



# Kazakhstan Country Strategy 2022-2027

Approved by the Board of Directors on 22 June 2022



**European Bank**  
for Reconstruction and Development

# Table of Contents and Glossary



**European Bank**  
for Reconstruction and Development

Table of Contents		Glossary of Key Terms			
Executive Summary	3	ABI	Annual Business Investment	KTZ	Kazakhstan Railways
Kazakhstan – EBRD Snapshot	5	ASB	Advisory Small Businesses	MSME	Micro, Small & Medium sized Enterprise
I. Implementation of Previous Engagement (2017-2021)	6	BAT	Best Available Technique	M&S	Manufacturing & Services
<i>Key Transition Results Achieved during Previous Engagement</i>	6	CA	Central Asia	MoU	Memorandum of Understanding
<i>Challenges to Implementation and Key Lessons</i>	9	CoOs	Countries of Operations	NBFI	Non-Bank Financial Institution
II. Economic Context	10	CPI	Consumer Price Index	NBK	National Bank of Kazakhstan
<i>Macroeconomic Context and Outlook for Strategy Period</i>	10	CSO	Civil Society Organization	NDCs	Nationally Determined Contributions
<i>Key Transition Challenges</i>	11	CSTO	Collective Security Treaty Organization	NECP	National energy and climate plans
III. Government Priorities and Stakeholder Engagement	13	E&S	Environmental & Social	NPL	Non-Performing Loans
IV. Defining EBRD's Kazakhstan Country Strategy Priorities	14	EE	Energy Efficiency	ODA	Official Development Assistance
V. Activities and Results Framework	15	EIB	European Investment Bank	OECD	Organisation for Economic Co-operation and Development
VI. Mapping of International Partners' Complementarity in EBRD Business Areas	18	ESCO	Energy service company	PEP	Politically Exposed Person
VII. Implementation Risks and Environmental and Social Implications	19	ESIA	Environmental and Social Impact Assessment	PPP	Private-Public Partnership
VIII. Donor Co-Financing Assessment	20	ETI	Expected Transition Impact	PPS	Purchasing Power Standards
Annex – Political Assessment	21	ETS	Emission Trading System	PR	Performance Requirement
		EU	European Union	PTI	Portfolio Transition Impact
		FDI	Foreign Direct Investment	R&D	Research and Development
		FI	Financial Institution	RE	Renewable Energy
		GCAP	Green City Action Plan	RO	Resident Office
		GDP	Gross Domestic Product	RSF	Risk Sharing Facility
		GEFF	Green Economy Financing Facility	SCF	Strategic and Capital Framework
		GET	Green Economy Transition	SK	Samruk Kazyna
		GHG	Greenhouse Gas	SME	Small and Medium sized Enterprise
		GVA	Gross Value Added	SOE	State-owned Enterprise
		GVC	Global Value Chains	SPO	Secondary Public Offering
		HR	Human Resources	TC	Technical Cooperation
		ICA	Industry, Commerce & Agribusiness	TFP	Trade Finance Programme
		ICT	Information and communications Technology	VC	Venture Capital
		IEA	International Energy Agency	VCCP	Value Chain Competitiveness Programme
		IFI	International Financial Institution	VET	Vocational Education and Training
		ILO	International Labour Organisation	WiB	Women in Business Programme
		IT	Information Technology	YiB	Youth in Business Programme



Since the last Country Strategy for Kazakhstan was approved in July 2017, there has been mixed progress with its commitment to and application of Article 1 principles as set out in the Articles Establishing the Bank. In March 2019, First President Nazarbayev stood down from the presidency and, in early presidential elections in June 2019, Kassym-Jomart Tokayev was elected president. International election observers gave an overall critical assessment of the 2019 presidential elections and the 2021 parliamentary elections. President Tokayev put a new emphasis on political reform with a series of incremental measures being implemented in 2020-21. In January 2022, there was an unprecedented wave of protests, which culminated in violent riots in Almaty and the deployment of a CSTO peacekeeping mission. President Tokayev has established an Interdepartmental Committee to investigate alleged human rights violations. In March 2022, he set out further reforms in the political and judicial areas. These moves have been generally welcomed by relevant international bodies, but CSOs have criticised their scope and expressed frustration at the pace of change.

Situated at the heart of the Asian continent and the crossroads between Asia and Europe, Kazakhstan joined the group of middle-income economies in 2006, benefitting from vast natural resources and a centralised governing structure that saw the country decisively through the transition of the 1990s. Yet, going forward, the country faces formidable challenges to navigate safely into a sustainable growth model, that reconciles its green ambitions with the need to integrate its population across its vast distances, whilst ensuring a level playing field that allows for the emergence of a solid small and medium-sized corporate sector. Transition gaps remain particularly acute in the green space, where coal continues to dominate the country's electricity generation and low resource efficiency across water, energy and waste management, and the inclusion space, where the country's extreme regional diversity in natural resource endowment, soil and climate conditions, and demographics and industry structure creates unique social and economic inclusion challenges. Likewise, despite its notable strong performance on e-government services and affordability, more needs to be done to help its private sector (particularly SMEs) and citizens join in the country's digital transition. In the last two years, the country experienced increased vulnerabilities as a result of oil price drop, the COVID-19 pandemic and, more recently, the war on Ukraine and significant supply chain disruptions; however, through extensive use of support measures, the government has so far managed to mitigate the negative effect on economy and population.

EBRD is well positioned to help Kazakhstan navigate its vast challenges to meet its net zero ambitions for 2060, including increasing its share of renewable energy and more energy and resource efficient modes of economic activity. The Bank will equally continue supporting inclusion through creating quality employment opportunities, in particular for women, youth and the population in remote areas, access to finance and reaching deep into the regions to businesses, municipalities and importantly improving intra-regional connectivity.



In addition, and in line with the new Strategic and Capital Framework 2021-25, the Bank is well suited to explore opportunities to help the country's digital transformation through supporting digital strategies, supporting innovative scale-ups and digitalisation of the private sector, and advancing digital components in key infrastructure projects.

Throughout, the Bank will play to its *forte* and promote intra and inter-regional connectivity to help the country fully leverage its geographic advantages and become a regional hub for trade, finance and transport. The Bank's investment and policy activities will remain guided by the notion of additionality to deliver on the following strategic priorities in Kazakhstan in 2022-2027:

- *Fostering Private Sector Competitiveness, Connectivity and Strengthening Economic Governance;*
- *Support Kazakhstan's Green Pathway to Carbon Neutrality and Climate Resilience;*
- *Promote Economic Inclusion and Gender Equality Through Private Sector Engagement.*

# Kazakhstan – EBRD Snapshot

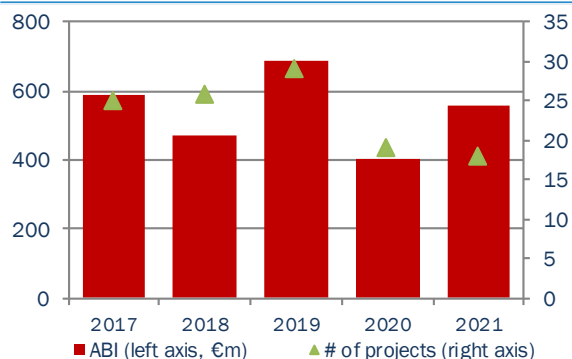


**European Bank**  
for Reconstruction and Development

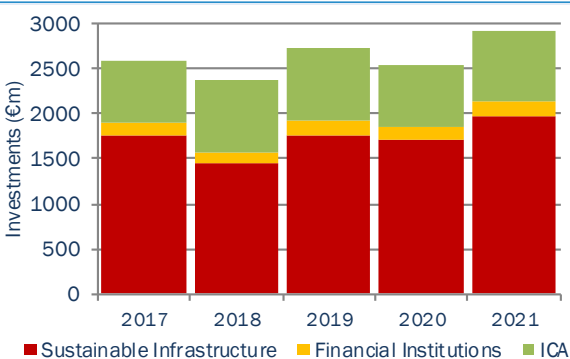
## EBRD Investment Activities in Kazakhstan (as of end- 2021)

Portfolio	€2,917m	Active projects	125
Equity share	4%	Operating assets	€1,703m
Private Sector Share <sup>1</sup>	60%	Net cum. investment	€9,123m

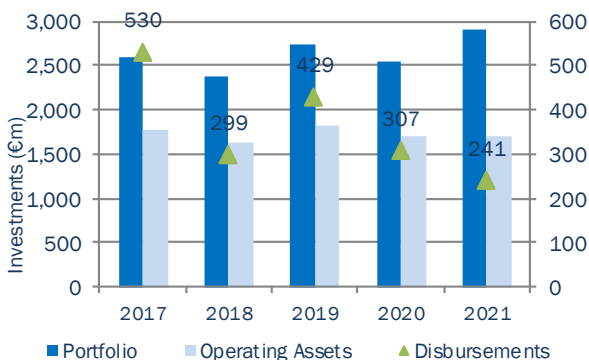
## ABI and Operations



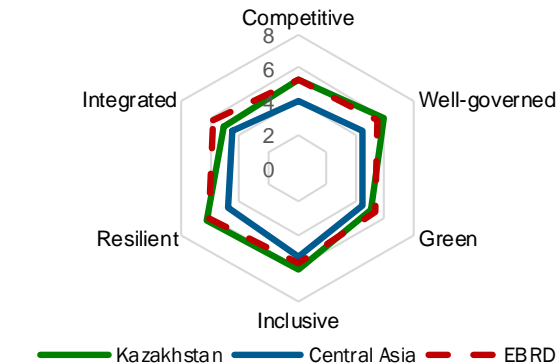
## Portfolio Composition



## Portfolio Dynamics



## Transition Gaps <sup>2</sup>



## Country Context Figures

	Kazakhstan	Comparators
Population (million) (2021)	19.1	Azerbaijan (10.1) Russia (146.2) Uzbekistan (35.2)
GDP per capita (PPP, USD) <sup>3</sup> (2020)	26,754.4	Azerbaijan (14,479.71) Russia (29,812) Uzbekistan (7,734)
WEF Global Competitiveness Index (2019) (out of 141 economies)	55th	Azerbaijan (58th) Russia (43rd) Uzbekistan (n/a)
Unemployment (%; ILO est) <sup>4</sup> (2021)	4.9	Azerbaijan (6.6) Russia (5.0) Uzbekistan (7.2)
Youth unemployment (%; ILO est.) <sup>4</sup> (2021)	3.7	Azerbaijan (16.5) Russia (16.9) Uzbekistan (15.9)
Female labour force participation (%; ILO est.) <sup>4</sup> (2021)	63.3	Azerbaijan (60.4) Russia (54.5) Uzbekistan (44.9)
Energy intensity (TPES/GDP) <sup>5</sup> (2019)	14.5	Azerbaijan (12.5) Russia (22.4) Uzbekistan (19.5)
Emission intensity/GDP (kgCO <sub>2</sub> /2015'\$) <sup>5</sup> (2019)	0.4	Azerbaijan (0.2) Russia (0.4) Uzbekistan (0.5)

<sup>1</sup> Cumulative Bank Investment: 5 year rolling basis on portfolio.

<sup>2</sup> Cf. EBRD Transition Report 2021-22. <sup>3</sup> World Bank WDI. <sup>4</sup> International Labour Organisation (estimates). <sup>5</sup> IEA's Energy Atlas.



# 1. Implementation of Previous Strategy (2017-2021)

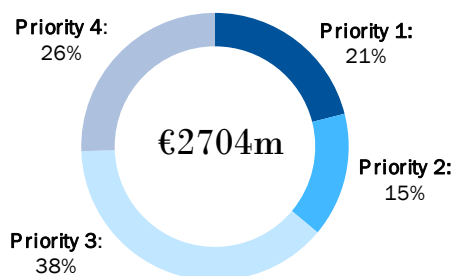
## 1.1. Key Transition Results Achieved during previous Country Strategy



**European Bank**  
for Reconstruction and Development

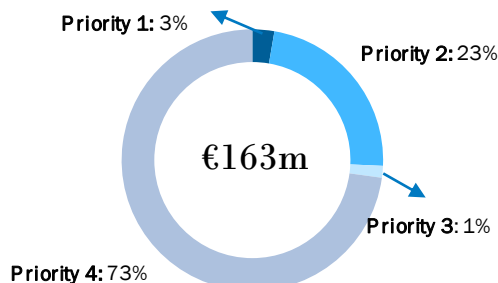
### Strategic Alignment 2017-2021

#### Annual Business Investment (ABI)

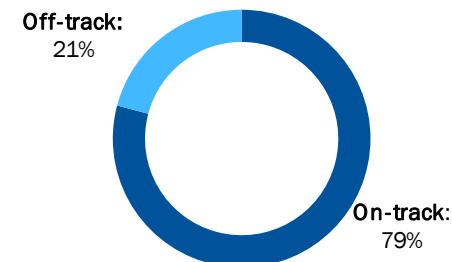


GET Share: 34%

#### Technical Assistance and Investment Grants



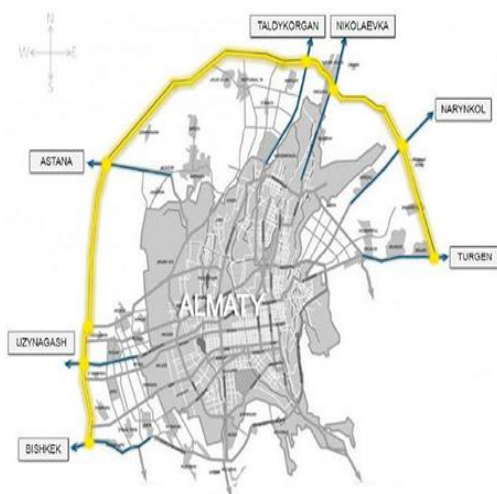
### Transition Impact Performance\*



ETI: 68.9  
PTI: 69.1

### Priority 1: Balancing the roles of the state and the private sector

#### BAKAD Project



#### Key Transition Results

- Supported the PPP market with the aim of attracting private sector investments; including by:
  - Introducing amendments to the Law on Concessions and PPP Law to address critical issues related to structuring bankable PPP projects (as part of structuring of BAKAD PPP project)
  - Providing €8m financing to Pavlodar Street Lighting Modernisation PPP
  - Introducing legal amendments to the healthcare code that allow facility model management and progress on healthcare PPP programme
  - Introducing Performance Based Management Contracts in road projects for the first time in the country
- Provided Shymkent Water, a private water utility company with a €12.5m loan to improve the quality of water and wastewater services in Shymkent city and increase private sector participation in infrastructure and municipal services.
- Helped to improve corporate governance of KTZ and other SK Holding companies through TCs related to projects,
- Attracted foreign direct investments in the amount of €761m from France, UK, Germany, China among others to support the renewable energy sector.
- Supported the expansion of private sector companies by signing a €21m loan to the local subsidiary of a Turkish conglomerate, involved in distribution and after-sales service of heavy machinery in Central Asia.
- Improved the operational efficiency of private companies by providing a local producer with a €2m loan to acquire efficient equipment in compliance with the requirements of the Environmental Protection Agency.
- Supported the acquisition and modernization of Almaty International Airport by TAV airports, the largest FDI transaction in CA in 2021, through €130m equivalent debt financing.

**PUBLIC**

\* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

# 1. Implementation of Previous Strategy (2017-2021)

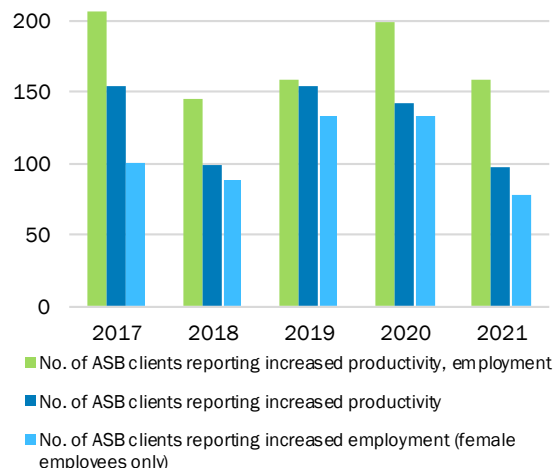


**European Bank**  
for Reconstruction and Development

## 1.1. Key Transition Results Achieved during previous Country Strategy

### Priority 2: Broadening access to finance, strengthening the banking sector and developing local capital markets

#### ASB Results



#### Key Transition Results

- Increased and diversified MSMEs access to finance by providing local currency credit lines to four PFIs in the amount of €46.5m and signing the first Risk Sharing Loan of €1m (50% guaranteed by EBRD) in cooperation with Bank CenterCredit to support local packaging producer.
- Supported women entrepreneurs via the Bank's WiB programme through dedicated credit lines with two microfinance institutions (KMF and Arnur Credit), and three Banks (including Bank CenterCredit, Forte Bank, and Kassa Nova Bank), advisory, and training to help women develop their financial and entrepreneurial skills.
- Facilitated access to training and advisory services to over 1500 SMEs via the Bank's ASB and WiB programmes.
- Spearheaded establishment of a working group under the National Bank to develop new indicators (benchmarks) in Kazakhstan: the working group since approved TONIA as the key one-day risk-free benchmark for KZT, a new methodology for calculating TONIA as well as new compounded indicators (TONIA Compounded Index and Rates).
- Worked with the National Bank of Kazakhstan to enhance and upgrade the derivatives legislation law, which has been submitted to the government for approval.
- Facilitated resolution of NPL issue by conducting a TC project, in cooperation with the banking sector regulators, to promote the establishment of an efficient private sector driven NPLs market.
- Issued €1.3bn local currency CPI linked bonds as well as the inaugural TONIA index-linked bond (EUR 25.4m equivalent in KZT) to fund the Bank's activities in the country.

### Priority 3: Enhancing inter-regional connectivity and international integration

#### Logistics Performance Index



#### Key Transition Results

- Successfully facilitated the financial close of Bakad PPP project, a 66-kilometre ring road in Almaty, the largest PPP in Central Asia and extended a €190m loan to help remove a major transport bottleneck.
- Extended a €287m loan to Kazakhstan Road agency in local currency to support the rehabilitation of 284km long existing roads and the construction of 26km interregional roads, and supported governance reform of the agency.
- Signed €18.4m loan to Eastcomtrans, one of the largest private rail logistic operators in Kazakhstan, to restructure its balance sheet and enhance its resilience in the face of COVID-19 crisis.
- Extended EBRD first financing to a private freight railway station, Temirservice Astana, €3m loan in local currency
- Participated in the bond issue of KTZ (€42m) to support its effort to raise debt financing through international capital markets and improve its financial sustainability by refinancing existing hard currency debt.
- Supported regional trade of textile and agricultural products by launching cross-regional B2B meetings between Kazakhstan and Mongolian SMEs via ASB programme.
- Improved procurement standards for sovereign projects to ensure effectiveness and timely disbursements.
- Completed study to identify missing transport and soft connectivity links, hampering development of Kazakhstan as regional hub.

# 1. Implementation of Previous Strategy (2017-2021)

## 1.1. Key Transition Results Achieved during previous Country Strategy



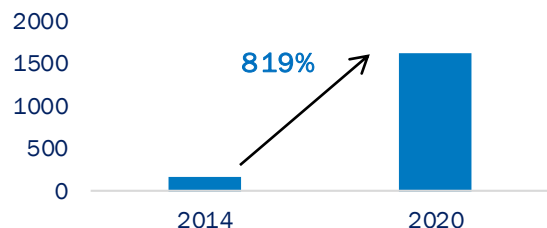
European Bank  
for Reconstruction and Development

### Priority 4: Promoting green economy transition

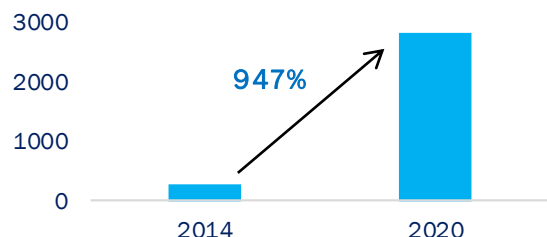
#### GET

#### Key Transition Results

Installed RE capacity (MW)



Electricity generation from RES (mln kWh)



- Supported Kazakhstan transition to renewable energy power generation by financing the construction and/or operation of 12 solar projects for 588 MW with the total value of EBRD financing for €328m (including M-Kat and Chulakkurgan Solar), including the first ever project under the renewable energy auction scheme (Karaganda solar extension), one wind power plant for €21m (Zhanatas Wind Farm), and the modernization of Shardara HPP (€27m).
- Continued to improve bankability of RE projects, with the most recent changes to the legislation on the extension of the PPA period from 15 to 20 years and strengthening the creditworthiness of the Financial Settlement Centre.
- Launched EBRD Green Economy Financing Facility with €4m KMF institution and €17.4m loan with Bank Centre Credit.
- Launched Green Cities Action Plan development for Almaty, the largest city in Kazakhstan facing significant air quality issues.
- Signed Green Cities MoU with two other cities (Ust-Kamenogorsk and Semey) aimed at identifying, prioritising and developing interventions to address its environmental and urban challenges, and further replicating them across the country.
- Supported the rehabilitation of water and wastewater utilities in the city of Shymkent via a €13.8m loan to Shymkent Water private company to improve the quality and coverage of water and wastewater services, reduce losses, and cope with increased volume of demand.
- Advised on the draft of Low-Emissions Development Strategy of Kazakhstan with particular emphasis on scaling up Renewable Energy, Kazakhstan's updated Nationally Determined Contribution, and the re-launching and enhancement of a functional domestic Emissions Trading System.
- Supported 9 SME local consultancy projects and 1 SME International advisory project, within Global Environment Facility under the EBRD' Resource Efficiency Transformation Program.



# 1. Implementation of Previous Strategy (2017-2021)

## 1.2. Challenges to Implementation and Key Lessons



European Bank  
for Reconstruction and Development

### Context for Implementation

Over the last strategy period, Kazakhstan has witnessed significant political and economic changes. After 30 years of presidency, First President Nazarbayev stood down in March 2019 and Kassym-Jomart Tokayev was elected President. Tokayev's renewed focus on political reforms has been further reinforced following January 2022 protests, when advancements in the political and judicial areas have been prioritized. The country entered a moderate recession in 2020 caused by lower commodity prices, a cut in oil production, and Covid-19-related disruptions. Nonetheless, the government's comprehensive COVID-19 crisis mitigation package, strong export levels and increased domestic demand helped the economy's resilience throughout 2021. Some progress has occurred in private sector participation: a landmark PPP is set to begin following the conclusion of an eight-year effort to put in place the legal framework for foreign-invested, international-standard PPP projects. A slower growth is expected in 2022, with the war on Ukraine and supply chain disruptions increasing uncertainties around the country's growth prospects. Despite significant reforms occurred in the last strategy period, substantial transition gaps remain, including in the green space, where coal continues to dominate the country's electricity generation, and in the inclusion space, where the country's extreme regional diversity in natural resource endowment, climate conditions, and demographics continue to create unique social and economic inclusion challenges. Since starting operations in 1992, the EBRD has invested over €9bn in 296 projects in Kazakhstan; the focus during the 2017-2021 strategic period was on supporting investments in renewable energy and energy efficiency, enhancing competitiveness and regional integration, strengthening local banks, and balancing the roles of the state and the private sector.

### Implementation Challenges

- PEP and integrity issues severely constrain EBRD's ability to provide its contribution to domestic private sector activity, in particular to promote green transition and inclusive HR policies at large private corporates.
- Large-scale state support programs distort banking sector and limit EBRD's ability to lend to the local private sector (with agribusiness and manufacturing & services most affected).
- PPPs continue to be a challenge and different levels of understanding among government officials concerning the timing and costs of PPP projects.
- Tariff freeze introduced in 2019, and extended after January 2022 events, continues to hinder investment in the public and municipal sector, including into projects focussed on greening of municipal companies.
- Challenges with access to reasonable local currency (despite there are no restrictions), with shallow domestic money market and high dependency on pension fund as a source of funding, which has competing uses of its liquidity.

### Key Lessons & Way Forward

- Support and seek out the local private sector companies and work actively on the entry of FDIs into the country.
- Explore opportunities to engage with authorities to change the subsidy system and make it more incentive-compatible in the medium term, and build a viable and bankable project pipeline with a special focus on future emerging leaders.
- Continue building on successful PPP projects, launch new highly visible PPP projects, and continue engaging with the government both to advocate for the benefit of a PPP model and to help address any remaining shortcomings in the regulatory framework.
- Continue working with the government to create conditions for private sector investments in municipal infrastructure, including in energy efficiency investment.
- Continue work on developing effective money markets and increase effort to attract private investment into EBRD bonds, in addition to support the government in establishing a more efficient macro framework.

## 2. Economic Context

### 2.1. Macroeconomic Context and Outlook for Strategy Period



European Bank  
for Reconstruction and Development

#### Kazakhstan - Main Macroeconomic Indicators

	2018	2019	2020	2021
GDP growth (% y-o-y)	4.1	4.5	-2.6	4.0
CPI inflation (% avg.)	6.0	5.2	6.8	8.0
Government balance (% of GDP)	2.6	-0.6	-7.0	-4.1
Current account balance (% of GDP)	-0.1	-4.0	-3.8	-3.0
Net FDI (% of GDP) [minus indicates inflow]	-2.6	-3.2	-3.5	NA
External debt (% of GDP)	89.4	87.8	96.1	86.5
Gross reserves (% of GDP)	17.2	15.9	20.8	18.0
General government gross debt (% of GDP)	20.3	19.9	26.4	24.9
Unemployment rate (%)	4.8	4.8	4.9	4.9
Nominal GDP (\$bn)	179.3	181.7	171.1	190.8

**Kazakhstan's productivity declined in the past five years highlighting the need for new growth drivers.** Growth rate of productivity slowed down to 2.9% in 2014-19, as compared to 4.8% in 2008-13 and 7.7% in 1999-2007. Mining activities continue to dominate the economy. The oil and gas sector accounted for 13% of the country's GVA in 2018; including its contribution to other sectors, the share of oil and gas complex was 22.6%, compared to 22.9% in 2013, showing no progress with diversification.

**The outbreak of the coronavirus crisis and the subsequent collapse of commodity prices has led to a recession in 2020.** Real GDP contracted by 2.5% y/y, amid notable decline in exports and contraction of domestic demand. On the production side, transport and trade sectors were hit hardest (contracting by 17% and 7% y/y, respectively).

**The fiscal discipline has weakened significantly.** In 2020, the government launched a stimulus package of about 9% of GDP, which was one of the largest in the region. The government has also borrowed from international financial institutions. Public debt rose from 19.9% of GDP in 2019 to 24.9% of GDP in 2021. In April 2022, the amount of guaranteed transfer from the National Fund increased from 1.6 to 4 trillion tenge, further softening the country's fiscal stance. Implementation of a countercyclical fiscal rule from 2023 will help stabilize government spending.

**The economy is expected to grow at a slower pace in 2022.** Kazakhstan's growth prospects are undermined by the Russia's war on Ukraine and its consequences. While the country may benefit from elevated commodity prices, it will need to seek replacement suppliers and secure alternative transportation routes. The extra costs of more complicated trade logistics will likely be passed onto Kazakh consumers and producers, adding to inflationary pressures and detracting from the country's international competitiveness.

## 2. Economic Context

### 2.2. Key Transition Challenges

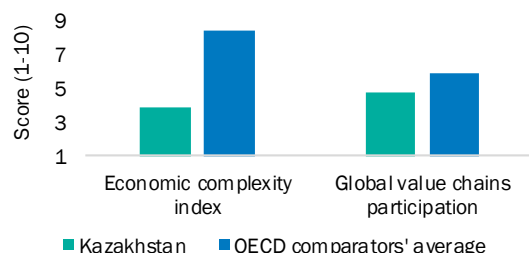


European Bank  
for Reconstruction and Development

#### Competitive (5.32)

- **Significant presence of SOEs** and large companies owned by politically-exposed persons directly and indirectly constrains private sector development, particularly in the mid-size segment.
- **SMEs lag in productivity behind large enterprises, are domestically oriented, and not innovative.** Only 22% of SMEs export. Few grow to medium-size.
- While the overall business environment appears favourable, **the competition policy framework needs further strengthening.**
- **Skill shortages and labour market mismatch** detract from the country's attractiveness for investment in non-mining activities.
- Kazakhstan **lags behind OECD comparators' average in economic complexity and integration into GVCs.** Compared to a decade prior, the economy has become less complex. Kazakhstan mainly exports primary and intermediate inputs and makes limited use of imported inputs for its exports.
- Kazakhstan is categorized as an "intermediate" knowledge economy with a **large gap in the innovation ecosystem pillar.**

#### Economic complexity index and GVC participation

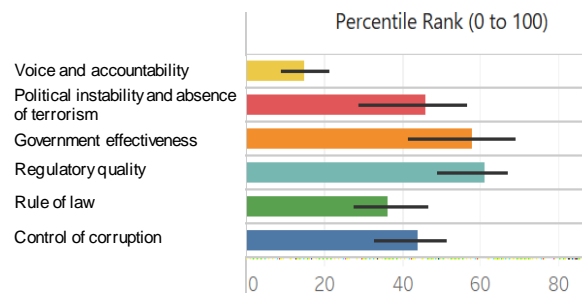


Source: CID Harvard The Atlas of Economic Complexity

#### Well-governed (6.02)

- Kazakhstan's **performance is weakest in voice and accountability, rule of law, and control of corruption** areas in 2019 World Bank World Governance Indicators. Improvements have been observed in government effectiveness and regulatory quality.
- Despite significant efforts in recent years, **rule of law remains weak.** The judicial system is subject to political interference.
- Kazakhstan ranked 94th out of 180 countries in the 2020 Corruption Perceptions Index. Weaknesses in public administration contributes to corruption, as perceived by the public.
- According to 2018 OECD assessment, **state-induced distortions** in Kazakhstan's economy are higher than among a large group of OECD and non-OECD economies.
- **Corporate governance framework of SOEs has to be improved.** Challenges include compliance with disclosure and reporting requirements, and a lack of a single portfolio-level monitoring for a full set of SOEs.

#### Governance indicators

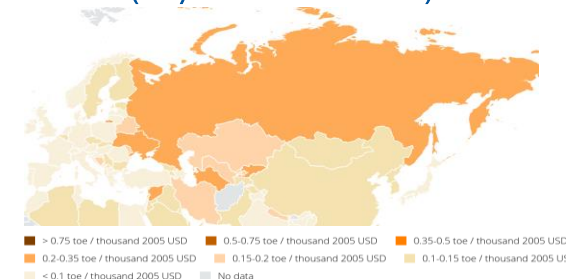


Source: World Bank's Worldwide Governance Indicators 2019

#### Green (5.02)

- Kazakhstan has **one of the highest energy intensities in the EBRD region.** (2.3 times higher compared to that of the EU).
- **Continued investment in renewable energy is needed** to phase out aging and high emitting assets and reach carbon neutrality.
- The country is **short on dispatchable generation capacity** that is crucial for the network to absorb larger volumes of intermittent RES. 80% of electricity is produced by coal-fired plants.
- Very high potential for energy efficiency gains in buildings and industry is not realized since **low regulated energy and utility tariffs act as a disincentive** for behavioural changes and investment in energy saving technologies.
- **85% of total waste is disposed at poorly-managed dumpsites** that lack basic sanitation and environmental protection measures.
- Uneven distribution of water resources along with excessive and often uncontrolled withdrawal for irrigation are a major cause of **water scarcity.**

#### Energy Intensity (TES/GDP PPP) (toe/thousand 2015 USD)



Source: IEA

## 2. Economic Context

### 2.2. Key Transition Challenges

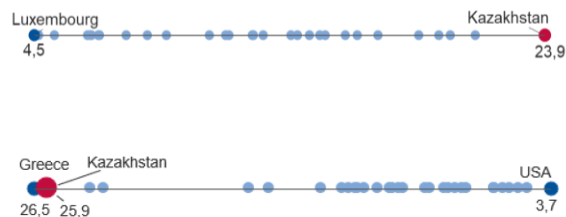


European Bank  
for Reconstruction and Development

#### Inclusive (6.11)

- Kazakhstan suffers from **high level of inequality of opportunity**, ranking behind its neighbours and high-income OECD countries.
- The **shares of self-employment** (ca. quarter of total employment) **and vulnerable employment are high**. The majority of workers are employed in low-productivity activities.
- Efforts will need to be focused on designing and implementing retraining programmes for **workers affected by the green economy transition**.
- A high share of population holds traditional biases towards women and gender roles. **Share of women out-of-labour force is 1.5 higher than that of men**. Women's pay is around 67.8% of men's pay, with larger discrepancies observed in the country's west.
- The education system does not sufficiently address private sector needs, hence a **labour market mismatch**.

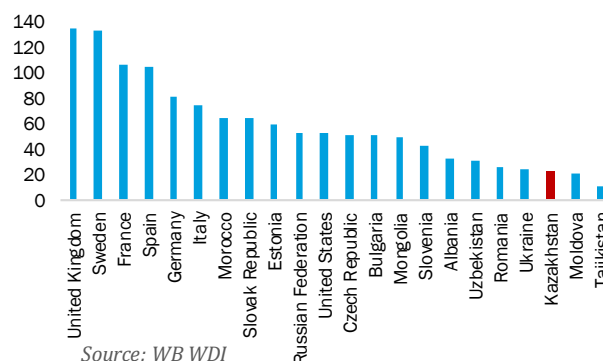
#### Self-employment and vulnerable employment, %



#### Resilient (6.21)

- Banking sector is small relative to the country's economic output**, reflecting reliance of major sectors (e.g. energy, mining) on external funding and SOE access to other domestic source of financing. Credit penetration is low with credit-to-GDP ratio estimated at 23% in 2020.
- State interference in the economy remains pervasive** including via state support programs.
- The recently established financial regulator has made important steps to improve oversight but efforts need to continue** to fully transition to risk-based supervisory framework.
- Capital markets are shallow** and hampered by fragmentation.
- The country **lacks an independent energy regulator, and energy tariffs are not fully cost reflective**.

#### Domestic credit to private sector by banks % of GDP, 2019

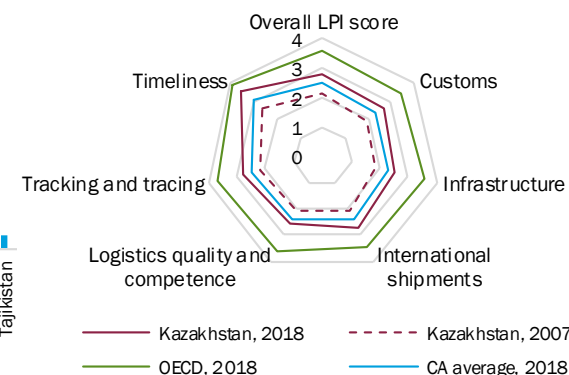


Source: WB WDI

#### Integrated (5.03)

- Trade openness is below the EBRD average**. Exports and imports of goods and services as a share of GDP is 59% (compared to EBRD average of 97%).
- Financial openness is lagging behind the EBRD and CA average**.
- The quality of road transport is in the bottom 10 of EBRD countries**. Efficiency and access to air transport and seaport services is also below average.
- Quality of logistics and customs improved but remains below OECD standards**. The quality of infrastructure, logistics and competence, the ability to track and trace are ranked the lowest.
- Despite recent improvements, **many border crossing points lack adequate freight processing and customs capacity**.
- Number of road fatalities is one of the highest in the EBRD region**.

#### Logistics Performance Index, 2018



Source: WB LPI

Source: WEF 2020, national authorities

# 3. Government Priorities and Stakeholder Engagement



European Bank  
for Reconstruction and Development

## 3.1. Government Reform Priorities

“Kazakhstan-2050” is a key strategy document guiding the country’s long-term development. National Development Plan 2025, Territorial Development Plan and the National Security Strategy are supporting documents specifying reform specifics. Among some of the major reform priorities are effectiveness and affordability of the healthcare system; diminishing state presence in the economy; improving industrial policy and business support measures, including through transparent and competitive public procurement mechanisms; promoting regional development with an eye to equalizing opportunities across Kazakhstan; transitioning to green economy; advancing education and productive employment.

The government announced additional priorities following the **January 2022 events** and the **war on Ukraine**. Particularly, during his **Annual address to the nation** in March 2022, President Tokayev emphasized the need to eliminate all artificial monopolies – both in the economy and politics – and the urgency of **transitioning from a “super-presidential” form of government to a presidential republic with a strong parliament** by:

- Reconsidering the powers of the President
- Reformatting the representative branch of government
- Shifting to a hybrid proportionate/majoritarian electoral system
- Expanding opportunities for the development of the a multi-party system
- Streamlining the election process
- Strengthening human rights institutions
- Enhancing opportunities for independent media and civil society
- Improving the administrative-territorial structure of the country
- Decentralizing local self-government

Additionally, the following **anti-crisis measures** were prioritized:

- Improved targeting of state support measures for the agro-industrial complex
- Reducing bureaucratic red tape
- Ensuring financial and macroeconomic stability
- Addressing challenges in transport and supply chains;
- Supporting non-extractive production activities and exports
- Attracting FDI

## 3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Support the green economy transition and Kazakhstan’s pathway to carbon neutrality.
- Strengthen the private sector in the economy and its competitiveness through increased digitalization, attractiveness for FDI and improved governance policies.
- Support women, youth and regional economic inclusion through improved access to finance and skills development.
- Support government in designing cost reflective tariff policies in regulated sectors to enhance financing in municipal infrastructure.
- Further develop money and capital market infrastructures and enhance the use of Tonia reference rate.

## 3.3. Key Messages from Civil Society to EBRD

- CSOs raised concerns of high levels of quasi-monopolies across the economy and its severe repercussions on competitiveness, including barriers to growth for SMEs, which will however be key to developing a strong private sector.
- CSOs expressed concerns regarding the strong government presence in the economy, reported attempts to control communication platforms as well as a systemic corruption across all sectors. They further noted the administrative burdens for commercial organisations/non-profitable associations, with the latter being treated with a discriminatory approach and often subject to the authorities’ influence.
- CSOs noted that further development of infrastructure is necessary and of utmost importance, along with judiciary, political and constitutional reforms. They highlighted the importance of addressing the problem of low wages, especially in the female labour force, and encouraged support of women entrepreneurship in the micro business sector. The focus on green transition was welcomed as a key enabler for the transformation of the economy.



# 4. Defining Kazakhstan's Country Strategy Priorities



**European Bank**  
for Reconstruction and Development

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2022-2027)	What We Want to see in 2027
<ul style="list-style-type: none"> <li>Low digitalization of businesses (118<sup>th</sup> /131 countries in Global Innovation Index)</li> <li>Underdeveloped start up &amp; venture capital scene; shortage of skilled labour.</li> <li>Low levels of competitiveness and expertise in non-extractive sectors needs.</li> <li>Significant transport and logistics bottlenecks, high trading costs x borders.</li> <li>Low in-bound FDI.</li> <li>Low liquidity in secondary equity markets &amp; underdeveloped corporate bond market</li> <li>High barriers to participation of int'l investors in capital markets.</li> </ul>	<ul style="list-style-type: none"> <li>Digitalisation key government priority and country leader in e-government, but highly restrictive regulation in e-communication.</li> <li>Affordability of mobile/fixed/broadband allows for broad coverage of population.</li> <li>Infrastructure Dev't Plan (\$16bn) for 20-25 &amp; commitment to green transport.</li> <li>Some PPP successes, but expanding PPPs to other sectors will require significant effort.</li> <li>Commitment to improving investment attractiveness through the Foreign Investors Council and other channels.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to rolling out support for digitalization as part of SCF 2021-25.</li> <li>Growing experience in supporting innovation, through equity/quasi-equity risk-taking.</li> <li>Established track record in supporting transport and logistics improvement including through PPP.</li> <li>Extensive experience in Foreign Investor Council with more active involvement.</li> <li>Strong track record in money and capital markets development, incl. capacity-building.</li> <li>Expertise in designing and investing into NPL resolution solutions.</li> </ul>	<b>Fostering Private Sector Competitiveness, Connectivity and Strengthening Economic Governance</b>	<ul style="list-style-type: none"> <li>Increased levels of digitalization and innovation</li> <li>Increased in-bound FDI, expertise and standards and improved international connectivity</li> <li>Improved economic governance and skills starting in the financial sector</li> </ul>
<ul style="list-style-type: none"> <li>Coal accounts for over 70% of the country's electricity generation.</li> <li>RE constitutes 3% of total electricity generation.</li> <li>High dependence on fossil fuels.</li> <li>Low resource efficiency and climate resilience across economy.</li> <li>Insufficient comprehensive planning of greening of municipalities.</li> <li>Outdated waste management system and limited recycling capabilities.</li> <li>Existing Emission Trading Scheme needs to be strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>Government target renewable energy share to reach 50% by 2050.</li> <li>Kazakhstan commitment to reaching carbon neutrality by 2060.</li> <li>Kazakhstan plans to half the energy intensity of the country by 2050 under the Green Economy Concept (GEC).</li> <li>Kazakhstan has committed to major irrigation improvements.</li> <li>New environmental code requiring large companies with high emissions to replace old technologies by 2025.</li> <li>Tariff increases in municipal sector will remain challenging due to social considerations.</li> </ul>	<ul style="list-style-type: none"> <li>Track record financing and advising on renewable energy projects and regulatory framework.</li> <li>Strong record in increasing electrical grid capacity to absorb RE.</li> <li>Track record on engagement with authorities on supporting ETS to transition to cleaner fuels.</li> <li>EBRD GCAP for more sustainable cities, infrastructure and mitigation of climate change impact.</li> <li>Dedicated financial support and institutional knowhow for resource efficiency &amp; climate resilience (incl. GEFF).</li> </ul>	<b>Support Kazakhstan's Green Pathway to Carbon Neutrality and Climate Resilience</b>	<ul style="list-style-type: none"> <li>Increased renewable energy</li> <li>More decarbonised energy sector</li> <li>Improved resource efficiency and climate resilience</li> </ul>
<ul style="list-style-type: none"> <li>Low percentage of women in entrepreneurship.</li> <li>SMEs access to finance is limited and a key constraint to their development, with regions particularly affected.</li> <li>Shortage of skilled labour in particular in the IT sector (&lt; 30% of IT graduates are employable); low level of digital literacy.</li> <li>Limited productive employment opportunities in the regions.</li> <li>Disparity in the economic and social development of the regions of Kazakhstan.</li> </ul>	<ul style="list-style-type: none"> <li>Development of the National Occupational Skills Standards by the government (NOSS), but limited implementation capacity by sectoral associations.</li> <li>Government commitment to improve connectivity throughout the country and develop the IT sector.</li> <li>Government support for Women in Business (including financing).</li> <li>COVID-19 anti-crises measure increased state support programs targeting SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>Building expertise on promoting work based trainings and skills enhancing solutions (including the ICT sector).</li> <li>Support for Women in Business via dedicated financial products and mentorship.</li> <li>EBRD can promote greater financial inclusion, including tailored support for underserved segments (WIB, and regional ASB).</li> <li>Leading PPP funding structure and financing to build roads and municipal infrastructure.</li> <li>Support logistics infrastructure (e.g. warehousing) and last mile services.</li> </ul>	<b>Promote Economic Inclusion and Gender Equality Through Private Sector Engagement</b>	<ul style="list-style-type: none"> <li>Increased access to employment opportunities and skills</li> <li>Improved access to finance</li> <li>Reduced intra-regional disparities</li> </ul>

## 5. Activities and Results Framework



**European Bank**  
for Reconstruction and Development

### Priority 1: Fostering Private Sector Competitiveness, Connectivity and Strengthening Economic Governance

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators (Outcomes)
Increased levels of digitalization and innovation	<ul style="list-style-type: none"> <li>Support digitalisation of private sector companies as well as enhancing digital service providers, and digital infrastructure, through direct financing and advisory.</li> <li>Support creation of VC ecosystem, including developing regulation and supporting incubators and accelerators, coupled with investing in equity/VC funds and start-ups.</li> <li>Support formulation of State Digitalisation strategies (e.g. defining digitalisation priorities) including helping bring in the private sector perspective.</li> <li>Advance smart technology in municipal, transport, and energy companies, including through the digital twin cities concept.</li> </ul>	<ul style="list-style-type: none"> <li>No. of clients introducing new digital technology or product</li> <li>Regulatory, legal or institutional frameworks improved for enabling digitalisation (e.g. State digitalisation strategies approved, regulation for VC ecosystem developed)</li> </ul>
Increased in-bound FDI, expertise and standards and improved international connectivity	<ul style="list-style-type: none"> <li>Finance transport and logistics infrastructure, including roads, railways and associated superstructure, warehouses, and dry ports, including under the EU Global Gateway initiative, to develop alternative transport routes (e.g. Middle Corridor).</li> <li>Support import substitution and localisation of supply chains and provide finance and advisory for transport and logistics companies.</li> <li>Enhance contribution of foreign companies to Kazakhstan's competitiveness through support of the Foreign Investors Council Association.</li> <li>Provide finance and advisory service (TC) to private sector companies to adopt innovative practices and new products, and improved governance including through in-bound FDI.</li> <li>Strengthen regulatory framework for PPPs (e.g. hospitals, roads, water and wastewater) to attract private capital and expertise.</li> </ul>	<ul style="list-style-type: none"> <li>Number of tenders of PPPs</li> <li>Total volume of FDI facilitated</li> </ul>
Improved economic governance and skills starting in the financial sector	<ul style="list-style-type: none"> <li>Provide finance and capacity building (e.g. risk management and corporate governance, including climate corporate governance) to partner banks (including Development Bank of Kazakhstan), microfinance institutions, and NBFIs.</li> <li>Advising financial regulator on improving corporate governance, risk management and other aspects of financial sector regulation, e.g. ESG.</li> <li>Support NPL resolution efforts through policy advisory on regulatory framework (e.g. creating conditions for private sector involvement in NPL markets).</li> <li>Advance development of an active and effective money and capital market, including enhanced use of TONIA reference rate.</li> <li>Scale up the Trade Facilitation Programme, including digital trade finance.</li> <li>Explore opportunities for capacity building with Competition Authority.</li> <li>Support authorities' reform efforts in governance (e.g. procurement practices, international tenders) through policy advisory.</li> </ul>	<ul style="list-style-type: none"> <li>Number of clients introducing improved standards as targeted</li> <li>Number/volume of MSME subloans disbursed</li> <li>Regulatory frameworks improved (financial regulatory policy including NPL resolution)</li> </ul>

## 5. Activities and Results Framework



**European Bank**  
for Reconstruction and Development

### Priority 2: Support Kazakhstan's Green Pathway to Carbon Neutrality and Climate Resilience

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators (Outcomes)
Increased renewable energy	<ul style="list-style-type: none"> <li>Continue work on improving the bankability of the regulatory framework for renewables, including expanding of the regulations to cover energy storage.</li> <li>Finance renewable energy projects, including increasing the share of wind in EBRD's portfolio and advancing storage solutions.</li> <li>Support the integration of renewables into the national power network and enhance the grid capacity to accommodate intermittent quantities.</li> <li>Financing to support energy balancing capacity for energy security.</li> </ul>	<ul style="list-style-type: none"> <li>Renewable energy capacity installed (MW)</li> <li>Renewable energy – electricity produced (MWh/y)</li> </ul>
More decarbonised energy sector	<ul style="list-style-type: none"> <li>Support policy development and financing of decarbonised and climate resilient integrated energy system (e.g. gas as a transition fuel and modernisation of gas infrastructure, green hydrogen) to reach carbon neutrality by 2060.</li> <li>Policy engagement to help advance carbon markets (e.g. through enhancing ETS).</li> <li>Continue to finance cleaner and more efficient energy generation to reduce emissions and air pollution, and facilitate coal to gas transition.</li> <li>Continue developing the energy sector related infrastructure, including as part of EBRD's Green GCAPs.</li> </ul>	<ul style="list-style-type: none"> <li>CO2 emissions reduced (kt/y) (Baseline TBA)</li> <li>More carbon neutral policies approved by authorities (including ETS)</li> </ul>
Improved resource efficiency and climate resilience	<ul style="list-style-type: none"> <li>Support authorities with development of Paris alignment strategies and / or implementation of climate plans for selective sectors, including EV ready roads, green transport infrastructure (e.g. increased use of railways, e-mobility and EVs), industrial and critical raw materials and mining sector.</li> <li>Finance and advise companies including SMEs on decarbonisation, resource and energy efficient and climate resilience solutions, and help ensure general Paris alignment of their investments.</li> <li>Scale up GEFF financing and leverage the GEFF infrastructure beyond partner institutions.</li> <li>Develop and finance green municipal and transport infrastructure projects (including water, wastewater, solid waste, and e-mobility along with capacity support to municipal companies (e.g. through GCAPs).</li> <li>Support reform of the regulatory framework in regulated sectors, including improving energy performance regulation.</li> <li>Support interventions that incentivise green consumer behaviour (e.g. financing for smart metering).</li> </ul>	<ul style="list-style-type: none"> <li>Energy saved (m3/y)</li> <li>Number/volume of GEFF subloans extended by partner banks</li> <li>Institutional framework improved to align with the Paris Agreement</li> </ul>

## 5. Activities and Results Framework



**European Bank**  
for Reconstruction and Development

### Priority 3: Promote Economic Inclusion and Gender Equality through Private Sector Engagement

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators (Outcomes)
Increased access to employment opportunities and skills	<ul style="list-style-type: none"> <li>Work with public and private sector clients to ensure that their policies and practices promote an inclusive and diverse workforce (e.g. gender and disability).</li> <li>Develop local skills provision—together with clients, such as VET schemes (including work based learning, and youth internship programmes), reflecting inter-alia digitalization, future of work and regional disparities (e.g. skills mismatch in the regions reliant on fossil fuel).</li> <li>Support joint public and private sector review of skills curricula and National Occupational Skills Standards, including for digital and green skills, to reflect labour market needs in the National Qualification Framework.</li> <li>Support the care economy through municipal investments in areas such as care facilities and associated skills programmes.</li> <li>Explore cooperation with Kazakhstan Stock Exchange to introduce Women on Board initiative.</li> </ul>	<ul style="list-style-type: none"> <li>Number of clients with improved equal opportunity practices</li> <li>Number of people enhancing skills as a result of training</li> </ul>
Improved access to finance	<ul style="list-style-type: none"> <li>Support women-led businesses, through access to finance, via dedicated credit lines as well as advisory services.</li> <li>Build the capacity of financial institutions on inclusion; e.g. developing gender, diversity, and inclusion action plans.</li> <li>Develop alternative financing mechanisms targeting groups and projects with limited access to traditional financing.</li> <li>Work with the financial regulator to promote inclusive lending practices by financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>Number/volume of Women in Business subloans disbursed</li> <li>Number of partner banks with improved practices (gender sensitive lending)</li> </ul>
Reduced intra-regional disparities	<ul style="list-style-type: none"> <li>Provide financing for businesses in the regions of Kazakhstan, both directly and indirectly through financial intermediaries.</li> <li>Promote corporate social responsibility activities in the regions to improve the local business environment.</li> <li>Offer advisory services to SMEs in the regions, with a special emphasis on western Kazakhstan, leveraging a broad RO network with private sector donors' participation.</li> <li>Improve intra-regional connectivity through investment in infrastructure.</li> <li>Finance municipal infrastructure and promote inclusive urban design and planning to improve economic opportunities in the regions.</li> <li>Support digital solutions (e.g. digital banking services) to connect people and businesses across regions.</li> </ul>	<ul style="list-style-type: none"> <li>Number of ASB clients reporting increased productivity</li> <li>Number of people benefitting from new/improved municipal infrastructure</li> </ul>

**Impact Indicator:** Percentage difference in labour force participation rate of men and women, ILOSTAT 2019.

## 6. Mapping of International Partners Complementarity in EBRD Business Areas



European Bank  
for Reconstruction and Development

EBRD Business Areas															
		Sectors								Cross-Cutting Themes					
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives				
Indicative average investments/ grants (€m, 2017-2021)		Agribusiness	TMT	Manufacturing & Services	Natural Resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business	
WB	95	€										P			
ADB*	89	€	P		€	€P	€P	€	€P	P	€P	€		€P	
IFC	61	€						€P	P	€		€	€	€	
EIB	34								€	€	€				
EU	3.5						€P				€P				
USAID	9						€P				€P	€P			
EBRD	540	€		€	€		€P	€P	€	€P	€P	€P	€P	€	

€ Area of significant investments  
P Area of significant policy engagement

● Focus mostly on private sector  
○ Focus mostly on public sector

### Potential Areas of cooperation



#### Green:

Continue cooperating with the EU and other partner IFIs in financing energy efficiency improvements and supporting climate mitigation and adaptation solutions.



#### Competitive:

Align with partner IFIs to continue enhancing the PPP framework and unlocking opportunities for private investments.



#### Integrated

Seek co-investment opportunities with WB and ADB to finance transport projects (e.g. Middle corridor).



#### Resilient:

Work with partner IFIs on alleviating the impact of Russia's war on Ukraine and its consequences on the Kazakh economy.



#### Inclusive:

Work with the UN to accelerate gender inclusive recovery from COVID-19.



#### Well Governed

Continue engaging with the government and partner IFIs to improve governance measures particularly across SOEs.

Note: IFI activity mapping based on publicly available information.

Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2017

\*ADB data includes only sovereign projects due to data limitation

PUBLIC



# 7. Implementation Risks



European Bank  
for Reconstruction and Development

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li>• <b>Risk of reduced support by country leadership for deep structural reforms</b></li> <li>• <b>Overall supply chain disruptions</b> and significant revenue dependency on CPC pipeline</li> <li>• The <b>Russian invasion in Ukraine and its consequences</b> coupled with the wider geopolitical environment could further undermine macroeconomic stability, delay economic recovery, and deter longer term investment</li> <li>• <b>Weak administrative capacity</b> could delay and affect project preparation and implementation, particularly for large scale infrastructure projects</li> <li>• <b>Low energy tariff and tariff freeze</b> could further hinder development of green municipal and other infrastructure investments</li> <li>• <b>State financed (COVID-19 crisis response)</b> equity and debt funds could limit EBRD capacity to lend to the private sector</li> <li>• <b>Preference for PFIs and limited political support for private sector participation</b> in delivery of public infrastructure (e.g., PPPs) and privatisation of state-owned assets, could constrain the Bank's ability to develop relevant projects</li> </ul>	<div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div>	<div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div> <div>●</div>	<ul style="list-style-type: none"> <li>• <b>Assessment and Management of E&amp;S Impacts:</b> Ensure that direct, indirect, cumulative and transboundary E&amp;S impacts of projects are appropriately assessed and mitigated. TC support to regulators with E&amp;S impact and strategic assessments may be needed, as well as support to clients with the implementation of E&amp;S management systems and contractor management according to international standards.</li> <li>• <b>Labour and Working Conditions:</b> Ensure that clients' labour practices comply with EBRD's PR2, particularly in respect of labour terms and conditions; contractor management, primary supply chain, and promotion of equal opportunities. The Bank will pay particular attention to preventing gender-based violence and harassment (GBVH) on projects and support clients in developing and implementing policies and mechanisms that address sexual exploitation and abuse (SEA). TC funds may be necessary to support clients to address GBV and SEA.</li> <li>• <b>Resource Efficiency and Pollution Prevention and Control:</b> Identify and develop waste, wastewater and water projects and ensure alternatives are considered to identify investments that support circular economy and resource efficiency. Support transition to a low carbon and resource efficient economy (such as wind and solar energy), and strengthen resilience to climate change.</li> <li>• <b>Health and Safety:</b> Aim to improve standards across all sectors. Road and traffic safety are some priority areas and engagement with clients and other key stakeholders may be required. TC funds to support these activities may be needed</li> <li>• <b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Ensure that any project requiring acquisition of land and resettlement comply with compensation and livelihood restoration requirements of the Bank, with special attention on informal land users and vulnerable groups.</li> <li>• <b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Support clients with assessments to ensure species and habitats of conservation importance are protected. TC funds may be needed to support these activities.</li> <li>• <b>Cultural Heritage:</b> Work with clients to ensure appropriate assessment to identify and consult with key stakeholders to assign proper significance and then preserve cultural heritage of local and national importance.</li> <li>• <b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li>• <b>Stakeholder Engagement:</b> Support clients in developing and implementing stakeholder engagement plans to ensure meaningful public disclosure and consultation is carried out throughout the project lifecycle.</li> </ul>

# 8. Donor Co-Financing Assessment

## 8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be required to achieve the strategic objectives of the Country Strategy, including for:

- Advisory support to foster private sector competitiveness by promoting digitalisation and supporting innovative practices
- Finance and advisory to support municipal, logistics and transport companies
- Policy reforms required for capital market development and capacity building needed to improve governance, regulation and skills in the financial sector
- Policy and advisory support for resource and energy efficient and decarbonisation solutions including for SMEs
- Risk sharing instruments mainly for the Women in Business programme and advisory support to promote women-led businesses and potentially youth/skills
- Advisory services to improve intra-regional connectivity and promote economic opportunities in the region
- Policy support for reforms on commercialization of regulated sectors, and introduction of standards and best-practices to lower transaction costs

### Selected Affordability Indicators

		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current. \$) <sup>2</sup>	26,754.4	67th
ODA Country	Yes	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	0.034	4 <sup>th</sup>
ODA per capita (\$ - current prices) <sup>3</sup>	2.939	1st

1.Simple percentile rank reported as the share of EBRD economies that are represented below Kazakhstan

2.Source: WDI

3.Source: OECD (2019)

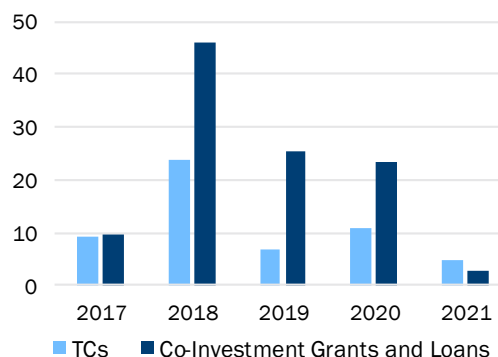
4.2017-2021 TC data is based on earmarks at the project level. Co-investment grants and loans amounts are based on client signings

5.Based on the primary Transition Quality of grants earmarked (for TC grants) or signed with clients (for co-investment grants and loans) over 2018-2020

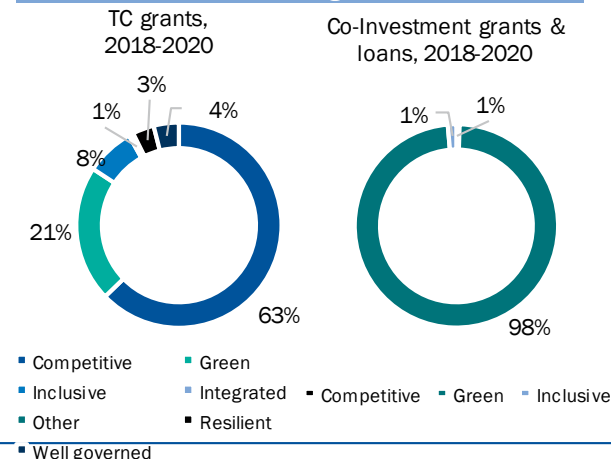
## 8.2. Potential Sources of Donor Funds

- To date, Kazakhstan has contributed **EUR 73 million** in respect of the Kazakhstan-EBRD Technical Cooperation account and the Women in Business programme. The Bank will continue to rely on Kazakhstan government support under the Enhanced Partnership Framework Agreement (EPFA).
- Under the new **Multannual Financial Framework (2021-2027)**, the **European Union** is expected to focus on supporting green development, sustainable economic growth and the rule of law with an indicative allocation to Kazakhstan of EUR 16 million. It would be important that EU support is also delivered to Kazakhstan through the **European Fund for Sustainable Development** which includes unfunded guarantees and the blending facility **Sustainable Private Sector Programme (SPSP)** for CAPEX, TA grants and policy support.
- Some funding can be channelled through the multi-donor facilities: the newly set-up **High Impact Partnership on Climate Action (HIPCA)** fund for GET activities and the existing **Financial Intermediary and Private Enterprises Special Fund**.
- Funding in the form of technical assistance and investments is available from the **Global Green Environmental Facility, Climate Investment Fund** and **Green Climate Fund (GCF)**. Funding has also been available from the GCF to de-carbonise the energy-intensive industrial sector, (non-fossil energy) metals and minerals mining sector, agribusiness and agribusiness value chains and related logistics sector.
- The **EBRD Shareholder Special Fund** has limited funding for Kazakhstan in its Central Asia regional allocation.
- Limited funds from bilateral donors and private sector donors might be available for specific initiatives to Kazakhstan.

### Donor finance during last strategy (€m)<sup>4</sup>



### Grant Funding Needs<sup>5</sup>



Annex



**European Bank**  
for Reconstruction and Development

PUBLIC



Since the last Country Strategy for Kazakhstan was approved in July 2017, there has been uneven progress with its commitment to and application of Article 1 principles as set out in the Articles Establishing the Bank. The Kazakh Constitution, adopted after a referendum in August 1995 and amended several times, sets out the basis, in most respects, to ensure the application of Article 1 principles.<sup>1</sup>

First President Nazarbayev, who assumed office in 1990, generally prioritised political stability over political liberalisation in order to establish the country's statehood, promote economic growth and ensure inter-ethnic harmony.<sup>2</sup> First President Nazarbayev stood down from the presidency in March 2019.

In early presidential elections in June 2019, Kassym-Jomart Tokayev, who had been Speaker of the Senate, was elected president.<sup>3</sup> The 2019 presidential elections and the January 2021 parliamentary elections offered voters greater choice than elections in the recent past, although international election observers gave a critical assessment, highlighting the absence of independent opposition candidates on the ballot paper.

President Tokayev has initiated a series of incremental reforms, which have been welcomed by relevant international bodies. The UN High Commissioner for Human Rights (UNHCHR) has welcomed the “positive steps taken to strengthen country's legislative and judicial branches...”<sup>4</sup> In December 2021, the EU “took note” of President Tokayev's “political reforms aimed at further democratisation of society” and welcomed progress in some areas of human rights policy.<sup>5</sup>

Popular dissatisfaction with the lack of political change and strains caused by the leadership transition were evident in the protests in January 2022. President Tokayev has established an Inter-Departmental Task Force to investigate human rights violations committed during the protests. In March, the UNHCHR called for a thorough and independent investigation.

In March 2022, President Tokayev set out a further programme of political

reforms, which could enhance the separation of powers, deepen democratic accountability and strengthen the judiciary. They remain on-going but hold out the prospect of progress with Kazakhstan's commitment to and application of Article 1 principles over time. International and domestic civil society organisations continue to express frustration at the slow pace of change and have produced detailed allegations of continuing violations of human rights.<sup>6</sup>

## **Free Elections and Representative Government**

### *Free, fair and competitive elections*

The Kazakh Constitution of 1995 and supporting legislation set out the basis for the conduct of free, fair and competitive elections, in most respects. Section I, Article 1(1) describes Kazakhstan as a “democratic state”. Article 3(2) states that the “people shall exercise power directly through national referendum and free elections...” Since the tumultuous political and economic period of the 1990s and early 2000s, the constitutional and legal framework for elections has become more established and their regularity and technical preparation more consistent.

Since the approval of the previous Country Strategy, early presidential elections were held in June 2019, following the decision of First President Nazarbayev to step down in March 2019, and parliamentary elections were held in January 2021, in accordance with constitutional requirements. In both elections, voters were presented with a choice of candidates offering a greater range of views and experience than in the previous presidential election in 2015 and the previous parliamentary election in 2016.

The reports of the OSCE/ODIHR international election observation missions contained significant criticisms of both the 2019 and 2021 elections. The Final Report of the ODIHR Election Observation Mission (EOM) for the June 2019 presidential elections concluded that they were “tarnished by clear violations of fundamental freedoms as well as pressure on critical voices.”<sup>7</sup>

1. Section I, Article 1(1) states that Kazakhstan is a “democratic, secular, legal and social state, whose highest values are a person, their life, rights and freedoms.” This and all subsequent citations from the Kazakh Constitution (1995) come from the English-language version on the presidential website.

2. The relative merits of prioritising political stability over political liberalisation are the subject of debate. Kazakhstan has undoubtedly developed rapidly since independence, reaching upper middle-income status in 2015. However, relevant international bodies and especially CSOs have expressed concern about sometimes serious breaches of its international commitments in the fields of democratic standards and human rights.

3. Tokayev had also served as Prime Minister 1999-02, Foreign Minister 2002-07 and as Director General of the UN Office in Geneva 2011-13.

4. Letter from the UN High Commissioner for Human Rights to the Kazakh Foreign Minister, 13.05.2020.

5. EEAS, Press Release, 03.12.21.

6. See, for example, the Kazakhstan pages on the Human Rights Watch and Amnesty International websites.

7. ODIHR EOM Final Report, 04.10.19, p 1.

# Annex 1 – Political Assessment in the Context of Article 1



European Bank  
for Reconstruction and Development

The Final Report of the ODIHR Limited Election Observation Mission (LEOM) for the January 2021 parliamentary elections, concluded that, despite improvements, “The electoral legal framework remains inconsistent with a number of international commitments concerning the holding of democratic elections...”<sup>8</sup> The results in both the 2019 presidential elections and the 2021 parliamentary elections showed a greater distribution of votes between “establishment” and “alternative” candidates with sometimes marked geographical variations, reflecting voter preferences. An open primary procedure was adopted to select candidates for the ruling Nur Otan party in the 2021 parliamentary elections to present voters with a more diverse and attractive choice of candidates.

However, the LEOM Final Report noted that, as well as the governing Nur Otan party, the “alternative” parties in the January 2021 parliamentary election saw themselves “as “constructive opposition” to the government and broadly support the president’s agenda.” It concluded that, “The limited degree of political pluralism, in particular the absence of authentic political opposition among contesting parties, meant that the 2021 elections were not a genuinely competitive contest with distinct political viewpoints.”<sup>9</sup>

## *Separation of powers and effective checks and balances*

The Constitution sets out the basis for the separation of powers and effective checks and balances, in most respects. Section I, Article 2(1) defines Kazakhstan as a “unitary state with a presidential form of government.” Section I, Article 3(4) states that “state power shall be based on the principle of its division into the legislative, executive and judicial branches and a system of checks and balances which governs their interaction.”

The shift from a mixed presidential/parliamentary system in the 1993 Constitution to a strong presidential system in the 1995 Constitution was designed to promote the building of a new state in the chaotic conditions that prevailed at the time. Many experts have concluded that, for most of Kazakhstan’s history as an independent country, the President has enjoyed considerable formal and informal powers to direct and control Government,

Parliament and the Judiciary.<sup>10</sup>

The 1995 Constitution granted the President, as well as a central symbolic role, a series of powers, which cemented his pre-eminent position in the power structure. Section III, Article 40(2) states that, “The President of the Republic shall be a symbol and guarantor of the unity of the people and state power, the inviolability of the Constitution, the rights and freedoms of person and citizen.” The President was also granted wide powers to initiate referendums to change the constitution, to appoint members of the Government and other senior officials and to initiate legislation.

In March 2017, with the country’s statehood more firmly established and in the context of the transition from the leadership of First President Nazarbayev, constitutional amendments were adopted which partially corrected the imbalance between the branches of state power.

- First, some of the powers of the President were reduced, including a weakening of its right to issue decrees with the force of law. Concomitantly, the status of the Prime Minister was enhanced introducing greater accountability to Parliament.
- Second, the status of Parliament was enhanced so that it became the “legislative power” rather than a body performing “legislative functions.”
- Third, the role of the Constitutional Council, an appointed body which has final responsibility for adjudicating election disputes and in ensuring the compliance of executive decisions and legislative initiatives with the Constitution, was strengthened.

The March 2017 amendments were welcomed by relevant international bodies. In March 2017, the Council of Europe Venice Commission concluded that they “represent a step forward in the process of the democratisation of the state.” The Venice Commission also expressed the hope that, “Other steps should follow in the future.”<sup>11</sup>

President Tokayev has set out the principle of a “strong president, authoritative [ықпалды] parliament and accountable government” to underline his commitment to achieving greater balance between the

8. ODIHR LEOM Final Report, 26.03.2021, p.1. The Observation Mission was limited because of restrictions imposed by the COVID-19 pandemic.

9. ODIHR LEOM Final Report, 26.03.2021, p.5.

10. The Council of Europe Venice Commission report on the 2017 constitutional amendments, para 16, summarising the position before the amendments stated that, “the President plays a crucial role in forming, controlling, dismissal and oversight of the government. His powers generally exceed the presidential prerogatives in most of the countries of the Council of Europe.”

11. Kazakhstan. Opinion on the Amendments to the Constitution, Strasbourg, 14 March 2017, para 51.





different branches of the state. In March 2022, President Tokayev set out proposals to transfer some powers from the presidency to parliament and the judiciary. However, it is too early to say how these initiatives will develop and to make a conclusive assessment of their impact.

## *Effective power to govern of elected officials*

The Constitution sets out the basis for elected officials to have effective power to govern, in most respects. Section I, Article 3(3) states that, “Nobody shall have the right to arrogate the power in the Republic of Kazakhstan... The right to act on behalf of the people and the state shall belong to the President, as well as to the Parliament of the Republic within the limits of the constitutional powers.” Signalling a break with the country’s Communist past, Article 5(1) states that, “The formation of political parties in state bodies shall not be permitted.”

Key state institutions in Kazakhstan include important non-elective features. While the President is elected by universal, equal and direct suffrage, parliament consists of two houses with a mixture of directly elected, indirectly elected and appointed members. The Upper House of Parliament (Senate) consists of 49 members, 34 of whom are indirectly elected by regional councils and fifteen of whom are appointed by the President. The Lower House (Mazhilis) consists of 107 deputies. Of these 98 are directly elected with nine elected by the Assembly of the People of Kazakhstan, which is a body appointed by the President. In March 2022, President Tokayev set out proposals which would reduce significantly the unelected element in the Senate and Mazhilis, but legislative action is still awaited.

The March 2017 constitutional amendments continued the trend, which had begun with constitutional amendments in 2000 and 2010, of granting life-time immunity and powers to First President Nazarbayev. However, whilst these provisions would have compromised the effective power of elected officials to govern, their applicability was limited to First President Nazarbayev and almost all of them have been revoked in the aftermath of the January 2022 protests.

In July 2021, the heads of local councils in rural areas were directly elected

for the first time. There are proposals to extend the direct election of mayors to 45 larger districts and reduce the President’s role in appointing mayors.

Many experts consider that business interests in Kazakhstan exert a strong and sometimes non-transparent influence on elected officials.<sup>12</sup> The stepping down of members of First President Nazarbayev’s family from official and business roles following the January 2022 protests may improve this situation.

Kazakhstan is a secular republic. There is a clear division between the state and religious bodies, which do not intervene in political decision-making.

The armed forces and security services in Kazakhstan are under civilian control and do not intervene in political decision-making.

## **Civil Society, Media and Participation**

### *Scale and independence of civil society*

The Constitution sets out the basis for citizens to participate in a active and independent civil society. Section II, Article 23(1) states that, “Citizens of the Republic of Kazakhstan shall have the right to freedom of forming associations.” Article 5(2) stipulates that public associations shall be “equal before the law” and establishes the principle of their independence from the state. It also prohibits public associations that seek the “violent change of the constitutional system” or the “violation of the integrity of the Republic” or have a series of other objectives including undermining national security, inciting social, racial, national, religious and tribal enmity.

Civil society organisations in Kazakhstan are numerous, diverse and sometimes influential. According to the Ministry of Information and Public Development, in April 2020 there were 22,344 registered CSOs in Kazakhstan, including organisations advocating and monitoring compliance with democratic and human rights standards, promoting the protection of environmental standards and minority rights, as well as those which deliver social services or conduct educational and cultural activities in conjunction with official bodies and/or through volunteer efforts.

12. See, for example, the Bertelsman Transformation Index 2020 report for Kazakhstan which states, “The only two powerful PUBLIC groups with a real ability to influence decision-making are the Kazenergy Association of big energy businesses and the Atameken Business Chamber.”

# Annex 1 – Political Assessment in the Context of Article 1



European Bank  
for Reconstruction and Development

However, relevant international bodies have raised concerns about the impact of rules aimed at enhancing the publicly available information on CSOs has had on their ability to secure registration. They have also expressed concern about the challenges faced by CSOs stemming from increased legal obligations to report on their activities to the authorities.<sup>13</sup> Many experts have concluded that the principles set out in the Constitution have not been fully embedded in relevant legislation and have not been implemented consistently.<sup>14</sup>

In recent years, the Kazakh authorities have increased state funding for CSOs, established new consultative mechanisms and provided opportunities for CSOs and volunteers to provide a range of social, cultural or other services. In August 2020, President Tokayev approved a new concept on civil society development for the period 2020-30. This initiative holds out the prospect of an improvement in the regulatory framework for CSOs and of an increase in their involvement in the preparation of legislative initiatives.

However, relevant international bodies continue to raise concerns about constraints on the activity of CSOs. The LEOM Report for the January 2021 parliamentary elections concluded that measures taken by the authorities “amounted to unprecedented pressure on the activities of citizen observers.”<sup>15</sup> In February 2021, the EEAS Spokesperson raised concerns about the way “several prominent human rights organisations... have been subjected to increasing pressure and penalisation by the country’s authorities...”<sup>16</sup>

In May 2020, the Kazakh Government adopted a series of legal changes which should improve the regulatory framework for the operation of trade unions after UN bodies and the ILO had expressed concerns. They include removing the requirement that local trade union organisations must affiliate with a higher-level body and introducing a simplified registration procedure. In June 2021, the ILO expressed renewed concerns about relevant Kazakh

legislation, its application in practice and alleged harassment of activists.<sup>17</sup>

## *Independent, pluralistic media that operate without censorship*

The Constitution and supporting legislation set out the basis for citizens to benefit from free media, in most respects. Section II, Article 20(1-2) states that, “Freedom of speech and creative activities shall be guaranteed. Censorship shall be prohibited.” It confirms that “everyone has the right to receive and disseminate information”. Article 20(3) sets out a series of prohibitions in the case of calls for forcible change of the constitutional system, threats to national security and propaganda of various forms of hatred. The Ministry of Information and Social Development lists several thousand registered print and online outlets on its website. Social media is an increasingly lively and important source of information for many Kazakh citizens. The authorities monitor the effectiveness of legislation and study international experience to make improvements.

Experts have concluded that while the principles set out in the Constitution have been reflected in relevant legislation, they have not been implemented consistently.<sup>18</sup> UN bodies have expressed concern about the impact on media freedom of amendments to media legislation designed to give citizens the right to correct information published in the media and to protect children introduced in 2017.<sup>19</sup> The OSCE Representative on Freedom of the Media raised concerns about the detention of journalists and the blocking of news websites in 2018 and again, in 2019, raised concerns about the detention of journalists and bloggers covering opposition rallies.

In December 2021, in its annual dialogue with Kazakhstan on human rights, the EU “reiterated concerns in relation to restrictions on freedom of expression, including that the offenses of “insult” and “insulting a government representative” remain subject to criminal penalty [], and recalled that laws to fight terrorism and extremism should not be used to target the freedom of expression of political groups and critical voices.”<sup>20</sup>

13. UN Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 29.

14. See, for example, the Kazakhstan page on the International Center for Not-for-Profit Law.

15. ODIHR LEOM Final Report, 26.03.2021, p 3.

16. EEAS Press Release, 01.02.2021.

17. ILO Committee on the Application of Standards, 18.06.2021, pp 12-13.

18. See, for example, the Kazakhstan page on the Reporters without Borders website which, while recognising some improvements, concludes the “state is modernizing its methods of repression and, in particular, exercising more control over the Internet...”. Overall, during the period since the last Country Strategy, Kazakhstan’s score (50.28) and ranking (195) on the Reporters without Borders World Press Freedom Index has improved.

19. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 27.

20. EEAS Press Release, 03.12.2021.



In February 2021, the new OSCE Representative on Freedom of the Media welcomed a package of reforms launched by the President, which includes decriminalization of defamation, development of laws on access to information, the rights of journalists, and the way Article 174 of the Criminal Code, which deals with the stirring of inter-ethnic, racial, religious, regional and social hatred, is applied. However, it is too early to say how these initiatives will develop and to make a conclusive assessment of their impact.

## *Multiple channels of civic and political participation*

The Constitution sets out the basis for citizens to participate in the political life of the country. Section II, Article 33(1) states that, “Citizens of the Republic of Kazakhstan shall have the right to participate in the government of the state’s affairs directly and through their representatives...” Article 33(2-4) confirms the right of citizens to elect representatives and stand as candidates to be elected to various state bodies.

The World Bank Governance Indicator for Voice and Accountability in Kazakhstan showed a gradual rise during the first part of the period since the last Country Strategy, with its percentile ranking rising from 14.29 in 2014 to 14.78 in 2019.

President Tokayev has made the concept of a “listening state” a key principle of his leadership. In June 2019, he announced the establishment of a National Council on Public Trust (NCPT) to increase the participation of civil society in government decision-making. The NCPT, which is chaired by the President, and has a rotating membership of around 48 civil society representatives, meets no less than three times a year. Its members have made a series of proposals some of which have been carried forward into legislation.

President Tokayev has also announced the preparation of a law to enhance the accountability of public bodies through a new framework of “public monitoring [контроль].” This proposal was partially realised in a new law in January 2021 which establishes “public councils” in the “quasi-state sector” (large state holding companies). However, it is too early to say how

these initiatives will develop and to make a conclusive assessment of their impact.

## *Freedom to form political parties and existence of organised opposition*

The Constitution and supporting legislation set out the basis for citizens to form political parties and for the existence an organised opposition, in most respects. Section I, Article 5(1) states, “The Republic of Kazakhstan shall recognise ideological and political diversity.” There has been a slow but perceptible shift towards a more pluralistic party system since 2012, when the ruling Nur Otan party held all the seats in parliament. However, relevant international organisations have concluded that the principles set out in the Constitution have not been fully embedded in relevant legislation and, in some cases, the legislation and its implementation run contrary to Kazakhstan’s international commitments.<sup>21</sup>

Since President Tokayev took office, a series of measures, which could provide more space for political opposition, have been adopted. Amirzhan Kossanov, a politician with a record of moderate opposition to the authorities, participated in the June 2019 presidential election and took second place. In May 2020, a new law reduced the number of signatures a political party had to collect to secure registration. In June 2020, another new law enhanced the status of opposition parties in the lower house of parliament. A proposal to reduce the barrier for representation in the parliament from 7% to 5%, which President Tokayev announced in September 2020, could lead to greater opposition representation in future parliamentary elections.

However, independent, opposition parties were either not able to secure registration and the right to take part in the January 2021 parliamentary elections or, in the case of the Social Democratic Party, withdrew beforehand on the grounds that the election did not offer a level playing field. The LEOM Final Report recommended that, “The legislative requirements and onerous administrative procedures for the registration of political parties should be comprehensively revised in order to respect and encourage pluralism and freedom of association. Registration of political

21. ODIHR LEOM Final Report, 26.03.2021, p 12. No new political parties have been registered since 2013.



parties should be carried out objectively, transparently and be subject to effective judicial control.”<sup>22</sup>

“Alternative” political parties secured greater representation in the January 2021 parliamentary elections.<sup>23</sup> Before the elections, they had, in several cases, re-branded themselves with new names and sought to recruit more attractive candidates. In March 2022, President Tokayev set out a series of proposals to simplify the procedures and reduce the barriers for the registration of political parties. However, it is too early to make a assessment of their impact.

## Rule of Law and Access to Justice

### *Supremacy of the law*

The Constitution sets out the basis for citizens to benefit from the rule of law and access to justice. Section I, Article 1(1) describes Kazakhstan as a “legal [law-based] state”. Article 3(4) states that state power “shall be executed on the basis of the Constitution and laws...” Section 7, Article 75(1) states that, “Justice in the Republic of Kazakhstan shall be exercised only by a court.” Article 75(2) states that, “Judicial power is exercised through civil, criminal and other forms of legal proceedings established by law.”

Relevant international rankings for a series of governance criteria indicate a steady improvement. The World Bank Governance Indicator for State Effectiveness shows a strong performance (57.69 for 2019) from an already strong base.<sup>24</sup> The Indicator for Rule of Law shows a continued improvement with its percentile ranking rising from 32.21 in 2014 to 36.06 in 2019. In March 2022, President Tokayev set out a proposal to raise the status of the Constitutional Council to a Constitutional Court.

### *Independence of the judiciary*

The Constitution sets out the basis for the independence of the judiciary, in most respects. Section VII, Article 77(1) states that, “A judge in the administration of justice is independent and subject only to the Constitution

and law.” Article 81 establishes the Supreme Court as the “highest judicial body in civil, criminal and other cases...” But Article 82(1-2) gives the President a key role in appointing judges to the Supreme Court, who are also elected by the Senate, and in directly appointing judges to lower courts.

In August 2019, the Office of the UNHCR repeated concerns that the UN Human Rights Committee had expressed in 2016 about the lack of legal protection for the independence of the judiciary and problems with its implementation in practice. It recommended that Kazakhstan eradicated all forms of “undue interference with the judiciary by the executive branch and investigate such allegations effectively as well as strengthen efforts to combat corruption in the judiciary.”<sup>25</sup>

The High Judicial Council plays a key role in the selection, training and management of judges. In particular, it is responsible for the initial selection of candidates before they are presented to the President for appointment. Over the past five years, the status of the High Judicial Council has been gradually increased. In 2016, a law set out that series of senior officials and parliamentarians would be *ex officio* members of the Council with other members appointed by the President. Further changes were made in 2019 to extend the power of the Council to appoint judges of lower-level courts and to put the funding of the court system on a more independent basis.

### *Government and citizens equally subject to the law*

The Constitution sets out the basis for citizens to enjoy the protection of the law and to be treated equally. Section II, Article 14(1) states that, “Everyone shall be equal before the law and court.” Article 16(3) states, “Every person detained, arrested and accused of committing a crime shall have the right to the assistance of a lawyer (defender) from the moment of detention, arrest or accusation.” However, experts have concluded that the principles set out in the Constitution have not been fully embedded in relevant legislation and have been inconsistently implemented in practice.<sup>26</sup>

A series of reforms and initiatives in recent years have reduced the susceptibility of judges in lower courts to direction from judges in senior courts. Other measures have substantially increased judges’ salaries, improved their training and the system for their evaluation. These changes

22. ODIHR LEOM Final Report, 26.03.2021, p 12.

23. The Nur Otan party won 76 seats (previously 84), Ak Zhol 12 (7) and People’s Party 10 (7).

24. The Bertelsmann Transformation Index also shows a high ranking for “stateness”. Its 2020 report for Kazakhstan notes, “Kazakhstan has a relatively well-developed system of public administration and public services provision across the country.”

25. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 21.

26. See, for example, the rule of law section in the Bertelsmann Transformation Index 2020 report for Kazakhstan.



have led to a significant increase in the number of cases in which the accused is acquitted, albeit from a low base, and in which the rights of investors have been asserted against state bodies. The introduction of an e-justice system has facilitated access to justice, especially in rural areas.

The introduction of a system of administrative law in July 2021 should strengthen the hand of citizens and companies in disputes with state bodies.

### *Effective policies and institutions to prevent corruption*

In the period since the last Country Strategy, the Kazakh authorities have stepped up their efforts to tackle corruption, which are starting to produce results. A single body with adequate powers, financing and leadership, which is one of the main recommendations of relevant international bodies, has been established. In 2015-16, an Anti-Corruption Agency was set up within the state body responsible for the civil service. It has gradually gained the power to formulate and coordinate policy and to enforce compliance.

After President Tokayev took office in June 2019, the status of the Anti-Corruption Agency was further enhanced. It was subordinated directly to the President and it took over certain powers in the anti-corruption field from the National Security Service. In 2019-20, a series of new measures were introduced, including making the heads of state bodies responsible for the corrupt actions of their subordinates, tighter restrictions on the employment of relatives and receiving gifts etc. These efforts have led to the successful prosecution of a series of senior government and other officials and the recovery of assets.

In the period since the last Country Strategy, assessments by relevant international bodies suggest Kazakhstan has made significant progress in its efforts to tackle corruption, albeit from a low base. According to the Transparency International Corruption Perceptions Index, Kazakhstan's score rose from 31 in 2017 to 38 in 2021. Over the same period, its ranking rose from 122 to 94. This progress is confirmed by the World Bank Governance Indicator for Control of Corruption which showed its percentile ranking rising from 22.60 in 2014 to 43.75 in 2019. In the Progress Report

presented to the OECD 20<sup>th</sup> Istanbul Anti-Corruption Action Plan Monitoring Meeting in March 2019, Kazakhstan was deemed to have made “significant progress” in five areas, “progress” in fifteen areas with “lack of progress” in only nine areas. This was a marked improvement on the assessment reported in 2018.<sup>27</sup> At a meeting of the Subcommittee and Justice and Home Affairs in November 2020, the EU “welcomed... mechanisms put in place to tackle corruption and to meet Financial Action Task Force (FATF) conditions.”<sup>28</sup>

### **Civil and Political Rights**

*Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

The Constitution sets out the basis for citizens to enjoy the full range of human rights. Section II, Article 12(2) states that, “Human rights shall belong to everyone by virtue of birth, be recognised as absolute and inalienable and define the contents and implementation of laws and other regulatory and legal acts.” Article 39(1) states that, “The rights and freedoms of an individual and citizen may be limited only by law and only to the extent necessary for the protection of the constitutional system, defence of public order, human rights and freedoms and the health and morality of the population.” In June 2021, President Tokayev signed a decree on an Urgent Action Plan to improve human rights across a range of issues. It is too early to assess the impact of this measure.

The Kazakh authorities maintain a wide-ranging, constructive engagement with UN, OSCE and other relevant international bodies responsible for democratic standards and human rights. It regularly hosts UN special procedure mandate holders and has consistently invited full election observation missions from the OSCE Office for Democratic Institutions and Human Rights (ODIHR). They also maintain a regular annual dialogue on human rights with the EU. In January 2020, an Enhanced Partnership and Cooperation Agreement (EPCA), which had originally been agreed in 2015, finally came into force after its ratification by all EU member states. The EPCA includes a commitment to strengthen “respect for democratic

27. Istanbul Anti-Corruption Action Plan Fourth Round of Monitoring, Kazakhstan, Progress Update, March 2019, pp 6-7.

28. EEAS, Press Release, 27.11.2020.





principles, the rule of a commitment law, human rights and good governance.” In October 2021, Kazakhstan was elected to serve on the UN Human Rights Council for 2022-24. In April 2022, the inaugural meeting of a High Level Dialogue on Human Rights and Democracy with the US was held.

International bodies responsible for monitoring democratic standards and human rights have frequently criticised both the Kazakh legal framework for civil and political rights and its implementation.<sup>29</sup> The Kazakh authorities have a record of responding constructively when relevant bodies raise concerns and make recommendations. However, many experts have considered that Kazakhstan’s political development has lagged behind its economic development.<sup>30</sup> In a retrograde step, the 2017 constitutional amendments removed the direct application of international treaties ratified by Kazakhstan leaving the scope of their application to secondary legislation.<sup>31</sup>

The post of Commissioner for Human Rights (Ombudsperson) was created by a presidential decree in 2002.<sup>32</sup> Under the 2017 constitutional amendments, the President lost the right to appoint the Ombudsperson, who is now elected by the Senate.<sup>33</sup> The Ombudsperson and the National Centre for Human Rights have powers which include investigating citizens’ complaints and scrutinizing legislative proposals. The UN has recommended that the Kazakh authorities enhance the Ombudsperson’s independence to bring it into full compliance with the Paris Principles.<sup>34</sup> In March 2022, President Tokayev set out proposals to enshrine the post of the Ombudsperson in the Constitution backed up by a new constitutional law.

Section II, Article 32 of the Constitution enshrines the right of citizens to peaceful assembly, although it also includes a series of grounds on which it can be restricted. In 2015-16, UN human rights experts recommended that the Kazakh authorities consider a complete overhaul of its approach to

regulating peaceful assemblies, including the requirement for prior authorisation.<sup>35</sup>

In May 2020, a new Law regulating public meetings and demonstrations was based on the principle that prior notification by the organisers should lead to permission rather than the granting of permission should be dependent on criteria determined by the relevant authorities.

Experts have argued that this Law has not led to a significant relaxation in the constraints which had previously been placed on public meetings and demonstrations.<sup>36</sup> However, in the conditions of the COVID19 pandemic it is difficult to come to a conclusive assessment. In December 2021, in its annual dialogue with Kazakhstan on human rights, the EU “stressed the need to protect the right to peaceful assembly and freedom of association, including not harassing or sanctioning peaceful protesters or detaining them...”<sup>37</sup>

## *Political inclusiveness for women, ethnic and other minorities*

The Constitution sets out the basis to ensure political inclusiveness for women, ethnic and other minorities. Section II, Article 14(2) states, “No one shall be subject to any discrimination for reasons of origin, social, property status, occupation, sex, race, nationality, language, attitude towards religion, convictions, place of residence or any other circumstances.”

In November 2019, the UN Committee on the Elimination of Discrimination against Women issued its concluding observations on the fifth periodic report of Kazakhstan. Its report welcomed a series of legal reforms and noted the increasing use of the UN Convention on the Elimination of Discrimination against Women in court and administrative proceedings. It welcomed efforts to increase the participation of women in different areas of public life and in employment, including the EBRD-run Women in Business programme.

29. See, for example, the Kazakhstan pages on the Human Rights Watch and Amnesty International websites.

30. See, for example, the Bertelsmann Transformation Index 2020 report for Kazakhstan.

31. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 5. Constitution of Republic of Kazakhstan, Section 1, Article 4(4) as amended reads, “All laws and international agreements, where the Republic is a party, shall be published. Official publication of regulatory and legal acts, dealing with the rights, freedoms and responsibilities of citizens shall be the necessary condition for their application.”

32. In 2016, the Kazakh authorities established an Ombudsperson on the Rights of the Child. Currently, this role is performed by an MP on a voluntary basis.

33. Under the March 2017 constitutional amendments, the President lost the right to nominate the Human Rights Ombudsperson.

34. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 7.

35. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 36.

36. See the Human Rights Watch report, Kazakhstan’s ‘Reformed’ Protest Law Hardly an Improvement, 28.05.2020.

37. EEAS, Press Release, 03.12.2021.



The Committee also expressed concern that, on the expiry of the Gender Equality Strategy for 2006-16, a new Concept for Family and Gender Policy up to 2030, which could reinforce stereotypes about women's roles and responsibilities in the family, had been adopted. It expressed concern that neither the Constitution nor domestic legislation provided specific protection against discrimination on the grounds of gender identity and sexual orientation. The Committee raised concerns about levels of domestic violence which it believed was "severely under-reported" in Kazakhstan.

The Committee recommended the Kazakh authorities accelerate its moves towards ratification of the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence (Istanbul Convention). In April 2020, the Council of Europe invited Kazakhstan to accede to the Istanbul Convention, after the Kazakh authorities had expressed their interest in joining.<sup>38</sup> In March 2022, President Tokayev called for a strengthening of the laws on violence against women and children.

Since President Tokayev took office, there have been a number of incremental steps which could lead to greater female participation in public life. In the June 2019 presidential elections, a female candidate was nominated for the first time. In March 2020, President Tokayev appointed Kazakhstan's first female regional governor. President Tokayev has appointed a new Head of the Presidential Commission on Women's Affairs, Family and Demographic Policy, and included a number of civil society representatives in its membership.

A quota of 30 per cent for female (and young people) candidates in the January 2021 parliamentary election was less successful. The new parliamentary body actually has slightly lower female representation (25% versus 27%), although still higher than ten years previously.

The Kazakh authorities have, since independence, put great emphasis on ensuring that tolerance on ethnic, religious and national grounds is one of the key principles of the country's public life. In 1995, the Assembly of the People of Kazakhstan was established to represent the diverse ethnic groups living on the territory of the Republic of Kazakhstan.

Section II, Article 19 (1-2) of the Constitution states, "Everyone shall have the right to determine and indicate their national, party and religious affiliation... Everyone shall have the right to use their native language and culture, to freely choose the language of communication, education, instruction and creative activities." Section II, Article 39(2) states that, "Any acts capable of violating inter-ethnic and inter-religious harmony shall be recognised as unconstitutional."

In February 2020, inter-ethnic violence involving the Dungan minority led to the death of eleven people; the worst such incident in Kazakhstan since independence.

### *Freedom from harassment, intimidation and torture*

The Kazakh Constitution sets out the legal basis to ensure freedom from harassment, intimidation and torture. Section II, Article 17(2) states, "No one should be subjected to torture, violent, abusive or other treatment and punishment degrading human dignity." However, relevant international bodies have expressed concerns about the legislative framework for combatting harassment, intimidation and torture and its implementation in practice.

In October 2016, the UN Sub-Committee on the Prevention of Torture made its first visit to Kazakhstan. It welcomed measures taken to facilitate the prosecution of persons accused of committing torture but expressed concern about the "reported high rates and persistent allegations of torture and ill-treatment." It recommended that the National Preventive Mechanism be separated from the Human Rights Ombudsperson.<sup>39</sup>

In September 2020, President Tokayev announced new legislation to enhance protections against torture, including bringing it into conformity with the UN Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. In November 2020, in its annual dialogue on human rights, the EU called on Kazakhstan to "take further steps to conduct prompt, thorough, impartial and independent investigations into all allegations of torture..."<sup>40</sup>

38. Council of Europe Press Release, 29.04.2020. Kazakhstan, along with Tunisia, was specifically invited as non-member states of the Council of Europe. The Kazakh authorities repeated their intention to join the Istanbul Convention in December 2020, UN Women Press Release, 22.12.2020.

39. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para 16 and 19.

40. EFAS, Press Release, 27.11.2020.

# Annex 1 – Political Assessment in the Context of Article 1



**European Bank**  
for Reconstruction and Development

In 2016, the UN Committee on the Prevention of Torture welcomed the fact that Kazakhstan had “significantly reduced the number of people deprived of their liberty and improved conditions of detention” but expressed concern that the “prison system continues to overemphasize restrictions and punishment, rather than reintegration and rehabilitation.”<sup>41</sup> Legislation in 2017 reduced the period during which a citizen could be held in detention without judicial approval from 72 hours to 48 hours.<sup>42</sup>

In 2016, the UN Human Rights Committee recommended that the Kazakh authorities maintain its moratorium on the use of the death penalty, review the offenses to which it applied and consider its abolition.<sup>43</sup> At the end of 2020, Kazakhstan ratified the second Optional Protocol to the International Covenant on Civil and Political Rights which abolishes the death penalty in law and practice.

41. UN OHCHR Press Statement, 03.10.2016.

42. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para. 20.

43. Human Rights Council, Working Group on the Universal Periodic Review, Compilation on Kazakhstan, 26 August 2019, para. 14.