be done five years after the beginning of its implementation and has to take into account the outputs and outcomes of all the lower level programs. The evaluation report is to be prepared in accordance with similar procedures to the monitoring report (i.e. government agencies - Ministry of Economy and Budget Planning – Prime Minister's Office - Presidential Administration).

The *forecast scheme of territorial-spatial development till 2020* and Action Plans on its implementation are devoted to the task of optimal territorial allocation of resources, capacity building for the regions and infrastructure development. The monitoring and evaluation procedures are similar to those for *Kazakhstan 2020*. The initial monitoring reports prepared by the regional authorities and relevant central government bodies are combined into one report at the central level and submitted to the Government and then to the Presidential Administration. The evaluation is also done five years after the beginning of its implementation.

Monitoring of state programs and Action Plans for their implementation is done annually, while evaluation is every three years after the launching and the final evaluation is after the end of implementation. All agencies involved in implementation of the program prepare their own monitoring report, and the complete report is prepared by the central government body having prime responsibility for the program, e.g. for the education development program this would be the Ministry of Education and Science. The next steps are similar to the procedures described above. Additional evaluation can also be done by the Accounting Committee controlling spending from the Republican budget.



For sectoral programs, the government agency (body) responsible for development of the sector of economy is responsible for preparing the monitoring report annually. Evaluation of the sectoral program is done once in every three years of implementation by the central government agency responsible for planning. Additional evaluation can be done by the Accounting Committee controlling the spending from the Republican budget.

Monitoring reports for strategic plans of government bodies and related operational plans are prepared by the government agencies that developed the plans. Evaluation is done in the framework of the system of annual assessment for central government bodies and local government agencies. This assessment incorporates several dimensions: effectiveness of implementation of the government acts and assignments, effectiveness of budget allocation and management, effectiveness of human resource management, quality of services provided, and effectiveness of ICT implementation. Most government agencies are evaluated by the central agency responsible for planning, currently the Ministry of Economy and Budget Planning.

The monitoring report of any strategic or program document has to contain:

- 1) stage of accomplishment of the quantitative indicators;
- 2) analysis of the causes of failure in case some of the indicators were not achieved;
- 3) analysis of the actions that were planned, implemented or not implemented and their outcomes;
- 4) analysis of spending;
- 5) analysis of coordination and interaction in the process of implementation;
- 6) internal and external factors that influenced the performance;
- 7) analysis of the overall effectiveness of implementation, its influence on the social and economic situation;
- 8) level of satisfaction of citizens with government services;¹⁹
- 9) results of audit activities performed by other government agencies, including financial audit;
- 10) conclusions and suggestions.

The evaluation report has to include:

- 1) results achieved during implementation, targets achieved. In case some of the targets were not achieved, indicate the causes;
- 2) list of actions that were and were not implemented with indication of the causes of each failure;
- 3) analysis of factors that influenced the implementation;
- 4) analysis of budget resources allocated and not used in the period of implementation;
- 5) information on the control activities;
- 6) list of amendments incorporated in the strategic or planning document on the basis of previous evaluation report;
- 7) conclusions on the effectiveness of document's implementation;
- 8) conclusions on the quality of coordination in the process of implementation;
- 9) conclusions on the outcomes of the implementation in the process of social and economic development;
- 10) recommendations.

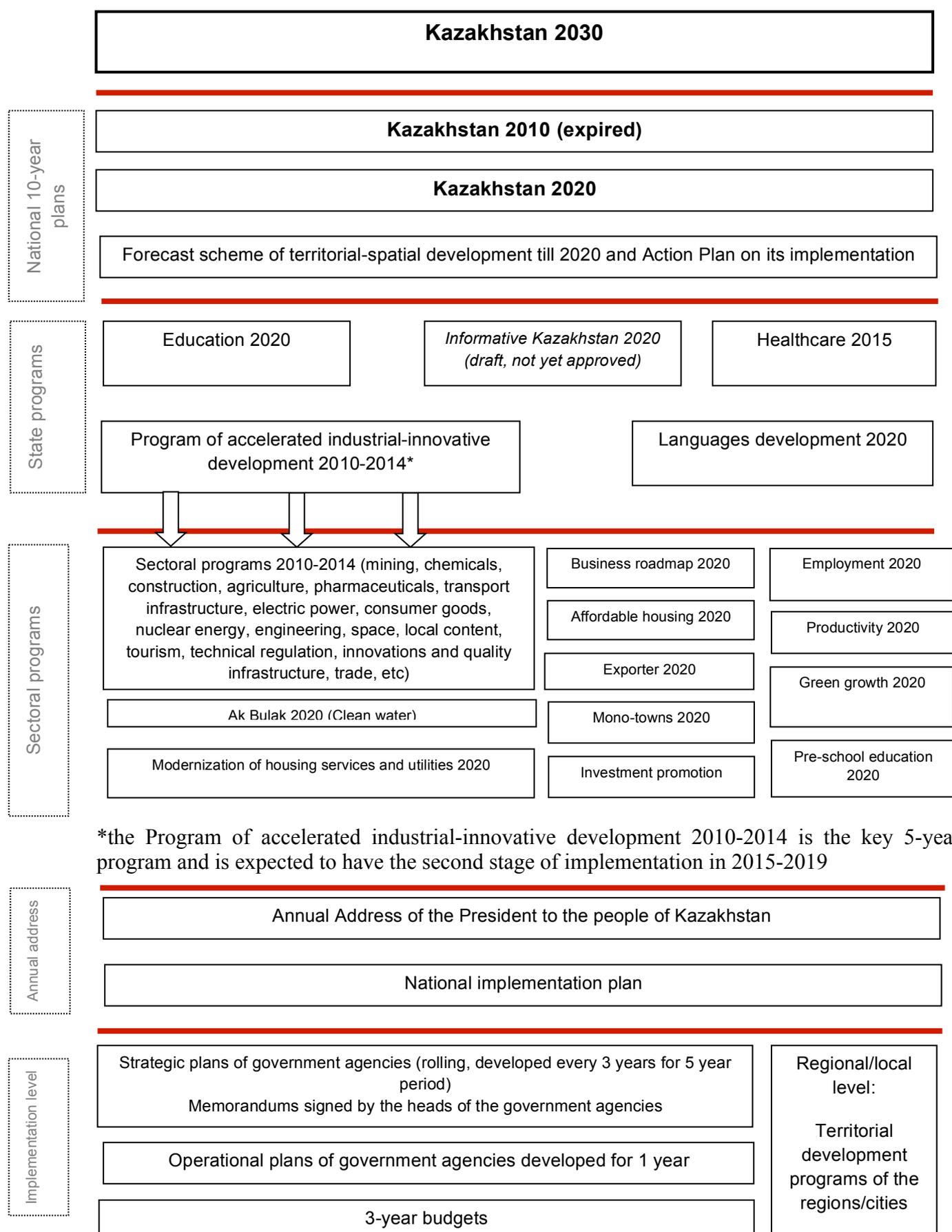
Assessment of the effectiveness of budget allocation is a separate cross-sectoral assessment that is part of the evaluation for overall performance of all levels of the government. As already mentioned, the authorities responsible for financial control can conduct separate independent evaluations of both the program's implementation and each government agency's performance. For central budget resources, the major controlling agency is the Accounting Committee. As part of the overall annual assessment of government agencies described above, the central ministry responsible for budget implementation (Ministry of Finance) conducts an annual evaluation of the effectiveness of budget spending based on government agencies' reports.

¹⁹ This is done in the form of public opinion survey, yet not all of the government bodies publish the complete reports on these surveys.

Summary

Kazakhstan has a large and complex system of strategic, planning and program documents at the national, sectoral and local levels. Although the number of major strategic documents and key state programs is limited, a great number of sectoral programs are devoted to specific spheres of economic activity or topics of development. The legislation provides for a sophisticated system of monitoring and evaluation within the public administration system, while the external monitoring has not involved in a systemic way. At the same time, the quality of current reports on monitoring and evaluation of the strategic and program documents needs improvement; they are focused primarily on the process of implementation and financial resources allocation, not on the outcomes. The revision and following actions that ideally has to take place on the basis of evaluation are not regularly taken. Therefore, the monitoring and evaluation do not bring results to be included in the next stage of planning.

ANNEX 1: Architecture of Strategic Planning



ANNEX 2: Programs under Implementation at the National Level in Kazakhstan

(as of January 2013)

State programs:

1. State program on development and functioning of languages in the Republic of Kazakhstan for 2011-2020 – approved by Presidential Decree No. 110, June 29, 2011
2. State program on development of education in the Republic of Kazakhstan for 2011-2020 – approved by Presidential Decree No. 1118, December 7, 2010
3. State program on healthcare development “Salamatty Kazakhstan” in the Republic of Kazakhstan for 2011-2015 – approved by Presidential Decree No. 1113, November 29, 2010
4. State program on accelerated industrial and economic development of the Republic of Kazakhstan for 2010-2014 – approved by Presidential Decree No. 958, March 19, 2010.

Sectoral programs:

5. Productivity 2020 – approved by Government Decree No. 254, March 14, 2011
6. Employment 2020 – approved by Government Decree No. 316, March 31, 2011
7. Available housing 2020 – approved by Government Decree No. 821, June 21, 2012
8. Business road map 2020 – approved by Government Decree No. 301, April 13, 2010
9. Ak bulak (clear water) for 2011-2020 – approved by Government Decree No. 570, May 24, 2010
10. Modernization of communal utilities sector in 2011-2020 – approved by Government Decree No. 473, April 30, 2011
11. Program for regional development (includes indicators till 2020) – approved by Government Decree No. 862, July 26, 2011
12. Program for development of penitentiary system in 2012-2015 – approved by Government Decree No. 775, June 9, 2012
13. Program for transport safety for 2012-2014 – approved by Government Decree No. 730, June 1, 2012
14. Mono-towns development program for 2012-2020 – approved by Government Decree No. 683, May 25, 2012
15. Program for oncological assistance development in 2012-2016 – approved by Government Decree No. 366, March 29, 2012
16. Program for physical training and sport development in 2011-2015 – approved by Government Decree No. 1399, November 30, 2011
17. Program for public-private partnership development in the Republic of Kazakhstan in 2011-2015 – approved by Government Decree No. 731, June 29, 2011
18. Nuclear industry development program in 2011-2014 – approved by Government Decree No. 728, June 29, 2011
19. Counteraction to corruption in 2011-2015 – approved by Government Decree No. 308, March 31, 2011
20. Development of mineral raw materials sector in 2010-2014 – approved by Government Decree No. 1530, December 31, 2010
21. Innovations development and promotion of technological modernization in the Republic of Kazakhstan in 2010-2014 – approved by Government Decree No. 1308, November 30, 2010
22. Program for attracting investment, developing special economic zones and stimulating export in 2010-2014 – approved by Government Decree No. 1145, October 30, 2010
23. Program for mining industry development in 2010-2014 – approved by Government Decree No. 1144, October 30, 2010
24. Program for trade development in 2010-2014 – approved by Government Decree No. 1143, October 30, 2010
25. Program for Kazakhstani content development in 2010-2014 – approved by Government Decree No. 1135, October 29, 2010

26. Program for electric power sector development in 2010-2014 – approved by Government Decree No. 1129, October 29, 2010
27. Program for space activity development in 2010-2014 – approved by Government Decree No. 1125, October 29, 2010
28. Program for competition development in 2010-2014 – approved by Government Decree No. 1115, October 26, 2010
29. Program for technical regulation and quality infrastructure establishment in 2010-2014 – approved by Government Decree No. 1100, October 22, 2010
30. Program for oil and gas sector development in 2010-2014 – approved by Government Decree No. 1072, October 18, 2010
31. Program for agricultural sector development in 2010-2014 – approved by Government Decree No. 1052, October 12, 2010
32. Program for development of perspective directions of tourist industry in 2010-2014 – approved by Government Decree No. 1048, October 11, 2010
33. Program for construction industry and construction materials production development in 2010-2014 – approved by Government Decree No. 1004, September 30, 2010
34. Program for transport infrastructure development in 2010-2014 – approved by Government Decree No. 1006, September 30, 2010
35. Tariff policy program for 2010-2014 – approved by Government Decree No. 1005, September 30, 2010
36. Program for consumer goods production development in 2010-2014 – approved by Government Decree No. 1003, September 30, 2010
37. Program for engineering manufacture development in 2010-2014 – approved by Government Decree No. 1002, September 30, 2010
38. Program for chemical industry development in 2010-2014 – approved by Government Decree No. 1001, September 30, 2010
39. Program for information and communication technologies development in 2010-2014 – approved by Government Decree No. 983, September 29, 2010
40. Zhasyl damu (green growth) program for 2010-2014 – approved by Government Decree No. 924, September 10, 2010
41. Program for pharmaceutical industry development in 2010-2014 – approved by Government Decree No. 791, August 4, 2010
42. “Balapan” (pre-school education provision) in 2010-2014 – approved by Government Decree No. 488, May 28, 2010.