

IDE Discussion Papers are preliminary materials circulated to stimulate discussions and critical comments

IDE DISCUSSION PAPER No. 475

**Corruption in Kazakhstan and the Quality of Governance**

Dossym SATPAYEV\*

August 2014

**Abstract** In Kazakhstan, uncover of numerous corruption scandals involving government officials has become almost a normal feature of life. Behind the high-profile acts of waging a battle against corruption, however, is a serious and systemic phenomenon. The most endemic form of corruption is the various transfers of funds in the state structures and national companies which remain opaque and thus unaccounted for. There are questions about the volumes and spending of revenues earned from natural resources, and there is no independent monitoring and control of the flow of funds in national oil and gas companies. The main actors involved in the shadow economy are state officials and informal pressure groups, who distribute resources among themselves, and accumulate wealth by way of legalising informal incomes or obtaining official business using connections. While important decision making is carried out among the close circles of the elite, formal institutions remain weak and ineffective.

**Keywords:** corruption, shadow economy, informal networks, informal pressure groups, Kazakhstan

---

\* Director, Risks Assessment Group, Almaty, Kazakhstan

The Institute of Developing Economies (IDE) is a semigovernmental, nonpartisan, nonprofit research institute, founded in 1958. The Institute merged with the Japan External Trade Organization (JETRO) on July 1, 1998. The Institute conducts basic and comprehensive studies on economic and related affairs in all developing countries and regions, including Asia, the Middle East, Africa, Latin America, Oceania, and Eastern Europe.

---

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute of Developing Economies of any of the views expressed within.

---

**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**  
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**  
**CHIBA 261-8545, JAPAN**

©2014 by Institute of Developing Economies, JETRO

No part of this publication may be reproduced without the prior permission of the IDE-JETRO.

Not long ago, Kazakhstan, like many post-Soviet countries, marked the second decade of its independent development after the collapse of the Soviet Union. From the viewpoint of the political elite of the majority of these countries, they had not only passed through a transitional period but also completed the formation of effective political systems while simultaneously avoiding the very real possibility of becoming trapped in a 'rubber' transitional period, which can last for decades. In turn, the thesis about formal institutionalisation can be attributed to counterarguments advocated by those who oppose the claim that the transition has been completed. The essence of formal institutionalisation is that in the political and economic systems of many post-Soviet countries, including Kazakhstan, political and economic institutions are basically ineffectual and noncompetitive, and many of them also have a low level of transparency. This creates favourable conditions for corruption.

The noncompetitive nature of the political system is slowing down the economic development of the country because modernisation is hindered by corruption, which has already become one of the important mechanisms for the redistribution of existing resources among the elite in Kazakhstan. Protectionism, 'kryshevanie' or business protection, and corruption *a priori* lower the rate of development of market competition in the country. The bureaucracy is not interested in the development of a competitive environment, instead being interested in the preservation of the monopoly that allows the bureaucracy to sell its services to those wishing to eliminate existing and potential competitors. Here, we can also add the patron–client system, which reduces the number of upward social mobility mechanisms, as a type of corruption. The preservation of an economy dependent on raw materials and the domination of financial and industrial groups by shadow groups inhibit the development of small- and medium-sized businesses and the establishment of a middle class. A middle class is fundamental to the formation of human capital, the modernisation of thought, and social and political stability. In addition, corruption has become an important part of the informal rules of the game within the elite, where personal loyalty toward the system and toward certain individuals is based, among other things, on the potential that such loyalty can allow the participation in corruption schemes. In other words, this is indicative of a serious problem related to the transformation of corruption into a certain form of shadow ideology, which determines not only the behavioural model followed by many public officials but also gives rise to the problem of criminalisation of the mentality of the entire society. In the interest of objectivity, it must be said that the roots of corruption in Kazakhstan go much deeper than the post-Soviet period because many opaque rules were established in the Soviet political system.

Nevertheless, after the collapse of the Soviet system, corruption acquired different forms and scopes.

## **Corruption: historical background and current state**

### ***The roots of post-Soviet corruption***

It should be noted that the problem of corruption not only in Kazakhstan, but also in other post-Soviet countries, did not arise immediately after the collapse of the Soviet Union; rather, it was rooted in the Soviet bureaucratic system at the end of the 1980s. It can be said that the evolution of post-Soviet corruption was intimately connected to the transformation of political and economic space that had started well before the collapse of the Soviet Union.

While under Stalin there was a classical command-administrative system ruled by the dictatorship of party ideology and particular individuals, under Khrushchev, and subsequently under Brezhnev and all the way until the collapse of the Soviet system, a more pragmatic and less ideologically motivated bureaucracy gradually became the main player. It was this bureaucracy that was connected in the 1980s with ‘...the emergence of a “bureaucratic market” that, according to V. Naishulia, constituted the prototype and the “base” of the market created during the perestroika and post-perestroika period’ (Peregrudov, Lapina, and Semenenko 1999, 68).

It is hardly surprising that not long before the collapse of the Soviet Union, in the period of the first steps towards the denationalisation of the economy at the end of the 1980s (this was when laws about state enterprises and leases, cooperatives, and so forth were enforced), and particularly during the period of privatisation of former state enterprises at the beginning of the 1990s, an active role in the struggle for possession and political influence was played by representatives of the former Soviet bureaucratic machine, high-level party functionaries, their relatives, and their friends. ‘Having the initial capital in the form of personal connections, financial means and levers of control, they created cooperatives, science and technology collaboration centres for youths... About 10% of commercial structures at the end of the 80s and the beginning of the 90s was established by the party and Komsomol nomenclature’ (Peregrudov, Lapina, and Semenenko 1999, 81).

It should be emphasised that many of these people retained positions in state structures in many already independent ex-Soviet republics, including Kazakhstan, and established the harmful tradition of close connections between business and the

state in which it is hard to find the boundary between private and state interests. What is more, against the backdrop of a crisis of traditional values and the emergence of an ideological vacuum, the state, business, and the entire society experienced the emergence of a criminalisation of mindset and the formation of corrupt thinking.

However, it can be assumed that during a period when one system of governance has collapsed but another one has not yet been created, corruption plays a compensatory role and accelerates the process of decision making in the absence of clear legal rules. Ultimately, however, this led to a situation where corruption in Kazakhstan started to be referred to as a national concept that united many citizens, regardless of their ethnicity, age, social status, or political views.

### ***The shadow economy and the corruption service market***

In Article 2, Clause 1 of Law 267-I ‘On the fight against corruption’ from July 2, 1998 (with additions and amendments as of December 26, 2012) of the Republic of Kazakhstan, corruption ‘...is taken to mean the non-statutory acquisition, either in person or through proxies, of material goods and benefits by individuals performing state functions, as well as similar individuals, through the use of their official powers and the possibilities related to these powers, or other forms of usage of their powers for obtaining material gains; or the bribery of given individuals through the unlawful provision of said gains and benefits by natural or legal persons’.

Overall, the given legal definition reflects the current state of affairs in Kazakhstan, where the majority of corruption crimes are essentially related to bribery. However, the problem is that this type of corruption is characteristic only to the middle and low levels of the country’s bureaucratic machine. In the case of representative individuals in circles close to the head of the state, many of whom are also the informal leaders of powerful and wealthy financial and industrial groups, corruption has undergone a definite transformation. The main problem here is not so much the receipt of shadow income but rather its legalisation by joining or acquiring legal businesses, both inside and outside Kazakhstan.

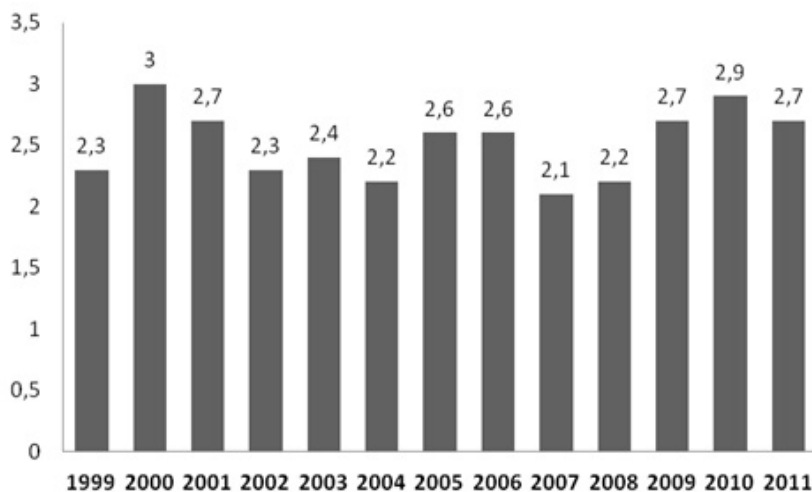
According to data from the international non-government organisation Transparency International (TI), in the framework of the annual Corruption Perception Index (CPI), Kazakhstan occupied the 140th place (with a score of 28) in 2013. The level of corruption in the government sector in the framework of the CPI is evaluated on a scale from 0 (the highest level of corruption perception) to 100 (the lowest level of corruption perception). The CPI itself is an amalgam of surveys and is based on

data related to corruption that is collected by different organisations. In 2013, the ratings covered 177 countries.<sup>1</sup>

For comparison, according to the data by TI, in 2012 Kazakhstan occupied the 133rd place (with a score of 26) among 174 countries. Despite the opinion expressed by TI that the rating for 2012 should not be compared with that for previous years because of changes in methodology, it is hardly appropriate to ignore the dynamics of Kazakhstan's rating in the CPI since 1995, when the first annual CPI was published. For example, Kazakhstan occupied the 120th place (with a score of 2.7) among 182 countries in 2011 and the 105th place among 178 countries in 2010. For the last 12 years, the country's rating has consistently fallen between 2 and 3 out of 10. The highest score, 3, was obtained in 2000, and the lowest, 2.1, in 2007.

### Figure 1. CPI rating of the Republic of Kazakhstan between 1999 and 2011

Compiled from the annually assigned CPI scores, which reflect the level of corruption perception on a scale from 10 (there is practically no corruption) to 0 (very high level of corruption).



Source: Corruption Perception Index for the Republic of Kazakhstan.

<http://www.transparencykazakhstan.org/content/8.html>

<sup>1</sup> Kazahstan opustilsya na 140 strochku reytinga korrumpirovannosti, razdeliv ee s Gondurasom.

Novosti-Kazakhstan International News Agency. <http://newskaz.ru/society/20131203/5866694.html>

One favourable condition for corruption is the existence of a shadow economy. At present, there are many definitions of shadow economy, one of the most widely adopted of which is ‘those economic activities and the income derived from them that circumvent or otherwise avoid government regulation, taxation or observation’ (Schneider and Williams 2013, 23-24). Obviously, the main emphasis in this definition falls on economic indicators. However, the concept of a shadow economy, according to some researchers, has a broader meaning. In particular, in their paper *The Shadow Economy*, Friedrich Schneider and Colin C. Williams identified several main factors that lead to the growth of the shadow economy. In addition to an unfavourable taxation environment, ineffective labour market regulation system, and other economic factors, the quality of government institutions also plays a large role. As they say:

...a number of countries in Latin America and the former Soviet Union exhibit characteristics consistent with a ‘bad equilibrium’. These countries have a high tax and regulatory burden on firms and a high level of discretion; the rule of law is weak; there is a high incidence of bribery; and there is a relatively high share of activities in the unofficial economy... The quality of public institutions also plays a direct role in determining the size of the shadow economy. The efficient application of tax systems and regulations by government play a crucial role in the decision to conduct undeclared work, and this may be even more important than the actual burden of taxes and regulations. In particular, corruption of bureaucracy and government officials seems to be associated with larger unofficial activity, while a good rule of law and secure property rights and contract enforceability increase the benefits of working in the formal sector.... (Schneider and Williams 2013, 40-41)

In the case of Kazakhstan, according to official data, the shadow economy in the country is equivalent to 20% of GDP, and in some sectors it reaches 50%.<sup>2</sup> Some representatives of businesses in Kazakhstan also believe that the portion of the shadow economy in non-raw materials sector amounts to no less than 50% in Kazakhstan. In particular, this opinion is shared by Raimbek Batalov, the chairman of the board of directors of the Raimbek Group, who admits that at present there is still no clear

---

<sup>2</sup> Ayvar Bodanov. Deputy Chairman of the Agency of the Republic of Kazakhstan for Fighting Economic and Corruption Crimes. <http://www.liter.kz/articles/view/35779>.

picture about the actual size of the shadow economy.<sup>3</sup> At the presentation of the International Monetary Fund (IMF) *Regional Economic Outlook: Caucasus and Central Asia* in November 2012, Juha Kähkönen, Deputy Director of the Middle East and Central Asia Department at IMF, stated that the unofficial economy in Kazakhstan has become equivalent to 30% of GDP.<sup>4</sup>

The financial police have estimated that shadow turnover in 2012 amounted to more than \$30 billion, part of which was due to corruption. Furthermore, according to Aigul Solovieva, a member of the lower chamber of the parliament (Mazhilis), in 2012 about 20% of the companies operating in Kazakhstan gave bribes to officials. She said that the corruption scheme is in itself a form of lobbying by affiliated enterprises through conspiring with officials to make their interests known.<sup>5</sup>

At present, the shadow economy in Kazakhstan is composed of three layers. The first layer consists of the so-called 'self-employed,' who have effectively dropped out of the official social security system, including pension accrual; this may lead to serious problems in the future when the country will have to decide what to do about pensioners who once worked in the shadow economy. In the second layer, there are small- and medium-sized businesses that essentially reside in the grey zone, on the border between the shadow and legal economies. However, the most dangerous is the third level, which is connected with the shadow market of corruption services in both state structures and national companies. For example, in November 2012, about 28.8% of surveyed respondents from the Kapital.kz business portal were convinced that the only way to become wealthy in Kazakhstan is to follow a career in state organs or national companies.<sup>6</sup>

In a report entitled *The manifestation of corruption in resource-extracting countries and methods for counteracting corruption (examples of international*

---

<sup>3</sup> Dolya tenevoy ekonomiki v nesyir'evom sektore Kazahstana zanimaet ne menee 50 protsentov. [http://tengrinews.kz/kazakhstan\\_news/dolya-tenevoy-ekonomiki-nesyirevom-sektore-kazahstana-zanimaet-menee-50-242776/](http://tengrinews.kz/kazakhstan_news/dolya-tenevoy-ekonomiki-nesyirevom-sektore-kazahstana-zanimaet-menee-50-242776/)

<sup>4</sup> Anna Vidyanova. Dolya neofitsial'noy ekonomiki v VVP dostigla 30%. <http://kapital.kz/finance/8949/dolya-neofitsialnoj-ekonomiki-v-vvp-rk-dostigla-30.html>

<sup>5</sup> [http://forbes.kz/news/2012/10/05/newsid\\_7787](http://forbes.kz/news/2012/10/05/newsid_7787)

<sup>6</sup> Byistro razbogatet' v RK pomozhet gossluzhba. <http://kapital.kz/economic/9103/byistro-razbogatet-v-rk-pomozhet-gossluzhba.html>



*experience*), the president of the Sange research centre, Zhanar Zhandosova, also sees the roots of corruption in ‘the curse of resources,’ where a connection is established between the presence of natural resources and the level of corruption. According to her, Kazakhstan is in the lowest third in terms of budget transparency rating among 80 countries. This means that there are few people who know how the money earned from petroleum and other natural resources is spent.<sup>7</sup>

One of the indicators of the extent of a shadow market is the amount of shadow capital taken out of the country. At the end of 2013, TI provided information stating that over the past 20 years more than \$123 billion has been illegally taken out of Kazakhstan. ‘In accordance with the CPI, another serious problem in Kazakhstan is the increasing scale of the shadow economy. Based on different estimates—from the political (Global Financial Integrity, GFI) to financial (the World Bank)—more than 123.057 billion dollars was illegally taken out of Kazakhstan in the past two decades...’<sup>8</sup>

The problem is that there are different estimates of the total capital illegally taken out of Kazakhstan. For instance, the American nongovernmental organisation GFI published a report entitled *Illegal financial flows out of developing countries: 2001–2010*, where the amount of such flows from Kazakhstan was \$19.16 billion.<sup>9</sup> It should be noted that, some years ago, the same organisation calculated (by an undisclosed method) that between 2000 and 2008, about \$126 billion was illegally taken out of Kazakhstan.<sup>10</sup> Based on data from another organisation (Tax Justice Network), since 1990, \$138 billion was transferred from Kazakhstan into offshore companies.<sup>11</sup> That

---

<sup>7</sup> Tatyana Panchenko. Korruptsiya v Kazahstane: pod ugrozoi - vsya strana.

<http://algadvk.kz/ru/wencountry/2394/>; <http://www.corrupcion.kz/?nc55&version=ru>

<sup>8</sup> Iz Kazahstana nelegal’no vyvedeno svyshe \$123 mlrd. <http://kapital.kz/finance/24117/iz-kazahstana-nelegalno-vyvedeno-svyshe-123-mlrd.html>

<sup>9</sup> Byistrorastushtaya ekonomika ne garant otsutstviya korruptsii.

<http://rus.azattyq.org/content/corruption-in-developing-countries-kazakhstan/24821596.html>.

<sup>10</sup> Iz Kazahstana bylo nelegal’no vyivezeno \$126 mlrd. v 2000-2008 godah, utverzhaet GFI.

<http://zonakz.net/articles/32793?mode=default>

<sup>11</sup> Iz Kazahstana s 1990 goda v offshoryi bylo vyvedeno 138 mlrd. dollarov.

<http://kapital.kz/economic/6317/iz-kazahstana-s-1990-goda-v-offshory-bylo-vyvedeno-138-mlrd-dollarov.html>

research was based on official data provided by the IMF, the World Bank, the UN, and the central banks of various countries.

Interestingly, on that occasion, at an Anti-corruption Council meeting, Azat Peruashev, the leader of the Democratic Party of Kazakhstan Ak Zhol, stated that corrupt officials in Kazakhstan are greedier even than Russian officials:

Based on data from international experts, more than US \$138 billion was transferred from Kazakhstan into offshore companies since the 1990s. For the same period, the amount taken out of neighbouring Russia was \$798 billion. Considering that the economy of the Russian Federation is about 12 times larger, it can be concluded that corrupt Kazakh bureaucrats are twice as greedy as Russian ones... Every time when the Accounting Committee on budget execution announces that a state organ has bought production at 3-4 times the market price and paid through the offshore zone (and such cases are not uncommon), it must be understood that this is exactly a case of taking corruption capital out of the country.<sup>12</sup>

Indeed, a characteristic of Kazakhstan is that the leaders in terms of direct overseas investment are countries that include popular offshore zones in their territory, such as the Netherlands and the Virgin Islands. In other words, it can be assumed that, essentially, the funds returning to the country are Kazakhstani capitals that have been taken out of the country (including illegally) by using offshore accounts. Using data from the National Bank of Kazakhstan, the business portal Kapital.kz explained that as of September 30, 2012, practically one-third of all investments in Kazakhstan came from the Netherlands, amounting to \$49 billion.<sup>13</sup>

---

<sup>12</sup> Otechestvennyie korrupsioneryi v 2 raza alchnee rossiyskih. <http://www.zakon.kz/4544531-otechestvennye-korrupsionery-v-2-raza.html>

<sup>13</sup> Bolee 27% investitsiy v Kazahstan iz Niderland. [http://kapital.kz/finance/10094/bolee-27-investicij-v-kazahstan-iz-niderland.html?from\\_mobile=1](http://kapital.kz/finance/10094/bolee-27-investicij-v-kazahstan-iz-niderland.html?from_mobile=1)

**Table 1. Top 10 countries by inflow of investment capital into Kazakhstan,  
in millions of dollars, as of September 30, 2012**

1	The Netherlands	49,006
2	UK	24,713
3	China	18,285
4	USA	17,904
5	France	8,653
6	Virgin Islands (British)	6,338
7	Russia	5,316
8	Japan	5,138
9	Switzerland	3,971
10	Austria	2,581

Source: The National Bank of the Republic of Kazakhstan

It should be noted that these funds can leave the country just as easily as they entered it. This is indicated by data announced by the National Bank of the Republic of Kazakhstan, which state that, for example, \$7.7 billion left the country in 2011. What is more, in 2012, more than 10% of all investment funds (\$16.2 billion) from Kazakhstan were directed toward the Netherlands. In other words, there is a sense of a turnover of monetary resources through the 'washing machine' principle, where many so-called 'foreign' investments into the Kazakh economy are in fact Kazakhstani funds that are returned to the country through offshore companies.

It is unsurprising that in Kazakhstan there are occasional suggestions to increase control over offshore zones. For instance, in October 2013, Olzhas Bektenov, the Head of the Information and Analysis Department of the Agency for Fighting Economic and Corruption Crimes, announced that '...a workgroup for the de-offshorisation of Kazakhstan's economy was formed in August this year with a decree by the Prime Minister, under the Agency's initiative.'<sup>14</sup>

---

<sup>14</sup> V Kazahstane sozdali rabochuyu gruppu po deoffshorizatsii otechestvennoj ekonomiki.  
<http://www.zakon.kz/kazakhstan/4579285-v-kazahstane-sozdali-rabochuju-gruppu.html>

### *State structures in Kazakhstan that are most affected by corruption crimes*

Between September 2012 and March 2013, ROMIR Research Holding (Russia) conducted a phone survey (CATI) on public opinion in Kazakhstan (sampling: national, 1000 respondents), and the survey results were examined by experts from TI in Berlin. In the survey, 34% of respondents reported that they had given bribes to receive government services.<sup>15</sup>

Recently, it has become increasingly common for the Agency for Fighting Economic and Corruption Crimes to conduct monitoring related to the rating of the most corrupt state structures in Kazakhstan. For example, in October 2013, Marat Seksembaev, Head of the Department on Uncovering and Prevention of Corruption at the Agency, announced that the highest number of crimes were attributable to officials at local executive organs, followed by officials at internal affairs agencies, customs officers, tax agents, and officials at the Ministry of Justice.<sup>16</sup> In addition, in October 2013, Murat Zhumanbai, official representative of the Agency for Fighting Economic and Corruption Crimes, also stated that the most corrupt officials remain those at *akimat* (local executive organs of the state), and the most corrupt sector is state purchases.<sup>17</sup> According to the financial police, funds for kickbacks are factored into the prices of goods during the budgeting stage.

In this context, it is worth mentioning the opinion of George Moody-Stuart, who believes that one of the most negative consequences of corruption in such conditions is the increased transaction value:

If bribes amount to, say, 10%, it should be taken into account that the sum leaving the pocket of the vendor is only an insignificant portion of this because it will be factored into the selling price.... Nevertheless, the increase in price is incomparable to other aspects in terms of level of damage, namely that when there is even just a possibility for deriving personal benefit, all other (legal) criteria for

---

<sup>15</sup> Transparency International zamerili korrupsiyu v Kazahstane.

<http://www.kursiv.kz/news/details/vlast/Transparency-International-zamerili-korrupciyu-v-Kazahstane>

<sup>16</sup> Aygerim Tukusheva. Finpolitsiya RK ozvuchila antireyting korrupsiionnyih organizatsiy.

<http://bnews.kz/ru/news/post/163589/>

<sup>17</sup> Damir Baymanov. Samyimi korrumpirovannyimi ostayutsya rabotniki akimato.

<http://www.zakon.kz/kazakhstan/4579333-samyimi-korrumpirovannyimi-ostajutsja.html>

awarding a contract are pushed to the side: price, quality, delivery terms and so forth. As a result, the selected supplier and/or contractor is far from the optimal one, and the purchased goods are far from being the best ones (Moody-Stewart 1999, 66-67).

Overall, between 2008 and 2012, the financial police reported almost 1800 corruption crimes in the state purchases sector, resulting in a loss to the national economy of more than 7 billion tenge (\$1 = 154.50 tenge). According to data from the E-Commerce Centre, the total value of electronic programs purchased by central state organs in 2013 was about 1 trillion tenge. At the same time, the largest purchases in 2013 were made by the Ministry of Transport and Communications, the Ministry of Education and Science, and the Ministry of Internal Affairs.<sup>18</sup> For comparison, in 2012, this list also included the Ministry of Health and the Ministry of Agriculture.

It is interesting to note that some bureaucrats from these institutions, including former chief executives, have been involved in major corruption scandals. For example, in August 2011, Zhaksylyk Doskaliev, former Minister of Health, was sentenced to seven years in a maximum-security penal colony on the basis of several articles, including embezzlement of national funds. However, in March 2012, he was released early. Serik Burkitbaev, former Minister of Transportation and Communications, was convicted of embezzlement and misappropriation of entrusted property in March 2009, while he was working at the national company KazMunaiGaz. He was sentenced to six years of imprisonment in a general-regime penal colony. In May 2013, Saiat Shaiakhmetov, Vice-Minister of Education and Science was arrested and convicted of embezzlement and misappropriation of budget funding amounting to almost 1.5 billion tenge in the construction of a school for 700 school children in Ust-Kamenogorsk. Regarding the Ministry of Agriculture, in February 2012, Oralbai Abdykarimov, Chairman of the Public Council for Fighting Corruption under the Nur Otan National Democratic Party, which is headed by President Nazarbaev, stated the following:

It should be noted openly that in terms of the level of corruption crimes, the Ministry of Agriculture is second only to the Ministry of the Ministry of Internal Affairs. This, of course, does not speak well of the Ministry and workers in the

---

<sup>18</sup> <http://www.zonakz.net/articles/69242>

agricultural sector. 2-3 years ago you witnessed the prosecution of the heads of key departments, who were convicted precisely of corruption crimes.<sup>19</sup>

In October 2012, at a meeting of the committee under the President of the Republic of Kazakhstan on the topic of fighting corruption, Mukhtar Kul-Mukhammed, former Secretary of State, also pointed out the existence of corruption among customs authorities:

Despite the many severe warnings by the Head of the State, the level of corruption in the country is decreasing extremely slowly. Customs authorities deserve a special mention in this regard. This is precisely where a corruption environment worthy of being referred to as an entire industry has been established.<sup>20</sup>

The timing of these statements was not random; in 2011, the financial police arrested more than 30 people at the Horgos customs station on the China–Kazakhstan border who were involved in moving contraband across the border for years. Incidentally, according to data from the Kazakhstan Association of Customs Brokers, contraband goods imported into Kazakhstan in 2011 amounted to \$3 billion. According to Gennadii Shestakov, Chief of the Kazakhstan Association of Customs Brokers, ‘First among the leading countries conducting shadow business is China, with a shadow turnover of \$1.2–1.5 billion, followed by Turkey with \$0.4 billion and Kyrgyzstan with \$60 million.’<sup>21</sup>

In this regard, at a meeting of the Coordination Council for Ensuring the Rule of Law, Order and Combating Organized Crime, Prosecutor General Askhat Daulbaev also announced that the sector that is most affected by corruption remains that of state purchases. In addition:

---

<sup>19</sup> Po urovnyu korruptsii Minsel’hoz RK zanimaet vtoroe mesto posle MVD.

<http://www.nomad.su/?a=3-201202270024>

<sup>20</sup> Kul-Muhammed: Na tamozhne sformirovalas’ korruptsiennaya sreda.

[http://tengrinews.kz/kazakhstan\\_news/kul-muhammed-na-tamojne-sformirovalas-korruptsiennaya-sreda-221621/](http://tengrinews.kz/kazakhstan_news/kul-muhammed-na-tamojne-sformirovalas-korruptsiennaya-sreda-221621/)

<sup>21</sup> Kazahstancyi zaplatili tamozhennikam vzyatok na \$40 mln. [http://www.zakon.kz/4505348-](http://www.zakon.kz/4505348-kazahstancyi-zaplatili-tamozhennikam.html)

[kazahstancyi-zaplatili-tamozhennikam.html](http://www.zakon.kz/4505348-kazahstancyi-zaplatili-tamozhennikam.html)

...the largest portion of crimes is related to work-related forgeries, embezzlement, misappropriation of entrusted property, and fraud with abuse of official position.... As a rule, the main figures in criminal cases are most often regular workers who are convicted for insignificant crimes, while officials committing systematic corruption crimes remain outside the field of view of the authorities....<sup>22</sup>

There are fairly common cases of illegal involvement of officials in business activities, where government workers created commercial organisations that they either controlled personally or controlled through trustees, and these commercial organisations participated in public bidding. It should be noted that similar trends can be seen in the case of nongovernmental organisations, which are created by officials and also receive government grants for the provision of social services.

A definite problem is the low level of transparency of the local and national budgets. For example, according to data from Omarkhan Oksikbaev, former Chairman of the Accounts Committee for Control over the Execution of the Republican Budget (now a member of the lower house of the parliament), local executive organs hide paperwork relating to 45% of the national budget. This information was announced in February 2013 at a round table on the topic of 'Budget Transparency Index: Increasing transparency and accountability.'<sup>23</sup> This problem encompasses not only the poor assimilation of budget resources, but also the use of financial resources for unauthorised purposes, including in the framework of state purchases.

In May 2013, Rashid Tusupbekov, Chairman of the Agency for Fighting Economic and Corruption Crimes, announced the leading regions in terms of corruption crimes for the first quarter of 2013. The regions where corrupt officials inflicted the greatest losses were the provinces of South Kazakhstan, East Kazakhstan, Karaganda, and Pavlodar.<sup>24</sup>

---

<sup>22</sup> Naibolee podverzhennoy korrupcii ostaetsya sfera goszakupok - genprokuror A. Dulbaev.  
<http://www.zakon.kz/4582248-naibolee-podverzhennoj-korrupcii.html>

<sup>23</sup> Sabina Seksembaeva. Mestnyie ispolnitel'nyie organyi skryivayut otchetnost' po 45% respublikanskogo byudzheta - Oksikbaev. <http://bnews.kz/ru/news/post/125306/>

<sup>24</sup> Nazyivanyi samyie korrumpirovannyie gosorganyi Kazahstana za pervyi kvartal 2013 goda.  
<http://tengrinews.kz/crime/nazvanyi-samyie-korrumpirovannyie-gosorganyi-kazahstana-pervyyi-kvartal-2013-234058/>

According to analysts at the Information and Analysis Department at the Financial Police Department under the Agency for Fighting Economic and Corruption Crimes, the average amount given as a bribe is about 500 dollars. ‘The leaders in terms of bribe size on the everyday bribe “market” remain judges. The amount of “gratitude” given in exchange for services is about 4 thousand dollars. The second most “popular” type of corruption crimes are in the education sector...’<sup>25</sup>

According to the financial police, losses due to corruption crimes amounted to more than 107 billion tenge in 2013.<sup>26</sup> Interestingly, the number of publicised corruption crimes increased by 13%. The official figures resemble a double-edged sword. On one hand, this is in accordance with the intensification of the state’s anti-corruption efforts, and on the other, considering that this is not the first year of such efforts, the increase in corruption crimes may indicate the low effectiveness of the implemented anti-corruption measures.

A separate topic is the low level of transparency and the level of corruption in the extractive sector in Kazakhstan. This led to a delay of the inclusion of Kazakhstan as a full member of the Extractive Industries Transparency Initiative (EITI) after the validation of conformance with the organisation’s rules was assessed. In all fairness, it should be noted that the need to improve transparency in the extractive sector, including the reduction of structural opportunity for corruption crimes, has been officially recognised. In particular, EITI was backed by the government of Kazakhstan after President Nursultan Nazarbaev evaluated the initiative as positive on June 14, 2005. Soon after that, the government of Kazakhstan, nongovernmental organisations, and companies in the extractive sector signed a memorandum for mutual understanding regarding the realisation of the EITI program in the Republic of Kazakhstan. A national committee of all interested parties was created on that account.

In mandated reports, companies must provide precise and clear information about the amount of tax paid by petroleum and mining companies and the amount of revenue received by the state. In addition, there are calls for publicising the details about all Production Sharing Agreements (PSA) between the state and foreign companies.

---

<sup>25</sup> Galina Vologodskaya, Danil Shemratov, Larissa Chen, Ludmila Leeva, Elena Soboleva, Zhanar Kanafina, Svetlana Novak. Vzyatka: skol’ko berut I skol’ko za eto poluchayut? <http://www.caravan.kz/article/67444>

<sup>26</sup> <http://www.zakon.kz/kazakhstan/4579284-summa-ushherba-ot-korruptsiyonnykh.html>



While the state and companies provide some information, there are many unknowns about state revenues earned from raw materials, which is to a large extent related to the existence of many corruption schemes related to exports of natural resources.

The Customs Control Committee (CCC) at the Ministry of Finance announced that in 2012 Kazakhstan exported petroleum for \$52.2 billion dollars. Interestingly, experts have assessed that the petroleum exported by Kazakhstan in 2011 was slightly more, amounting to \$55 billion. At present, the major buyers of Kazakhstani petroleum are Italy (16.4 million tonnes, \$13.7 billion), China (9.2 million tonnes, \$7.5 billion), the Netherlands (7.4 million tonnes, \$6.2 billion), France (5.9 million tonnes, \$5.1 billion), Austria (5.9 million tonnes, \$4.6 billion), Romania (3.5 million tonnes, \$2.7 billion), Canada (3.2 million tonnes, \$2.9 billion), and Switzerland (2.4 million tonnes, \$1.9 billion).<sup>27</sup>

At the same time, many petroleum and gas companies in Kazakhstan, including state-owned companies, are rather opaque in terms of financial control over their activities. As a result, there is a risk that CCC does not recognise the existence of many ‘grey schemes’ for exporting Kazakhstani petroleum through offshore companies.

Overall, it is reasonable to believe that the policy adopted by Kazakhstan’s government to improve transparency in the extractive sector follows double standards. First, the government supports the idea of improving transparency related to the activities of extractive companies, but, at the same time, the work directed toward improving transparency in the state structures themselves is slow and ineffective. In other words, the result is that transparency is mentioned only in relation to funds entering the National Fund while preserving opacity in how this money is spent by state structures. Particular attention should be paid to the fact that even if EITI is successfully implemented, control over the National Fund of Kazakhstan will remain opaque.

Second, another problem is that the system of control over the National Fund is overly complex. Apart from the President, control is exerted also by the Fund Council, which consists of members of the parliament, the government, the Presidential Administration, the National Bank, and other state structures. Such a complicated structure inevitably leads to the dilution of accountability. In addition, there are no

---

<sup>27</sup> Kazakhstan eksportiroval nefti na \$52.2 mlrd. za 11 mes. 2012 goda.

[http://www.kmg.kz/press/company\\_news/9786#.UqABFWPIOM8](http://www.kmg.kz/press/company_news/9786#.UqABFWPIOM8)

mechanisms that the public can use to influence the activities of the National Fund, which in itself creates possibilities for the misuse of the Fund's resources. In fact, this is indirectly affirmed by the announcement of the President of Kazakhstan of January 23, 2013, at an extended meeting of the government where a summary of 2012 was presented and tasks for the realisation of Strategy-2050 were established. In particular, President Nursultan Nazarbaev was infuriated by the 'disappearance' of \$10 billion that had been set aside from the National Fund under the stabilisation program of 2009–2010 during the realisation of the anti-crisis program. That money was spent largely on maintaining the banking system of Kazakhstan, where corruption and fraud are widespread, according to experts.

Specifically, in his article entitled *Corruption and fraud are destroying the banks in Kazakhstan*, Alexandr Vorotilov, deputy chief editor of the Forbes Kazakhstan journal, wrote the following:

...the main reason for the overall monetary losses in the banking system in Kazakhstan is related to fraud. This also includes internal corruption in banks as well as deliberately unprofitable operations by interested bank officials. A Kazakhstani banker who wished to remain anonymous said to Forbes Kazakhstan that 'According to our calculations, about 85% of all defaulting loans are related to frauds (\$12.7 billion), and the rest can be attributed to stupid decisions taken by bankers.' The weak points in Kazakhstan's banking system and the reasons for the total loss of foreign investors' money are fraud, internal corruption in the banking environment and wrong management decisions, mainly in relation to loans in the corporate sector and small and middle-sized businesses. The list of 'instruments' used by unscrupulous bankers is long and includes incorrect information about the financial status of borrowers, manipulations of deposit assessments, intentional mistakes in the preparation of the documents or certain actions aimed at giving kickbacks to bank officials. These examples were given by surveyed bankers under the condition of anonymity.<sup>28</sup>

It should be noted that one of the characteristics of the banking system in Kazakhstan is the affiliation of the largest banks in the country with the most influential representatives of Kazakhstan's political and business elite. In addition, the

---

<sup>28</sup> Alexandr Vorotilov. Korruptsiya i moshennichestvo unichtozhayut banki Kazahstana.

[http://forbes.kz/finances/markets/korruptsiya\\_i\\_moshennichestvo\\_unichtojayut\\_banki\\_kazahstana](http://forbes.kz/finances/markets/korruptsiya_i_moshennichestvo_unichtojayut_banki_kazahstana)

financial stability of these banks strongly depends on corporate clients, such as national companies, who keep their deposits in the banks to form the backbone of the banking sector in the country.

### ***External origins of corruption***

Objectively speaking, corruption in Kazakhstan has not only internal, but also external origins, including factors related to the activities of foreign investors. Corruption scandals have also involved large transnational companies, which have been accused of bribing high-level Kazakhstani officials. One of the first and most famous scandals was the so-called 'Kazakhgate' case, which began in 1999 in the United States in the framework of charges faced by James Giffen, who worked as an advisor to the President of Kazakhstan, regarding the violation of the United States' Foreign Corrupt Practices Act. Giffen was accused of taking bribes in the mid-1990s from the American company Mobil to grant the right to develop petroleum deposits in Kazakhstan. Of those bribes, a considerable portion of the money (\$84 million) was supposedly transferred into the personal Swiss bank accounts of some high-level Kazakhstani officials.

It is interesting to note that in November 2010 James Giffen pleaded guilty to only minor tax violations and was given a small fine. In turn, his own bank, Mercator, pleaded guilty to having given one of those Kazakhstani officials two snowmobiles worth a total of \$16,000 in 1999. From the viewpoint of American legislation, this was a violation of the American Foreign Corrupt Practices Act because it constituted a bribe given for the purpose of obtaining commercial contracts overseas. Many connected this slap on the wrist with the successful work of Giffen's lawyers, who from the very beginning emphasised the fact that while working in Kazakhstan, Giffen operated under the instruction of the Central Intelligence Agency and the U.S. government. However, this may have also been influenced by geopolitical interests related to the fact that the United States did not want this lawsuit to compromise its diplomatic relations with the leadership of Kazakhstan.

Among recent corruption scandals related to the activities of foreign investors in Kazakhstan, we can mention a publication from May 2012 in the Italian newspaper *Corriere della Sera*, which provided information about suspicions by the Prosecutor's Office in Milan about bribes taken from the Italian company Eni for contracts on the development of the petrol and gas field Kashagan in Kazakhstan. The publication

mentioned a bribe of \$20 million, supposedly paid by the company to unidentified Kazakhstani officials in 2007.<sup>29</sup> Another corruption case was connected to the German company ThyssenKrupp, which at the end of 2012 became involved in a number of corruption scandals, particularly related to the Kazakhstani project on the construction of artificial islands in the Caspian Sea. According to official information, the Prosecutor's Office in Essen, where ThyssenKrupp is headquartered, investigated 14 company workers who were suspected of having given large bribes in Kazakhstan.<sup>30</sup> As far as is known, the leaders of a subsidiary company, unbeknownst to the company's leadership, made 8 million Euros of illegal payments using the address of a front company registered in the United States.

However, the whole problem of foreign-related corruption arises because for a long time the government anti-corruption program was being implemented mainly by bureaucrats themselves, which naturally reduced its effectiveness. The same was also true about the activities of many large foreign companies, particularly in the extractive sector. In the 1990s, most of the PSAs signed by the government and investors were opaque and unavailable to the public, and this also created a framework for abusive practices by companies.

For example, in 2010, the Agency for Fighting Economic and Corruption Crime investigated a criminal fraud case against Agip Kazakhstan North Caspian Operating Company N.V. According to the financial police, the petroleum company Agip Kazakhstan North Caspian Operating Company N.V. double reported expenses related to construction and installation work for oil and gas processing facilities at the Bolashak Plant. These expenses totalled \$110 million. The financial police suspect that the company intended to include this doubled sum in the list of its expenses because subsurface users operating under a PSA are guaranteed to be reimbursed for losses related to the development of hydrocarbon deposits for the commercial extraction of petroleum and gas.<sup>31</sup>

---

<sup>29</sup> Corruption scandal. <http://expert.ru/2012/05/11/korruptzionnyi-skandal/>

<sup>30</sup> Klaus Deuse, Mikhail Bushuev. ThyssenKrupp podozrevayut v dache vzyatok v Kazahstane i Uzbekistane. <http://www.dw.de/thyssenkrupp>

<sup>31</sup> Finpolitsiya obvinyaet kompaniyu Agip KSO v moshennichestve na summu 110 mln. dollarov. <http://loto.zakon.kz/190717-finpolicija-obvinjaet-kompaniju-agip.html>

A survey conducted by Ernst & Young indicated that 53% of foreign investors think that the legal and regulatory framework of Kazakhstan is not sufficiently attractive from the viewpoint of transparency and stability. The survey included 41 foreign investors operating in Kazakhstan and 163 investors outside the country. Among the specific obstacles in the way of investments mentioned by survey participants were insufficiently developed infrastructure (19%), the complexity of administrative procedures (16%), political factors (8%), and corruption (7%).<sup>32</sup>

## **Quality of governance**

### ***Artificial institutionalization***

The emphasis here is on the quality of governance that determines the effective functioning and reproduction of political, economic, social, and other institutions. However, such institutions do not exist in Kazakhstan. Instead, what is referred to as Kazakhstani 'political institutions' are nothing of the sort. Some experts refer to this phenomenon as 'hasty [operezhaiushchaia] institutionalisation':

...the fundamental modern 'social institutions'... did not form independently. They were implanted by way of various social techniques and exist not as institutions in the intrinsic sense of the word (that is, a certain method for the regulation of already existing models of social behaviour), but as organisations. The system of institutions does not fit into the system of organisations (Kurennaya 2006, 16).

It can be assumed that the political system in Kazakhstan is of a hybrid type, where formal and non-functional democratic institutions exist in parallel with the preservation of political monopoly by the governing elite. There are parties, but no party system. There is a parliament, but no independent representative branches of the government. There are courts, but no lawful state. There are citizens and, formally, a 'third sector,' but no civil society. Informal pressure groups play a dominant role. In his book *Clans, Authoritarian Rulers, and Parliaments in Central Asia*, American political scientist S. Frederick Starr rightfully calls these groups 'brokers of the government' (2006, 26).

---

<sup>32</sup> Bolee polovinyi inostrannyih investorov otsenivayut zakonodatel'stvo RK kak nedostatochno stabil'noe. <http://www.zonakz.net/articles/34235?mode=reply>

These brokers often operate in the shadows, outside the sphere of public control, and often possess powerful levers for the distribution of financial and administrative resources, which creates conditions ripe for corruption. The main form of communication is through informal contacts. Mediators in this type of communication are people who have the know-how and the know-who (i.e., knowing exactly the person who may help). In the political situation in Kazakhstan, we can see a dangerous tendency in which these informal participants in the political process, who mainly operate behind the political scene, increase their antisocial activities in the illegal sector. In this regard, here we can also agree with the viewpoint that the weaker the function of the party system, the stronger the influence of pressure groups. Also, conversely, if parties were to implement their duties effectively, they would be capable of reducing the influence of such groups to a minimum, if not to zero.

Because the political structure in Kazakhstan bears the obvious scars of the post-totalitarian system, its main characteristic is the atrophy of its 'entrances' in terms of the acceptance of external impulses and information from lower levels. Kazakhstan lacks an institution of gatekeepers in the face of political parties, active unions, and NGOs that are located at the centre of the process of articulation and aggregation of social interests and express the different interests of subjects in the civil society. This is due to the lack of a structured and mature civil society that has equitable relations with the political system. Instead, the political system in Kazakhstan is characterised by the developed 'entrances from within,' whereby the process of making political decisions is considerably affected by players inside the system, whose actions are narrowly corporate and clannish in nature. However, a mature civil society is precisely the reliable mechanism that prevents the state from creeping towards authoritarianism and totalitarianism by protecting citizens from misconduct by the government and large businesses. In this way, it can be assumed that transitional states, including Kazakhstan, are characterised by proto-civil, rather than civil, societies.

Without a strong civil society, a competitive state apparatus cannot exist. This is also confirmed by data from the World Bank, which identified six principal constituents of corporate management and evaluated each of them on a four-level scale from +2 to -2.<sup>33</sup> What stands out immediately is that some of the first elements of effective corporate management in the state are precisely civil participation and

---

<sup>33</sup> World Bank: World Governance Indicators: 1996–2006.

<http://gtmarket.ru/news/state/2007/07/19/1291>

accountability, as well as the presence of a lawful state. These elements constitute an important part of the functioning of any civil society. As a result of this study, Kazakhstan received the following scores several years ago:

- Voice and Accountability (-1.19)
- Political Stability and Absence of Violence (-0.03)
- Governance Effectiveness (-0.71)
- Regulatory Quality (-0.47)
- Rule of Law (-0.79)
- Control of Corruption (-0.94)

According to the World Economic Forum (WEF), in 2011 Kazakhstan dropped five positions in the world competitiveness rating. Some of the reasons for this were the high level of monopoly in the national economy and the unrelenting pressure of corruption on business. It is interesting to note that, according to WEF experts, in the past three years Kazakhstan did not show any positive movement. In addition and for similar reasons, Kazakhstan occupied the 56th place in the economic freedom rating in the same year, with its total score dropping from 7.04 to 6.97. Kazakhstan also received low scores for its biased judicial system and weak property rights guarantees.

Roman Bogdanov, Chairman of the Committee in Support of the President's Program for Fighting Corruption, indirectly confirmed this by affirming that the roots of corruption crime lie in '...the weakness of the civil sector, whose members must immediately react to any possibilities for violation of the constitutional rights of the citizens.' The enforcement of rights by members of the civil sector is obstructed by the lack of state support for the realisation of socially significant projects and the strong dependence of those members of the civil sector on politics carried by sponsors and donors. According to Bogdanov, the second reason for the ineffectiveness of efforts against corruption is the weak reaction of law enforcement organs to publications in mass media. Regardless of the fact that, by law, any announcements in the press about possible bribetakers must be subjected to serious investigation, in practice this rarely happens. One more reason is that '...the law enforcement practice of using the State Official's Code of Honour is not developed, in other words, it is simply ignored.

Fourth, Kazakhstan lacks a mechanism for criminal prosecution of judges who have made unlawful judgments.<sup>34</sup>

However, the main threat to the quality of governance is that the artificial institutionalisation leads to another ‘time-bomb,’ namely, the twisting of the executive vertical hierarchy.

### ***Twisting of the executive vertical hierarchy***

Main characteristics:

1. The empowerment of only one element of the political system (presidential power in the case of Kazakhstan) does not guarantee the effectiveness of the entire system.

2. There is a widening gap between political and administrative workers, between the country’s leadership and the middle and low levels of the executive power in an environment dominated by individual pressure groups. The danger in this is that the realisation of approved state programs can be explicitly or implicitly sabotaged as a result of twisting of the vertical hierarchy. This problem is also discussed by foreign experts. For example, at one conference, Kate Mallinson, Senior Analyst at the London consulting company GPW, recommended that investors ‘be friends’ with the heads of local government bodies to avoid problems at a regional level, which can be of considerable proportions. In addition, from her point of view, ‘...when we talk about laws, permits and licenses, the understanding and interpretation of the legislation are important because there are alternative interpretations....’ Russian businessmen express practically the same opinion, which was quoted by the Atameken Union National Economic Chamber in the presentation of the results of a survey among representatives of more than 100 Russian companies operating in Kazakhstan.<sup>35</sup> According to Russian entrepreneurs, all efforts made by the central government for the creation of a favourable economic climate in the country are reduced to nothing at the regional level. The reasons for this include the exceedingly large economic power of

---

<sup>34</sup> Amina Jalilova. Kruglyi stol 'Korrupsiya v RK: bezopasnost' v opasnosti'. Source <http://panoramakz.com/archiv/2011/30.htm>.

<sup>35</sup> Biznes v Kazahstane glazami predprinimatelei – ‘...tam epoha feodalizma!’. <http://investfunds.kz/news/biznes-v-kazahstane-glazami-rossijskih-predprinimatelej-tam-jepoha-feodalizma-kvorumkz-23521/>



the heads of local government bodies interest lobbying by the local elite, and the arbitrary interpretation and disregard of both national legislation and decisions made by the central government.

3. The bureaucratic apparatus has lowered loyalty toward the current government. For workers at the middle and low levels, any change of power can have both negative and positive aspects. On the one hand, there is a danger of instability. On the other hand, faster career growth may follow. Under the condition of reduced ‘social mobility mechanisms’ and increased disappointment, the positive aspect of changes in power may dominate sentiment among that group of government workers, especially when several influential groups around the President are trying to monopolize the country’s leadership.

4. Intra- and inter-institutional competition occurs mainly for the redistribution of administrative power. Also, there are equally active struggles for the redistribution of financial resources. It is definitely worrisome that twisting of the vertical hierarchy has also affected important elements related to the maintenance of the country’s national security, such as law enforcement structures, which suffer from the same diseases as the rest of the state apparatus. The danger here is that the fragmentation of the elite as a result of permanent struggles between groups took a toll on the actions of the law enforcement structures, which were divided among influential groups. This not only lowered the quality of law enforcement structures in relation to the elimination of actual and potential threats to the state security, but also led to the discrediting of all law enforcement systems in the eyes of the society, including from the perspective of anti-corruption efforts.

For example, in August 2012, the Military Prosecutor’s Office pointed out faults in the Border Service of the National Security Committee in terms of the organisation of anti-corruption efforts. The press centre of the Main Military Prosecutor’s Office announced that ‘the lack of prophylactic and organisational measures, which has led to a 62.4% increase in crime in this institution, is the cause for the consistently high number of committed corruption crimes.’<sup>36</sup> In addition, in the Government Defence Anti-corruption Index compiled by the Centre for Anti-corruption Research and Initiative TI, Kazakhstan was in the fifth of seven groups, indicating a ‘high level of corruption’:

---

<sup>36</sup> Voennaya prokuratura obnaruzhila narusheniya v rabote Pogransluzhbyi Kazahstana.

<http://thenews.kz/2012/08/13/1179502.html>

To evaluate how the countries under study fight corruption in the defence sphere, the authors of the study prepared 77 questions in five categories - political risk, finance risk, personnel risk, operations risk and procurement risk. In the analysis of corruption risk, the authors took into account factors such as the level of parliamentary control over military expenses and requirements to companies in the military-industrial complex (MIC). TI notes that the countries under study often lack mechanisms for preventing corruption in MIC.<sup>37</sup>

These conclusions are also confirmed by the actual situation. For instance, at the beginning of 2013, field investigators from the National Security Committee arrested Almaz Asenov, Head of the Chief Armament Administration of the Ministry of Defence, under the suspicion that he received a large bribe (\$200,000). The bribe was given to him by a representative of the company Ukrspetseksport, which was created in 1996 and engaged in export and import of products and services with military and special applications. This includes weapons and ammunition, military and special technologies associated with them, explosives, repairs, technical servicing and modernisation of weapons, and military technologies for foreign customers.<sup>38</sup>

As mentioned above, according to official data, workers at the Ministry of Internal Affairs commit the most corruption crimes among workers at law enforcement structures. The Committee of Legal Statistics and Special Records at the General Prosecutor's Office has announced that more than 200 workers from law enforcement agencies were convicted in 2012. "The majority of cases were initiated under articles "Exceeding of Authority and Powers of Office" (103 cases), "Bribe-taking" (81 cases), "Fraud" (69 cases), "Abuse of Powers of Office" (63 cases)...On this note, in 2011 the Prosecutor's Office initiated 539 criminal cases against police authorities."<sup>39</sup>

At the same time, at the official level it is being maintained that inter-institutional struggles between law enforcement structures are no longer occurring. In particular, an announcement to that effect was made at the beginning of 2013 by Askhat Daulbaev, Prosecutor General of Kazakhstan. According to him, these struggles were observed

---

<sup>37</sup> [http://news.headline.kz/huje\\_ne\\_pridumaesh/izvolite\\_otkatit.html](http://news.headline.kz/huje_ne_pridumaesh/izvolite_otkatit.html)

<sup>38</sup> Tonihyaz Kuchukov. Kiev do SIZO dovedyot. <http://www.time.kz/articles/risk/2013/02/02/kyev-do-sizo-dovedet>

<sup>39</sup> Dmitriy Hegay. Sotrudnikov organov ugovnogo presledovaniya v Kazahstane v 2012 godu sudili za vzyatki i prevyishenie vlasti. [http://tengrinews.kz/kazakhstan\\_news/sotrudnikov-organov-ugolovno-presledovaniya-kazahstane-2012-godu-sudili-228716/](http://tengrinews.kz/kazakhstan_news/sotrudnikov-organov-ugolovno-presledovaniya-kazahstane-2012-godu-sudili-228716/)

for a long time between law enforcement agencies and caused irreparable damage to the common cause.<sup>40</sup>

5. Weak synchronisation between management processes, where management signals from the centre reach the lower levels of the bureaucratic apparatus very slowly and often in an altered form, is another symptom of twisting of the vertical hierarchy, which in turn lowers the effectiveness of work in state structures. Here, we can mention unreliable statistical information and incorrect interpretation, which were discussed by Kazakhstani economist Kanat Berentaev. According to him, this threatens the forward development of the country and the evaluation of potential and real threats to economic growth because the manipulation of statistical data often motivates political decisions that are likely to be obviously wrong in the future.<sup>41</sup> In turn, incorrect political and economic decisions further lower the legitimacy of the government and expand the social spectrum of discontent in society.

That lower quality of governance and management are accompanied by a simultaneous expansion of the roles and functions of state structures in various spheres of life in Kazakhstan's society, including the economy, presents considerable risk. But the core problem of vertical twisting is how it affects the ability of state structures to implement an effective economic policy. In this case, the pursuit of state capitalism can easily transform into a nomenclature dictatorship, where the main players in the economy are not businessmen but corrupt bureaucrats.

From the viewpoint of comparative analysis, attention must be paid to the rather interesting investigation of Australian political scientists Singleton and Turner, who introduced the concept of informal corporatism. It is interesting to note that they conducted their analysis by examining several countries in Southeast Asia regarded as role models by the leadership of Kazakhstan, particularly Singapore and Malaysia. South Korea, Indonesia, and the Philippines were also considered by the researchers. According to them, these countries were characterised by 'a symbiosis between the government and business manifested by their corporativistic and patrimonial interrelation' (Peregrudov, Lapinam and Semenenko 1999, 37). The existing political system in Kazakhstan also carries some hallmarks of corporatism, which is primarily

---

<sup>40</sup> V Kazahstane preodoleno mezhvedomstvennoe protivostoyanie silovyih organov. A. Dulbaev.

<http://www.nomad.su/?a=3-201301310033>

<sup>41</sup> Kanat Berentaev. Mozhet li Kazahstan byiti na traektoriyu ustoychivogo razvitiya?

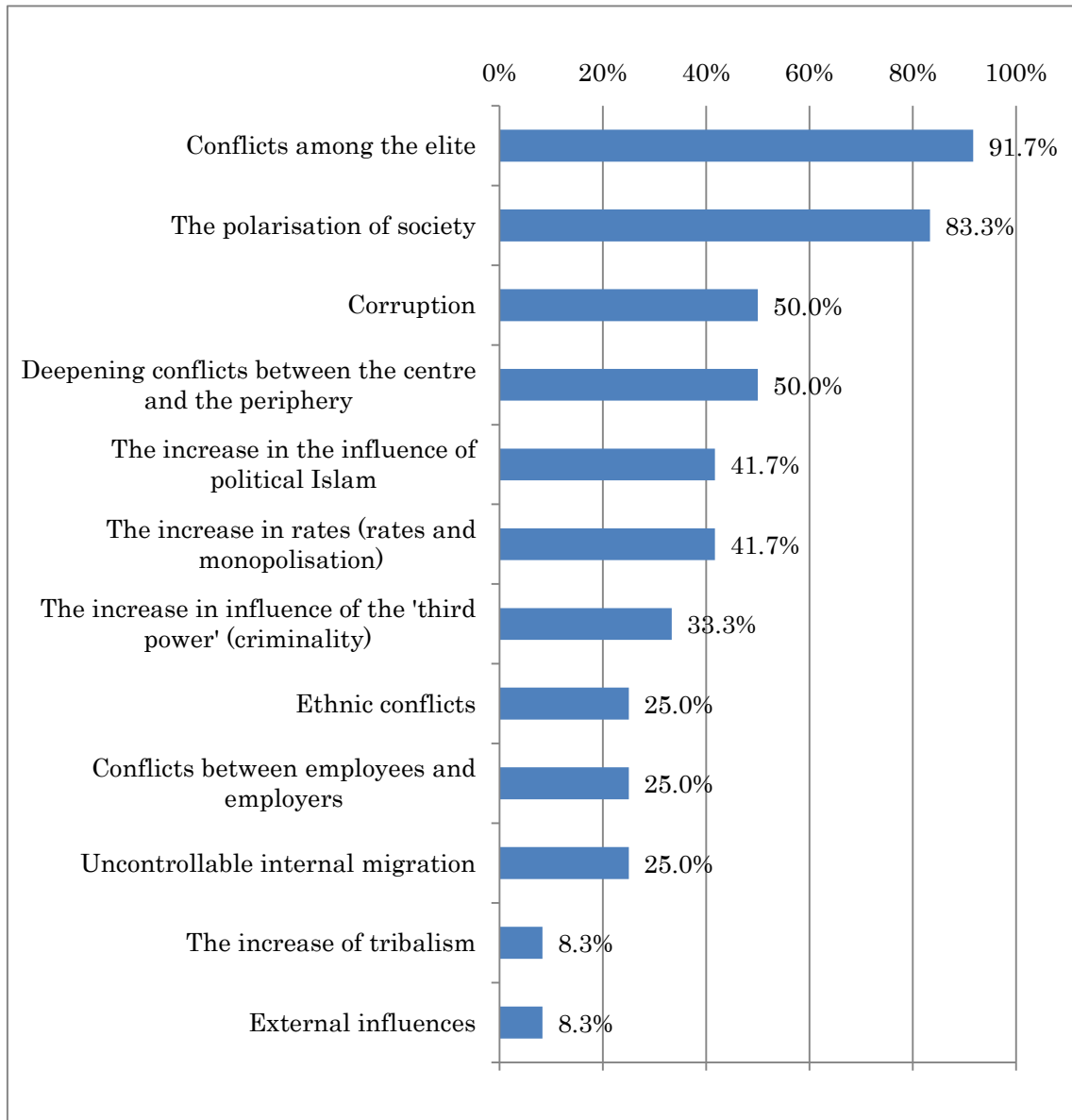
[http://m.megapolis.kz/art/Mozhet\\_li\\_Kazahstan\\_viyti\\_na\\_traektoriyu\\_ustoychivogo\\_razvitiya](http://m.megapolis.kz/art/Mozhet_li_Kazahstan_viyti_na_traektoriyu_ustoychivogo_razvitiya)

manifest in the fact that the state interacts with only structures that are monopolists in their respective spheres of interest. In addition, the state itself takes part in the creation of such monopolies.

Overall, it should be emphasised that the abovementioned characteristics of the functions of Kazakhstan's state apparatus pose a certain level of threat to the country's national security. To categorise the existing threats from the viewpoint of securing political stability in Kazakhstan, in October 2012 the Alliance of Analytical Organisations of Kazakhstan conducted an expert survey in the city of Almaty to clarify the magnitude of the potential for conflict in the country. A total of 40 experts (political scientists, analysts, public figures, political observers from Kazakhstani mass media, and leading figures from scientific research centres) participated in the research. The results are summarised in Figure 2.

Figure 2. Conflicts posing threats to Kazakhstan

"What conflicts do you consider to be the biggest threats to Kazakhstan at present?"



In the Law on National Security of the Republic of Kazakhstan, ‘...the decline of the law and order, including the increase in crimes such as organised crime, the merger of state organs and criminal structures, terrorist and extremist organisations, the endorsement of illegal capital flows by state officials, corruption...’ and ‘...the disorganised actions of state organs, the disruption of their smooth operation, the

decline in state governance' were mentioned as among the main threats to national security.<sup>42</sup>

Regarding the decline in state governance, the view of Gabit Lesbekov, Managing Director of the Damu Entrepreneurship Development Fund, is rather interesting. During a conference on the topic 'Shadow and "street economy": possibilities and sociopolitical and economic risks,' he emphasised that since the contribution of the shadow economy is higher than 33% of the GDP and 40% of the population is involved in it, the economy already will not respond to regulatory measures implemented by the state, which poses a serious threat to national security.<sup>43</sup>

In this way, the shadow economy in Kazakhstan is indicative of the presence of informal power centres in the face of organised crime, with connections to bribetakers. This results in the serious problem that when such a large shadow economy exists, it is impossible to expect the legal culture of the population to grow: the legitimate legal and judicial system is not trustworthy. In other words, the shadow economy considerably perverts the value system of the population, which prefers a life outside the law.

All this points to a close connection between the problems discussed above because the low quality of governance is related to the active operation of shadow pressure groups inside the elite. These groups take part in the corruption mechanisms for the redistribution of resources, which negatively affects the implementation of state development programs. In turn, this leads to social polarisation and to a decline in the perceived legitimacy of the government both at the centre and in the regions. The ultimate form of penetration of corruption into all state structures is kleptocracy, which sooner or later activates entropic processes and leads to the total destruction of the political system. The main task faced by the political elite of any state that is concerned with the preservation of the political system is the prevention of such developments and the restriction of corruption to lower, non-critical levels. This is not a matter of fighting corruption to the point of total victory, but rather its reduction to levels that do not pose a threat to national security.

---

<sup>42</sup> Law 527-IV of the Republic of Kazakhstan from January 6, 2012. O natsional' noi bezopasnosti Respubliki Kazahstana. <http://adilet.zan.kz/rus/docs/Z1200000527>

<sup>43</sup> Obyem tenevogo sektora v ekonomike RK raven 16% ot urovnya BVP. <http://news.mail.ru/inworld/kazakhstan/economics/9768804/>

## References

Kurennoi, Vitalii ed. 2006. *Mysliashchaia Rossiia. Kartografiia sovremennykh intellektual'nykh napravlenii*. Moscow: Eurasia Heritage Fund.

Moody-Stewart, George. 1999. "Korrupsiia v verkhakh i vo chto ona obkhoditsia obshchestvu." *Economic Science of Modern Russia*: 1(5).

Peregrudov, S. P., N. Y. Lapina, I. S. Semenenko. 1999. *Gruppy interesov v rossiiskom gosudarstve*. Moscow: Editorial URSS.

Schneider, Friedrich and Colin C. Williams. 2013. *The Shadow Economy*. London: The Institute of Economic Affairs.

Starr, S. Frederick. 2006. *Clans, Authoritarian Rulers, and Parliaments in Central Asia*. Silk Road Paper. Stockholm: Institute for Security and Development Policy.

~Previous IDE Discussion Papers ~

No.	Author(s)	Title	
475	Dossym SATPAYEV	Corruption in Kazakhstan and the Quality of Governance	2014
474	Yasushi UEKI	Trade Obstacles, Inventory Level of Inputs, and Internationalization of Enterprise Activities: A Comparison between Southeast Asia and Latin America	2014
473	Koji KUBO	Deposit Dollarization in Myanmar	2014
472	Saumik PAUL, Vengadeshvaran SARMA	Are Special Economic Zones a Curse on Those ‘Chosen’ to Be Evicted? Evidence from West Bengal, India	2014
471	Sanae SUZUKI	Chairship System and Decision Making by Consensus in International Agreements: The Case of ASEAN	2014
470	Byeongwoo KANG	The Innovation Process of a Privately-Owned Enterprise and a State-Owned Enterprise in China	2014
469	Koichiro KIMURA	Competition between Firms in Developing and Developed Countries	2014
468	Chie KASHIWABARA	The Asset/Liability Structure of the Philippines Banks and Non-Bank Financial Institutions in 2000s: A Preliminary Study for Financial Access Analyses	2014
467	Akiko YANAI	Environmental Provisions in Japanese Regional Trade Agreements with Developing Countries	2014
466	Etsuyo MICHIDA, Kaoru NABESHIMA and Yasushi UEKI	Impact of product-related environmental regulations in Asia: Descriptive statistics from a survey of firms in Vietnam	2014
465	Kazuhiko OYAMADA	Neutrality in the Choice of Number of Firms or Level of Fixed Costs in Calibrating an Armington-Krugman-Melitz Encompassing Module for Applied General Equilibrium Models	2014
463	Hitoshi SATO and Lianming ZHU	Tariff Reductions and Labor Demand Elasticities: Evidence from Chinese Firm-level Data	2014
462	Hitoshi SATO	Do Electricity Constraints Matter for Comparative Advantage?: A Neoclassical Approach	2014
461	Abu SHONCHOY and P.N. (Raja) JUNANKAR	The Informal Labour Market in India: Transitory or Permanent Employment for Migrants?	2014
460	Abu SHONCHOY and Takashi KUROSAKI	Impact of Seasonality-adjusted Flexible Microcredit on Repayment and Food Consumption: Experimental Evidence from Rural Bangladesh	2014
459	Mila KASHCHEEVA, Kevin TSUI	The Effects of International Politics on Oil-Exporting Developing Countries	2014
458	Mila KASHCHEEVA, Kevin TSUI	Why Oil Importers Diversify Their Import Sources Politically? Evidence from U.S. Firm-Level Data	2014
457	Etsuyo MICHIDA, Yasushi UEKI and Kaoru NABESHIMA	Impact of product-related environmental regulations in Asia: Descriptive statistics from a survey of firms in Penang, Malaysia	2014
456	Housam DARWISHEH	Trajectories and Outcomes of the ‘Arab Spring’: Comparing Tunisia, Egypt, Libya and Syria	2014
455	Tsunehiro OTSUKI, Etsuyo MICHIDA, Kaoru NABESHIMA and Yasushi UEKI	Estimating the effect of chemical safety standards on firm performance in Malaysia and Vietnam	2014
454	Toshi ARIMURA, Hakaru IGUCHI, and Etsuyo MICHIDA	Product-related Environmental Regulation and Voluntary Environmental Actions: Impacts of RoHS and REACH in Malaysia	2014



No.	Author(s)	Title	
453	Etsuyo MICHIDA, Yasushi UEKI and Kaoru NABESHIMA	Impact on Asian Firms of Product-related Environmental Regulations through Global Supply Chains: A Study of Firms in Malaysia	2014
452	Chen Sau Soon, Mohd Helme bin Mohd Helan, Zanariah Ujang, Etsuyo Michida, and Kaoru Nabeshima	Role of Laboratories for Adopting Product-related Environmental Regulations (PRERs)	2014
451	Etsuyo MICHIDA	The Policy Impact of Product-Related Environmental Regulations in Asia	2014
450	Yutaka ARIMOTO and Changmin LEE	Did Japanese Direct Investment in Korea Suppress Indigenous Industrialization in the 1930s? Evidence from County-level Factory Entry Patterns	2014
449	Ikuo KUROIWA	Value Added Trade and Structure of High-technology Exports in China	2014
448	Arup MITRA and Yuko TSUJITA	Dimensions and Determinants of Upward Mobility: A Study Based on Longitudinal Data from Delhi Slums	2014
447	Asao ANDO and Bo MENG	Spatial Price Equilibrium and the Transport Sector: A Trade-Consistent SCGE Model	2014
446	Kazunobu HAYAKAWA and Fukunari KIMURA	How Do Free Trade Agreements Reduce Tariff Rates and Non-tariff Barriers?	2014
445	Kazunobu HAYAKAWA, Toshiyuki MATSUURA, and Fumihiko OKUBO	Firm-level Impacts of Natural Disasters on Production Networks: Evidence from a Flood in Thailand	2014
444	Sasatra SUDSAWASD and Santi CHAISIRISAWATSUK	FDI Inflows and Outflows, Intellectual Property Rights, and Productivity Growth	2014
443	Pisit PUAPAN	Assessment of FDI Impact on Thailand's Production Sectors: Implications for Investment Promotion Activities	2014
442	Yasushi HAZAMA	Minority Type Matters: Ethnic Diversity and Tolerance in 29 European Democracies	2014
441	Kiyoyasu TANAKA and Kenmei TSUBOTA	Directional imbalance of freight rates: Evidence from Japanese inter-prefectural data	2014
440	Kumiko MAKINO	The Anti-Apartheid Movement in Japan: An Overview	2014
439	Hikari ISHIDO	Promoting Institutional Connectivity in the Asia Pacific Region: A Study of Supply Chain and Trade in Services	2014
438	Kazunobu HAYAKAWA Nuttawut LAKSANAPANYAKUL Kohei SHIINO	Some Practical Guidance for the Computation of Free Trade Agreement Utilization Rates	2013
437	Kazunobu HAYAKAWA Nuttawut LAKSANAPANYAKUL	New Measures of FTA Liberalization Level	2013
436	Kazunobu HAYAKAWA Chih-Hai YANG	How Do Free Trade Agreements Change Import Prices?: Firm-level Evidence from China's Imports from ASEAN	2013
435	Akiko YANAI	Rethinking Special and Differential Treatment in the WTO	2013
434	Tadashi ITO	Did the least developed countries benefit from duty-free quota-free access to the Japanese market?	2013
433	Sato Kan Hiroshi	Toward an Inclusive and a Little Bit Ethical World Trading System: Listening to the Voices of the People in LDCs	2013
432	Ke DING	Platforms and Firm Capabilities: A Study of Emerging Global Value Chains	2013
431	Shawn ARITA and Kiyoyasu TANAKA	FDI and Investment Barriers in Developing Economies	2013

No.	Author(s)	Title	
430	Toshihiro KUDO	Myanmar's Apparel Industry in the New International Environment: Prospects and Challenges	2013
429	Kazunobu HAYAKAWA and Nuttawut LAKSANAPANYAKUL	Impacts of Common Rules of Origin on FTA Utilization	2013
428	Kazunobu HAYAKAWA, HanSung KIM, Nuttawut LAKSANAPANYAKUL, and Kohei SHIINO	FTA Utilization: Certificate of Origin Data versus Customs Data	2013
427	Toshihiro KUDO, Satoru KUMAGAI and So UMEZAKI	Five Growth Strategies for Myanmar: Re-engagement with the Global Economy	2013
426	Koji KUBO	Myanmar's Non-Resource Export Potential after the Lifting of Economic Sanctions: A Gravity Model Analysis	2013
425	Masayoshi OKABE	Where Does Philippine Education Go? The "K to 12" Program and Reform of Philippine Basic Education	2013
424	Bo MENG, Zhi WANG and Robert KOOPMAN	How Are Global Value Chains Fragmented and Extended in China's Domestic Production Networks?	2013
423	Shinichi SHIGETOMI	Development and Institutionalization of Communitarian Thought in Thailand	2013
422	Takahiro FUKUNISHI	Political Crisis and Suspension of Duty-free Access in Madagascar: Assessment of Impacts on the Garment Industry	2013
421	Toshihiro KUDO, Satoru KUMAGAI and Hikari ISHIDO	Agriculture Plus Plus: Growth Strategy for Myanmar Agriculture	2013
420	Mai FUJITA	The Japanese and Chinese Models of Industrial Organisation: Fighting for Supremacy in the Vietnamese Motorcycle Industry	2013
419	Mai FUJITA	Exploring the Sources of China's Challenge to Japan: Models of Industrial Organisation in the Motorcycle Industry	2013
418	Romio MORI, Kaoru NABESHIMA and Nanae YAMADA	Food Safety Control System of Chinese Eel Exports and its Challenges	2013
417	Takashi NOMURA, Saori OKADA, Takeshi YOSHIZAKI	Features of IP Rights Enforcement in Korea and China	2013
416	Yasushi UEKI	Supply Chain Collaboration and Responsiveness: A Comparison between Thai Automotive and Electronics Industries	2013
415	Yasushi UEKI	Formation of Supply Chain Collaboration and Firm Performance in the Thai Automotive and Electronics Industries	2013
414	Futaba ISHIZUKA	International Labor Migration in Vietnam and the Impact of Receiving Countries' Policies	2013
413	Chie KASHIWABARA	The Central Bank and Bank Credits in the Philippines: A Survey on Effectiveness of Monetary Policy and Its Measures	2013
412	Takahiro FUKUNISHI and Tatsufumi YAMAGATA	Slow and Steady Wins the Race: How the Garment Industry Leads Industrialization in Low-income Countries	2013
411	Tsuruyo FUNATSU	Changing Local Elite Selection in Thailand: Emergence of New Local Government Presidents after Direct Elections and Their Capabilities	2013
410	Hikari ISHIDO	Harmonization of Trade in Services by APEC members	2013
409	Koichi KAWAMURA	Presidentialism and Political Parties in Indonesia: Why Are All Parties Not Presidentialized?	2013
408	Emi KOJIN	The Development of Private Farms in Vietnam	2013

No.	Author(s)	Title	
407	Tadayoshi TERAO	Political Economy of Low Sulfurization and Air Pollution Control Policy in Japan: SO <sub>x</sub> Emission Reduction by Fuel Conversion	2013
406	Miki HAMADA	Impact of Foreign Capital Entry in the Indonesian Banking Sector	2013
405	Maki AOKI-OKABE	Research Review: Searching for a New Framework for Thailand's Foreign Policy in the Post-Cold War Era	2013
404	Yuka KODAMA	Relationship between Young Women and Parents in Rural Ethiopia	2013
403	Yoshihiro HASHIGUCHI and Kiyoyasu TANAKA	Agglomeration and firm-level productivity: A Bayesian Spatial approach	2013
402	Hitoshi OTA	India's Senior Citizens' Policy and an Examination of the Life of Senior Citizens in North Delhi	2013
401	Mila KASHCHEEVA	Political limits on the World Oil Trade: Firm-level Evidence from US firms	2013