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*Realities of Public Policy and Management Reforms in Central Asia*

**Title of the paper**

*Fiscal Decentralization with Focus on City Development in  
Kazakhstan*

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## Abstract

By looking at the Astana and Almaty cities of Kazakhstan, the paper aims to identify the roles of city governments in the allocation of *national projects*. The assessment of *national projects* is carried out based on a cost-benefit analysis: comparing the short-term benefits of the projects' implementation, with the long-term economic consequences for Almaty and Astana cities under the current fiscal constraints. The paper starts with the theoretical discussion, bringing together megaproject related theories and fiscal decentralisation challenges of Kazakhstan, and concludes focusing on why city governments experienced difficulties with aligning *national projects* with the local development needs.

**Key words:** fiscal decentralisation, megaprojects, city government, urban development

## 1. Introduction

In Kazakhstan, the national government's fiscal decentralization attempts coincide with top-down policies aiming to subsidize urban development in a few cities of state importance.<sup>1</sup> Since 1996, the most significant national government's decisions regarding spatial development have been linked to the cities of Almaty and Astana (Aitzhanova, et al., 2014). The national strategies "Kazakhstan 2030" and "Kazakhstan 2050", emphasize the importance of Astana and Almaty for the economic development of the country (Nazarbayev, 1997; 2012). Considerable national transfers have been allocated for the construction<sup>2</sup> of the new capital city of Astana (Meuser, 2015). National investment has helped the Almaty city government with the continuing construction of the expensive underground transit system.<sup>3</sup>

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<sup>1</sup> Law of the Republic of Kazakhstan dated July 21, 2007 No. 296 "On the status of the capital of the Republic of Kazakhstan" and Law of the Republic of Kazakhstan of 1 July 1998 No. 258 "On the special status of the city of Almaty"

<sup>2</sup> The volume of construction works in Astana increased from KZT 2,704 million (USD 36 million) in 1996 to KZT 472 billion (USD 2 billion) in 2015.

<sup>3</sup> The Soviet government started the construction of Almaty Metro began in 1988. The construction was suspended due to the collapse of the Soviet Union. Then in the 2000s, national government of Kazakhstan resumed the funding of the Almaty metro construction. The first line with eight stations was opened in 2011, two

However, national subsidies have not yet had a positive impact on the managerial capacities of the city government. Both Astana and Almaty continue to experience urban sprawl as the result of poor planning, land use management, and air pollution caused by traffic congestion (OECD, 2017).

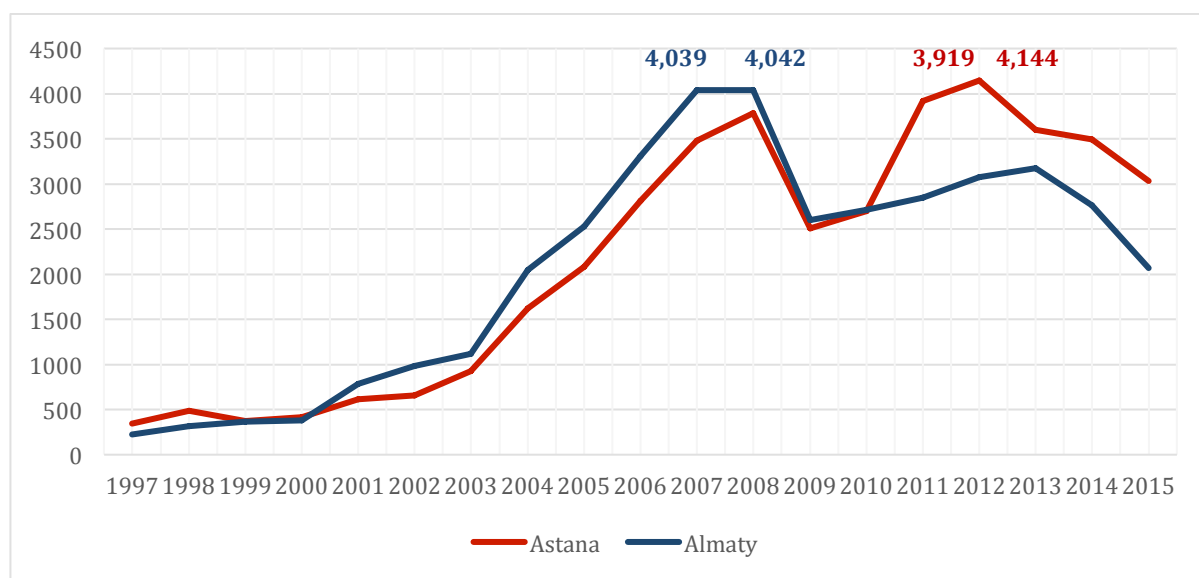
Despite the poor management of urban development, the national government has started to promote the cities of Astana and Almaty as the best locations for hosting international events (Government of Kazakhstan, 2013). In 2007, the national government announced that Astana and Almaty were selected for the 2011 Asian Olympic Games (ASIADA-2011 hereafter) (Government of Kazakhstan, 2007). By the end of 2011, the national government stated that Almaty would host the 2017 Winter Universiade (UNIVERSIADE-2017 hereafter) (Prime Minister of Kazakhstan, 2012). In 2012, the President of Kazakhstan declared that the 2017 World International Exhibition (EXPO-2017 hereafter) in Astana is one of the key *national projects*<sup>4</sup> (Nazarbayev, 2012a). When preparations for these international events went underway, Astana and Almaty experienced the highest volume of investments in fixed assets (see Diagram 1). *National projects* have brought the cities not only new facilities, but additional managerial loads as well, as city governments became involved in new activities related to the preparation of the cities for international events. The key challenge is that, currently, centrally regulated tax collection and budgeting does not allow city governments to be fully engaged in the planning, managing an event, or even maintaining the post-event legacy.

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more stations of the first line were added in 2015. The construction of two other lines is planned to be completed by 2020. Source: Official website of the Almaty City Akimat: <http://almaty.gov.kz>, visited January, 2016

<sup>4</sup> By national project here, I mean ASIADA-2011, UNIVERSIADE-2017 and EXPO-2017 that assigned a special status by the national government of Kazakhstan and became a part of the national projects list, can be found here: [http://www.akorda.kz/en/national\\_projects](http://www.akorda.kz/en/national_projects)

Diagram 1. Investments in fixed assets in million USD<sup>5</sup>, 1997-2015 in Astana and Almaty



Source: Ministry of National Economy, Committee on Statistics, retrieved in October, 2016 from: <http://www.stat.gov.kz>

Many countries around the world participate in competition for international events, suggesting that it can help to increase cities' competitiveness (Burbank, et al., 2002), as well as serve as a certain trigger for local economic development (Clark, 2008). However, there are many cases when cities would not benefit, and expensive post-event facilities would go without proper use; whereas, city governments have been left to take care of their maintenance costs (Golubchikov, 2015). In the case of Kazakhstan, *national projects* are turning into *megaprojects*, as the planning and implementation of these projects involves exclusive governmental arrangements, such as allocation of special purpose national transfers, and adjustment of national legislation and management practice (Kennedy, 2015). However, there is little evidence that demonstrates what the costs and benefits of *national projects* are when Astana and Almaty are governed under conditions of partially decentralised decision making, and centrally regulated investment in urban development.

This essay will contribute to the wider discussion on effective investment of public finances in urban development and challenges related to the implementation of *national*

<sup>5</sup> Exchange rate 1996-2016 are provided in the Annex X

*projects* in cities constrained by centralised fiscal redistribution. By looking at the roles of Astana and Almaty city governments, this paper will identify the roles of city governments in the allocation of *national projects* as well as the impacts for local economic development. The assessment of *national projects* will be carried out based on a cost-benefit analysis. First, this paper starts with the theoretical discussion, bringing together megaproject related theories and fiscal decentralisation challenges of Kazakhstan. Second, I will look at how nationally imposed projects have an impact on physical urban development. Third, this essay will compare the short-term benefits of the projects' implementation, with the long-term economic consequences for Almaty and Astana cities under the current fiscal constraints. Finally, I will conclude with main findings focusing on why city governments experienced difficulties with aligning *national projects* with the local development needs.

## **2. Megaprojects and financial sustainability of urban development**

### *2.1 Fiscal system and top-down dependency of financing urban development*

In Kazakhstan, subnational governments do not have full autonomy to generate enough revenue by taxation for investment in local development. Astana and Almaty city governments are responsible for the management of their own budgets independently from other regions<sup>6</sup> (Figure 2). However, the national government defines the sources of taxation and establishes tax rates. The Tax Committee of the Ministry of Finance is responsible for collection of all taxes, including locally generated taxes. Territorial branches, subordinate to the Tax Committee, collect locally generated taxes<sup>7</sup> without reporting to local governments (Tax Code, 2001). Astana and Almaty city governments can change the land tax rate fixed in the Tax Code based on land zoning projects and fix the rate of minor local taxes (Article 338,

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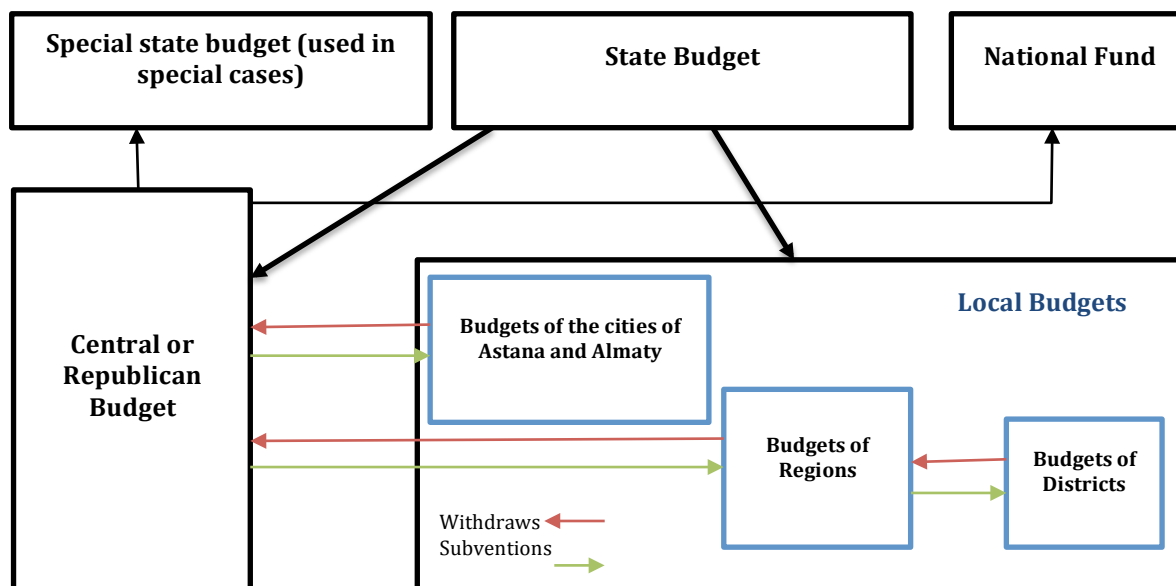
<sup>6</sup> Legally, the national government equalized the cities of Astana and Almaty with other regions of the 1st tier of the subnational government. Astana and Almaty do not share its budget with any of the higher-level authorities (Budget Code, 2008)

<sup>7</sup> In the Law "On Taxes and Other Payments to the Budget", adopted in 1995, state and local taxes were determined. Later, in 1999, the concept of "local tax" was excluded from the tax law (Kamirova, 2010).

Tax Code, 2001). Since 2002, corporate income taxes have stopped being a part of the local tax revenue that negatively impacted the income part of local budgets<sup>8</sup> (Kysykov, 2013).

Lacking taxation power, city governments fail to generate enough income to invest in local development. Almaty and Astana can collect 23 local taxes including personal income tax, social tax, property tax, land tax, transport fee, fixed tax, excise tax, etc. The city governments can collect local administrative fees, impose fines and penalties and benefit from property income (Budget Code, 2008). Currently, local tax revenue of Almaty and Astana is primarily comprised of shared taxes: personal income tax (45%), social tax based on payroll (40%), and other taxes (15%) (Ministry of Finance, 2017). Almaty generates about 60-70 % of revenue by taxation (Diagram 2). The share of tax revenues of Astana hardly makes up 30-40% of the city budget. A considerable portion of the city budgets comes from the national transfers that are used to fill in the apparent deficit in local budgets.

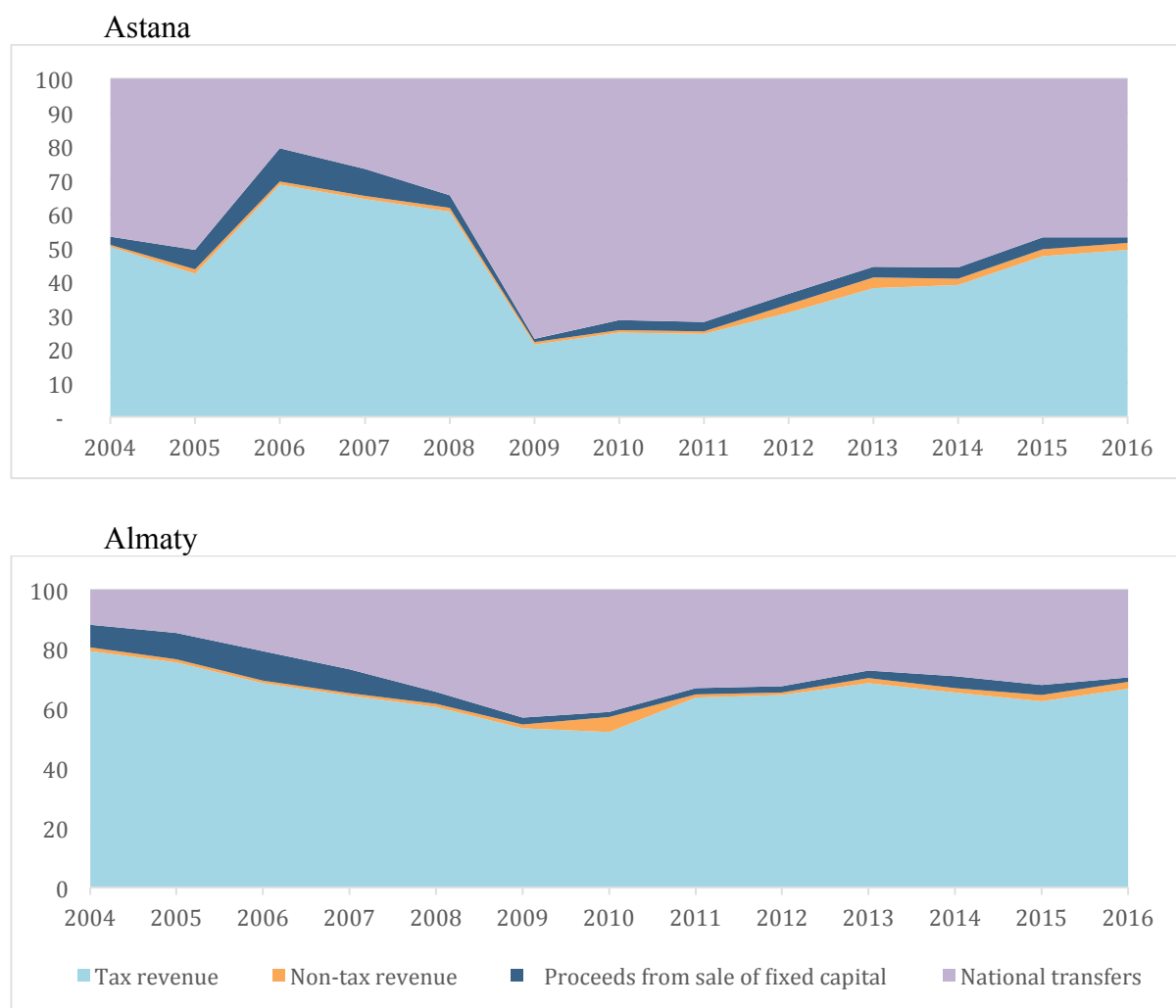
Figure 1. The State Budget System of Kazakhstan



Source: Developed by the author based on: Budget Code, 2008.

<sup>8</sup> Until January 1, 2002 corporate income tax, excises on alcohol products and payments for environmental pollution were divided between the levels of the budget system fifty-fifty. After amending the Law on the Budget System in November 2001, the corporate income tax began to be fully paid to the republican budget, whereas, excise taxes on alcohol products and payments for environmental pollution were completely given to local budgets (Kysykov, 2013).

Diagram 2. Change of the budget revenue in the cities of Astana and Almaty in %, 2004-2016



Source: Ministry of Finance, Financial Statistics, retrieved in November, 2016 from: <http://www.minfin.gov.kz>

In Kazakhstan, city governments are becoming more and more dependent on national transfers. Moreover, the city governments are not interested to generate more revenues because of the fiscal redistribution process. In the case of revenue surplus,<sup>9</sup> the national government withdraws part of the revenue from regions, which are experiencing high income, retaining only the amounts required for delivering the assigned public services.<sup>10</sup> Conversely,

<sup>9</sup> A surplus appears when locally collected revenue overlaps locally planned expenses (Budget Code, 2008).

<sup>10</sup> Kazakhstan's local governments are still intensively involved in the provision of public order, social security, education, health care, social protection, and the distribution of legally established benefits to certain population groups and support of employment. Moreover, local governments are accountable for territorial development that integrates land use, housing, water supply, building of engineering infrastructure, leisure facilities, and maintenance and repair of local roads. In addition to this wide range of functions, recently the local governments have had to become facilitators of local business development.

when revenue is not enough to cover the planned expenditure, regions experiencing a deficit will receive additional grants (subventions) (Figure 1). These types of withdrawals and subventions are called *general transfers* (Budget Code, 2008, Article 45). In addition to *general transfers*, the national government sends *targeted transfers* to fund regional and local developments, such as construction of large infrastructure projects for hosting Olympics.

## *2.2 Hosting megaprojects may decrease financial sustainability of cities*

Recently international events such as the Olympic games, characterized by a rapidly increasing budget, have obtained the status of *megaprojects* (Gold & Gold, 2016). The selected locations for hosting *megaprojects* have started to move from established Western countries toward Central European (Sochi 2014) and fast-transforming Asian countries (Pyeong Chang 2018). Almaty was very close to winning the chance to host the 2022 Winter Olympics, losing by only four votes to the incomparably better developed, and the larger city of Beijing (44 vs. 40) (Borden, 2015). The tendency is that many so-called democratically elected city governments are no longer offering their cities as hosting locations under the pressure of the local taxpayers as they are not willing to bear the *megaprojects'* relayed costs (Moore, 2015); whereas countries with city governments that have limited decision-making and budgeting power, are becoming interested in bidding for the chance to host mega events, driven by their own political objectives (Orttung & Zhemukhov, 2014).

Promoters of *megaprojects* claim that hosting international short-term events helps improve the competitive advantage of cities and advertise a city or even a country to the rest of the world (Palmer and Richards, 2010). Clark (2008) argues that global events may add a certain positive value to the physical development of cities. For example, some buildings with exceptional architecture, such as the Sydney Opera House and Sapporo Dome Stadium, which were constructed for hosting global events (Sydney 2000 Summer Olympic Games and 2002 FIFA World Cup), became “iconic” parts of the cities, attracting many tourists back to these



cities and countries. Additionally, proponents emphasize the role of *megaprojects* in the promotion of new economic activities like the service sector, increase of taxes expected to be generated by these new services, and infrastructure development, attracting more investors (e.g. the Barbados Cricket World Cup 2007). However, most of the proponents of *megaprojects* state that there are some important preconditions leading to successful outcomes, for example, local governments must play a key role in the adequate alignment of the *megaproject* preparation, hosting, and post-event legacy with local development needs (p. 17).

Opponents of *megaprojects* raise a particular concern about the retained value: the post-event management of a city and obtained infrastructure and facilities (Acuto, 2010; Davis and Dewey 2013; Flyvbjerg, et al. 2003). Scholars argue that preparation for hosting an event without proper involvement of city governments may negatively impact a city's economic future (Altshuler and Luberoff, 2003). They suggest that poor attention is paid to how *megaprojects* affect the financial decision-making at the national and local levels of government (Kennedy et al. 2014), and how *megaprojects*-driven urban development may impact on the financial sustainability of cities in the long run (Shatkin, 2011). The city governments of Kazakhstan, lacking autonomy in taxing and spending, may not be fully efficient and responsive to the local development needs (Shah, 2006). Therefore, there is a danger that together with the suggested benefits, nationally subsidized *megaprojects* may come to Kazakhstani cities in combination with the long-lasting development costs.

When looking at possible short-term benefits of *national projects*, the national government should not ignore the associated fiscal burdens such as long-term costs for management of urban development (Boadway & Shah, 2009). Driven by the desire to enhance the global competitiveness of Astana and Almaty over a short period, the national government may undermine the importance of the improvement of the city governments'

capacities to allocate centrally financed *megaprojects* to benefit cities and city dwellers in a long run. The budgetary system of Kazakhstan was designed to allow a certain degree of fiscal redistribution because it had to serve as a key instrument of poverty reduction in Kazakhstan (Agrawal, 2008). However, the selective redistribution of public money with attention to cities, when city governments are not supplied with incentives to promote local economic development, may not be a sustainable solution in the long run (Asanov, 2006). The promotion of *megaprojects* in two cities that reinforces financial dependency of a city on the national transfers may result in the decrease of financial sustainability of this city. The study of current *megaproject* implementation practice in Almaty and Astana may help national and city governments understand how to turn fiscal decentralisation reforms in the country towards financial sustainability of urban development.

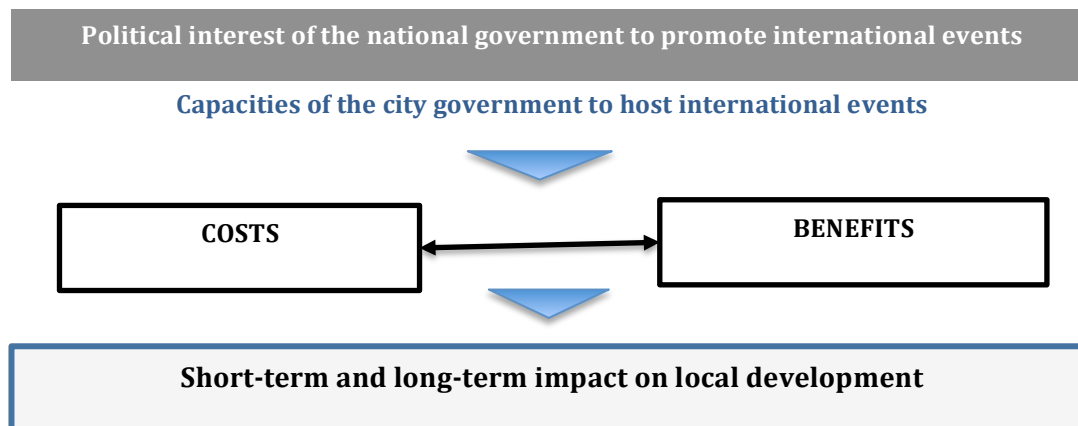
### *2.3 Research approach*

The paper aims to identify the roles of Almaty and Astana city governments in the allocation of *national projects* under the current fiscal constraints. Due to the lack of transparency in policy-making in Kazakhstan, it is hard to grasp what determines the national and city governments' decisions regarding implementing a particular *national project*. However, knowing that *national projects* involve considerable public spending, it is still possible to assess what kind of local benefits are assumed and costs are related to the implementation of such *megaprojects* (Priemus et al., 2008). Unfortunately, due to scarcity of publicly available data in the case of Kazakhstan, it is not yet possible to measure all *national projects* related costs and benefits in quantitative terms. Nevertheless, qualitative cost-benefit judgments can still be used to identify local evidence of expenses without converting these costs to quantitative value (Ziller & Phibbs, 2003). Qualitative cost-benefit assessment can be used to study relationships between local development costs and local development benefits (Rogers et al, 2009). In this essay, costs include initial short-term public spending as well as

long-lasting negative outcomes; benefits include expected and achieved positive outcomes from the short-term and longer-term perspective (Figure 2).

The objective is not to measure success or failure of these *national projects*, but to understand what underestimated public costs took place during the implementation of the *megaprojects* in the fiscally constrained cities of Kazakhstan. Assuming that, the local development benefits depend on the city government's financial reasons for hosting the megaprojects, I contrast some of the overestimated benefits with the often-dismissed local development costs. Implementation of the qualitative cost-benefit analysis requires paying attention to who the main actors are, who benefits, and what costs are considered. As the focus is on the effectiveness of city governments in using public money for *national projects* in favour of cities, it is important to identify the costs not only for the government, but also for citizens living and working in these cities.

Figure 2. Qualitative cost-benefit analysis framework



Source: Developed by the author based on (Rogers et al, 2009, p.15-19).

The cost-benefit analysis is based on an assessment of government reports, analysis of national financial statistics and local statistics and budgets of Astana and Almaty. However, consideration of officially reported costs may not be enough, leading to an inaccurate estimate of the actual impact of the *national projects*. The same can be said about the reported achievements that may not reflect some of the unexpected long-term costs. Therefore, analysis of the published reports and statistics is enhanced based on review of media

publications, and the results of 30 anonymous interviews conducted with: decision-makers from city *Akimats* of Astana (5 people) and Almaty (5 people), experts of international agencies involved in the development of *national projects* (5 people), experts from national agencies responsible for *national projects* (5 people), experts from real estate companies (5 people), and NGOs (5 people).

#### 2.4 Case studies

The case study cities are Almaty and Astana. During 2004-2016, Astana and Almaty city governments received KZT 2,809 billion (USD 19 billion) of the national grants (Diagram 3). Belonging to the first tier of the local governments and having equal access to national transfers, Almaty and Astana city governments are in a competitive position to get additional money from the state budget. Almaty is the largest city in the country, with a population about 1.6 million people (in 2016), it attracts more than 15 percent of all investment in Kazakhstan and 1/3 of all tax revenues is collected there (Akimat of Almaty, 2014). Astana, as the capital city, has turned into a special hub of state direct investment. In a short period of time from 1996 to 2014, the number of citizens increased from 289.7 to 852.9 thousand people (Akimat of Astana, 2014). Despite its favourable economic status, compared to Astana, Almaty city government has to demonstrate to the national government the need of the additional public investment in urban development<sup>11</sup>.

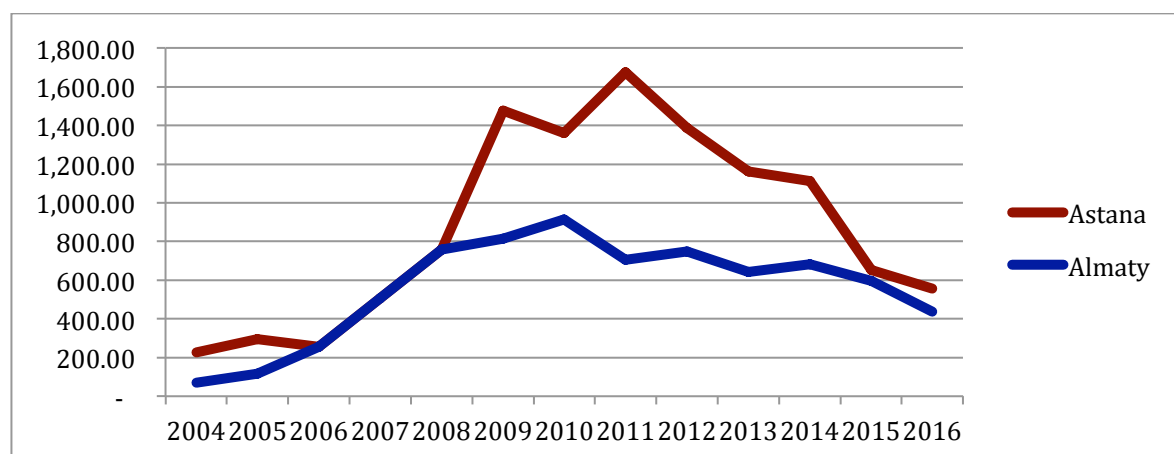
The 2008 global economic crisis had a negative impact on the local economies of most regions of Kazakhstan (Ministry of National Economy, 2009). However, from 2008-2011 the national government selectively allocated the highest amount of the national investment to finance Almaty and Astana, because they were selected as the hosting cities of the ASIADA-2011. During 2011-2014, despite the global recession, the national government still favoured Almaty and Astana. These cities received additional grants to get ready for the

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<sup>11</sup> The akim of Almaty visits Astana and the national government at least once a week. Interview with the representatives of the Ministry of National Economy, Astana, May, 2016.

UNIVERSIADE-2017, and the EXPO-2017. Despite the negative tendencies in the economy<sup>12</sup>, since 2006, the national government of Kazakhstan has allocated approximately USD 4 billion of public money to finance *megaprojects*, whereas no assessment was carried out to understand if there are any feasible local development returns (Almaty Forum, 2015).

Diagram 3. National transfers to Astana and Almaty in USD billion, 2004-2016



Source: Ministry of Finance, Financial Statistics, retrieved in November, 2016 from: <http://www.minfin.gov.kz>

### 3. Costly facilities with exceptional design, lacking local capacities to work for cities

Some national governments allocate public resources to *megaprojects*, driven mainly by the political objectives and expected benefits of these projects; whereas, the real efficiency of public investments on the city level are rarely analysed (Kennedy et al, 2014). Not surprisingly, the implementation of *megaprojects* often comes with considerable expenses of public money (Altshuler and Luberoff, 2003). In many cases, non-planned expenses appear not only at the implementation stage, but also during and after the event (Flyvbjerg, 2014). Most *megaprojects* are event-based and the project budget covers only immediate expenditures required for construction of facilities and hosting an event, maintenance costs

<sup>12</sup> Since 2008, the national government developed and implemented a monetary stabilisation plan, price stability was secured by the artificial overvaluation of the KZT. However, the recent financial crisis hit the Kazakhstani economy in 2016, and national government let the national currency float on the market.

for new facilities are not considered.<sup>13</sup> In this section, I assess the public financial costs in relation to the assumed benefits, such as physical facilities with the focus on the financial expenses related to the construction, and management of the obtained urban infrastructure. The aim is to understand how the current institutional challenges impact on a *national projects*' cost, as well as why some of the suggested benefits of having world-class facilities may not fully appear in the hosting cities of Kazakhstan.

### *3.1 Top-down will to distribute the benefits of the national project between Almaty and Astana increased the amount of public spending*

The idea of bidding for a *national project*, such as the ASIADA-2011, first came from the Almaty city government.<sup>14</sup> The Almaty government assumed that the Olympic Games in addition to national government support, would give a certain impetus for private investment for construction of the world-class sports facilities helping the development of a city as a tourists' destination.<sup>15</sup> Since Almaty lost its status as the capital of the country, the city government had to find new opportunities to attract the national government's attention toward the development of urban facilities.<sup>16</sup> However, the national government did not support the Almaty city government plans. Driven by the idea of positioning Astana in a global market,<sup>17</sup> the President gave an order to include Astana as a co-hosting city, making

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<sup>13</sup> Searle (2002) shows some of the operating losses of Australian sports facilities constructed for 2000 Olympic Games: SuperDome operating losses reached \$A5 million per year within 9 month of opening, whereas, Stadium Australia had \$A35 million of operating losses during two years of operation, 1998-2000 (Searle, 2002, p. 852-854).

<sup>14</sup> In 2006, Akimat of Almaty City and the Olympic Council of Asia (OCA) signed the Host City Contract in Kuwait for hosting 2011 Asian Winter Games. See more on the Official website of Almaty City Akimat: [http://www.almaty.kz/page.php?page\\_id=673&lang=2](http://www.almaty.kz/page.php?page_id=673&lang=2)

<sup>15</sup> "...after the winter Asian Games, the world practice shows that 50% of winter tourists are increasing, so all new sports facilities will be used in the future and will pay for themselves" statement of the Minister of Tourism and Sport, Mr. D. Dosmukhambetov, retrieved from: <http://www.zakon.kz/91643-na-stroitelstvo-sportivnykh-obektov.html>

<sup>16</sup> Interviews with the former and actual civil servants of Almaty city Akimat and the national government suggest that Akims of Almaty often travel to Astana to negotiate additional public investment in urban development, Almaty and Astana, February-June, 2016.

<sup>17</sup> Interview with the representatives of Akimat of Astana city and Ministry of Culture and Sport, Astana, June 2016.

the ASIADA-2011 an exceptional game in Central Asia as the first-ever game simultaneously hosted it in two cities - Astana and Almaty.<sup>18</sup>

*Table 1. Astana and Almaty city revenues' structure in 2004 before bidding, and during the preparation and hosting of the ASIADA-2011, 2009-2011, in million USD*

N		2004		2009		2010		2011	
		Astana	Almaty	Astana	Almaty	Astana	Almaty	Astana	Almaty
	<b>Total revenue</b>	<b>485</b>	<b>595</b>	<b>1,920</b>	<b>1,893</b>	<b>1,908</b>	<b>2,227</b>	<b>2,331</b>	<b>2,140</b>
1	<i>Tax revenue, including</i>	244	473	409	1,013	475	1,163	572	1,367
	personal income tax	62	163	175	467	216	543	265	650
	social tax	86	224	146	370	158	406	203	478
	Property tax, land tax, transport fee, fixed tax, and excise tax	95	87	89	176	101	214	103	240
2	<i>Non-tax revenue</i>	3	7	14	24	14	112	16	21
3	<i>Proceeds from sale of fixed capital</i>	12	45	21	43	57	37	67	45
4	National transfers	227	70	1,475	814	1,362	915	1,676	706
	Currency used	USD 1= KZT 136		USD 1= KZT 146		USD 1= KZT 147		USD 1= KZT 147	

Source: Ministry of Finance, Financial Statistics, retrieved in November, 2016 from: <http://www.minfin.gov.kz>

Inclusion of Astana city as the co-hosting city of the ASIADA-2011 changed the national government's plans, leaving Almaty city unable to obtain the desired portion of the public investment.<sup>19</sup> Before adding Astana as the co-hosting city in 2008, the national government announced that USD 726 million would be allocated for construction of the three sports facilities, and renovation of two sports facilities for hosting of the ASIADA-2011 in Almaty.<sup>20</sup> The officially announced total cost of the ASIADA preparation was equal to USD 1.65 billion,<sup>21</sup> USD 1.4 billion of which was spent on construction of six sports facilities, and the renovation of three more. After Astana was added as the co-hosting city between 2009-

<sup>18</sup> "That was because Kazakhstan's leaders wanted Astana, the capital, to obtain some of the international recognition and economic benefits of the Games, rather than having Almaty, the country's biggest city, reap all of the rewards" (Walters, 2011).

<sup>19</sup> Interview with the representatives of Akimat of Astana city and Ministry of Culture and Sport, Astana, June 2016.

<sup>20</sup> To build sports facilities for the Asian Winter Games, Kazakhstan government will allocate \$ 726 million, in Russian, retrieved from: <http://www.zakon.kz/91643-na-stroitelstvo-sportivnykh-obektov.html>

<sup>21</sup> Kazakhstan spent \$ 1.65 billion to hold the Asian Games, in Russian, retrieved from: <http://www.zakon.kz/198710-na-provedenie-aziady-kazakhstan.html>

2011, Almaty and Astana city budgets received in total 10 times more money or USD 7 billion of national transfers (see Table 1). Almaty city budget increased from USD 595 million (2004) to USD 2,1 billion (2011), whereas Astana city budget increased from USD 485 million (2004) to USD 2.3 billion (2011), see Table 1.

The national government's decision to host the ASIADA-2011 in two cities added extra load to the city governments and decreased their involvement in the management of the project. The representatives of the Ministry of Culture and Sport of Kazakhstan took the lead on planning and implementation of the national project by forming a special Organizing Committee of the ASIADA-2011, whereas, Almaty and Astana city governments became responsible for local support and development of urban infrastructure for the ASIADA-2011<sup>22</sup> (Government of Kazakhstan, 2007). The Almaty city government, having missed the opportunity to build all planned sports complexes, had to adjust the local plans and cut some of the planned expenses on the development of transport infrastructure. At the same occasion, the Astana city government unexpectedly had to deal with the construction of the large sports complexes and transport infrastructure that were not in the city development plans. The Organizing Committee of the ASIADA-2011 stated that hosting the ASIADA-2011 was equal to the simultaneous preparation of two mega events, requiring the presence of two sub-committees in Almaty and Astana, as well as many unexpected expenses linked with the need to bridge the two cities which are 1000 km from each other.<sup>23</sup>

### *3.2 The efficiency of public investment in the ASIADA-2011 was constrained by the lack of qualified people*

Limited in the autonomy and capacity to execute control over the quality of urban development and implementation of construction standards, both Almaty and Astana city

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<sup>22</sup> Budget code (2008) does not allow horizontal intergovernmental transfers between local governments belonging to the same tier of local government, such as Almaty and Astana cities.

<sup>23</sup> Interview with the former staff of the Executive Directorate of the Organizing Committee of the 7th Asian Winter Games 2011, June, 2014, Almaty and February, 2015, Astana.



governments had difficulties with guaranteeing the international quality of new sports facilities.<sup>24</sup> The Olympics became a certain test for national and city governments' competence in the management of physical urban development (Clark, 2008). Despite the positive conclusion made by the representative of the Olympic Council of Asia,<sup>25</sup> Mr. Jacques Rogge, who assessed the readiness of each city for the ASIADA-2011 in 2010, the current managers of the ASIADA-2011 facilities were not satisfied with their quality of construction, mentioning the cost of annual repair works.<sup>26</sup>

Poor management of the sports facilities' construction for the ASIADA-2011 resulted in the difference between desired and obtained quality of sports facilities. The ASIADA-2011 involved contracting international companies and experts during the planning and design stages. However, the construction of ASIADA-2011 facilities could not be accomplished according to the planned quality due to lack of qualified labour and operating staff, such as project and construction managers.<sup>27</sup> None of the people included in the Organizing Committee of the ASIADA-2011 from city governments had the experience of *megaproject* management or knew how to organize construction of world-class sports facilities.<sup>28</sup>

The management of public buildings' construction is complicated by noncompliance of the demanded quality of services with the available supply of services at the pre-calculated public cost.<sup>29</sup> For example, the construction cost of Saryarka Velodrome in Astana increased

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<sup>24</sup> The civil servants stated that they could not really impact on the process of construction, due to the duplication of the responsibilities with the Executive Directorate of the Organizing Committee of the 7th Asian Winter Games 2011. There was a persistent lack of clarity about who has an authorship to execute the control over construction of the ASIADA-2011 facilities. Interview with the civil servants of Almaty and Astana, February, 2015

<sup>25</sup> "Mr. Jacques Rogge, who said that our sports venues were great, modern, and built according to the best world standard. He thinks even that we are ready to go for bid for the Olympic Games in 2022." Statement of Dr. Rizvana Sadykova, International Affairs, Asian Winter Games Organizing Committee during the opening ceremony of the ASIADA-2011, Script 26 minutes Documentary, retrieved from: [www.astana-almaty2011.kz](http://www.astana-almaty2011.kz)

<sup>26</sup> Interview with the managing staff of the Astana Arena, Sunkar International Ski Jumping Complex, and Saryarka Velodrome, Astana, June 2015 and Almaty July 2016.

<sup>27</sup> According to the representative(s) of the KVL Group, the construction industry of Kazakhstan still lacks professional managers who are trained to supervise the construction process in line with the suggested design. Interview with the KVL Group company representatives, Astana, June-July, 2014

<sup>28</sup> Interview with the representative of NGOs in Almaty and Astana, February-July, 2015

<sup>29</sup> Interview with the civil servants of Almaty and Astana, February, 2015

1.75 times from KZT 12 billion (USD 100 million<sup>30</sup>) up to KZT 21 billion (USD 148 million<sup>31</sup>) (National Counting Committee, 2011, p.15) (Table 2). The cost of the Sunkar International Ski Jumping Complex construction in Almaty increased 2.2 times from KZT 17 billion (USD 142 million<sup>32</sup>) up to KZT 38 billion (USD 276 million<sup>33</sup>) (Table 2) (p.18). Nevertheless, in the official reports, city governments were biased toward the achievements in the timely spending of the public money<sup>34</sup>.

*Table 2.* The ASIADA-2011 sports facilities

Name of the hosting city	Type of facilities	Name of building	Capacity	Estimated preliminary cost*, in million USD	Estimated final cost*, in million USD
Astana	Constructed facilities	Astana Arena	30,000 seats	-	185
		Alau Ice Palace	7,500 seats	-	140
		Saryarka Velodrome	8,000 seats	100	148
	Renovated facilities	Kazakhstan Sports Palace	Arena 1- 5,050 seats; Arena 2 – 1,200 seats	-	50
Almaty	Constructed facilities	Sunkar International Ski Jumping Complex	9,500 seats	142	276
		Tabagan Sport and Recreation Complex	2,250 seats	-	60
		Alatau Cross Country Skiing and Biathlon Stadium	6,200 seats	-	152
	Renovated facilities	Baluan Sholak Sports Palace	5,000 seats	-	65
		Medeo	8,500 seats	-	130
		Shymbulak Alpine Sport Resort	3,000 seats	-	200
Total					1,406

\*The initial and final cost was estimated based on different sources and comments from the decision-makers involved in the preparation for ASIADA-2011, interviews in Almaty and Astana, June 2014 – January 2017

The local job markets of Almaty and Astana were not ready to supply the ASIADA-2011 with the qualified staff familiar with the installation of specialized sports equipment that led to the additional increase of the national project related costs. In total, about KZT 10.28

<sup>30</sup> Currency in 2008 USD 1 = KZT 120

<sup>31</sup> Currency in 2010 USD 1 = KZT 142

<sup>32</sup> Currency in 2008 USD 1 = KZT 120

<sup>33</sup> Currency in 2010 USD 1 = KZT 142

<sup>34</sup> National government penalizes local governments of Kazakhstan for untimely spending of the allocated public money. Interview with the representatives of the Ministry of Finance of Kazakhstan, Astana, February-June, 2016

billion (USD 72 million<sup>35</sup>) was spent on sports equipment that became non-operational due to the absence of qualified staff (National Counting Committee, 2011, p.57). During the construction of the Alau Ice Palace in Astana, KZT 1 billion (USD 7 million<sup>36</sup>) was spent to buy an ice cover, but this ice cover had to be replaced by a new one because the procurement staff could not buy the ice cover of the required quality at the first attempt.<sup>37</sup> New television equipment, purchased at KZT 4.123 million (USD 29,035<sup>38</sup>) which was installed during the construction of the Cross Country Skiing and Biathlon Stadium, could not be used during the ASIADA-2011 and after due to lack of qualified technicians.<sup>39</sup>

Desiring to look good in front of the national government led to misinformation from the Almaty city government that regularly reported on the timely completion of all sports complexes for the ASIADA-2011. In fact, the construction of all sports facilities for the ASIADA-2011 could not be completed on time, with the given budget and at the initially declared quality.<sup>40</sup> To provide an example, the existing Shymbulak Sky Base in Almaty had to be turned into the Shymbulak Alpine Sport Resort by developing 40 hectares of land and construction of a 50-meter length swimming pool. The allocated amount of KZT 24 billion (USD 200 million<sup>41</sup>) for construction was fully spent, but the renovation works could not be fully completed (National Counting Committee, 2011, p.45). The renovation of the Medeu Ice Rink in Almaty was also not fully completed because the pre-calculated sum of KZT 15.6 billion (USD 130 million<sup>42</sup>), requested for repairing the ice rink, was not enough for the renovation work (ASIADA Sport Committee, 2011).

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<sup>35</sup> Currency in 2010 USD 1 = KZT 142

<sup>36</sup> Currency in 2010 USD 1 = KZT 142

<sup>37</sup> Interview with the representatives of the Alau Ice Palace in Astana, May, 2015

<sup>38</sup> Currency in 2010 USD 1 = KZT 142

<sup>39</sup> Interview with the Expert from the National Counting Committee, Astana, March, 2015

<sup>40</sup> Interview with the representatives of the sport team of Kazakhstan participated in the ASIADA-2011, June-August, 2014, Almaty and Astana.

<sup>41</sup> Currency in 2008 USD 1 = KZT 120

<sup>42</sup> Currency in 2008 USD 1 = KZT 120

After the ASIADA-2011, most of the new facilities were transferred to city municipalities, together with the maintenance costs that were partly covered by the national government.<sup>43</sup> The increase of such annual public spending expenses can be tracked from the officially published state budget expenses (Ministry of Finance, 2016).<sup>44</sup> In 2012, this targeted transfer for maintenance of sports facilities was equal to KZT 21 million (USD 141 thousand<sup>45</sup>), whereas, in two years, it increased 10 times, being equal in 2014 to KZT 256 million (USD 1.7 million). However, these national transfers can hardly cover the real expenses related to the operation of the ASIADA-2011 facilities. For example, the monthly maintenance cost of the Saryarka Velodrome in Astana in 2013 was an average KZT 130 million (USD 855 thousand<sup>46</sup>), and the Alatau Cross Country Skiing and Biathlon Stadium in average KZT 65 million (USD 428 thousand).<sup>47</sup> Moreover, despite their costly maintenance, the use of these new sports complexes is extremely limited.<sup>48</sup>

### *3.3 Almaty city won a chance to host UNIVERSIADA-2017: Astana city was given the EXPO-2017*

Almaty city government has got an opportunity to use some of the ASIADA-2011 sports facilities again during the UNIVERSIADE-2017. However, most of them had to be renovated, requiring additional investment. Additionally, due to an inability to use the large sports complexes constructed for ASIADA-2011 in Astana, Almaty had to attract additional investment for the construction of new sports facilities for UNIVERSIADA-2017. The total

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<sup>43</sup> For example, Astana Arena sports complex, which was a property of the Ministry of Culture and Sports of the Republic of Kazakhstan, has been transferred to the Astana city *Akimat*. Official website of the sports complex Astana Arena, retrieved from: <http://astanaarena.kz/rgkp-respublikanskij-velotrek-saryarka-proshel-reorganizatsiyu/>, November, 2016

<sup>44</sup> As of 2012 the new position “the targeted current transfers to the regional budgets, budgets of Astana and Almaty cities for maintenance of newly introduced sports facilities” has been introduced in the annual spending line of the state budget.

<sup>45</sup> Currency in 2012 USD 1 = 149 KZT

<sup>46</sup> Currency in 2013 USD 1 = 152 KZT

<sup>47</sup> About 200 million tenge are allocated for the maintenance of sports facilities of the Asian Games every month, in Russian, retrieved from: <http://today.kz/news/ekonomika/2013-08-19/266593-news/>

<sup>48</sup> According to the management team of Astana Arena, the new arena mostly remains empty. In the stadium with capacity to accept about 30,000, one can hardly observe up to 1,500 visitors. The Astana arena is located far away from the residential areas and it is not fully open for public use. Interview with the Astana Arena management team, Astana, February 2015.

cost of multifunctional facilities like the Almaty Arena, Halyk Arena, and Athletic Village in Almaty was approximately USD 442 million (Table 3). However, this time, the construction of new facilities for hosting of UNIVERSIADE-2017 was completed ahead of schedule, without any public overspending.<sup>49</sup> In addition to direct national transfers, Almaty city government could attract new donors operating with the public money, such as the state-owned Halyk Bank and Zhilstroybank.<sup>50</sup> About 1,550 small, private enterprises were involved in the construction of new facilities for UNIVERSIADE-2017, about 30,000 jobs were created, and the city budget received KZT 9.2 billion (USD 27 million<sup>51</sup>).<sup>52</sup>

*Table 3. The UNIVERSIADE-2017 facilities*

Name of building	Estimated share of different funding sources			Capacity	Estimated final cost*, in million USD
	National budget	Local budget	Private investment		
Halyk Arena	60%	10-15%	25-30%	Territory 67.5 hectares/ Arena 1 - 3,000 seats; Arena 2 – 300 seats	115
Almaty Arena	56%	10-15%	29-34%	29,000 sq.m/ Arena 1 -12,000 seats; Arena 2 - 475 seats	200
Athletic Village	44%	10-15%	31-46%	Territory 21.5 hectares/ 5,000 dwellers	127
<b>Total</b>					<b>442</b>

\*The cost was estimated based on different media sources and comments from the decision-makers involved in the preparation for ASIADA-2011, interviews in Almaty and Astana, June 2014 – January 2017

Failed to be included in the bid for UNIVERSIADE-2017 proposed by the Almaty city government, under the pressure of the national government, Astana still obtained a chance to host EXPO-2017. However, the national government established exceptional legal conditions for the EXPO-2017, distancing the Astana city government from being a managing part of the preparation process.<sup>53</sup> Astana EXPO 2017 JSC, created in January 2013 with the Ministry of

<sup>49</sup> The Athletic Village, consisting of 14 blocks of flats and 3 maintenance units. Source: Reporting of the Almaty city Akim in front of the public in February, 2017, Almaty.

<sup>50</sup> The report of the Almaty city Akim in front of the national government, February, 2017, Astana, broadcasted via TV-channel “Khabar”.

<sup>51</sup> Currency in 2012 USD 1 = 149 KZT

<sup>52</sup> Universiade-2017: What did the Student Games give to Kazakhstan? In Russian, retrieved from: <https://365info.kz/2017/02/universiada-2017-chto-dali-kazahstanu-studencheskie-igry/>

<sup>53</sup> Interview with the representatives of Ministry of National Economy, February, 2017

National Economy of the Republic of Kazakhstan playing the role of the sole shareholder, has started to lead the preparation for hosting of EXPO-2017.<sup>54</sup> Budget Code (2008) was corrected to allow the direct financing of the national company Astana EXPO-2017 JSC, approximately USD 3 billion of public money bypassed Astana city budget.<sup>55</sup> Adaptation of the Law on Architecture and Urban Planning (2001) allowed the EXPO-2017's new facilities to go through private examination bypassing the public inspection and avoiding a public discussion about the environmental and social impact of the *national project*. Changes in the Tax Code (2008) introduced exemption from taxes for the national company Astana EXPO-2017 JSC, including land and property taxes that may have gone to the city budget.

Figure 3. The EXPO-2017 site and main buildings.



Source: Astana EXPO 2017 JSC (2016) Astana EXPO 2017 Participation Guide, International Participants Meeting, February 2016, Astana, Kazakhstan, retrieved from: [www.expo2017astana.com](http://www.expo2017astana.com); and <http://smithgill.com/work/expo-2017/>

In addition to the adjustment of national legislation, the EXPO-2017 town, occupying 174 hectares of urban land with 25 hectares of exhibition site (Figure 3), obtained a

<sup>54</sup> The Board of Directors is headed by the First Deputy Prime Minister of the Republic of Kazakhstan. Alongside with him, the membership of the Board of Directors comprises the Vice-Minister of National Economy, Chairman of the State Committee of State-owned Property and Privatization of the Ministry of Finance, independent directors and the Chairman of the Management Board of the Organiser. A.S. Yessimov was appointed Chairman of the Management Board of the Organiser by decree of the President of the Republic of Kazakhstan on 9 August 2015. (Astana EXPO JSC, p.26)

<sup>55</sup> The special national budget position such as “special purpose transfer to the national company Astana EXPO 2017 JSC” was created and the company received the direct national transfers for design and budget documentation, and for the construction of the EXPO-2017 town (Government of Kazakhstan, 2013).

remarkable design proposed by Adrian Smith & Gordon Gill Architecture (Astana EXPO-2017 JSC, 2016). The design company was selected based on the international competition that featured 105 entries from around the world. The National government allocated approximately KZT 2.4 billion (USD 16 million) to cover fees of external consultants assisting in the organization of EXPO-2017 (Ministry of Finance, 2016). By contracting 19 domestic companies for the total sum of KZT 60 billion (USD 233 million<sup>56</sup>), the EXPO-2017 team tried to increase the presence of the national companies in the project.<sup>57</sup> However, the participation of local construction companies in the erection of the EXPO-2017 facilities resulted in an accident in 2016 where part of the newly built structure of the EXPO-2017 suddenly broke down, serving as a signal that the absence of qualitative local construction services can devalue the initial investment in an exclusive design (Figure 4).

*Figure 4.* The photos of the demolished structures on the EXPO-2017 site



Source: The Building Collapsed on the Territory of EXPO-2017 in Astana, news in Russian, retrieved in November, 2016 from: <https://tengrinews.kz/events/konstruktsiya-obrushilas-na-territorii-EXPO-2017-v-astane-306264/>

#### **4. Short-term benefits with long-term economic consequences**

The positive impact on local development from *megaproject* does not depend on the amount of public funding aimed at purely physical development, but rather on the quality of investment and capacities of city governments to plan and allocate new developments in favour of citizens (Telesca, 2014). In many cases, *megaprojects* are not the outcome of the

<sup>56</sup> Currency in 2015 USD 1 = KZT 258

<sup>57</sup> Interview with Talgat Ermegiyev, the Chairman of the Management Board of national company “Astana-EXPO-2017”: “Astana will be ready in time for “EXPO-2017” – I don’t have any other option”, Information Bulletin “Astana EXPO-2017,” March 2015

city's proposed local strategy. As a result, city governments have to deal with the allocation of the *megaprojects* in the *ex post* manner (Kennedy et al., 2014). Often preparing a *megaproject* is ad-hoc, and does not include a proper assessment of its long-term impacts on local economic development (Solberg & Preuss, 2007). In the case of Kazakhstan, where city governments lack decision-making autonomy and the capacity to plan and manage urban development in a sustainable way, special attention must be paid to the process of allocating finances for *national projects*. This section aims to analyse how Almaty and Astana city governments of Kazakhstan deal with the allocation of *national projects* and what underestimated long-term social and environmental costs are for cities and citizens' local economic future.

*4.1 The success of the UNIVERSIADA-2017 was diminished by the undersupply of the transport infrastructure and reactive solutions of the city government*

Almaty city government could play a considerable role in the preparation for the UNIVERSIADA-2017. Almaty city government declared that UNIVERSIADE-2017 was arranged and implemented with attention focused on the local development priorities such development of tourism and service sector.<sup>58</sup> Two new complexes like the Almaty Arena and Halyk Arena were constructed in the western and eastern two peripheral, residential districts of Almaty.<sup>59</sup> Almaty Arena and Halyk Arena were designed as multifunctional complexes, open for different public events, and daily use where people can register for different sports (boxing, wrestling, table tennis, swimming) and use gym equipment at affordable prices. According to the Almaty city government plans, the money collected from commercial use of these multifunctional complexes will cover their maintenance. By creating the Athletes Village, UNIVERSIADA-2017 contributed to the development of social housing in Almaty. Close to the end of 2016, before hosting the UNIVERSIADE-2017, the Almaty city

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<sup>58</sup> Almaty city Akim, Annual Public Report. February, 2016. Retrieved from: <https://www.nur.kz/1414450-nachalas-otchetnaya-vstrecha-akima-alma.html>.

<sup>59</sup> Interview with the former and actual civil servants of Almaty city Akimat, Almaty, February-June, 2016.



government had already announced the post-event availability of the 1,748 apartments in the Athletes Village in Algas' micro-district for renting with the opportunity to purchase.<sup>60</sup>

Despite all of the reported achievements, Almaty city government could not complete most of the planned preparation of urban infrastructure. There was a suspension in development of the public transport system because of the shortage of national transfers that were cut by half due to the increased cost of preparation of the EXPO-2017 in Astana.<sup>61</sup> In 2012 the Almaty city budget received USD 747 million, in 2016 the national transfers decreased to USD 437 million (see Table 4). Only one of the three planned Almaty Metro lines were completed, and only one fifth of the Bus-Rapid Transit corridor started to operate before the UNIVERSIADA-2017. Not being able to solve the current transport problems of Almaty, such as daily morning and evening 2-3 hours congestions, the city government had to implement temporary measures. In the absence of the public transport able to link the UNIVERSIADA-2017 facilities, the city government arranged special buses for the participants of the UNIVERSIADA-2017. During the UNIVERSIADA-2017, Almaty city government could use its local power to influence a number of social and economic structures including: stopping the work of the nine largest product markets and consumer goods selling bazaars, calling for a week of holiday for all city public schools; and restricting the entry into the city for any vehicles not meeting certain technical, sanitary and environmental standards.<sup>62</sup> Residents and commuters working in Almaty city were not informed in advance and became victims of these unplanned closures and limitations.<sup>63</sup>

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<sup>60</sup> In total, there are 996 1-bedroom apartments 40-45 sq.m; 560 2-bedroom apartments 50-56 sq.m; 192 3-bedroom apartments 63-89 sq.m. Right after the UNIVERSIADA-2017, social housing had started to be leased at a rate of KZT 1,036 (USD 3)<sup>60</sup> per 1 sq.m for maximum of 20 years, with opportunity to be redeemed after 5 years of renting. Retrieved from:

<https://krisha.kz/content/news/2016/nachalsya-priyom-dokumentov-na-poluchenie-kvartir-v-atleticheskoy-derevne>

<sup>61</sup> Interview with the representatives of the Almaty city Akimat, Almaty, March, 2015

<sup>62</sup> Baibek reported about restriction of entry to Almaty during the Universiade, news in Russian, retrieved from: [http://www.inform.kz/ru/ob-ogranichenii-v-ezda-v-almaty-vo-vremya-universiady-soobschil-baybek\\_a2989779](http://www.inform.kz/ru/ob-ogranichenii-v-ezda-v-almaty-vo-vremya-universiady-soobschil-baybek_a2989779)

<sup>63</sup> Universiade in Almaty was called a stress for citizens, news in Russian, retrieved from: <https://www.nur.kz/1396203-pochti-polovina-almatincev-ispitali-s.html>

Table 4. Astana and Almaty city revenues' structure during the preparation for UNIVERSIADA-2017 and EXPO-2017, 2012-2017, in million USD

N		2012		2013		2014		2015		2016	
		Astana	Almaty	Astana	Almaty	Astana	Almaty	Astana	Almaty	Astana	Almaty
	<b>Total revenue</b>	<b>2,181</b>	<b>2,299</b>	<b>2,089</b>	<b>2,357</b>	<b>1,997</b>	<b>2,347</b>	<b>1,389</b>	<b>1,862</b>	<b>1,187</b>	<b>1,483</b>
1	<i>Tax revenue, including</i>	<b>675</b>	<b>1,487</b>	<b>797</b>	<b>1,619</b>	<b>778</b>	<b>1,536</b>	<b>662</b>	<b>1,165</b>	<b>587</b>	<b>990</b>
	personal income tax	308	729	361	802	364	731	304	569	273	494
	social tax	233	523	291	557	281	520	238	398	214	337
	Property tax, land tax, transport fee, fixed tax, and excise tax	134	235	146	260	132	284	119	199	101	160
2	<i>Non-tax revenue</i>	49	20	63	38	39	38	27	40	24	33
3	<i>Proceeds from sale of fixed capital</i>	70	46	66	58	66	90	48	61	19	23
4	National transfers	<b>1,388</b>	<b>747</b>	<b>1,162</b>	<b>642</b>	<b>1,114</b>	<b>683</b>	<b>652</b>	<b>596</b>	<b>556</b>	<b>437</b>
	Currency used	USD 1= KZT 149		USD 1= KZT 152		USD 1= KZT 185		USD 1= KZT 258		USD 1= KZT 342	

Source: Ministry of Finance, Financial Statistics, retrieved in November, 2016 from: <http://www.minfin.gov.kz>

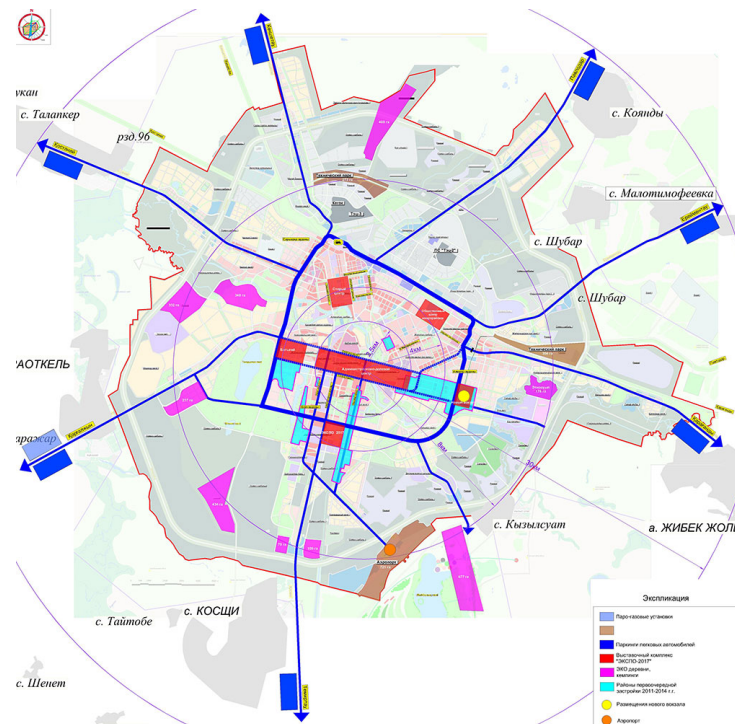
#### 4.2 Inadequate planning and implementation of national projects leads to the decrease of trust between citizens and city governments

Creating a clear strategy, which shows how international events can be beneficial for local development, is crucial for the engagement of local actors, and successful implementation of a *national project* (Burbank, Andranovich & Heying, 2002). However, the planning and implementation of *national projects* in Kazakhstan were carried out without adequate engagement of local actors.<sup>64</sup> Being subordinate to the national projects' managerial team, the city government could not always have an impact on the adaptation of national projects for local needs of citizens. Conversely, city governments would frequently adjust local development plans to the needs of the *national projects*. Almaty and Astana city

<sup>64</sup> Interview with the representatives of Almaty and Astana city Akimats and representatives of NGOs, Almaty and Astana, May, 2016 and June 2016.

*genplans* were corrected for the needs of ASIADA-2011 and UNIVERSIADA-2017.<sup>65</sup> The preparation for hosting the EXPO-2017 started with the full adjustment of the Astana city *genplan* for the EXPO-2017 needs (see Figure 5).<sup>66</sup>

Figure 5. The EXPO-2017 integrated in the new Astana city *genplan*



Source: Official website of the Astana city Akimat, retrieved in February, 2015: <http://saulet.astana.kz/plan/15/>

Including *national projects* in the city *genplans* allowed the national government to use city governments for implementation of the justified acquisition of demanded land plots for new construction from current users (owners) for governmental needs. City governments of Kazakhstan are entitled to regulate the use of urban land and allocation of new development. According to Article 84 of the Land Code (2003), the land acquisition by the state can be implemented based on the needs of new developments included in the approved *genplan*, or based on the other state planning documents for projects financed from budgetary

<sup>65</sup> Almaty city *genplan* was corrected once before ASIADA-2011 in 2008 and before UNIVERSIADA-2017 in 2015. Astana city *genplan* was fully changed for the need of EXPO-2017 in 2015. Interviews with the representatives of Almaty and Astana city Akimats, February 2015 and 2017, June 2015 and 2017.

<sup>66</sup> Interview with the representatives of Astanagenplan, managerial team of the EXPO-2017 and Akimat of Astana city, July, 2014; March, 2015; and February, 2017.

funds. Also, the Land Code (2003) allows for a change in how land is used, even land that is part of the specially protected natural reserves<sup>67</sup> (Article 122); this is the case for land required for the construction and operation of tourism facilities included in state planning documents such as city *genplan*.

The top-down allocation of national projects as the priority of urban development has started to put city governments in a conflicting position with citizens. The first conflict of interest between city government and its citizens took place during the preparation of the land for construction of mountain sports facilities for ASIADA-2011. At that time, city government had to transform a part of the specially protected natural land for new developments. The special public discussion has appeared around the ski resort Kok Zhailau project that was finally excluded from the list of the ASIADA-2011 facilities because its implementation was suspended due to the active public opposition.<sup>68</sup> However, during the preparation for UNIVERSIADA-2017, Akim of Almaty stated that the Kok Zhailau project could be recovered if they would attract private investors to pay for this new development.<sup>69</sup> At the same time, according to the NGOs' calculations, the negative impact of the already constructed road and utilities for Kok Zhailau on the local environment and wildlife habitat of Ile-Alatau National Park remains pretty high, and can hardly be compensated by any investment returns in monetary value.<sup>70</sup>

During the preparation for UNIVERSIADA-2017, the public discussion around new developments on the mountain area has continued, but this time a conflict appeared around the preservation of the world cultural heritage in the Almaty region. The construction of a

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67 Article 23 of the Land Code (2003) "On Specially Protected Natural Territories" states that "the seizure of lands of specially protected natural areas is not allowed, and any activity that does not meet their intended purpose is prohibited".

68 Some of active citizens protested on the site, others have created a Facebook group called "Let's protect Kok Zhailau". See more: <https://www.facebook.com/groups/431360897065943/members/>. "Protect Kok-Zhailau" has become a part of the Environmental Justice Atlas: <https://ejatlas.org/conflict/protect-kok-zhailau-ile-alatau-state-national-nature-park-kazakhstan>

69 Almaty city Akim, Annual Public Report. February, 2016. Retrieved from: <https://www.nur.kz/1414450-nachalas-otchetnaya-vstrecha-akima-alma.html>.

70 Interview with the representative of the NGOs in Almaty, May, 2015

road connecting Alatau Cross Country Skiing and Biathlon Stadium with the rest of the UNIVERSIADA-2017 sports facilities was suspended due to the damage of the World Heritage property.<sup>71</sup> The road construction in Talgar led to the demolition of parts of the Talhiz site of the ancient town (see Figure 6) included in the Great Silk Road monuments list in 2014, together with 33 other objects in the territory of Kazakhstan, Kyrgyzstan and China (ICOMOS, 2016, p.3). The visit of ICOMOS<sup>72</sup> led to a suspension of all types of construction work on the territory of the Talgar hillfort (Talhiz site).<sup>73</sup> According to local archaeologists, despite the construction having stopped, the monument was partly destroyed.<sup>74</sup> Additional funds<sup>75</sup> from the Almaty region budget were allocated to assist with this incident; whereas, local heritage sites in the Almaty region were left without additional institutional and financial support from the national government.<sup>76</sup>

*Figure 6.* The photos from the road construction near Talgar



Source: The fate of Talhiz settlement will be decided in Astana, news in Russian, retrieved from: [http://total.kz/culture/2016/09/28/sudba\\_gorodishcha\\_talhiz\\_budet\\_res hatsya\\_v\\_astane](http://total.kz/culture/2016/09/28/sudba_gorodishcha_talhiz_budet_res hatsya_v_astane)

The preparation for the EXPO-2017 resulted in a social conflict around compulsory land acquisition. According to the new Astana *genplan*, new urban infrastructure to be

<sup>71</sup> “27 July 2014: the construction of the road (in violation of Article № 127, the Land Code, and Article № 35 of Heritage legislation) started in the direction of the Sportive Centre Ak-bulak, where the ‘Universiade 2017’ (World student games) is planned” (ICOMOS, 2016, p.18)

<sup>72</sup> International Council on Monuments and Sites, see at: [www.icomos.org/en/](http://www.icomos.org/en/)

<sup>73</sup> I.Tasmagambetov held an on-site meeting on the preservation of the medieval settlement "Talhiz", news in Russian, retrieved from: [https://primeminister.kz/ru/news/kultura\\_i\\_sport/itasmagambetov-provel-viezdnoe-soveshchanie-po-voprosu-sohrannosti-srednevekovogo-gorodishcha-talhiz-13577](https://primeminister.kz/ru/news/kultura_i_sport/itasmagambetov-provel-viezdnoe-soveshchanie-po-voprosu-sohrannosti-srednevekovogo-gorodishcha-talhiz-13577)

<sup>74</sup> Interviews with the representatives of local NGOs, Almaty, November, 2016

<sup>75</sup> The money was used to design and implement the construction of a new bypass road outside the protection zone and conducting of supplementary archaeological research.

<sup>76</sup> Interview with the representatives of Almaty region Akimat, Taldykorgan, May-June, 2016

developed for the EXPO-2017 included: a new railway station with capacity to serve 35,000 passengers per day and the total area of 27 hectares; a new terminal increasing airport capacity up to 1,500 passengers per hour; a new 22.4 km Light Rail Transport system (LRT) with 18 stations and capacity of 580 passengers, linking Astana International Airport to the new railway station; two new bus stations with the capacity of 4,500 passengers per day, to name just a few. Allocating all these new developments demanded additional land plots, including the acquisition of land, which left the original owners unsatisfied with the compensation they received.<sup>77</sup> The national government attempted to hide most of the public protests;<sup>78</sup> however, journalists uncovered stories of people protesting against their resettlement from dachas<sup>79</sup> located on the site of the planned new railway station.<sup>80</sup>

The *national projects* put Almaty and Astana city governments in the middle of social conflicts that they had no ability to solve. Lacking decision-making autonomy in the distribution of public finances, city governments did not have any opportunity to challenge the decisions related to *national projects*. In the end, the national government left the city governments to deal with citizens' claims, without supplying them with any additional decision-making autonomy or resources; whereas, temporarily created quasi-government organizations, such as the Organizing Committees of ASIADA-2011 and UNIVERSIADA-20117, enjoyed the power of the *national projects* to impose implementation of the adopted

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<sup>77</sup> Chairman of the Esil district court of Astana, Gulnar Abdigaliyeva, informed that they expect to receive about 250 lawsuits related to land plots acquisition for EXPO-2017 in 2013, and as the past experience of the compulsory land acquisition by the city government in 2012 showed citizens are not satisfied with the state proposed compensation. Source: In the framework of the construction of "EXPO-2017" facilities in Astana, the land is to be confiscated from the owners, news in Russian, retrieved from: <https://www.zakon.kz/4539366-v-ramkakh-stroitelstva-obektov-expo.html>

<sup>78</sup> Interview with the representatives of NGOs and representatives of Astana Maslikhat, Astana, February, 2017.

<sup>79</sup> During Soviet times, dachas were built as the garden houses for citizens to temporary use during the weekends. However, most of these dachas turned into the permanent housing after privatization and extension of the Astana city border.

<sup>80</sup> Residents of the dacha massif of Astana threatened the authorities with suicide because of the demolition of houses, news in Russian, retrieved from: <http://today.kz/news/proisshestviya/2016-10-01/727028-zhiteli-dachnogo-massiva-astanyi-grozyat-vlastyam-suitsidom-iz-za-snosa-domov/>

decisions on the local actors such as city and regional governments.<sup>81</sup> Despite the number of corruption scandals related to the activities of these temporary managerial actors,<sup>82</sup> the national government continues to rely on them more than on city governments.

#### 4. Conclusion

The top-down enforcement of large scale and expensive national projects such as UNIVERSIADA-2017 and EXPO-2017 exposed the fiscal decentralization deficit in the country. Making *national projects* beneficial for the citizens remains an issue that is not yet represented in the policy agenda of the national and city governments of Kazakhstan. There is a lack of fiscal incentives for the city governments to be interested in the making the *national project* to work for the citizens and local economic development. The national government pays little attention to developing local capacities, as well as the functional capacity of the complexes after hosting the international event; whereas, the Almaty and Astana city governments' efforts to sustain the post-event legacy is of great need. Astana and Almaty city governments showed a lack of capacities and autonomy to prepare the city infrastructure and guarantee the demanded quality of construction and operation of the nationally financed sports facilities. Assessment of the national projects in Almaty and Astana makes it obvious that the national government intervention in the city development will not lead to sustainable development results, if local actors like city governments and city dwellers are not well engaged in planning and management of this kind of projects.

When the primary objective for the city governments is to attract more national transfers, consequently, the interest to suit the national government's expectation overwhelm the city government's duties to satisfy the needs of the local community. Astana city

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<sup>81</sup> Interview with the representatives of Almaty and Astana city Akimats, Almaty region Akimats, June-July, 2015 and May-June, 2016

<sup>82</sup> To give an example, in 2011 the head of the ASIADA-2011 management team, Sultanbek Syzdykov, was accused for stealing KZT 23 million. In 2016, the management team of the Astana EXPO-2017 JSC was accused for corruption. Former Minister of Sports and Tourism, responsible for hosting ASIADA-2011, Talgat Ermegiyev was accused for unjustified spending of over USD 31 million from the EXPO-2017 budget. Source: Astana Expo-2017: a race against time, news in Russian, retrieved from: <https://www.timesca.com/index.php/news/26-opinion-head/17380-astana-expo-2017-a-race-against-time>

government uses the capital status of the city to attract public finances for city branding, but Astana city government does not have property and land taxation motives to be interested in efficient management of the obtained money. On the other hand, Almaty city government has a precise interest in hosting the Olympics. However, for Almaty, it is difficult to reserve a budget for the development of expensive and long-term urban projects. As a result, Almaty city government, willing to develop urban infrastructure, must hunt for national transfers. Under the current budget and taxation systems, city governments do not have incentives to effectively manage locally available resources. The city governments do not fully respect local citizens as taxpayers because they do not have power to impact on locally collected taxes. However, city governments have started to recognize a growing role of citizens in advocating local needs. Due to the poor attention given to the potential negative impact of new development, city governments had to tackle additional environmental and social costs that impact on decreasing the trust of citizens in the government.

The implementation of national projects is constrained by the supervision of national level actors forming the managerial team. Despite their poor engagement during the planning and implementation phase, the city governments became key actors responsible for the allocation of new facilities and their post-event use. National transfers are continually devoted to the construction of new luxury facilities without development of local managerial capacities to operate and commercialize the post-event use of these facilities. Most national projects are event-based, and national transfers are provided to cover only immediate expenditures. National allocations of targeted grants for the construction of new complexes do not fully cover long-term expenses related to further maintenance and supply of communal services. Under current managerial conditions, the city governments cannot collect enough revenues to maintain the existing built-up areas. Every national project makes city



governments more dependent on external financial support due to increasing budget expenditure.

By prioritizing the implementation of national projects, city governments have started to distance themselves from their main role of local actor pursuing the enhancement of public welfare. City governments are unable to use national projects for timely completion of planned urban developments that could have a positive impact on local development. None of the national projects that were implemented can economically justify the integrated urban transformations. However, under fiscal pressure, city governments continue to claim that cities are able to host new international events. The remaining challenges are overestimated benefits and underestimated costs related not only to the implementation, but also to the further maintenance of long-term outcomes of national projects. There is a danger that ongoing fiscal decentralization reforms may not work well for cities like Astana and Almaty if exceptional national funding continues to be implemented without consideration of strengthening the role of the local governments in municipal economic development. Additionally, the delegation of more fiscal freedom and decentralization of tax collection may not improve the situation if the national government continues to impose new developments without inter-governmental dialogue.

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